MEMORANDUM FOR DISTRIBUTION

Subj: CONTRACT DISTRIBUTION AND TIMELY FUNDS OBLIGATION RECORDING

Ref: (a) Defense Federal Acquisition Regulation Supplement (DFARS) PGI 204.270-1
(b) Financial Management Regulation (FMR) Volume 3, Chapter 8

Encl: U.S. Navy FY 2016 Schedule of Budgetary Activity Audit Engagement No. 8200-003 Notification of Finding and Recommendation # 2016-0004-FIN

1. The purpose of this memorandum is to establish policy to address deficiencies (identified in the enclosure) in the timely recording of obligations largely resulting from manually awarded or externally awarded/funded contracts, task or delivery orders, or contract modifications.

2. To ensure the contracting officer has current contact information to enable automated notification when contract documents are loaded to the Electronic Document Access (EDA) system, each funding document shall include the contact information of the person(s) designated to record contract obligations. At a minimum, email address, phone number, and Department of Defense Activity Address Code (DoDAAC) shall be provided. This information is required for all funds that will be cited on the contract, including funds received from external offices, and must be provided to the contracting officer.

3. As stated in reference (a), EDA is the Department of Defense’s (DoD’s) primary tool for electronic distribution of contract documents and contract data. Notwithstanding Federal Acquisition Regulation 4.201, contracting officers shall ensure that manually written contracts are loaded to EDA within six (6) calendar days of execution.

4. When contract documents are awarded manually, funding is provided by a comptroller office other than the contracting officer’s Budget Submitting Office (BSO), there is a known interface failure between the contract writing system and the accounting system, or an interface between the contract writing system and accounting system does not exist, contracting officers shall use EDA’s Contract Load Notification capability which will provide timely notification to comptroller offices.

5. Comptroller offices shall ensure that the person(s) designated to record contract obligations maintain(s) an account in Wide Area Workflow (WAWF) with the appropriate EDA role to view contract documents for the timely recording of obligations. In accordance with reference (b), the office responsible for obligating funds must record obligations in the official accounting records within three (3) calendar days of receipt of notification.
6. The points of contact for this memorandum are Mr. Tom Wardwell (thomas.wardwell@navy.mil) for Deputy Assistant Secretary of the Navy (Acquisition and Procurement) and Mr. Pete Bowman (pete.bowman@navy.mil) for Deputy Assistant Secretary of the Navy (Financial Policy and Systems).

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Barbara B. Carns
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**U.S. Navy**

**FY 2016 Schedule of Budgetary Activity Audit**

**Engagement No. 8200-003**

**Notification of Finding and Recommendation**

**NFR # 2016-0004-FIN**

<table>
<thead>
<tr>
<th>Subject</th>
<th>Controls over contractor and vendor pay do not assure that obligations are recorded timely.</th>
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<tbody>
<tr>
<td>W/P Ref.</td>
<td>Ca3148, Ca3153, Ca3154, Ca3158</td>
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<tr>
<td>Background</td>
<td>Entities need to ensure they account for transactions in conformity with U.S. GAAP. When an entity incurs an obligation, it records the obligation in the period in which it occurred. In general, a period is a month. Within the USN, some commands, such as USFF, CNIC and PACFLT do not have the authority to enter into contracts (requiring activities). These commands rely on external contracting activities for contracting. Contracting activities are commands that have been delegated the authority to enter into and administer contracts for themselves and on behalf of other commands. USN requiring activities most often use NAVSUP, NAVSEA, NAVAIR, SPAWAR, NAVFAC, DLA, and less often, ONR and SSP for contracting. When contracts are executed by NAVSUP and DLA, the obligation is recorded in STARS via system interface. If, however, the contracting activity's contract writing system does not interface with STARS-FL, the requiring activity should be notified of the contract award by the contracting activity who then enters the obligation in STARS-FL.</td>
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<td>Condition</td>
<td>When requiring activities must manually record contracting actions, they are not always able to record these obligations within 10 calendar days of the contract being signed as required by the DOD Financial Management Regulation (FMR).</td>
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<td>Criteria</td>
<td>The Government Accountability Office Standards for Internal Control in the Federal Government (2014) states, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.” <em>FMR Volume 3, Chapter 8,</em></td>
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<td></td>
<td><em>Section 08302: Obligation Responsibilities</em> states that the office that incurs an obligation shall provide, within six calendar days of the date the obligation is incurred, a copy of the obligating document(s), via electronic mail, fax, or other documented means, to the office responsible for recording the obligation. The office that is responsible for recording the obligation shall record the obligation in the official</td>
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accounting records within 3 calendar days of receipt of such
documentation, information, or data. Timely and accurate recording of
obligations facilitates the disbursing officer’s (DO) ability to verify fund
availability before authorizing a payment (a process called pre-
validation) and, consequently, promptly pay the associated invoice."

- **Section 080303: Recording Obligations** states that obligations must be
  recorded in the official accounting records at the time a legal obligation
  is incurred. In no instance must obligations be recorded any later than 10
calendar days following the day that an obligation is incurred.

- **Section 080304: Recording Contract Obligations** states if the obligating
  transaction fails to take place automatically, the accounting records shall
  be updated manually, based on the official obligating document in the
  Electronic Document Access (EDA) System, within three business days.

| **Cause** | The USN’s contract writing systems do not all interface with the requiring activities’ general ledger accounting systems. As a result, contracting activities must notify the requiring activities of the contract award via electronic mail, fax, or the EDA and requiring activities must perform monitoring procedures. Contracting activities, however, do not always adhere to the FMR, which requires that they provide the executed contract to requiring activities within 6 calendar days of the obligation being incurred. When contracting offices do not notify the requiring activity or enter the contract in EDA within the required timeline, requiring activities are not able to enter executed contracts into STARS in a timely manner. The USN does not have a consistent process for requiring activities to follow up on pending contracts to ensure they are receiving contracts in a timely manner other than requiring that at least two government employees have access to EDA. Though some requiring activities may follow up with the contracting activities or have other monitoring procedures in place, such as reaching out to the technical point of contact for the work to verify the status of a contract or querying EDA for contracts that match their outstanding commitments, these processes are not consistently performed across USN commands. |
| **Effect** | The untimely notification and subsequent recording of the obligations understates United States Standard General Ledger account 480100 (Undelivered Orders – Obligations, Unpaid), and accordingly, the SBA. |
| **Recommendation** | 1. We recommend that the Offices of Financial Operations (FMO) and Financial Policy and Systems (FMP) in coordination with its service |
provider and related system stakeholders, evaluate contract writing systems' configurations, and the configuration of any successor systems, and take corrective actions necessary to establish an interface between the contracting activities' contract writing systems and the requiring activities' general ledger accounting system.

Until the system changes are implemented, we recommend that FMO and FMP work with the contracting activities to:

2. Enhance policies and/or procedures to help ensure:
   a. Contracting activities notify the requiring activities in a consistent and timely manner when a contract has been executed.
   b. Requiring activities follow up with contracting activities on a regular basis as to the status of contracts being executed for the requiring activities.

These procedures should clearly define the roles and responsibilities of each party as well as the communication channels.

3. Implement the policies and/or procedures to help ensure:
   a. Contracting activities notify the requiring activities in a consistent and timely manner when a contract has been executed.
   b. Requiring activities follow up with contracting activities on a regular basis as to the status of contracts being executed for the requiring activities.
Please indicate your response in the space provided above or as an attachment within 10 business days from the date of this notification. Cotton & Company will consider your written response when it prepares the draft audit report.

- Management concurs with finding and recommendation.
- Management does not concur with finding and recommendation.

Management Response:

The Department of the Navy concurs with the auditor’s findings. The Navy has moved this deficiency into its remediation process to formally designate an Office of Primary Responsibility (OPR). The OPR and Corrective Action Plan process enables accountability for the development and implementation of corrective actions to address the root cause of the findings with defined timelines and responsible owners.

CROUSE.VICTORIA
ANNE.1228635398

Management Signature
On behalf of Karen L. Fenstermacher, DASN (Financial Operations)

Victoria Crouse
Name

Chief Strategy Officer
(FMO-SL)

October 31, 2016
Date