



Highlights of [GAO-03-727](#), a report to the Chairman, Committee on the Budget, House of Representatives

Why GAO Did This Study

GAO has reported that the Department of Defense's (DOD) inability to accurately account for and report on disbursements is a long-term, major problem. GAO was requested to determine (1) the magnitude of the adjustments and related costs in fiscal year 2002, (2) why contracts, including payment terms, are so complex, (3) the key factors that caused Defense Finance and Accounting Service (DFAS) Columbus to make payment adjustments, and (4) what steps DOD is taking to address the payment allocation problems.

What GAO Recommends

GAO recommends that DOD (1) develop options for presenting standard payment instructions in contracts and (2) automate those instructions in the Mechanization of Contract Administration Services (MOCAS) system. GAO also recommends that DOD's contracting community and DFAS follow existing regulations and procedures concerning contract payment instructions. In its comments, DOD concurred with two recommendations and partially concurred with two others related to developing and automating the standard payment instructions. DOD stated that although the working group would analyze their feasibility, until the coordination and review process was completed, it could not commit to these actions. We continue to believe that decisive steps towards a lasting solution are needed to address DOD's long-standing contract payment problems.

www.gao.gov/cgi-bin/getrpt?GAO-03-727.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov.

DOD CONTRACT PAYMENTS

Management Action Needed to Reduce Billions in Adjustments to Contract Payment Records

What GAO Found

For fiscal year 2002, DFAS Columbus data showed that about \$1 of every \$4 in contract payment transactions in the MOCAS system was for adjustments to previously recorded payments—\$49 billion of adjustments out of \$198 billion in transactions. To research payment allocation problems, DFAS Columbus reported that it incurred costs of about \$34 million in fiscal year 2002. This represents about 35 percent of the total \$97 million that DFAS Columbus spent on contract pay services. DFAS Columbus bills DOD activities for contract pay services based on the number of accounting lines on an invoice. Consequently, all DOD activities pay the same line rate, regardless of whether substantial work is needed to reconcile problem contracts and adjust payment records.

GAO's analysis of two contracts showed that the contracts were complex because of the (1) legal and DOD requirements to track and report on the funds used to finance the contracts, (2) substantial number of modifications made on the contracts to procure goods and/or services, and (3) different pricing provisions on the contracts. GAO's review of \$160 million of adjustments showed that the adjustments were made for four reasons:

- The Army made an error in accounting for obligations, resulting in about \$127 million in payment allocation adjustments.
- DFAS Columbus did not follow its internal procedures for allocating payments to accounts on an Army contract containing multiple pricing provisions, resulting in about \$5 million in adjustments.
- DFAS made over \$2 million in adjustments to correct recording errors on an Army contract due to complex and changing payment instructions.
- The Air Force frequently changed payment instructions after payments were made on an Air Force contract, resulting in about \$26 million in adjustments.

DOD has initiated a major long-term effort to improve its business operations, including its acquisition and disbursement activities. If implemented successfully, this initiative may help correct many of the contract payment allocation problems. In the interim, DOD has initiatives under way to address payment allocation problems, including (1) billing DOD contracting offices for contract reconciliation services, (2) providing DOD activities information on the correct method for presenting payment instructions, and (3) establishing a working group to develop options for presenting standard contract payment instructions. While the DOD working group initiative may reduce payment allocation errors associated with misinterpreting contract payment instructions, DOD needs to automate the standard payment instructions to eliminate payment allocation errors associated with manually allocated payments.