



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

November 26, 2008

MEMORANDUM FOR FISCAL ASSISTANT SECRETARY, UNITED STATES TREASURY
ACTING UNDER SECRETARY OF DEFENSE
(COMPTROLLER/CHIEF FINANCIAL OFFICER)
MANAGING DIRECTOR, FINANCIAL MANAGEMENT AND
ASSURANCE, GOVERNMENT ACCOUNTABILITY OFFICE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Inspector General of the Department of Defense Report No. D-2009-021,
"Independent Auditor's Report on the Department of Defense FY 2008 and
FY 2007 Basic Financial Statements," November 12, 2008

We are revising page 6 of the attachment to the subject report to address errors identified after publishing. The revisions are minor and do not effect the overall conclusions in the original report. We are incorporating the following updates to the Antideficiency Act (ADA) section on page 6.

We are revising the first complete sentence on page 6 to read, "During FY 2008, DoD reported 16 cases of violations of the ADA." A review of our working papers supported the 16 reported cases; however, the report erroneously listed 14 cases. We are also revising the second sentence of the first full paragraph on page 6 to read, "Our review of DoD ADA investigations of potential violations shows that DoD did not process 14 ADA violations cases within 12 months." We removed the word "the" before "14" as it implied that these ADA cases were the same cases as those referenced in the previous paragraph, which is not accurate. Please reference the attached page as a replacement for any copies of the subject report in your possession. We have only revised the page indicated and no other information in the report has been modified.

If you have any questions on the changes, please contact me at (703) 601-5868 or Ms. Amy Mathews at (703) 601-5870.

Patricia A. Marsh

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

Attachment:
As stated

employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2008, DoD reported 16 cases of violation of the ADA. Therefore, DoD did not comply with the ADA, 31 U.S.C. 1341, and 31 U.S.C. 1351.

DoD internal guidance limits the time from the start of the investigation to reporting of ADA violations to 12 months. Our review of DoD ADA investigations of potential violations shows that DoD did not process 14 ADA violation cases within 12 months.

Prompt Payment Act. According to the Prompt Payment Act (PPA), the payment date for an invoice is the date payment is due under the contract or 30 days after a proper invoice is received, if a specific payment date is not established by the contract. The PPA also states that an agency must make payments no earlier than 7 days prior to the payment due date unless the agency head or designee has determined (on a case-by-case basis) that earlier payment is necessary. The PPA also requires DoD to maintain an internal control environment in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004. In prior audit reports, we identified internal control weaknesses within the DFAS Columbus Mechanization of Contract Administration Service (contractor payment system) that resulted in incorrect payments of interest to contractors. If controls governing compliance with PPA are not corrected, DFAS Columbus could continue to pay a significant number of interest payments incorrectly and violate the provisions of the PPA.

Improper Payments Information Act. DoD does not fully comply with the requirements of the Improper Payments Information Act of 2002, Public Law 107-300, and subsequent OMB guidance. Specifically, DoD was still in the process of developing procedures to implement OMB's August 2006 guidance that requires additional documentation related to the identification of improper payments. The new OMB guidance requires that when an agency is unable to discern whether a payment is proper because of insufficient documentation, the payment must be considered an error. In addition, DoD efforts to manage recovery audit contracts have been largely unsuccessful. The DoD needs to disseminate existing guidance to improve contracting for recovery audits and adhere to that guidance in reporting recovered funds.

In November 2006, to facilitate DoD compliance with OMB guidance, the Office of the Acting Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer established a DoD Project Officer for Improper Payments and Recovery Auditing. The Project Officer reviews DoD statistical methodologies and processes to verify that its reporting is accurate, complete, and meets or exceeds OMB requirements. In May 2007, DoD held its first Defense Improper Payments Information Act Conference to facilitate identifying and reporting improper payments in the Department.

Audit Disclosures

The Acting Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer acknowledged to us on April 7, 2008, that the DoD financial management and feeder systems cannot provide adequate evidence supporting various material amounts on the financial