

Inspector General

United States
Department of Defense



Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Office of the Deputy Inspector General for Auditing at (703) 604-9142 (DSN 664-9142) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.mil www.dodig.mil/hotline

Acronyms

DFAS	Defense Finance and Accounting Service
DFARS	Defense Federal Acquisition Regulation Supplement
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
GSA	General Services Administration
MIPR	Military Interdepartmental Purchase Request
NAVAIR	Naval Air Systems Command
O&M	Operations and Maintenance
OIG	Office of Inspector General
U.S.C.	United States Code



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

February 28, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
NAVAL INSPECTOR GENERAL

SUBJECT: Report on Department of the Navy Purchases for and from Governmental
Sources (Report No. D-2007-062)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we redirected Recommendation A.1. Therefore, we request that the Under Secretary of Defense (Acquisition, Technology, and Logistics) comment on Recommendation A.1. by March 28, 2007. We also combined and redirected Recommendations A.2.a. and A.2.b., renumbered Recommendation A.2.c., and redirected Recommendation B. to clarify our intention. The comments from the Assistant Secretary of the Navy, Financial Management and Comptroller were non-responsive or partially responsive because she did not state the corrective actions and date to implement the recommendations. Therefore, we request that the Assistant Secretary of the Navy, Financial Management and Comptroller provide comments on Recommendations A.2.a., A.2.b., and B. by March 28, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Barbara A. Sauls (703) 325-5782 (DSN 221-5782) or Ms. Monica M. Harrigan at (703) 325-5930 (DSN 221-5930). See Appendix G for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink that reads "Paul J. Granetto".

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

Department of Defense Office of Inspector General

Report No. D-2007-062

February 28, 2007

(Project No. D2006-D000FH-0021.000)

Department of the Navy Purchases for and from Governmental Sources

Executive Summary

Who Should Read This Report and Why? Members of Congress; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Assistant Secretary of the Navy, Financial Management and Comptroller; the Director, Materiel Readiness and Logistics Chief Naval Officer (N4); the Commanders of Navy Region Southwest, Fleet Forces Command, and Naval Air Systems Command; and the Director of Defense Finance and Accounting Service should read this report. The users of this audit report will benefit from the review of controls over the Navy purchases for and from other governmental agencies and gain information that can improve public accountability and decision making.

Background. This is the second in a series of reports discussing DoD use of interagency and interservice support. The first report, Report No. D-2006-102, "Marine Corps Governmental Purchases," July 31, 2006, discussed the Marine Corps lack of adequate internal controls over outgoing and incoming military interdepartmental purchase requests (MIPRs). This report discusses the Department of the Navy interagency and interservice support. Section 1535, title 31, United States Code, "Agency Agreements," allows the head of an agency to place an order with another agency for goods or services if funds are available, it is in the best interest of the United States Government, the other agency can fill the order, and the order cannot be provided as conveniently by contract with a commercial enterprise. In accordance with Public Law 108-375, "the Ronald Reagan National Defense Authorization Act of FY 2005," Section 802, "Internal Controls for Department of Defense Procurements Through GSA [General Services Administration] Client Support Centers," the DoD Office of Inspector General and the General Services Administration conducted an interagency audit of DoD purchases made by the General Services Administration. The DoD Office of Inspector General determined that guidance was unclear and found that mismanagement and lack of acquisition planning for the funds transferred to General Services Administration caused between \$1 billion and \$2 billion of DoD funds to either expire or otherwise be unavailable to support DoD operations. That finding prompted the Office of Inspector General management to conduct this series of audits on the subject.

Results. The Navy did not have adequate internal controls over governmental purchases. Specifically, the Navy internal controls did not ensure that it properly administered outgoing and incoming MIPRs. The internal controls were inadequate because the Navy did not follow MIPR guidance. Additionally, the existing guidance from the Under Secretary of Defense (Comptroller)/Chief Financial Officer was unclear. As a result, Navy MIPRs violated public law and did not comply with Federal, DoD, and Navy regulations.

The Assistant Secretary of the Navy, Financial Management and Comptroller should direct the Navy Comptroller Office to review MIPRs to ensure that they do not violate

the Bona Fide Needs Rule and Antideficiency Act and to initiate required corrective actions; develop procedures and controls that ensure that required data and supporting documents are completed and reviewed before a MIPR is certified; develop procedures and controls to ensure that all required MIPR documents and source documentation are properly maintained; implement guidance on the MIPR process; and direct the Navy Comptroller Office to develop standard operating procedures for internal guidance on processing MIPRs. The report on the Marine Corps included a recommendation for the Under Secretary of Defense (Comptroller)/Chief Financial Officer to revise the DoD Financial Management Regulations, volume 11A, chapter 3, to clarify whether a determination is required when the supplying organization must award a new contract to meet the MIPR requirements. Therefore, we will not include that recommendation in this report (finding A).

The Navy managers' internal control program was ineffective and did not identify material weaknesses related to reporting MIPRs. As a result, controls were not adequate to ensure that MIPR transactions for the purchases of goods and services were properly justified and executed and that the funds were monitored. The Fleet Force Command, Navy Region Southwest, and Commander of Naval Air System Command should perform periodic assessments of the effectiveness and reliability of internal controls identified by the management control programs and report material weaknesses in their annual statement of assurance until corrected (finding B). See the Findings section of the report for the detailed recommendations.

Management Comments and Audit Response. The Under Secretary of Defense for Acquisition, Technology, and Logistics/Resources and Analysis nonconcurred with the recommendation to update DoD Financial Management Regulation because they do not have the functional responsibility to revise the DoD Financial Management Regulation. As a result, we redirected and revised this recommendation to update DoD Instruction 4000.19 to bring it in line with the upcoming revisions to the DoD Financial Management Regulation. We request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on the final report by March 28, 2007.

The Assistant Secretary of the Navy, Financial Management and Comptroller nonconcurred with one of the recommendations. Her comments were partially responsive for the first two sections and non-responsive for the third section of this recommendation. As a result of management's comments, we combined and redirected the first two sections to request that the Assistant Secretary of the Navy, Financial Management and Comptroller direct the Navy Commands to develop and implement standard operating procedures that will incorporate guidance on processing MIPRs. We also renumbered the third section. We do not agree with management's determination that noncompliance with a process should not automatically infer a potential violation of the Bona Fide Needs Rule or an Antideficiency Act violation. Furthermore, management's comments did not address those purchases that violated the statutory limitation imposed on the appropriation. The Assistant Secretary of the Navy, Financial Management and Comptroller agreed to take over responsibility for implementing the recommendation to direct the Navy Commands to perform self-assessments of the internal controls related to the MIPR process and determine whether conditions meet the criteria for a material weakness. However, she did not indicate how or when the Navy would implement this recommendation. We request that the Assistant Secretary of the Navy, Financial Management and Comptroller comment on the final report by March 28, 2007.

See the Finding sections of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Review of Internal Controls	3
Findings	
A. Adequacy of Navy Internal Controls over Governmental Purchases	5
B. Commands Managers' Internal Control Program for Military Interdepartmental Purchase Requests	21
Appendixes	
A. Scope and Methodology	24
B. Prior Coverage	26
C. Glossary of Technical Terms	27
D. MIPRs Reviewed	30
E. Deficiencies with MIPRs Reviewed	36
F. Availability of Funds	38
G. Report Distribution	40
Management Comments	
A. Office of the Under Secretary of Defense, Director of Acquisition, Technology, and Logistics	43
B. Office of the Assistant Secretary of the Navy, Financial Management and Comptroller	44

Background

This is the second in a series of audit reports discussing the DoD use of interagency and interservice support. The first report, Report No. D-2006-102, “Marine Corps Governmental Purchases,” July 31, 2006, discussed the lack of adequate internal controls over outgoing and incoming military interdepartmental purchase requests (MIPRs) at the Marine Corps. This report discusses weaknesses identified with the Department of the Navy (Navy) interagency and interservice support. The remaining reports will discuss Army, Missile Defense Agency, and Special Operations Command use of interagency and interservice support. The DoD Office of the Inspector General (OIG) will issue separate reports to discuss DoD interagency support from the General Services Administration (GSA), Department of Treasury, Department of Interior, and the National Aeronautics and Space Administration.

Regulation on Governmental Support. Federal and DoD regulations provide for the use of interagency support. DoD regulation also provides for the use of interservice support.

Federal Laws. Section 1535, title 31, United States Code (U.S.C.), “Agency Agreements,” January 2, 2001, allows the head of an agency to place an order with another agency for goods or services if those goods or services are available, it is in the best interest of the U.S Government, the other agency can fill the order, and the order cannot be provided by contract as conveniently by a commercial enterprise.

Section 2410a, title 10, United States Code, “Severable Service Contracts for Periods Crossing Fiscal Years,” January 26, 1998, allows a contracting officer to enter into a contract, exercise an option, or place an order under a contract for severable¹ services for a period that begins in one fiscal year and ends in the next fiscal year if the period of the contract awarded, option exercised, or order placed does not exceed one year.

The Federal Acquisition Regulation, Subpart 17.5, “Interagency Acquisitions Under the Economy Act,” defines an interagency acquisition as one agency obtaining supplies and services from another agency. The regulation states that the procedures for Economy Act orders between major organizational units within an agency are to be addressed in agency regulations.

DoD Regulations. DoD Instruction 4000.19, “Interservice and Intragovernmental Support,” August 9, 1995, implements policies, procedures, and responsibilities for interservice and intragovernmental support. The Instruction states that DoD organizations may provide services to other DoD activities when the head of the requesting activity determines it is in the best interest of the Government, and the head of the supplying activity determines that providing support will not jeopardize their mission. Specifically, DoD activities

¹ A task is severable if it can be separated into components that independently meet a separate and ongoing need of the Government.

can provide support with their own personnel or add the requesting activity's requirements to an existing contract.

The Instruction states that Support Agreements for supplies and services that will be provided under contracts administered by non-DoD Federal activities must meet one of the following requirements:

- the supplying agency made the purchase under a contract that it entered into, before the agreement, to meet its own requirements for the same or similar services;
- the supplying agency is better qualified to enter into or administer the contract for specified support by reason of capabilities or expertise not available within the Department; or
- the supplying agency is specifically authorized by law or regulations to purchase such services on behalf of other agencies, or the purchase is authorized by an Executive order or by specific circumstances identified in the Federal Acquisition Regulation (FAR).

DoD Financial Management Regulation (FMR), volume 11A, chapter 3, "Economy Act Orders," April 2000, prescribes policies and procedures applicable to transactions where goods or services are procured from other Federal agencies under the Economy Act, 31 U.S.C 1535. An organization within a DoD Component may place an order for goods or services with another organization within the same DoD Component, another DoD Component, or with another Federal agency.

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer provided DoD policy in a memorandum, "Fiscal Principles and Interagency Agreements," September 25, 2003. The memorandum states that every order under an interagency agreement must have a legitimate, specific, and adequately documented requirement representing a bona fide need in the year in which the agency made the order. It also states that DoD may not use an interagency agreement in the last days of the fiscal year solely to prevent funds from expiring or to keep them available for a requirement arising in the following fiscal year.

DoD Military Interdepartmental Purchase Requests. The military interdepartmental purchase request (MIPR), DD Form 448, is issued by one military Service to another to procure services or supplies. The supplying Service provides a DD Form 448-2, "MIPR Acceptance," agreeing to provide the requested services or supplies. DoD may also issue the MIPR to non-DoD Federal agencies. DoD issues MIPRs under the authority of the Economy Act and funded on a direct citation or reimbursable basis.

Non-Defense Purchases. In accordance with Public Law 108-375, "the Ronald Reagan National Defense Authorization Act of FY 2005," Section 802, "Internal Controls for Department of Defense Procurements Through GSA Client Support Centers," DoD OIG and the GSA conducted an interagency audit of DoD

purchases made by GSA. The DoD OIG determined that guidance was unclear and misunderstood. The DoD OIG determined that mismanagement of funds and lack of acquisition planning for the funds transferred to GSA caused between \$1 billion and \$2 billion of DoD funds to either expire or otherwise be unavailable to support DoD operations. As a result of this finding, the OIG management decided to conduct additional audits on this subject.

Objectives

Our overall objective was to evaluate the internal controls over the Department of the Navy's purchases from governmental sources. Specifically, we examined the Department of the Navy's process for initiating, obligating, and disbursing for MIPRs and interagency purchases. We examined whether the Department of the Navy clearly defined its requirements and whether it properly used and tracked funds. We also evaluated the management control program as it relates to our audit objective. Finding B further discusses the managers' internal control program. See Appendix A for a discussion of the scope and methodology and Appendix B for prior coverage related to the objectives. Appendix C is a glossary of technical terms used in this report.

Review of Internal Controls

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," January 4, 2006, require DoD organizations to implement a comprehensive system of managers' internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.²

We reviewed the adequacy of Naval Air Systems Commands (NAVAIR), First Naval Construction Division (Construction Division), and Commander Navy Region Southwest (Navy Region) managers' internal controls over the MIPRs process and interagency purchases. Specifically, we reviewed the Commands managers' internal controls over the process of initiating, obligating, and disbursing for MIPRs. We also reviewed the adequacy of management's self-evaluation of those controls.

We identified material internal control weaknesses as defined by DoD Instruction 5010.40. The Commands internal controls for processing MIPRs were not adequate to ensure that funds were properly obligated, expensed, and disbursed. Recommendations A.1., if implemented, will correct the identified weaknesses and could result in potential monetary benefits. The amount of monetary benefit is undeterminable at this time because DoD could not provide a

² Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 was cancelled on April 3, 2006. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," was reissued on January 4, 2006

complete universe of MIPRs and we were unable to project on our audit sample. We will provide a copy of the report to the senior officials responsible for the Managers' Internal Control Program at the Commands.

A. Adequacy of Navy Internal Controls over Governmental Purchases

The Navy did not have adequate internal controls over governmental purchases. Specifically, the Navy internal controls did not ensure that it properly administered the outgoing and incoming MIPRs, interagency purchases, and their equivalents. The internal controls were inadequate because the Navy did not follow Federal, DoD, and Navy guidance. In addition, the existing guidance from the Under Secretary of Defense (Comptroller)/Chief Financial Officer was unclear. As a result, purchases made by and for the Navy:

- may not have been in the best interest of the Federal Government;
- did not comply with Federal, DoD, and Navy regulations; and
- could have led to the mismanagement of appropriated funds or violation of appropriations law.

Navy MIPRs

The Navy was unable to provide a universe that included all outgoing and incoming MIPRs; therefore, we judgmentally selected a sample of 117 MIPRs from a universe of MIPRs provided by NAVAIR, Construction Division, and Navy Region. Specifically, we reviewed 60 outgoing MIPRs and 57 incoming MIPRs. NAVAIR generated its universe of transactions from SIGMA,³ Construction Division generated their universe of transactions from an access database, and Navy Region provided their universe of transactions from CFMS⁴ for FY 2005 transactions and FASTDATA⁵ for FYs 2003 and 2004 transactions. See Appendix D for the MIPRs we reviewed and the weaknesses identified. The following table provides the Navy’s outgoing and incoming MIPR selection by the locations visited and by the dollar value reviewed.

	MIPR Sample Selection		
	<u>Outgoing MIPRs</u>	<u>Incoming MIPRs</u>	<u>Total</u>
NAVAIR	\$922,794,863	\$166,429,743	\$1,089,224,606
Navy Region	9,056,281	12,234,427	21,290,708
Construction Division	2,391,317	865,078	3,256,395
Total MIPR Value:	\$934,242,461	\$179,529,248	\$1,113,771,709

³ Enterprise Resource Planning (ERP) system (SIGMA) is a Navy system.

⁴ Claimant Financial Management System (CFMS) is a Navy system.

⁵ Fund Administration and Standardized Document Automation (FASTDATA) is a Navy system.

Outgoing Navy MIPRs

The Navy did not have adequate internal controls over its outgoing MIPRs. We reviewed 60 outgoing MIPRs, valued at about \$934.2 million, that NAVAIR, Construction Division, and Navy Region had issued to other Government sources. The Navy had not followed existing guidance for properly initiating, preparing, and executing those MIPRs.

MIPR Initiation

The Navy requesting activities were responsible for conducting market research and determining that MIPR purchases were in the best interest of the Government and served a bona fide need.

Market Research. FAR Subpart 7.1, September 30, 2005, “Acquisitions Planning,” requires agencies to conduct market research for all acquisitions in order to promote and provide for:

- acquisition of commercial items and
- full and open competition.

Furthermore, FAR Part 10, “Market Research,” prescribes the policies and procedures for conducting market research to select the most suitable approach to acquire, distribute, and support supplies and services. To accomplish this objective agencies must:

- ensure that legitimate needs are identified and tradeoffs are evaluated to acquire items that meet those needs,
- conduct market research appropriate to the circumstances, and
- use the results of market research to determine if there are sources capable of satisfying the agency’s requirements.

The Navy either did not conduct market research or could not provide evidence of market research for 50 of its MIPRs valued at \$926 million. For example, the Construction Division was unable to provide documentation to support market research for five MIPRs, valued at \$65, 217, accepted by DoD Components located in U.S. Embassies. The Construction Division issued these MIPRs to procure equipment, supplies, and repair services in foreign countries. Construction Division Comptroller personnel stated that experts from the regiment go to actual conferences at the location where the funds and services are needed to determine if the service can be done at the appropriate price. After further inquiry, Comptroller personnel stated that personnel at the regiment location probably kept the documentation. We were unable to verify if the respective acquisition officials were properly involved in the MIPR process,

and the Navy could not ensure the fulfillment of the Government's needs or that full and open competition exists.

Determination and Findings and Support Agreements. The FAR Subpart 17.5, "Interagency Acquisitions Under the Economy Act," and DoD FMR, volume 11A, chapter 3, "Economy Act Orders," April 2000, require a Determination and Findings to support each Economy Act order that uses interagency support capabilities. To comply with the Determination and Findings requirements, the requesting agency should document that orders are in the best interest of the U.S. Government and that the Government cannot obtain the supplies and services as conveniently or economically by contracting directly with a commercial enterprise.

According to FAR Subpart 17.5, the Economy Act applies when a more specific statutory authority does not exist. Further, DoD FMR, volume 11A, chapter 3, explains that it is important to identify the source of the authority for the provision of goods and services. If no statutory authority is identified, the authority will be the Economy Act. For 59 of the 60 MIPRs, the Navy did not state a specific statute of authority on the MIPR form. However, the Navy identified a statutory authority other than Economy Act for 5 of the 59 MIPRs. Therefore, we interpreted that the Economy Act applied to 54 of the 60 MIPRs. For 50 of the 54 MIPRs valued at \$934 million, the Navy did not have Determination and Findings or Support Agreements.

Non-DoD Agencies. The Navy did not provide a Determination and Findings to support one MIPR sent to a non-DoD agency. Because the Navy did not prepare a Determination and Findings document for the non-DoD MIPR, the respective contracting offices, which are required to approve Determination and Findings, were not properly involved with the MIPR purchases.

DoD Agencies. DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995, states that a signed DD Form 1144, "Support Agreement," documents the required determination by both the requesting and supplying activity for interservice support with DoD organizations.

For the 49 MIPRs to other DoD organizations, the Navy did not have a Support Agreement or could not provide a Support Agreement with the supplying and receiving activities signatures and dates, blocks 8 and 9. For example, the Navy Region issued 14 MIPRs under Economy Act Orders to other DoD agencies. Of the 14 MIPRs, 1 resulted in in-house training provided by Army and 13 resulted in commercial contracts for items such as refueling and air transportation. The Navy Region did not provide a Support Agreement for the 14 MIPR transactions. After further inquiry, Navy Region Deputy Comptroller stated that the proper statutory authority for the 13 of the 14 MIPRs should have been FAR Subpart 12, "Acquisition of Commercial Items." As a result, during the initiation process of the MIPRs, the Navy did not determine whether the provided goods and services were in the best interest of the Government and justified under the applicable statute.

Bona Fide Needs. Section 1502 (a), title 31, United States Code, “Balances Available,” October 11, 2005, also known as the Bona Fide Needs Rule, requires that the balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability, or to complete contracts properly made within that period of availability. DoD FMR, volume 11A, chapter 3, which incorporates the Bona Fide Needs Rule, requires Economy Act orders citing an annual or multiyear appropriation serve a need existing in the fiscal year for which the appropriation is available.

The Navy issued 54 of the 60 MIPRs under the Economy Act or other statutory authorities and cited an annual or multiyear appropriation; therefore, the 54 MIPRs were required to meet the Bona Fide Needs Rule. Because the Navy did not provide Support Agreements or accounting documents to identify the periods of performance for 18 MIPRs, we were unable to determine whether 18 (valued at \$533.5 million) of the 54 MIPRs met the Bona Fide Needs Rule.

MIPR Preparation

As the requesting activity, the Navy was responsible for preparing proper documentation when issuing MIPRs to the accepting activity. Guidance for preparing MIPRs is included in the:

- Defense Federal Acquisition Regulation Supplement (DFARS) Subpart 208.70, “Coordinated Acquisition,” Revised June 21, 2005;
- DFARS Subpart 253.208, “Required Sources of Supplies and Services,” August 31, 2000; and
- Secretary of the Navy Instruction 7000.27, “Comptroller Organizations,” January 22, 2003.

As a Component of DoD, the Navy should use and properly complete DD Form 448. However, the Navy did not properly complete the DD Form 448 for 43 of the 60 MIPRs. The 43 MIPRs had one or more of the following weaknesses.

Delivery Requirements. For 20 MIPRs, valued at \$243.7 million, the Navy did not complete the DD Form 448 in accordance with 31 U.S.C 1501 and with DFARS 253.208. DFARS 253.208 requires that the agency clearly state the required period of performance in each MIPR, taking into consideration administrative lead times. However, the 20 MIPRs did not specify the required period of performance. Without the required period of performance, the Navy would have difficulty determining whether the supplying activity was performing the MIPR in accordance with the original agreement. Further, lack of the required period of performance may have limited the Navy’s ability to comply with the Bona Fide Needs Rule.

Point of Contact Information. For nine MIPRs, valued at \$256.4 million, the Navy did not complete DD Form 448 in accordance with DFARS 253.208.

DFARS 253.208 requires that the agency state the name and telephone number of an individual who is thoroughly familiar with the MIPR, its attachments, and technical requirements. However, nine MIPRs did not specify the required point of contact information. Without the required point of contact information, the Navy would have difficulty resolving issues arising throughout the performance period of the order.

Additional Line Items. The Navy created amendments to six MIPRs, valued at \$290.9 million, that added line items not included in the basic DD Form 448. In accordance with DFARS 208.70, the Navy should have submitted a new MIPR to address requirements for additional line items of supplies or services not included on the original MIPR. NAVAIR issued one MIPR that originally provided funds for Knighthawk aircraft and a related engineering change proposal. Subsequently, NAVAIR amended the MIPR to purchase unique identification parts markings and increased the MIPR value by approximately \$88,315. Because the amendment was not part of the original request, NAVAIR should have prepared a new MIPR for this service.

Delegation of Fiduciary Authority. The Navy did not provide evidence that individuals signing the MIPRs had the authority to administer funds in accordance with Navy Instructions. The Navy Instruction 7000.27, "Comptroller Organizations," January 22, 2003, states that the Service Chiefs and heads of major commands, offices, or bureaus who receive an allocation from the Assistant Secretary of the Navy, Financial Management and Comptroller or the Chief of Naval Research may elect to pass to the organizational comptroller all financial responsibility under 31 U.S.C. 1517. The head of the command or organization delegates this authority in writing. Additionally, it must identify the individual to whom this authority is granted, the appropriation accounts involved, and the specific responsibility and authority delegated. However, for 25 MIPRs valued at \$152.2 million, the Navy could not provide documentation identifying that the individual who signed the DD 448 and its amendments had the authority to administer funds. In addition, for one MIPR valued at \$435,600, we could not identify who signed the DD 448. Without fiduciary authority, the MIPR and amendments procurement funds are not chargeable.

MIPR Execution

As the requesting activity, the Navy is responsible for managing MIPR funds and documentation, and for monitoring progress by the accepting activity. However, the Navy did not adequately perform these responsibilities for 55 of the 60 MIPRs. The 55 MIPRs had one or more of the following weaknesses.

Validity of Disbursements. The requesting fund managers' files did not include copies of the shipping reports or invoices to support disbursement transactions for 45 MIPRs, valued at \$925.5 million, as required by DoD FMR, volume 5, chapter 33, "Departmental Accountable Officials, Certifying Officer and Review Officials," April 2005, and Navy Marine Corps Acquisition Regulation Supplement, revised February 2006. According to the NAVAIR Comptroller Accounting Office, program offices maintained documentation to substantiate the receipt and acceptance of supplies and services. After repeated requests, the

program offices could not provide us the documentation. Additionally, personnel in the Construction Division Comptroller and Accounting Office stated that the Defense Finance and Accounting Service (DFAS) maintained the required source documents to substantiate the receipt and acceptance of supplies and services. However, according to DFAS personnel, for reimbursable orders DFAS performs its disbursement responsibilities without obtaining documents that substantiate receipt and acceptance of supplies and services. The Navy should implement policies and procedures to address record retention to verify the receipts of ordered goods and validity of related disbursements.

Commitments. The Navy did not record commitments timely for four MIPRs reviewed and valued at \$3.1 million. According to DoD FMR, volume 3, chapter 15, "Receipt and Use of Budgetary Resources Execution Level," December 1996, a commitment is an administrative reservation of funds. In addition, DoD FMR, volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," June 2005, states that the signed DD Form 448 is a commitment until validly obligated. However, for one MIPR valued at \$81,019, the Navy Region did not post the commitment in the accounting system. For the remaining three MIPRs, the Navy Region had posting dates in the accounting system ranging from 16 to 52 days after signing the DD Form 448. For example, the Navy Region posted a commitment 52 days after issuing a signed DD Form 448 for an outgoing MIPR, with an initial value of \$1.4 million. The \$1.4 million MIPR provided funding for aircraft refueling. The timely posting of commitments in the accounting system will reserve money for the particular order for supplies or services, and will help track available funds. By not recording commitments in the accounting system, the Navy increased its risk of potential Antideficiency Act violations.

Obligations. For 17 (\$5.4 million) of the 60 MIPRs, the Navy either did not timely record obligations or did not obtain valid obligating documentation, such as MIPR Acceptances. In accordance with DoD FMR, volume 3, chapter 8, an agency must record an obligation in the accounting system within 10 calendar days following the day the obligation occurred. For six MIPRs, the Construction Division and the Navy Region recorded the obligation of \$3.4 million more than 10 days after the receipt of the MIPR Acceptances.

DoD FMR states the recording of an obligation occurs when supported by documentary evidence of the transaction. The Construction Division and the Navy Region recorded the obligation of \$2.2 million for nine MIPRs before receiving the signed MIPR Acceptance. These MIPRs procured items such as repair and reconfigure of cathodic protection for a natural gas system. In another instance, the Construction Division and the Navy Region obligated \$79,880 for three MIPRs without a signed acceptance, DD Form 448-2. These MIPRs procured support for training exercises, building maintenance and renovation, and material and equipment for the construction of a golf cart trail. By not recording the obligation in the accounting system in a timely manner, the Navy increased its risk of potential Antideficiency Act violations. Further, the Navy might not have discovered the potential violation until it recorded an unmatched disbursement in the accounting system.

Deobligations. The Navy did not timely deobligate \$300,566 for 12 MIPRs valued at \$8.6 million. In accordance with DoD FMR, volume 11A, chapter 3, activities must reconcile the obligation status of Economy Act orders and deobligate unused funds before the end of the period of availability of the funds. DoD FMR, volume 3, chapter 8, also states that fund holders are responsible for conducting reviews of outstanding commitments and unliquidated obligations. It requires the responsible individuals to document and process all required deobligations, adjustments, or corrections identified during the review within 10 working days. However, neither the fund managers nor supporting documentation for the Construction Division and the Navy Region confirmed that 11 MIPRs with a balance of \$252,566 needed to be deobligated. By not performing reviews of the obligations in the accounting system, the Navy increased its risk of potential Antideficiency Act violations.

Accounting Documentation. For 22 of the 60 MIPRs, Navy had not provided accounting documentation to validate its commitments, obligations, deobligations, and disbursements. After repeated requests to NAVAIR's personnel, NAVAIR could not provide the accounting documentation to validate the 20 MIPRs valued at approximately \$922.8 million. Additionally, the Construction Division could not provide documentation to support two MIPRs, valued at \$898,378. These MIPRs procured items such as communication equipment and technical support for a chemical, biological, and radiological operational space item management system. The Navy's inability to provide accounting records could hinder them from obtaining an unqualified opinion on their financial statements.

Incoming Navy MIPRs

Navy did not have adequate internal controls over incoming MIPRs. We reviewed 57 incoming MIPRs valued at about \$179.5 million that Navy Region, Construction Division, and NAVAIR had received from other governmental sources. Navy accepted improper MIPRs, did not properly administer the MIPRs, and inappropriately altered appropriation classifications for those MIPRs.

MIPR Acceptance

The Navy was responsible for properly accepting incoming MIPRs. However, the Navy did not ensure applicable regulations were followed when accepting MIPRs.

Justification Documents. In accordance with the DFARS 217.504, "Interagency Acquisitions Under the Economy Act," Revised March 25, 1999, the Navy was responsible for ensuring that any requests for goods or services from another agency had a Determination and Findings document attached to the DD Form 448, "Military Interdepartmental Purchase Request." DoD Instruction 4000.19 grants an exception to this requirement for purchases within DoD if a signed Support Agreement to provide goods or services is in place. However, the Navy accepted 45 MIPRs, valued at \$163 million, from DoD components and Federal agencies without a Determination and Findings document or a signed Support Agreement.

Incomplete Forms. In accordance with DFARS 253.208, the Navy was responsible for ensuring that all applicable blocks on the DD Form 448-2, “Acceptance of MIPRs,” were completed. However, the Navy did not complete the following on 48 MIPRs, valued at \$142.6 million:

- block 6, which requires the specific terms (such as reimbursable or direct citation of funds) under which the MIPR is being accepted, and
- block 13, which requires (a) justification, by MIPR line item, for any additional funds required and (b) appropriation and subhead data.

Required Forms. The Navy accepted two MIPRs valued at \$237,400 from other commands within the Navy using the DD Form 448. Navy Comptroller Manual requires that any request for reimbursable work or services from another command within the Department of the Navy use the Navy Comptroller 2275, “Order for Work and Services,” form. However, Construction Division accepted one MIPR to provide uniforms for fleet hospital personnel, valued at \$235,400 from the Navy, Bureau of Medicine and Surgery that used the DD Form 448.

MIPR Administration

As the accepting activity, the Navy was responsible for properly administering incoming MIPR work and related funds. However, the Navy did not properly administer 52 of the 57 incoming MIPRs we reviewed. The 52 MIPRs had one or more of the following weaknesses.

Timely Acceptance. The Navy was responsible for ensuring that it properly accepted MIPRs within 30 days of receipt of the requesting activity MIPR request. DFARS 208.7004-2(a) “Coordinated Acquisition,” Revised June 21, 2005, states acquiring activities formally accept a MIPR, as soon as practicable, but no later than 30 days after receipt of the DD 448. However, the Navy either could not provide evidence of acceptance or did not accept 12 of the 57 MIPRs received, valued at \$28.7 million, within 30 days. For example, Navy Region did not maintain evidence for the date of receipt for MIPRs received through the mail. As a result, Navy Region was unable to determine if it accepted eight MIPRS within 30 days. In another example, the Construction Division received a MIPR for the provision tactical vehicle maintenance, dated October 23, 2003, and issued the acceptance on February 27, 2004.

Support Documentation. The Comptroller personnel files did not have the source documents, such as invoices, as required by DoD FMR, volume 11A, chapter 1, “Billing Standard,” March 1997, and Navy Marine Corps Acquisition Regulation Supplement, revised February 2006, for 42 reimbursable MIPRs valued at \$55.6 million. In accordance with DoD FMR, volume 11A, chapter 1, DoD Components performing work or services on a customer order must bill the requesting DoD Component, other Federal agency, or the public for earned reimbursements (performance of work or services, payments to contractors, or delivery from inventory) within 30 calendar days after the month in which performance occurred. The payment due date must not be more than 30 calendar

days from the date of the invoice. However, the Navy could not provide documentation that showed the validity of funds disbursed.

Deobligations. For 27 MIPRs, valued at \$4.6 million, the Navy either did not deobligate funds or did not timely notify the requesting activity of \$251,171 of funds available for recapture. In accordance with DFARS 208.7004-9(a), the acquiring department must maintain a system of MIPR followup to inform the requiring department of the status of its requests. Additionally, DoD FMR, volume 3, chapter 8, requires fund holders to perform triannual reviews of commitments and obligations for direct appropriations and reimbursable transactions. However, the Construction Division and the Navy Region did not timely deobligate \$170,914 for 18 MIPRs and \$80,257 for 9 MIPRs. Navy Region and Construction Division should have notified the requesting activity of funds to be recaptured or performed periodic reviews by September 30, 2004 and 2005, in compliance with DoD FMR, volume 3, chapter 8.

Cost Overruns. The Navy did not timely inform the requesting activity of cost overruns totaling \$188,134 for three MIPRs, valued at \$4 million. As the servicing activity, the Navy was responsible for notifying the requesting activities in a timely manner of cost overruns. DFARS 208.7004-9 states the acquiring department will maintain a system of MIPR followup to inform the requiring department of current MIPR status. However, Navy Region performed three services for utilities and firefighter support services that exceeded the obligated amount. Navy Region did not contact the requesting activity for \$188,134 in additional funds to cover the cost. By not having obligations to cover cost overruns, the Navy increased its risk of potential Antideficiency Act violations.

Accounting Documentation. For 12 of the 57 MIPRs we reviewed, Navy had not provided accounting documentation to verify the validity of its obligations, deobligations, and disbursements. After repeated requests to NAVAIR's personnel, NAVAIR was unable to provide us the accounting documentation to validate the 12 reimbursable MIPRs valued at approximately \$43.8 million.

Appropriation Classifications

As the accepting activity, the Navy was responsible for ensuring that limitations imposed on the use of funds were not changed. However, the Navy altered the appropriation classification to accept and perform incoming MIPRs as reimbursable orders for 7 of the 57 MIPRs reviewed, valued at \$380,768.

The Navy received MIPRs from governmental activities that cited various appropriation classifications including Operations and Maintenance (O&M); Research, Development, Test, and Evaluation; Procurement; Working Capital Fund; and Military Construction. However, the Navy accepted seven MIPRs with appropriation classifications other than O&M and classified all MIPR work under the O&M appropriation. For example, Navy Region used O&M funds for a MIPR that cited Research, Development, Test, and Evaluation valued at \$76,990. Navy Region could not provide documentation for the specific authority that authorized the transfer of the appropriation. Navy Region accepted the MIPR to

perform services such as communications line cost, utility bills, phone services, Government vehicles, and labor services.

The Construction Division used O&M funds from MIPRs that cited Defense-wide military construction funds for six MIPRs valued at \$303,778. Construction Division Comptroller personnel stated that because the Construction Division does not have the requesting activity line of accounting in the system, the customer's line of accounting becomes Construction Division's O&M line of accounting. Comptroller personnel also provided the Financial Management of Resources Operating Forces Procedures NAVSO P-3013, "Fleet Finance and Accounting Manual," April 2002, as the authorized authority. After reviewing this document, we did not find where in the manual the Construction Division was given the authority to change the appropriation classification to O&M. Each appropriation classification has its own restrictions and authorized uses. (See Appendix F for more information on the availability of funds for various appropriation classifications.)

Some of the items and services provided through MIPRs fall within appropriation classifications other than O&M. Otherwise, the requesting activities would not have transferred the particular funding noted on the MIPRs to the Navy. Section 1301, title 31, United States Code, "Application," specifically prohibits the transfers of an amount from one appropriation account to another appropriation account unless the law authorizes the transfers. The Navy does not have the specific authority to transfer money from the appropriation noted on the MIPR to another appropriation. The Economy Act, 31 U.S.C. 1535, does not allow a MIPR recipient to transfer the requesting activity's funds to another appropriation. Therefore, the appropriations supporting the MIPRs are those of the requesting activity not the Navy.

Because the Navy violated the statutory limitation on the purposes for which the O&M appropriation may be used, the Navy may also have incurred Antideficiency Act violations according to DoD FMR, volume 14, chapter 2, "Violations of the Antideficiency Act," October 2002. The Navy should determine if an Antideficiency Act violation occurred. If a violation occurred, the Navy is required to perform corrective actions for the violation as provided in DoD FMR, volume 14, chapter 10, "Violations—Causes, Prevention and Correction," October 2004.

Navy Procedures for Implementing MIPR Processes

Navy Region, Construction Division, and NAVAIR based Navy procedures for implementing MIPR processes on their interpretation of the Federal guidance, DoD guidance, and NAVAIR Instructions. Additionally, the Navy did not issue guidance addressing the MIPR process. The lack of clear guidance or any guidance discouraged the implementation of adequate controls over outgoing and incoming MIPRs for the Navy.

Federal and DoD Guidance on Determinations and Findings

To support an interagency Economy Act order, FAR Subpart 17.5, and DoD FMR, volume 11A, chapter 3, require the agency to prepare a Determination and Findings. For interservice support, DoD Instruction 4000.19 and DoD FMR, volume 11A, chapter 3, state that a signed Support Agreement documents the required determination. However, DoD guidance does not clearly address interservice acquisitions that require the supplying organization to award a new contract. Because the guidance was unclear, we contacted the Office of the Secretary of Defense (Comptroller) for clarification. The Comptroller's office stated that agencies must use either a Determination and Finding or Support Agreement stating that the purchase is in the best interest of the Government to support the Economy Act Order.

Department of Defense Office of the Inspector General Report No. D-2006-102, "Marine Corps Governmental Purchases," July 31, 2006 included a recommendation that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise DoD FMR, volume 11A, chapter 3, to clarify whether a determination is required when the supplying organization must award a new contract to meet the MIPR requirements. On September 22, 2006, the Comptroller's office partially concurred with the recommendation, responding as follows:

The Comptroller's office [OUSD(C)] and Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) have established an Interagency Acquisitions Working Group, comprised of representatives from the military services and select defense agencies, tasked to review and recommend improvements in DoD business practices and policies governing interagency orders under the Economy act and other statutory authorities. As part of its objectives, the Working Group plans to review and recommend changes to the DoD FMR, volume 11A, chapter 3, by the end of December 2006. We anticipate issuance of the revised DoD FMR in the spring of 2007.

The Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD [AT&L]) is the appropriate authority to clarify whether a DoD organization must prepare either a Determinations and Findings (D&F), or a Support Agreement, for Economy Act Orders. Currently the DoD FMR, volume 11A, chapter 3, Economy Act orders, reflects the Federal Acquisition Regulations (FAR) requirement that all Economy Act orders must be supported with a D&F.

We expect the Interagency Acquisitions Working Group to decide whether a DoD organization must prepare either a Determinations and Findings or a Support Agreement for Economy Act Orders. Once this decision is made, both the FMR and the USD (AT&L) DoD Instruction 4000.19 should be changed, if necessary, to reflect that decision. As the office responsible for the DoD Instruction 4000.19, we are requesting the Under Secretary of Defense for Acquisition, Technology, and Logistics revise the DoD Instruction 4000.19 to bring it in line with revisions to the DoD FMR as a result of the working group decisions.

Guidance Updates and Implementation

We found the Navy guidance insufficient because the Navy did not issue specific guidance to define the implementation of the MIPR process between the Navy and another DoD organization. As a result, Navy Region, Construction Division, and NAVAIR relied on generally written Federal and DoD FMR guidance. Although NAVAIR followed NAVAIR instructions that addressed interdepartmental purchase requests, the Navy in general did not follow Federal, DoD, and Navy guidance throughout the outgoing and incoming MIPR processes.

NAVAIR Guidance. NAVAIR personnel based their MIPR processes, between DoD Components, on their interpretation of the NAVAIR instructions, “Responsibilities and Procedures for Issuing Interdepartmental Purchase Request,” January 13, 2000. NAVAIR incorporated the MIPR processes into the training material taught by the Comptroller/Accounting Office personnel. The NAVAIR MIPR process, between DoD Components, does not require personnel to produce the same level of documentation as for the interdepartmental purchase request process. In March 2005, NAVAIR issued a NAVAIR Notice addressing procedures for proper use of non-DoD contracts. However, the NAVAIR Notice does not address MIPRs between DoD Components.

Navy Compliance. The Navy commands visited had not established standard operating procedures that standardized the MIPR process. Further, Navy personnel did not prepare the required MIPR documents or inaccurately prepared MIPR forms and supporting documentation including financial transaction records. The lack of standard operating procedures resulted in the Navy not complying with portions of applicable guidance because DoD criteria lead to various interpretations and applications of MIPR guidance.

The Assistant Secretary of Navy, Financial Management and Comptroller of the Navy should direct the Navy Commands to develop standard operating procedures that will address developing, processing, and administering MIPRs. Further, they should require the Navy Comptroller Office to implement these standard operating procedures.

Conclusion

Adequate internal controls are a critical element to ensuring the proper management of MIPRs. The lack of adequate internal controls at the Navy over the MIPR process resulted in potential violations of the Antideficiency Act, violations of public law, and noncompliance with Federal, DoD, and Navy regulations. By violating the statutory authority limitations on the purpose for which the O&M appropriation may be used, the Navy may have incurred an Antideficiency Act violation. The Navy must improve internal controls over the MIPR process by establishing standard operating procedures that will enforce existing Federal, DoD, and Navy regulations.

Recommendations, Management Comments, and Audit Response

Redirected and Revised Recommendations. As a result of management comments, we redirected and revised Recommendation A.1. to direct the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics to update DoD Instruction 4000.19. We combined and redirected Recommendations A.2.a. and A.2.b. to request that the Assistant Secretary of the Navy, Financial Management and Comptroller direct the Navy Commands to develop and implement standard operating procedures that include the MIPR process. We renumbered and revised Recommendation A.2.c. to A.2.b. to direct the Assistant Secretary of the Navy, Financial Management and Comptroller to initiate investigations on 18 purchases that potentially violated the Bona Fide Needs Rule and 7 purchases that potentially violated statutory limitations imposed on appropriations.

A.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics revise the DoD Instruction 4000.19 to bring it in line with the revisions to the DoD Financial Management Regulations, volume 11A, chapter 3.

Management Comments. The Under Secretary of Defense for Acquisition, Technology, and Logistics through the Director of Acquisition Resources and Analysis nonconcurred and stated that the Deputy Under Secretary of Defense (Comptroller)/Chief Financial Officer has the functional responsibility for the content of DoD Financial Management Regulations. Therefore, it would be inappropriate for the Under Secretary of Defense for Acquisition, Technology, and Logistics/Resources and Analysis to revise the DoD Financial Management Regulations.

Audit Response. We agree, however, in comments on the final report for Department of Defense Office of Inspector General Report No. D-2006-102, "Marine Corps Governmental Purchases," July 31, 2006, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics established an Interagency Working Group to review and recommend improvements to the DoD business practices and policies governing interagency orders under the Economy Act and other statutory authorities. As part of its objectives, the Working Group plans to review and recommend changes to the DoD Financial Management Regulation, volume 11A, chapter 3. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer anticipates issuing a revision to the DoD Financial Management Regulation in the spring of 2007. We are requesting that the Under Secretary of Defense for Acquisition, Technology, and Logistics – as the office responsible for the DoD Instruction 4000.19 – revise the DoD Instruction 4000.19 to bring it in line with the DoD Financial Management Regulation. We request that the Under Secretary of Defense Acquisition, Technology, and Logistics provide comments on the final report.

Note: Recommendations A.2.a. and A.2.b. have been combined and redirected.

A.2. We recommend that the Assistant Secretary of the Navy, Financial Management and Comptroller:

a. Direct the Navy Commands to develop and implement standard operating procedures that will incorporate Navy Marine Corps Acquisition Regulation Supplement and Financial Management Policy Manual guidance on processing Military Interdepartmental Purchase Requests. The standard operating procedures should also include but not be limited to:

(1) Procedures and controls, such as a checklist, that ensure that all required data and supporting documents are developed and appropriately reviewed before a Military Interdepartmental Purchase Request is certified for issuance or acceptance.

(2) Roles and responsibilities of offices involved in the Military Interdepartmental Purchase Requests process to ensure proper enforcement of Federal, DoD, and Navy guidance.

(3) Procedures and controls that ensure all required Military Interdepartmental Purchase Request documents and source documentation, including support for the receipt of ordered goods and services and the validity of related disbursements, are properly maintained in a single file location.

Management Comments. The Assistant Secretary of the Navy, Financial Management and Comptroller partially concurred with the recommendation. The Navy stated that it has published guidelines, policies, and procedures for the proper implementation of MIPRs. The Financial Management Policy Manual, the Department of the Navy's Funds Usage Document Course, and other memoranda provide Navy Commands with necessary tools for MIPRs preparation. The Navy also stated that full implementation of existing policies by all commands appears to be lacking. Therefore, the Department of the Navy will emphasize existing guidelines and work to find ways to improve existing procedures.

Audit Response. The Assistant Secretary of the Navy, Financial Management and Comptroller comments were partially responsive. Navy guidance exists; however, the guidance is insufficient. The Navy Commands visited were not following guidance, as we have identified in this report. The Commands did not have existing policies and procedures in place that they consistently followed for preparing MIPRs and their equivalents. In addition, personnel at two commands stated that they followed the Financial Management Regulation. As a result, command personnel did not always comply with Federal and DoD guidance when preparing Military Interdepartmental Purchase Requests and their equivalents. Therefore, we request that the Assistant Secretary of the Navy, Financial Management and Comptroller direct the Navy Commands to develop standard operating procedures and a respective plan of action for implementation. We also request that the Assistant Secretary of the Navy, Financial Management and Comptroller reconsider her position and provide comments on the final report.

b. Direct the Navy Comptroller Office to initiate preliminary reviews and possible corrective actions for Military Interdepartmental Purchase Requests in Appendix D that potentially violated the Antideficiency Act as defined by the DoD Financial Management Regulation. We specifically refer to the 18 Military Interdepartmental Purchase Requests that potentially violated the Bona Fide Needs Rule and the 7 Military Interdepartmental Purchase Requests that violated the statutory limitations imposed on the appropriation. (See Appendix D for tables of Military Interdepartmental Purchase Requests that potentially violated the Bona Fide Needs Rule or the appropriation classification.)

Management Comments. The Assistant Secretary of the Navy, Financial Management and Comptroller nonconcurred with the recommendation. She stated that although the report identifies a number of process concerns, non-compliance with a process should not automatically infer a potential violation of the Bona Fide Needs Rule or a potential Antideficiency Act violation. In addition, there is not sufficient information to warrant the initiation of such a review. The Navy provided additional information for 5 of the 18 MIPRs identified as having a questionable bona fide need at the time the order was placed.

Audit Response. The Assistant Secretary of the Navy, Financial Management and Comptroller comments are not responsive. Based on an analysis of the violations, the DoD Comptroller identified the most frequent causes of violations of the Antideficiency Act in the Financial Management Regulation as: (1) established internal controls and standard operating procedures not followed, (2) inadequate supervisory involvement or oversight, (3) lack of appropriate training, and (4) inadequate standard operating procedures and internal controls. We encountered at least one of the four aforementioned causes at the Navy Commands visited. The lack of adequate supporting documentation; such as accounting records, contracts, and statements of work; precluded us from determining whether these MIPRs potentially violated the Antideficiency Act.

Furthermore, the additional information the Assistant Secretary of the Navy, Financial Management and Comptroller provided for 5 of the 18 questionable purchases did not support the claim that no violation of the Bona Fide Needs Rule occurred. In addition, the information provided did not address the seven questionable appropriation transfers for the following purchases: W81EWF43070394, MIPR3A17G60016, MIPR4AL49MB306, MIPR4D49MBGH24, MIPR4MO49MBNCD, MIPRMO49MCAFL, and MIPR5AZ49MD507. The DoD FMR, volume 14, chapter 3, "Preliminary Reviews of Potential Violations," November 2006, requires that within 10 business days of receipt of a draft report that alleges a potential violation, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the Assistant Secretary for Financial Management of a Military Department, or the Comptroller of a Defense Agency or DoD Field Activity, as applicable, must request that a preliminary review of the potential violation be initiated within the next 30 days. Therefore, we request that the Assistant Secretary of the Navy, Financial Management and Comptroller direct the Navy Comptroller Office to initiate preliminary reviews and possible corrective actions for the MIPRs in

Appendix D that potentially violated the Antideficiency Act. Additionally, we request the Assistant Secretary of the Navy, Financial Management and Comptroller reconsider her position and provide comments on the final report.

B. Commands Managers' Internal Control Program for Military Interdepartmental Purchase Requests

The Commands management control program was ineffective and did not include identification or assessment of controls over MIPR transactions. This occurred because Navy Region and Construction Division did not implement a management control program and NAVAIR did not include self-assessment steps for controls over MIPR transactions. As a result, the Commands did not implement adequate controls to ensure that purchases for goods and services were properly justified, executed, and funds monitored.

Criteria for the Managers' Internal Control Program

Government Accountability Office. GAO/AIMD-00-21.3.1, "Standards for Internal Control in Federal Government," November 1999, states,

The Federal Managers' Financial Integrity Act of 1982 requires the Government Accountability Office to issue standards for internal control in government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

The five standards for internal control are: control environment, risk assessment, control activities, information and communications, and monitoring. These standards define the minimum level of quality acceptable for internal control in Government and provide the basis against which internal control is to be evaluated.

DoD Directive. DoD Directive 5010.38, "Management Control Program," August 26, 1996, implements the Government Accountability Office and Office of Management and Budget guidance that is required by the Federal Managers' Financial Integrity Act of 1982. The DoD Directive requires DoD Components to implement a comprehensive strategy for management controls that provides reasonable assurance that "... programs and administrative and operating functions are efficiently and effectively carried out in accordance with applicable law and management policy." The management control process should be integrated into the daily management practices of all DoD managers. When developing the Manager's Internal Control Program, DoD managers should rely on all contributing information sources, including external audits.

DoD Instruction. DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, requires DoD Components to develop a Management Control Program. The Management Control Program, through its self-assessment process, assists managers in identifying material management

control weaknesses. The DoD Instruction states that in order to be a material weakness, two conditions must be satisfied:

- management controls are not in place, not used, or not adequate, and
- the weakness is material enough to require the attention of the next level of management.

Each DoD Component should submit an annual statement of assurance based on a general assessment of the effectiveness of the management controls.

Assessment of Internal Controls

The Commands management controls for processing MIPR transactions were not adequate to ensure that purchases for goods and services were properly justified, executed, and funds monitored. The Navy Region and Construction Division did not implement a management control program and NAVAIR did not perform a comprehensive self-evaluation of the internal controls related to MIPRs. Finding A further discusses the internal control deficiencies identified.

During our visit in December 2005, the Navy Region personnel stated they had a draft management control program and the Construction Division personnel stated they had not implemented a formal management control programs. NAVAIR did not identify the MIPR process as an identifiable item under their budget and accounting unit and, therefore, did not assess risk or perform a management control review. A formal management control program and periodic assessments of internal controls would reveal inadequate and ineffective control practices and identify opportunities for improvement. By not implementing a management control program or not performing a comprehensive self-evaluation of the internal controls related to MIPRs, the internal controls were not adequate to ensure that purchases for goods and services were properly justified, executed, and funds monitored.

Recommendations, Management Comments, and Audit Response

Redirected Recommendations. As a result of management comments, we redirected Recommendation B to the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller because it has the functional responsibility for management controls.

B. We recommend that the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller direct the Commander of the Fleet Forces Command, Commander of Naval Installations Command, and Commander of Naval Air Systems Command to:

1. Perform self-assessments of the internal controls related to the MIPR process, document the conditions discussed in this report, and describe the progress in completing the Plan of Action Milestones.

2. Determine whether the conditions meet the criteria for a material weakness as stated in DoD Instruction 5010.40, "Material Control (MC) Program Procedures," January 4, 2006, and report the material weakness to the next higher level of management.

Management Comments. The Assistant Secretary of the Navy concurred with the overall intent of the recommendation and agreed to take responsibility for implementing the recommendation.

Audit Response. We consider the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller comments partially responsive. Although the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller agreed to take over the responsibility for the implementation of this recommendation, she did not address how the recommendation will be implemented. We request that the Assistant Secretary of the Navy, Financial Management and Comptroller provide a plan of action to implement Recommendation B in response to the final report.

Appendix A. Scope and Methodology

We conducted an audit of the Navy process for initiating, accepting, obligating, and disbursing for MIPRs, interagency purchases, and their equivalents. Specifically, we selected three Navy locations, NAVAIR, Patuxent River, Maryland; Construction Division, Norfolk, Virginia; and Navy Region, San Diego, California, to conduct our audit. We performed site visits to those locations from November 28, 2005, through December 16, 2005. At each location, we interviewed fund administrators, comptroller office staff, and contracting and legal personnel to learn the process used by the Navy to execute these transactions. We developed a MIPR review checklist, which we based on criteria established in the DFARS, FAR, FMR, Navy Financial Manual, NAVAIR Instructions, and other criteria as applicable. We compared the actual Navy process with the relevant criteria to assist in identifying weaknesses in internal controls.

We selected a judgmental sample from MIPRs processed between September 20, 2003, and September 30, 2005, for each location visited. We reviewed 60 MIPRs, valued at about \$934 million that the NAVAIR, Construction Division, and Navy Region had issued to other Government sources. We also reviewed 57 MIPRs, valued at about \$180 million that the NAVAIR, Construction Division, and Navy Region had received from other Government sources. We requested and reviewed the supporting documentation for each transaction associated with the MIPRs selected. Specifically, we requested and reviewed the following (if available): DD Form 448 “Military Interdepartmental Purchase Request,” DD Form 448-2 “Acceptance of MIPR,” e-mail correspondence identifying requirements, travel authorizations and vouchers, Memorandums for Record, Determination and Findings, Support Agreements, market research documentation, invoices, and accounting transactions. We completed the MIPR review checklist for each MIPR selected in our judgmental sample. We also requested and reviewed standard operating procedures relating to the initiation and execution of MIPRs, if available at the location visited.

We visited DFAS Norfolk, Virginia and DFAS San Diego, California, December 12 through December 14, 2005, and DFAS Columbus, Ohio, January 17 through January 20, 2006. We interviewed personnel from the Accounting Office, IPAC,⁶ MOCAS,⁷ and Vendor Pay Department. DFAS provided some supporting documentation for payments and collections associated with incoming MIPRs received by the Navy. Specifically, DFAS locations provided the Standard Form 1080, Prompt Payment Certifications, CHOOSE⁸ reports, and invoices for outgoing and incoming MIPRs, as available, for transactions reviewed at NAVAIR, Construction Division, and Navy Region.

⁶ Intra-governmental Payments and Collections System (IPAC) is a Treasury System.

⁷ Mechanization of Contract Administration Services (MOCAS) is a DFAS system.

⁸ Cash History On-line Operator Search Engine (CHOOSE) is DFAS register to the Department of the Treasury.

We performed this audit from October 5, 2005, through September 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. To achieve the audit objective, we relied on computer-processed data provided directly from Navy and DFAS personnel extracted from the STARS,⁹ SIGMA, CFMS, FASTDATA, IPAC, MOCAS, Vendor Pay and Access Databases. We did not perform a formal reliability assessment of the computer-processed data. We did not find significant errors between the computer-processed data and MIPR source documents that would preclude use of the computer-processed data to meet the audit objective or that would change conclusions in this report.

Use of Technical Assistance. The Quantitative Methods Division and the Technical Assessment Division of the Department of Defense Office of the Inspector General provided assistance. The Quantitative Methods Division ran a random sample for each Navy site based on the data provided in the universe.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Management of Interagency Contracts high-risk area.

⁹ Standard Accounting and Reporting System (STARS) is the official accounting system for the DFAS.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG), and Naval Audit Service have issued five reports discussing Intragovernmental transactions. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Naval Audit Service reports can be accessed at <http://www.hq.navy.mil/NavalAudit>.

DoD IG

DoD IG Report No D-2007-044, "FY 2005 DoD Purchases Through the Department of Interior," January 16, 2007

DoD IG Report No D-2007-042, "Potential Antideficiency Act Violations on DoD Purchases Made Through Non-DoD Agencies," January 2, 2007

DoD IG Report No D-2007-032, "Report on FY 2005 DoD Purchases Made Through the Department of the Treasury," December 8, 2006

DoD IG Report No D-2007-023, "FY 2005 DoD Purchases Made Through the National Aeronautics and Space Administration," November 13, 2006

DoD IG Report No D-2007-007, "FY 2005 DoD Purchases Made Through the General Services Administration," October 30, 2006

DoD IG Report No. D-2006-102, "Marine Corps Governmental Purchases," July 31, 2006

DoD IG Report No. D2003-095, "Financial Management: Accounting for Reimbursable Work Orders at Defense Finance and Accounting Service Charleston," June 4, 2003

DoD IG Report No. D2003-005, "Readiness: DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency," October 7, 2002

DoD IG Report No. D 2002-110, "Acquisition: Policies and Procedures for Military Interdepartmental Purchase Requests at Washington Headquarters Service," June 19, 2002

Navy

Naval Audit Service Report No. N2004-0039, "Unliquidated Obligations for the Research, Development, Testing, and Evaluation, Navy Appropriation," April 13, 2004

Appendix C. Glossary of Technical Terms

Agency Agreements. Section 1535, title 31, United States Code, “Agency Agreements,” allows the head of an agency or major organizational unit within an agency to place an order with another agency for goods or services if amounts are available, it is in the best interest of the U.S. Government, the other agency can fill the order, and the order cannot be provided by contract as conveniently or economically by a commercial enterprise.

Antideficiency Act Violation. The Antideficiency Act is codified in a number of sections of the United States Code (such as 31 U.S.C 1341 (a), 1342, 1349-1351, 1511 (a), and 1512-1519). The purpose of these statutory provisions, known collectively as the Antideficiency Act, is enforcing the constitutional powers of the purse residing in Congress with respect to the purpose, time, and amount of expenditures made by the Federal Government. Violations of other laws may create violations of the Antideficiency Act provisions (for example, the “Bona Fide Needs rule,” 31 U.S.C. 1502(a)). The potential Antideficiency Act violations in this report specifically refer to 31 U.S.C. 1341(a) (1), which states an officer or employee of the United States Government may not (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation or (B) involve the Government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law. Section 1350, title 31, United States Code states that an officer or employee of the U.S. Government knowingly and willfully violating 31 U.S.C. 1341(a) or 1342 will be fined up to \$5,000, imprisoned for up to 2 years, or both. Section 1351, title 31, United States Code states that if an officer or employee of an executive agency violates 31 U.S.C. 1341(a) or 1342, the head of the agency will report immediately to the President and Congress all relevant facts and a statement of actions taken.

Appropriations. An appropriation is a provision of legal authority by an act of the Congress that permits Federal agencies to incur obligations and to make payments from the Treasury for specified purposes. An appropriation usually follows enactment of authorizing legislation. An appropriation act is the most common means of providing budget authority. Appropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriation act; they represent limitations.

Budget Authority. Budget authority is the authority becoming available during the year to enter into obligations that result in immediate or future outlays of Government funds.

Direct Citation Procurement. Direct citation procurement refers to procurement accomplished by combining the requirements of one or more other DoD Components with those of the procuring DoD Component. The procuring DoD Component may issue one contract with separate schedules showing the quantities, prices, dollar amounts, and citation of funds of each requiring DoD Component. The direct citation order is recorded as an obligation by the requiring DoD Component when it is notified in writing that the procuring DoD Component's contract or project order has been executed, or when a copy of the contract or project order is received.

DoD Policy on Interagency Agreements. DoD Instruction 4000.19, “Interservice and Intragovernmental Support,” August 9, 1995, implements policies, procedures, and responsibilities for intragovernmental support as a result of agreements among Federal Government activities. DoD organizations may enter into interagency agreements with non-DoD Federal activities when funding is available to pay for the support, the agreement is in the best interest of the Government, the supplying activity is able to provide the support, the support cannot be provided as conveniently or economically by a commercial enterprise, and the agreement does not conflict with any other agency’s authority. Determinations must be approved by the head of the major organizational unit ordering the support and must be attached to the agreement.

Economy Act. The Economy Act authorizes agencies to enter into mutual agreements to obtain supplies or services by interagency or intra-agency acquisition. The Economy Act applies when a more specific statutory authority does not exist.

Economy Act Orders. Economy Act orders must be supported by a Determination and Findings. The Determination and Findings must state that the use of an interagency acquisition is in the best interest of the U.S. Government and the supplies or services cannot be obtained as conveniently or economically by contracting directly with a commercial enterprise. A contracting officer of the requesting agency with authority to contract for the supplies or services to be ordered, or another official designated by the agency head, must approve the Determination and Findings.

Expired Appropriation. An expired appropriation is budget authority whose period of availability for incurring new obligations has expired but the appropriation is not closed or canceled. During this period, the appropriation is available for adjustment to, or payment of, existing obligations. Appropriations remain in an expired status for 5 years. At the end of the 5-year expiration period, the appropriation is closed or canceled and is no longer available for the payment of unliquidated (undisbursed) obligations.

Interservice Support. Interservice support is support provided by one DoD activity to a DoD activity of another Military Service, Defense Agency, Unified Combatant Command, Army Reserves, Navy Reserves, Air Force Reserves, Marine Corps Reserves, Air National Guard, or Field Activity.

Intragovernmental Support. Intragovernmental Support is support provided by a DoD organization to a non-DoD Federal organization and vice versa. It does not include support provided to or received from foreign governments.

Military Interdepartmental Purchase Request (MIPR). A MIPR is an order issued by one Military Service to another to procure services, supplies, or equipment for the requiring service. The MIPR (DD Form 448) may be accepted on a direct citation or reimbursable basis. It is an “Economy Act” (31 U.S.C. 1535) order subject to downward adjustment when the obligated appropriation is no longer valid for obligation.

Obligations. Obligations are amounts of orders placed, contracts awarded, services received, or similar transactions made by Federal agencies during a given period, which will result in outlays during the same or some future period.

Reimbursable Procurement. Reimbursable procurement refers to an order for supplies, material, or equipment placed by a requiring DoD Component (a) for procurement by another DoD Component or Federal agency on a contract funded by the procuring DoD Component or Federal agency, without separate identification of the items, or separate citation of the funds of the requiring DoD Component; and (b) with subsequent delivery to and reimbursement by the requiring DoD Component. The reimbursable order is recorded as an obligation by the requiring DoD Component when the procuring DoD Component accepts the reimbursable order in writing.

Support Agreement. A Support Agreement is an agreement to provide recurring support to another DoD or non-DoD Federal activity. Support Agreements are recorded on a DD Form 1144, "Support Agreement," or similar format. It defines the support to be provided by one supplier to one or more receivers and specifies the basis for calculating reimbursement charges (if any) for each service, establishes the billing and reimbursement process, and specifies other terms and conditions of the agreement.

Appendix D. MIPRs Reviewed

Outgoing MIPRs

Naval Air Systems Command													
MIPR No.	MIPR Value	Initiation			Preparation				Execution				
		No Market Research Documentation	No Determination & Findings, Memorandum for the Record, or Support Agreement	Bona Fide Needs Rule Violation	Delivery Requirements	Point of Contact Information	Additional Line Items	Fiduciary Authority	Validity of Disbursements	Untimely Commitments	Untimely/Improper Obligation	Untimely Deobligation	Accounting Records
N0001905MP04938	\$142,663,523	X	X	*				X	X			X	
N0001905MP00504	\$200,000	X	X	*	X			X	X			X	
N0001904MP02695	\$247,824,085	X	X			x		X	X			X	
N0001902MPAD01D	\$136,260,578	X	X				X		X			X	
N00019505MP02079	\$147,949,843	X	X	*			X		X			X	
N00019504MP11220	\$2,545,076	X	X	*	X				X			X	
N0001901MPCV14F	\$193,866	X	X		X	x			X			X	
N0001903MP02016	\$264	X	X		X				X			X	
N0001904MP04524	\$97,316	X	X						X			X	
N00019504MP06932	\$600,000	X	X	*	X				X			X	
N0001904MP00104	\$5,936,056		X				X		X			X	
N0001904MP11761	\$150,000	X	X	*				X	X			X	
N0001905MP00220	\$237,600,000	X	X	*	X				X			X	
N0001904MP10553	\$17,166	X	X						X			X	
N0001904MP06530	\$435,600	X	X	*	X			X ¹⁰	X			X	
N0001904MP05280	\$16,568	X	X						X			X	
N00019504MP11627	\$110,000	X	X	*				X	X			X	
N00019504MP00304	\$114,612	X	X	*	X				X			X	
N0001905MP09319	\$10,310	X	X						X			X	
N0001903MP10363	\$70,000	X	X	*	X				X			X	
20	\$922,794,863	19	20	0	9	2	3	6	20	0	0	0	20

*Potential Bona Fide Needs Rule Violations (11)

“X” indicates that the MIPR was deficient in the stated area.

¹⁰ We could not identify signature on Form DD 448

Commander Navy Region Southwest													
MIPR No.	MIPR Value	Initiation			Preparation				Execution				
		No Market Research Documentation	No Determination & Findings, Memorandum for the Record, or Support Agreement	Bona Fide Needs Rule Violation	Delivery Requirements	Point of Contact Information	Additional Line Items	Fiduciary Authority	Validity of Disbursements	Untimely Commitments	Untimely/Improper Obligation	Untimely Deobligation	Accounting Records
N0024605MP00108	\$2,056,185	X	X			X		X					X
N3146605MP001WR	\$1,894,651	X	X			X		X			X	X	
N0024604MP32S01	\$1,583,570	X	X			X		X		X	X	X	
N60495-05-MP-00108	\$1,441,694	X	X			X		X				X	
N6049504MP32302	\$1,403,801	X	X			X		X		X	X	X	
N6049504MPX6041	\$1,000	X	X			X		X					
N6923205MP001A9	- ¹¹	X	X		X			X			X	X	
N6106505MP009XE	\$23,000	X	X					X	X				
N0024205MP00100	\$81,019							X	X	X	X	X	
N0024205MP0022N	\$9,567	X			X			X	X		X		
N6106504MPX9148	\$89,900	X	X					X			X		
N6923204MPGJ019	\$47,848	X	X	*	X			X	X		X		
N6106505MPFB001	\$33,545	X	X					X		X	X	X	
N0024605MP0202N	\$4,894			*	X			X					
N6340604MPE1017	\$70,780	X	X		X			X	X		X		
N0024504MPBA029	\$87,719			*				X					
N6106505MP005XE	\$104,862	X	X				X	X					
N6340604MPE1016	\$71,898	X	X					X	X		X	X	
N6923204MP32603	\$7,477	X						X				X	
N6923203MPG9015	\$42,870	X		*	X			X					
20	\$9,056,280	17	14	0	6	6	1	20	6	4	11	10	0

*Potential Bona Fide Needs Rule Violations (4)
 "X" indicates that the MIPR was deficient in the stated area.

¹¹ MIPR issued to the Defense Supply Center Philadelphia in November 2004 to construct a golf cart trail around a golf course for \$48,000. However, the project terminated because the contractor could not perform the service.

First Naval Construction Division													
MIPR No.	MIPR Value	Initiation			Preparation				Execution				
		No Market Research Documentation	No Determination & Findings, Memorandum for the Record, or Support Agreement	Bona Fide Needs Rule Violation	Delivery Requirements	Point of Contact Information	Additional Line Items	Fiduciary Authority	Validity of Disbursements	Untimely Commitments	Untimely/Improper Obligation	Untimely Deobligation	Accounting Records
V5703403MPM3818	\$648,378		X	*	X				X			X	
V5703404MPR4823	\$591,309		X		X		X		X				
V5703404MPR4826	\$509,581		X		X				X				
V5703405MPM5815	\$250,000		X	*					X			X	
V5703405MPM5812	\$61,756	X	X						X				
V5703404MPM4426	\$15,700	X	X						X	X	X		
V5703404MPM4810	\$17,865	X	X						X				
V5703403MPM4814	\$1,187	X	X						X		X		
V5703404MPM4818	\$870	X	X						X				
V5703404MPM4819	\$22,324	X	X	*						X			
V5703405MPM5430	\$104,972		X		X				X				
V5703405MPM5431	\$11,500					X			X				
V5703405MPM5433	\$8,458	X	X		X				X				
V5703405MPM5809	\$1,891	X	X						X	X			
V5703405MPM5810	\$97,965	X	X				X		X	X			
V5703405MPM5814	\$7,534	X	X						X				
V5702403MPR3832	\$16,983	X	X						X				
V5703404MPR4801	\$473	X							X	X			
V5703404MPR4805	\$16,572	X							X	X			
V5703405MPR5812	\$6,000	X							X				
20	\$2,391,318	14	16	0	5	1	2	0	19	0	6	2	2

*Potential Bona Fide Needs Rule Violations (3)
 "X" indicates that the MIPR was deficient in the stated area.

Incoming MIPRs

Naval Air Systems Command										
MIPR No.	MIPR Value	Acceptance				Administration				
		No Required Justification Documents	Incomplete Forms	Required Forms	Timely Acceptance	Support Documentation	Deobligations	Costs Overrun	Accounting Records	Appropriation Classification
NFY76210597300	\$3,450,000	X	X							
NMIPR049208433	\$20,800,000	X				X			X	
SBO40052880947	\$155,180		X							
F1ATD24295G002	\$62,449,000	X	X							
F1ATD25258G001	\$41,000,000	X	X							
F1AF115097G001	\$36,320	X								
F1ATD25311G001	\$5,000,000	X	X							
NMIPR039208698	\$12,000,000	X			X	X			X	
DWAM40386	\$3,000,000	X								
MIPR5APAXR8000	\$174,578	X	X			X			X	
MIPR5CPAX00446	-	X	X						X	
MIPRAATD0438	\$234,500	X	X			X			X	
MIPRAATD0568	\$165,000	X	X			X			X	
MIPR3DPAX00330	\$465,592	X	X			X			X	
MIPR5A25400006	\$230,260	X	X							
MIPR3FSIMRG190	\$107,493	X			X	X			X	
MIPR3LPAX00587	\$12,530,282	X	X		X	X			X	
MIPR4BMGCRG055	\$23,667	X				X			X	
MIPR4BPAX00316	-		X						X	
MIPR4FPAX00512	\$4,607,872		X			X			X	
20	\$166,429,744	17	14	0	3	10	0	0	12	0

Commander Navy Region Southwest

MIPR No.	MIPR Value	Acceptance				Administration				
		No Required Justification Documents	Incomplete Forms	Required Forms	Timely Acceptance	Support Documentation	Deobligations	Costs Overrun	Accounting Records	Appropriation Classification
MIPR5A97885804	\$2,529,606		X			X	X			
MIPR5A97885801	\$2,350,000		X		X	X		X		
MIPR4A97978715	\$1,626,524		X			X		X		
MIPR4A97978665	\$1,840,516		X			X				
MIPR4A64051001	\$2,128,769		X			X				
MGLTWEC3275147	\$96,856	X			X	X				
N040700116	\$18,287	X	X			X	X			
S0506A052049	\$24,704		X			X		X		
MGLTWEC4275176	\$171,750	X	X		X	X	X			
LOS0409FO	\$2,000	X					X			
W81EWF43070394	\$76,990	X	X		X	X	X			X
DESCMR052512	\$5,200		X			X	X			
MGLTWEC4275178	\$3,325	X	X		X	X	X			
XS4H5A44F013MP	\$881,500				X		X			
MIPROWBAFY05-110	\$69,400	X	X		X					
DESC-MR-05-0771	\$9,000	X	X				X			
XS5H5A55F011MP	\$400,000		X		X					
17	\$12,234,426	8	14	0	8	12	9	3	0	1

First Naval Construction Division

MIPR No.	MIPR Value	Acceptance			Administration					
		No Required Justification Documents	Incomplete Forms	Required Forms	Timely Acceptance	Support Documentation	Deobligations	Costs Overrun	Accounting Records	Appropriation Classification
N0001805MPAM008	\$235,400	X	X	X		X	X			
MIPR3A17G60016	\$13,200	X	X			X	X			X
W81EWF50327070	\$1,000	X	X			X				
W16ROE40295174	\$2,000	X	X			X				
MIPR4AL49MB306	\$38,000	X	X			X	X			X
MIPR4D49MBGH24	\$51,500	X	X			X	X			X
MIPR4MO49MBNCD	\$60,000	X	X			X	X			X
MIPRMO49MCAFL	\$57,078	X	X			X	X			X
MIPR5AZ49MD507	\$84,000	X	X			X	X			X
MIPR4AL490H501	\$58,000	X	X			X	X			
MPVA-002	\$2,000	X	X	X	X	X	X			
MIPR4B17G6L034	\$4,000	X	X			X	X			
MIPR41LOGSS039	\$25,000	X	X			X	X			
MIPR5MO490HAFL	\$43,700	X	X			X	X			
MIPR5ALOGNV029	\$57,000	X	X			X	X			
MIPR5JLOGGP066	\$50,000	X	X			X	X			
MIPR0304N00046	\$3,000	X	X			X	X			
F2JT735063G001	\$3,700	X	X			X	X			
MIPRCH05000002	\$500	X	X			X	X			
MIPR4LEUSE2095	\$76,000	X	X			X	X			
20	\$865,078	20	20	2	1	20	18	0	0	6

Appendix E. Deficiencies with MIPRs Reviewed

Outgoing MIPRs

	Naval Air Systems Command	Commander Navy Region Southwest	First Naval Construction Division	Total
Total Number of MIPRs Reviewed	20	20	20	60
MIPRs did not have market research	19	17	14	50 of 60
MIPRs did not have Determination and Findings or Support Agreement	20	14	16	50 of 60
Compliance with Bona Fide Needs Rule was not determinable	11	4	3	18 of 60
MIPRS did not have the required time of delivery or performance	9	6	5	20 of 60
MIPRs did not have the required point of contact information	2	6	1	9 of 60
MIPRs added additional line items	3	1	2	6 of 60
MIPRs signature did not have the required fiduciary authority	6	20	0	26 of 60
MIPR file did not include source documents to support disbursement transactions (such as copies of shipping reports or invoices)	20	6	19	45 of 60
MIPR was not committed timely	0	4	0	4 of 60
Failed to timely obligate funds on receipt of the obligating document	0	11	6	17 of 60
Failed to timely deobligate unused funds	0	10	2	12 of 60
MIPR documentation did not include accounting system information	20	0	2	22 of 60

Incoming MIPRs

	Naval Air Systems Command	Commander Navy Region Southwest	First Naval Construction Division	Total
Total Number of MIPRs Reviewed	20	17	20	57
MIPRs did not have required justification forms	17	8	20	45 of 57
MIPRs, Form DD 448-2, were not filled as required (block 6 and block 13 were not completed)	14	14	20	48 of 57
Incorrectly accepted MIPR forms from a Department of Navy Organization	0	0	2	2 of 57
MIPRs were not accepted within the required 30 days period	3	8	1	12 of 57
MIPR did not have documentation to support reimbursable spending transactions	10	12	20	42 of 57
Funds were not timely deobligated	0	9	18	27 of 57
MIPRs had balances in excess of the funds authorized by the MIPR document	0	3	0	3 of 57
MIPR documentation did not include accounting information	12	0	0	12 of 57
MIPRs had altered the appropriation classification	0	1	6	7 of 57

Appendix F. Availability of Funds

Research, Development, Test, and Evaluation (RDT&E)

DoD organizations fund development, test, and evaluation requirements, including designing prototypes and processes, with RDT&E appropriations. DoD organizations use RDT&E funds to develop major system upgrades, to purchase test articles, and to conduct developmental testing and initial operational testing and evaluation before they accept systems and have them produced. In general, RDT&E funds should be used for all developmental activities involved with new systems or major upgrades. RDT&E funds are available for obligation for 2 years.

Operation and Maintenance

Expenses incurred in continuing operations and current services are funded with O&M appropriations. The DoD Comptroller considers all modernization costs under \$250,000 to be expenses, as are one-time projects such as developing planning documents and conducting studies. O&M funds are available for obligation for 1 year.

Procurement

The acquisition and deployment of a complete system or the modification of a system with a cost of \$250,000 or more is an investment and should be funded with a procurement appropriation. Complete system cost is the aggregate cost of all Components (for example, equipment, integration, engineering support, and software) that are part of, and function together, as a system to meet an approved documented requirement. For modification efforts, count only the cost of the upgrade (for example, new software, hardware, and technical assistance) towards the investment threshold. Procurement funds are available for obligation for 3 years.

Defense Working Capital Fund

The Defense Working Capital Fund is a revolving fund, which means that it relies on sales revenue instead of direct appropriations to finance its operations. A DoD organization that has a Defense Working Capital Fund receives reimbursements from another organization for the goods purchased or the services rendered. The revolving fund operates on a break-even basis over time, that is, the DoD organization operating the Defense Working Capital Fund neither makes a profit nor incurs a loss. Rates are adjusted annually to keep the fund in balance. Defense Working Capital Funds do not have a restriction on the time they are available for obligation.

Military Construction

A military construction project includes the cost of all military construction work to produce a complete and usable facility or a complete and usable improvement to an existing facility. Section 2802, title 10, United States Code, states that the Secretary of Defense and the Secretaries of the Military Departments may carry out such military construction projects as are authorized by law. Section 2805, title 10, United States Code, states that the Secretary of Defense and the Secretaries of the Military Departments may carry out unspecified minor construction projects equal to or less than \$1.5 million. If the project is to correct a deficiency that is life, health, or safety threatening, then the Secretary may approve the project to cost up to \$3 million. Military construction funds are available for obligation for 5 years.

Appendix G. Report Distribution

Office of the Secretary of Defense

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

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Assistant Secretary of the Navy, Financial Management and Comptroller
Naval Inspector General
Auditor General, Department of the Navy
Commander of Fleet Forces Command
Commander of Naval Installations Command
Commander of Naval Air Systems Command
Director, Material Readiness and Logistics (OPNAV N4)

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform

House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight
and Government Reform

Office of the Under Secretary of Defense, Director of Acquisition, Technology, and Logistics Comments

Final Report
Reference



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

DEC 22 2006

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, DODIG

THROUGH: DIRECTOR ACQUISITION RESOURCES AND ANALYSIS

SUBJECT: OIG Draft report: "Report on Department of the Navy Purchases for and
From Governmental Sources" (Project No. D2006-D000FH-0021.000)

As requested, I am providing a response to Recommendation A.1. of the subject
audit report.

Recommendation:

DoDIG Recommendation A.1. We recommend that the Under Secretary of Defense Acquisition Technology, and Logistics/Resources Analysis revise the DoD Financial Management Regulations, volume 11A, chapter 3, to clarify that a DoD organization requesting interservice support must prepare a Determination and Findings unless it has completed a Support Agreement, which would be in accordance with DoD Instruction 4000.19.

DPAP Response: Non-concur. The DUSD(C) has functional responsibility for the content of DoD's Financial Management Regulations. Therefore, it would be inappropriate for AT&L to revise the DoD Financial Management Regulations.

If you have any questions regarding this memorandum, please contact my point of contact Mr. Michael Canales, at 703-695-8571 or at michael.canales@osd.mil.

Shay D. Assad
Director Defense Procurement
and Acquisition Policy



Redirected
and Revised
Recommendation A.1

Office of the Assistant Secretary of the Navy, Financial Management and Comptroller Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

DEC 15 2006

MEMORANDUM FOR DEPARTMENT OF DEFENSE DEPUTY INSPECTOR
GENERAL FOR AUDITING

Subj: COMMENTS ON DODIG DRAFT REPORT D2006-D000FH-0021.000,
DEPARTMENT OF THE NAVY PURCHASES FOR AND FROM
GOVERNMENTAL SOURCES

Ref: (a) Draft DoDIG Report D2006-D000FH-0021.000 of 30 October 2006

Encl: (1) Department of the Navy (DON) Comments on Draft DoDIG Report
D2006-D000FH-0021.000, Department of the Navy (DON) Purchases
For and From Governmental Sources

The DoDIG requested the Office of the Secretary of Defense (Comptroller)
(OUSD(C))/Chief Financial Officer provide comments to the subject draft report. The
Department of the Navy (DON) comments to reference (a) are provided at enclosure (1).

My point of contact is Ms. Kathleen Cohen, who may be reached at 703-692-1671
or via email at kathleen.cohen@navy.mil.

A handwritten signature in cursive script, appearing to read "Gaye L. Evans".

Gaye L. Evans
Director
Budget Policy and Procedures Division
Office of Budget

Copy to:
OUSD(C)
DON IG

Department of the Navy
Comments on Draft DoDIG Report D2006-D000FH-0021.000
Department of the Navy Purchases For and From Governmental Sources

The Department of the Navy (DON) partially concurs with some of the process findings identified in the report. The following comments are provided specifically associated with the recommendations addressed to the DON:

Recommendation A.2. We recommend that the Assistant Secretary of the Navy, Financial Management and Comptroller:

a. Develop standard operating procedures that will incorporate Navy Marine Corps Acquisition Regulation Supplement and Financial Management Policy Manual guidance on processing Military Interdepartmental Purchase Requests. The standard operating procedures should also include, but not be limited to:

(1) Procedures and controls, such as a checklist, that ensure all required data and supporting documents are developed and appropriately reviewed before a Military Departmental Purchase Request is certified for issuance or acceptance.

(2) Roles and responsibilities of offices involved in the Military Interdepartmental Purchase Requests process to ensure proper enforcement of Federal, DoD, and Navy guidance.

(3) Procedures and controls that ensure all required Military Interdepartmental Purchase Request documents and source documentation including support for the receipt of ordered goods and services and the validity of related disbursements, are properly maintain in a single file location.

b. Direct Navy Comptroller Office to implement the above standard operating procedures.

c. Direct the Navy Comptroller Office to initiate preliminary reviews and possible corrective actions for Military Interdepartmental Purchase Requests in Appendix D that potentially violated the Antideficiency Act as defined by the DoD Financial Management Regulation.

Response A.2. The DON partially concurs with a. and b. above. The DON has published guidelines, policies and procedures for the proper implementation of Military Interdepartmental Purchase Requests (MIPR). The Financial Management Policy Manual, the DON's Funds Usage Documents Course, and other memorandums provide DON commands with necessary tools for MIPR preparation. However, as noted in the report, full implementation of the procedures by all commands appears to be lacking. Therefore, the DON will emphasize existing guidelines and work to find ways to improve our existing procedures.

Redirected
and
combined
Recommendations A.2.a
and A.2.b.

Renumbered
Recommendation A.2.c
to A.2.b

With regard to part c. above, the DON non-concurs with the recommendation to initiate preliminary Antideficiency Act (ADA) reviews on all the MIPRs identified in Appendix D of the draft report. Although the report identifies a number of process concerns, non-compliance with a process should not automatically infer a potential violation of the bona fide needs rule or a potential Anti-Deficiency Act (ADA) violation. The DON takes both issues very seriously. However, based on verbal discussions with your staff several months ago and information provided in the report, there is insufficient information provided to warrant the initiation of preliminary ADA reviews at this time. For instance, a number of the MIPRs were questioned for bona fide need, yet they were placed on contract within a few months of receipt and well within the period of availability of the appropriation cited. Examples are:

- a. MIPR N0001905MP00504, dated 21 October 2004, cited FY 2005 Operation and Maintenance, Navy (O&M,N) funds. The Air Force awarded a contract on 17 Nov 2005.
- b. MIPR N0001905MP00220, dated 5 October 2004, cited FY 2005 Aircraft Procurement, Navy (APN) funds. The Air Force awarded a contract on 10 November 2004.
- c. MIPR V5703403MPM3818, dated 30 Sep 2003 cited FY 2003 O&M,N funds. The bona fide need existed in FY 2003 and contract award was completed on 30 September 2003.
- d. MIPR V5703405MPM5815 dated 28 Sep 2005 cited FY 2005 O&M,N, with a period of performance 28 Sep 2005 through 27 Mar 2006. The bona fide need existed in FY 2005 and contract award was completed on 28 Sep 2005.
- e. MIPR V5703404MPM4819, dated 24 Sep 2004, cited FY 2004 O&M,N funds. While this field exercise started in FY 2005, procurement lead-time was absolutely necessary so that the deliverables were in place when the troops arrived. These contracts were administered by the U.S. Defense Attached Office, American Embassy Tirana, Albania on 24 Sep 2004.

There were 18 outgoing MIPRs cited for a potential bona fide need rules violation. The above information addresses 5 and reflects no bona fide need violation. The DON will agree to check with NAVAIR and the Commander, Navy Region Southwest on information on the other 13. If information is presented that questions the compliance with the bona fide need rule, further review will be conducted.

Recommendation B. We recommend that the Director, Material Readiness and Logistics Chief Naval Officer (N4), direct the Commander of the Fleet Forces Command, Commander of Naval Installations Command, and Commander of Naval Air Systems Command:

1. Perform self-assessments of the internal controls related to the MIPR process, document the conditions discussed in this report, and describe the progress in completing the Plan of Action Milestones.

2. Determine whether the conditions meet the criteria for a material weakness as stated in DoD Instruction 5010.40, "Material Control (MC) Program Procedures", January 4, 2006, and report the material weakness to the next higher level of management.

Response B. The DON concurs with the overall intent of the recommendation, but does not agree that the Deputy Chief of Naval Operations for Material Readiness and Logistics (N4) should direct the effort. CNO(N4) would only perform a self-assessment of their specific area of responsibilities. Therefore, the Office of the Assistant Secretary of the Navy (Financial Management & Comptroller) will take responsibility to implement the recommendation.

Redirected
Recommendation B

Team Members

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

Paul J. Granetto
Patricia Marsh
Barbara A. Sauls
Monica M. Harrigan
Corrissa L. Carlton
Robert France
Miwon Kim
Shanika Knight
Carmen D. Chapa
Faith Crawford
Giormary Peluyera
Calvin Hursey
Damarus Sanders
Erin S. Hart
Ann Thompson



Inspector General
Department of Defense

