



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

DEC 28 2007

MEMORANDUM FOR DEPARTMENT OF THE NAVY CHIEF INFORMATION OFFICER
ASSISTANT FOR ADMINISTRATION, UNDER SECRETARY OF
THE NAVY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE-
CLEVELAND

Subj: DEPARTMENT OF THE NAVY TELECOMMUNICATION RECOVERY AUDIT
IMPLEMENTING GUIDANCE

Ref: (a) Public Law 107-107, Sec 831, DoD Authorization
Act 2002
(b) DoD IG report of August, 2005 "DOD Recovery
Audit Program"

Encl: (1) Guidance for Telecommunications Recovery Auditing

The purpose of this memorandum is to provide financial management guidance for dealing with erroneous payments that have been identified for repayment. Following the requirements of reference (a) and results of reference (b), Department of the Navy (DON) Chief Information Officer (CIO) began an assessment of all telecommunication business processes within DON. This review resulted in the discovery of erroneous payments.

To ensure that DON has the appropriate financial process in place to meet the requirements of reference (a), a Recovery Audit work group established procedures for receipt of recovered erroneous charges. Enclosure (1) provides for that specific guidance and includes business rules and a flow chart of the process. These procedures should be given wide dissemination and are effective upon the date of this memorandum.

The DONCIO point of contact (POC) for Telecomm Recovery Audit is Mr. Byron Adams at (703) 607-5608 or by email at byron.adams@navy.mil. My POC for this action is Ms. Elise D. Newton at (202) 685-6737 or by email at elise.newton@navy.mil.

A handwritten signature in black ink, appearing to read "Mark E. Easton".

MARK E. EASTON
Director
Office of Financial Operations

Subj: DEPARTMENT OF THE NAVY TELECOMMUNICATION RECOVERY AUDIT
IMPLEMENTING GUIDANCE

Blind Copy to:
FMB-5

**IMPLEMENTATION GUIDANCE
FOR THE
TELECOMMUNICATION RECOVERY AUDIT**

Purpose: This guidance prescribes policies and procedures for the Department of Navy (DON) Chief Information Officer's (CIO) Telecommunication Recovery Audit (RA) of amounts erroneously paid and for payments to the RA Contractors, administrative expenses and execution of the RA Management Improvement Plan (MIP).

Scope: The goal of the RA is to perform a post payment review and analysis to identify overpayments for telecommunication services to contractors and recover those erroneously paid sums. Recovery audits can be performed on any appropriation as long as it is determined to be cost effective.

Roles and Responsibilities:

Department of the Navy (DON) Chief Information Officer (CIO), Program Manager, shall:

1. Oversee the development of the MIP to ensure the RA funds are used in accordance with the Financial Management Regulation (FMR) Volume 10, Chapter 22.
2. Maintain a close working relationship with the RA Contractors and provide contractors access to all pertinent files to successfully accomplish the mission. Access to the files will be in accordance with the RA contract between DON CIO and the RA Contractor.
3. Review and validate all RA Contractor claims of vendor overpayments and requests for recoupment.
4. Send claim letter and/or demand letters (Appendix A) to contracted vendors regarding DON's claim of overpayment on contractual discrepancies.
5. Pay the RA Contractor in accordance with the contract Number N0010407FQ232 and reimburse activities for expenses incurred in conjunction with the RA, reference Business Rules, Section E1, in order to comply with 31 USC 3561-3567, FMR Volume 10, Chapter 22 and OMB memo

Enclosure (1)

M-06-23, the Program Manager is responsible for insuring certain classes of contracts will be excluded from recovery audits performed by RA contractors.

6. Act as liaison with DON Financial Management (FM) for financial guidance and policy.
7. Act as liaison to all entities involved in the RA effort.
8. Develop and implement the MIP in accordance with the FMR to prevent future overpayments in telecommunications procurement.
9. The Program Manager shall report findings to Congress in accordance with the 31 USC 3561-3567, OMB memo M-06-23 and FMR, Volume 10, Chapter 22. Additionally, quarterly LOA reports will be provided to DON on the metrics.
10. Coordinate quarterly MIP report with Assistant Secretary, Financial Management Comptroller DON.
11. Will prepare the SF 1081 documents for recovered funds, reference Business Rules Section D.

The Recovery Audit (RA) Contractors shall:

1. Perform in accordance with contract #N0010407FQ232.
2. Obtain approval of the Contracting Officer or the Program Manager prior to making any requests for government furnished information or vendor data.
3. Review accounting and procurement records which may lead to identification of any overpayments to telecommunications vendors.
4. Review financial documents in accordance with RA contract. Financial Documents include, but are not limited to such items as: the invoice; the details supporting the invoice; the receipt document; the contracting document; and work request.
5. Respond to inquiries resulting from claim letters arising from work performed pursuant to the RA contract.

6. Submit and calculate invoices in accordance with the RA contract.
7. Submit MIP metrics to DON CIO.
8. Attempt to recover funds from the vendor in the event the vendor contests the claim.

Defense Finance Accounting Service (DFAS) shall:

1. Assist RA Contractor as needed in locating documentation supporting a telecommunications vendor claim.
2. Collect and record offset of all recoveries based on supporting documentation.
3. Assist DON CIO in review of draft claims and/or demand letter developed by RA Contractor.
4. Assist DON CIO in establishing Bill of Collection number for claim/demand letters, reference Business Rules, Section D4.
5. Track and bill Customer Agency for all approved costs associated with the support of the recovery auditing effort.
6. Develop a means to track collection data (appropriation, years, amounts, etc.)
7. Maintain liaison between the DON CIO, other DFAS offices involved in the support of the recovery audit contract, and the FM Lead within the Financial Management Office in all matters.
8. Receive and validate the disbursement claims.
9. Notify DON CIO and FMO of receipt of payment.
10. When funds are initially recovered, they will be posted to a deposit account (17X6501 RARA). For collection of recovered funds, reference Business Rules Section C.

11. Post receivable transaction on the books at the time the demand letter is sent to the vendor.

Department of the Navy Financial Management shall:

1. Ensure that the transfer of funds is timely and accurate. Refer to Business Rules Section D and E.
2. Ensure the handling and processing of lines of accounting information are proper and within respective funding requirements.
3. Liaison with DFAS to ensure monitoring and reporting on such issues is clear and concise and within financial requirements.
4. Work closely with DON CIO to ensure that:
 - a. RA Contractors are providing clear and auditable packages for collection;
 - b. Clear lines of responsibilities are defined with RA contractors regarding the lines of accounting.
 - c. Review DON CIO quarterly reports with regards to oversight of: recovered amounts; balances credited to the original LOA and resources provided for the MIP.

Process: The steps required to initiate and complete the telecom recovery of funds by way of the Recovery Audit are identified as follows (See Appendix B):

1. DON CIO identifies need for RA Contractors to initiate review of telecommunications vendor invoices.
2. RA Contractors begin the data collection.
3. RA Contractor reports findings via claims/debt package to DON CIO. Package includes a copy of the contract, the original invoice, evidence of payment (disbursing office voucher (DOV)) and details substantiating the claim/debt.
4. RA Contractor drafts Claims and/or Demand Letter (See Appendix B) for recovery of erroneous charges; DON CIO approves. Letter sent to vendor.
5. Vendor receives Claim and/or Demand Letter. Pays invoice or contests claim.

6. RA Contractor receives and manages Letter of Contest.
7. DFAS receives collection check with a copy of the claim/demand letter and/or the check is sent to Code: TIIG Lock Box. The collection check must be for the full amount owed by the Vendor.
8. Collections are posted to Deposit Account.
9. Distribution of recovered funds is made by DON CIO. See Business Rules sections D and E for details.
10. Payments are made to RA Contractors and DFAS.
11. Commands and ASN FM(C) are notified of credit expenditure. See Business Rules section D for further details).

Recovery Funds Availability

Pursuant to authority contained in Section 831 of Public Law 107-107, which state:

Availability of Funds for RAs and Activities Program

3562 (a) (1) - Amounts recovered are available to reimburse actual expenses incurred by the executive agency in the administration of the program.

3562 (a) (2) - funds recovered shall be available to pay contractors for services.

The use of recovered, expired funds are available and limited to new obligations in the way of finders fees; administering the program; and/or Recovery Audit management improvement initiatives; as well as upward adjustment on contracts that are within the scope of the contract or possible Judgment Fund payments.

Funds not used for the RA program

3562(b) (1) - Any amounts erroneously paid by the vendor that are recovered under the RA that are not used for the program shall be credited to the appropriations from which the erroneous payments were made, shall be merged with other amounts in those appropriations, and shall be available for the purposes and period for which such appropriations are available; or 3562(b) (2) - if not such

appropriation remains available, shall be deposited in the Treasury in Miscellaneous Receipts.

BUSINESS RULES:

A. Creation of claim or demand letters

Claim letters are issued when there is the appearance of a debt. Demand letters are definitive debts and are issued subsequent to or in lieu of a claim letter.

1. Each claim letter will be assigned a unique bill of collection number (BOC).
2. Each demand letter will be assigned a unique BOC. If a demand letter is generated from a claim letter, then the same BOC assigned to the claim letter will be used for the demand letter.
3. Both the claim letter and the demand letter needs to annotate that the vendor forward all payments to DFAS at the address below:

Defense Finance and
Accounting Service
Code: TIIG
P.O. Box 998033
1240 E. 9th St.
Cleveland, OH 44199

B. Posting of Accounts Receivable:

1. If a claim letter is drafted, no posting is made to the financial records, see Business Rule Section B2, when the monies are actually collected.
2. If a demand letter is drafted, then an accounts receivable account will be posted at the time the demand letter is issued.
3. Accounts receivable will be adjusted according to the negotiated contested demand letter.

C. Collection of recovered funds:

1. Verify collections to the posted accounts receivable.
2. When funds are initially recovered, they will be deposited by DFAS into 17X6501.RARA in the form of a check.

D. Distribution of recovered funds:

1. The Program Manager will be responsible for the creation and disposition of the SF 1081 for recovered funds. Amounts identified as expenses (see business rule E1) will be vouchered on an SF1081 from 17X6501.RARA to the current year Operation and Maintenance, Navy (OMN) appropriation, 17_1804.12RA. Residual funds will be vouchered by SF1081 to the original line of accounting in accordance with business rule D2.
2. Proceeds of the Recovery Audit not identified for the MIP nor as other expenses shall be returned to the original line of accounting (LOA) (from 6501 to original LOA) or the Department of the Treasury (from 6501 to 17R3200) via SF1081 follows:
 - a. If appropriation is unexpired, funds will be returned to the original LOA and will be available to incur new obligations.
 - b. If appropriation is expired, funds will be returned to the original LOA and will be available for with-in scope adjustments.
 - c. If appropriation is cancelled, funds will be returned to Miscellaneous Receipts at the Department of the Treasury (17R3200). The DON cancelled LOA must be on the SF1081.
3. When recovered funds are credited to a Commands LOA, the Command will receive a copy of the SF1081 from DON CIO within 30 days. The Command should then take appropriate action to get the associated contract modified and deobligate the funds for subsequent use. Status will be contained within the quarterly report to Assistant Secretary of Navy, Financial Management Comptroller DON.
4. Bill control number (BOC) from demand letter and claim is put on the SF1081 and will be used to track balances back to the original LOA.

E. Payment of Expenses

1. Contractor expenses will be paid based on a predetermined percentage of recovered funds negotiated

in their contract. Expenses incurred by DFAS and the Program Manager will be paid based on actual costs. An estimating methodology to pay DFAS and the Program Manager may be pursued as long as there is a documented rationale for the estimating and the final result reimburse actual costs. Funds for the MIP will be managed by the DON Program Manager office and will be retained based on defined MIP requirements. In the absence of a MIP, these funds will be returned to the original LOA in accordance with Business Rules Section D2 and D3.

2. The Program Manager needs to pay expenses within 30 days after funds have been vouchered by SF1081 from 17X6501.RARA to the 17_1804.12RA account. After the recovery audit expenses have been paid, the Program Manager/DFAS will follow Business Rules D2 and D3 to credit the original LOA via SF1081 within 30 days.
3. 31 U.S. Code 3563 allows recovered funds to be used to reimburse the actual expenses incurred by an executive agency in carrying out its recovery audit program and to pay a contractor for recovery services. That being said, funds vouchered by SF1081 to OMN, 17_1804.12RA for expenses, can incur obligations in an expired status. Expenses should be paid from oldest funds first.

SAMPLE LETTER REQUESTING REPAYMENT

<Return Address of Recovery Auditor>

<date>

Dear Defense Contractor:

Audit of your account reveals that you are indebted to the United States Government in the amount of _____. The debt has been assigned Bill of Collection number _____.

Reason for indebtedness: duplicate payment/overcharge/incorrect billing (as applicable) made on contract # _____. The attached schedule, invoice, and _____ is supplied for your records.

Full payment is due within 30 days from the date of this letter. Your check in the amount of _____ should be made payable to Disbursing Officer DFAS-CL and sent to the following address:

Defense Finance and Accounting Service
Code: TIIG
P.O. Box 998033
1240 E. 9th St.
Cleveland, OH 44199

Please include the Bill of Collection number and Contract number referenced above to ensure your payment is properly credited.

If payment is not received within 30 days from the date of this letter, interest will be charged on the unpaid portion at the rate established by the U.S. Department of Treasury under Public Law 92-41. The current rate is _____ per annum. If payment is not made within 30 days from the date of this letter, this indebtedness plus accrued interest may be offset against payments due to you including any unpaid invoices available. In addition, you may be assessed an administrative fee of _____ to cover costs specifically associated with the administration and collection of a delinquent debt.

If you have already paid the debt, or believe the debt is invalid, please contact us by telephone, email or in writing immediately. You may inspect and copy or request a copy of the records pertaining to this debt.

If you are financially unable to pay the debt in full at the present time, you may request a written agreement to pay the debt in installments. Please submit (request, documentation, etc.) to the above office and address.

If you have any questions, please call <recovery auditor> at <phone number>, <fax number> or email <email address>. Please reference Bill of Collection number _____.

Respectfully,

<recovery auditor>

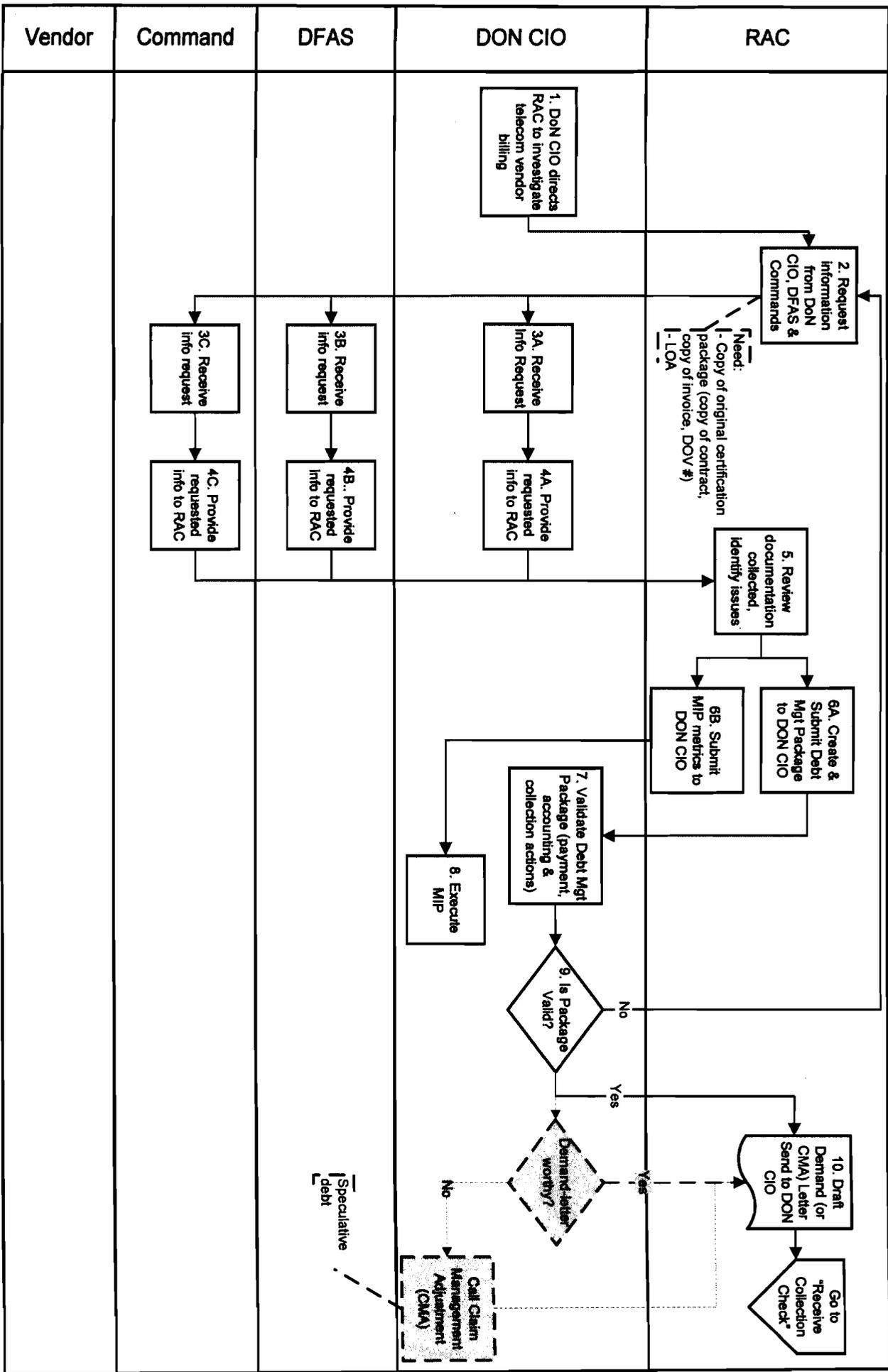
Enclosures:
As stated

Copy to:
DFAS-CL/JAAA
Rm 1967
1240 E. 9th St.
Cleveland OH 44199

"As-Is" Collection Process - Prepare Demand Letter

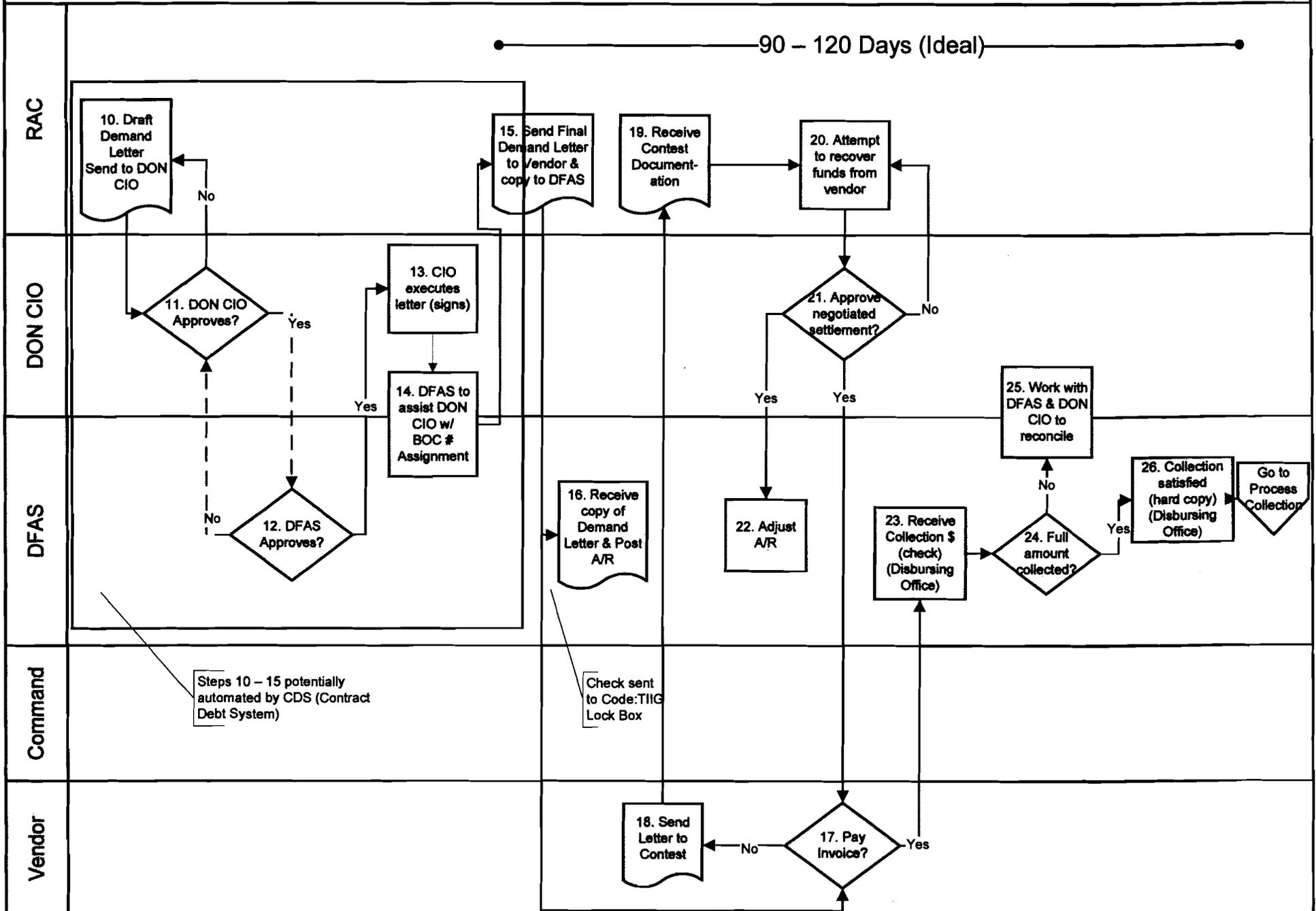
 = CMA flow

Updated 6 November 2007,
RA Financial Management
Working Group Meeting



"As-Is" Collection Process – Receive Collection Check

Updated 6 November 2007,
RA Financial Management
Working Group Meeting



"As-Is" Collection Process – Process Collection

Updated 6 November 2007,
RA Financial Management
Working Group Meeting

