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

ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

AUGUST 20, 1985

B-219535



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Lt. General Donald M. Babers  
Director, Defense Logistics Agency

Dear General Babers:

Subject: Information on Duplicate Payments to  
Contractors by the Department of Defense's  
Defense Logistics Agency's Defense Contract  
Administration Services Region in Cleveland,  
Ohio (GAO/AFMD-85-71)

Representative Jack Brooks, Chairman of the Subcommittee on  
Legislation and National Security, House Committee on Government  
Operations, asked us to examine the issue of duplicate payments by  
the federal government. Much of this concern stemmed from reports  
during the summer of 1984 that several agencies had paid a Maryland  
firm more than once for the same services. In response, we have  
surveyed payment procedures at selected federal payment centers  
which process a large number of invoices, including your Defense  
Contract Administration Services Region (DCASR) in Cleveland,  
Ohio. The results of our work at other agencies are presented in  
separate reports.<sup>1</sup>

The principal objectives of our survey were to determine if  
duplicate payments were being made and to identify the existing  
internal controls for preventing more than one payment for the same  
goods or services. Title 7 of GAO's Policy and Procedures Manual  
for Guidance of Federal Agencies and the Department of the  
Treasury's Treasury Financial Manual for Guidance of Departments  
and Agencies require that agencies' controls over disbursements  
include the necessary safeguards to prevent duplicate payments.

During our survey conducted between February and April 1985,  
we reviewed the Cleveland DCASR's fiscal year 1984 records

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<sup>1</sup>We also completed surveys at a payment center for the General  
Services Administration (GAO/AFMD-85-70) and one for the  
Department of Justice (GAO/AFMD-85-72).

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containing returned government checks and company refunds to identify instances where vendors had reimbursed the DCASR for duplicate payments.<sup>2</sup> We also completed some independent analyses of payment transactions. To facilitate that analytical work, at our request DCASR officials conducted an automated comparison of fiscal year 1984 payments on contracts in effect as of February 26, 1985, to identify those with the same contract, shipping, and appropriation numbers, and which were for the same amount. We randomly selected 50 of the 744 potential duplicate payments that surfaced from that matching process and reviewed the supporting documentation to determine whether there had been two payments for the same goods or services. Based on our review of this documentation and discussion with DCASR officials, we attempted to discover the reasons for the duplicate payments identified.

We did not test the reliability of the DCASR's analysis, using our criteria, to identify potential duplicate payments. With this exception and that we did not request official agency comments on a draft of this report, our work was conducted in accordance with generally accepted government auditing standards.

In reviewing DCASR records containing returned checks and company refunds, we found that:

--Private businesses had returned 26 duplicate payments of \$1,000 or more during fiscal year 1984. The 26 refunds totaled \$8.5 million, with individual returns ranging in value from \$1,000 to \$6.8 million.

--We were able to determine which organization had identified 14 of the 26 duplicate payments: contractors had identified 8 amounting to about \$7.1 million, military services had identified 2 for about \$456,000, and the Cleveland DCASR had identified 4 valued at about \$758,000.

--Manual processing seemed to be a significant contributor to making duplicate payments. The seven refunded duplicate payments for which we could readily identify the reason for the error had involved manual processing after being initially rejected for payment by the automated payment system.

In addition, our independent analysis of payment transactions showed that:

--Of the 50 potential duplicate transactions we reviewed, two were actually duplicates. Both duplicate payments,

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<sup>2</sup>We reviewed all refunds of at least \$1,000 but could not examine the February 1984 records of collections on Air Force contracts because DCASR officials could not locate them at the time of our visit.

totaling about \$2,400, had been recovered. One had been identified by Army officials, the other by the contractor.

The Cleveland DCASR is one of nine regional payment centers that were established within the Defense Logistics Agency in 1965. The Cleveland DCASR paid \$3.3 billion on about 142,000 invoices during fiscal year 1984. Cumulatively, the nine DCASRs disbursed about \$41 billion on 1.7 million invoices during that year. The centers, which all use the same automated payment system, are responsible for assuring that goods or services received meet contract requirements and that payments are due and proper. The automated payment system requires information to be entered from (1) contract documents, (2) evidence of acceptance of goods or services, and (3) contractors' invoices. If the data from the three sources match, the system automatically generates a check unless existing contract clauses require a manual review of the transaction.

#### DCASRS RELY HEAVILY ON MANUAL PAYMENT PROCESSING

We did not conduct a comprehensive review of DCASR payment system controls to prevent duplicate payments because, in November 1984, the Office of Management and Budget (OMB) directed executive departments and agencies to assess the adequacy of the internal controls in their payment systems--including those for preventing duplicate payments--as part of their evaluation responsibilities for fiscal year 1985 under the Federal Managers' Financial Integrity Act. However, we did identify selected automated controls designed to prevent duplicate payments and reviewed existing procedures for handling payments which were rejected by the automated payment system, thus requiring some manual processing.

Cumulative fiscal year 1984 statistics for the nine DCASRs, as well as those for the Cleveland DCASR, show that only about half of the payments were processed automatically without some need for manual review, additional data input, or other actions. Some of the causes were (1) contract provisions requiring special handling for items such as progress payments and foreign military sales payments, (2) intentionally removing payments from the automated system to meet due dates for taking discounts or to avoid interest penalties because of late payments, and (3) errors made in entering data required to make an automatic payment.

#### Manual processing can increase the risk of duplicate payments

As previously noted, one of the principal observations from our work is that the DCASRs are required to manually intervene with their automated payment system to make a high percentage of the payments. The seven instances of refunded duplicate payments for which we determined the cause involved manual intervention into the automated invoice payment or check mailing process. For

example, the largest payment error occurred in October 1983 when a payment totaling \$6.8 million was inadvertently disbursed twice. A technical problem was discovered as checks were being processed, and correcting that problem resulted in printing a second set of checks. Although DCASR officials had intended that the entire first printing be destroyed, one payment was mistakenly released to a contractor. However, all the checks from the second printing were also distributed, thus causing a duplicate payment. The contractor identified the error and refunded the money after about 2 weeks.

In another instance, the Cleveland region paid a \$455,000 progress payment twice, once manually and once through the automated system. The duplicate payment occurred because an initial manual payment was not recorded in the proper account, and the automated system subsequently generated another payment for the same item. The DCASR discovered this duplicate payment while researching the contract at the request of a Navy Regional Finance Center. Based upon a request by the DCASR, the contractor refunded the duplicate payment about 5 weeks after it had been made.

The Assistant Chief of the Accounting and Finance Division told us that the automated payment system has controls for preventing duplicate payments and that they are effective if existing procedures are carried out properly. For example, she said that the system will not make two automated payments involving the same shipment and contract numbers. The first payment entered for an existing obligation would cause any second payment effort to be rejected. However, if as in the case of the \$455,000 progress payment, one of the payments is made manually and not properly or promptly entered into the system, a second payment could be made through the automated system and not be detected until later. In order to minimize that possibility, the Assistant Chief said that pay unit supervisors are to review and sign off on all manual payments.

DCASR DOES NOT HAVE A COMPREHENSIVE  
MECHANISM TO DETECT POTENTIAL  
DUPLICATE PAYMENTS

The DCASR does not have a routine procedure for periodically analyzing prior payments to detect potential duplicates. Combined with the heavy reliance on manual processing of transactions which may result in bypassing the automated controls, these two situations may create a higher than normal risk of making duplicate payments and insufficient assurance that those made will be detected and recovered in a timely manner.

Present procedures to detect duplicate payments which slip through the payment process are somewhat fragmented and rely heavily on cooperation by the DCASR, agencies for whom the contracts are being administered, and individual contractors. As noted by the Assistant Chief of the Cleveland DCASR, the DCASR's primary internal control to detect duplicate transactions or

overpayments, once made, is manually reconciling contract obligations and payments by reviewing the files for individual contracts. She said that such reconciliations are performed if the DCASR is unable to pay an invoice because the available funds are less than the invoice amount or if the contractor or agency involved identifies a possible payment error and requests that the contract payments be examined to resolve the potential problem. In our view, payment center controls should be adequate to detect payment errors and not require as much reliance on others to discover erroneous payments that slip through the process. This seems particularly relevant in the case of a DCASR because of the large dollar amounts involved.

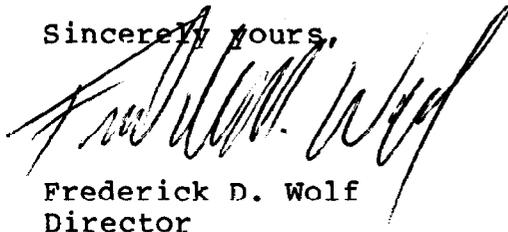
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We have provided the results of our work along with the listing of 744 potential duplicate payments to officials at the Cleveland DCASR. As discussed above, we found 2 duplicate payments in the 50 we selected for review and both of those had been recovered. However, in view of the high rate of manual intervention which increases the risk of paying twice, we believe that additional work is warranted to evaluate other payment transactions on that listing.

The Defense Logistics Agency already has recognized some of the inherent problems in requiring manual input into such a large percentage of their payments. As a result, they have initiated planning efforts to redesign their accounting system with one objective being to substantially increase their fully automated payments from 50 percent to between 85 and 90 percent of their total transactions. However, this is a long-term project with implementation at the first of nine DCASRs tentatively scheduled for November 1986. Consequently, some consideration should be given to expanding the present system's capability to identify duplicate payments from the current ad hoc basis to routine automated testing of prior payment data.

We appreciate the cooperation and courtesy extended to us by your Cleveland officials and would like to receive the results of any further testing for duplicate payments that the DCASRs perform. We did not request official agency comments on a draft of this report. We are sending a copy of this letter to the Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations, the Director, Office of Management and Budget, the Commander of the Cleveland DCASR, and to other interested parties.

Sincerely yours,



Frederick D. Wolf  
Director

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