



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

REPORT OF THE GENERAL ACCOUNTING OFFICE
Accounting for the
by the Office of the

RELEASED

B-205853

JANUARY 12, 1982

The Honorable Pete McCloskey, Jr.
House of Representatives



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Dear Mr. McCloskey:

Subject: Voucher Approval Procedures at the Peninsula
Branch of the Defense Contract Audit Agency
(PLRD-82-30)

In your May 19, 1981, letter, you asked us to review voucher approval procedures at the Peninsula Branch of the Defense Contract Audit Agency (DCAA). In correspondence to you, the Peninsula Industrial Medical Clinic indicated that DCAA

--had delayed approval of payments under two contracts the Clinic had with the Ames Research Center of the National Aeronautics and Space Administration (NASA) and

--had requested data that required an "extensive accounting to satisfy a vague set of needs."

In summary, we found that:

--Payments totaling about \$230,000 were delayed because the Clinic had not billed NASA for incurred costs as required by the contracts and was unable to provide supporting information on incurred costs when requested. In addition, if DCAA had pursued its requests for the supporting data, the delays might have been shortened.

--DCAA did not require an extensive accounting, but it did request data, as required under contract terms, to support costs claimed for reimbursement by the Clinic. To comply with DCAA's request, the Clinic incurred additional costs for accounting services because it had not kept its records in a format that made the information readily available.

Except for the delays occurring with vouchers submitted by the Clinic, our review of payment procedures showed that, because there were no difficulties in obtaining supporting cost data where necessary, there were no delays in approving payments under other contracts.

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OBJECTIVE, SCOPE, AND METHODOLOGY

To determine whether the agencies involved followed applicable procedures, we interviewed representatives of the Clinic and its public accounting firm, DCAA, and NASA. In addition, we examined contract documents, vouchers, and DCAA/NASA contract approval procedures to determine whether DCAA delayed approval of vouchers submitted by the Clinic under two cost-reimbursable contracts and whether similar delays were occurring in DCAA's voucher approval procedures for other contracts.

BACKGROUND

In 1975 and 1976 NASA awarded cost-reimbursable contracts to the Clinic to provide medical services and to operate a health clinic at the Ames Research Center. The Clinic was paid about \$1.4 million for services rendered under the two contracts. Under the contract terms, the Clinic was to (1) bill NASA for the actual costs incurred in performance of the contracts and (2) keep supporting data on the costs incurred. The Clinic's billings for payment (vouchers) of incurred costs were to be sent to the NASA contracting officer through DCAA. DCAA was to review the vouchers submitted to determine their validity before payment.

CLINIC FAILED TO SUBMIT SUPPORTING DATA WHEN REQUESTED

DCAA delayed payments on vouchers submitted by the Clinic between December 1978 and November 1979. In January 1979, after learning that the Clinic was billing NASA for projected costs rather than for actual costs, DCAA returned the first of several vouchers with a request that the Clinic provide schedules of costs incurred and/or other data to support the overhead rates and direct labor charges claimed for reimbursement. Because the Clinic did not respond to the first request, DCAA returned all subsequent vouchers unpaid with a notice "* * * pending submission of required schedules * * *." Although the NASA contracting officer was provided with a copy of the January 1979 letter, he apparently was not provided with copies of the form letters used to return subsequent vouchers.

The NASA contracting officer said he did not agree with the amounts DCAA questioned. The officer also said that, when informed of the extent of the delays, he approved payment of all but \$9,000 of the amount claimed because the Clinic had continued to operate the health unit while payments were delayed and because the risk for overpayment appeared small.

In September 1980 the Clinic submitted data considered acceptable by DCAA. After DCAA's review, NASA made final payment in March 1981.

DCAA COULD HAVE REDUCED
DELAYS IN PAYMENT APPROVALS

A prompt response from the Clinic to DCAA's requests for supporting data probably would have reduced delays in payment approvals. These delays also could have been reduced if DCAA

--had advised NASA contracting officials that vouchers from the Clinic were being returned or

--had requested incurred cost data earlier than when it did.

Except for the initial voucher that was returned, DCAA did not advise NASA contracting officials each time an additional voucher was returned; thus, NASA was not notified of the need to obtain data from the Clinic.

Under cost-reimbursable contracts, contractors generally claim reimbursement for overhead based on projected (interim) rates. DCAA usually establishes final rates at the end of each fiscal year on the basis of the contractors' actual cost data. In the Clinic's case, however, DCAA waited almost 3 years after the end of first fiscal year to request cost data needed to establish final overhead rates. Had DCAA requested the data earlier, it might have identified the Clinic's difficulties in determining actual costs under the contracts. Because the Clinic had not maintained its accounting records in a format that made the information readily available and because so much time had passed, it was more difficult for the Clinic to respond to DCAA's request. Clinic officials indicated that, as a result, they incurred additional costs for accounting services to extract the necessary supporting data.

CONTRACTOR AND DCAA COMMENTS

Although the contracts require that the Clinic bill actual incurred costs and maintain and make supporting records available when requested, Clinic officials stated that they were not aware of these requirements nor did they understand DCAA's requests. Earlier contracts between the Clinic and NASA were not cost-reimbursable contracts. Under prior contracts, the price initially agreed upon was used for billing purposes, regardless of fluctuation in costs. The Clinic continued billing in this manner even though the type of contract changed in 1975.

DCAA representatives indicated that they recently adopted procedures to notify contractors who do not provide cost information within 12 months after the award of a cost-reimbursable contract of the need to submit such data. These procedures

should enable DCAA to identify cost data accumulation problems before payment delays occur.

CONCLUSIONS

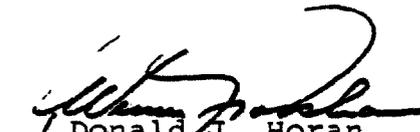
Because the Peninsula Industrial Medical Clinic did not respond to DCAA's request for data to support vouchers and because DCAA did not pursue its requests for the supporting data, payments of vouchers submitted by the Clinic were delayed.

Although it could have acted to reduce the time required for approval of vouchers, DCAA's requests for data to support incurred costs were proper. In addition, in view of actions promised by DCAA to minimize problems before payment delays occur, we are not making recommendations at this time.

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Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. Then, we will send copies to the Administrator of the National Aeronautics and Space Administration, the Director of the Defense Contract Audit Agency, and other interested parties and make copies available to others upon request.

Sincerely yours,


Donald J. Horan
Director