



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

JAN 25 2002

MEMORANDUM FOR DISTRIBUTION

Subj: IMPROPER ADJUSTMENTS TO CANCELED DEPARTMENT OF DEFENSE
APPROPRIATIONS

Ref: (a) GAO Report to Congress on Canceled DoD Appropriations
(GAO-01-697) of July 26, 2001

Encl: (1) USD(AT&L) memo of October 1, 2001

A recent General Accounting Office audit report, reference (a), noted that auditors had found instances where contracting officers had provided direction to the Defense Finance and Accounting Service (DFAS) Columbus Center, either by modification of the contract or other methods of communication, to instruct the DFAS Columbus Center to charge disbursements to older appropriation accounts without regard to whether adjustments would result in charging disbursements to appropriations which had been canceled. In light of those comments, enclosure (1) was issued and should be distributed to all contracting professionals.

Contracting officers must be sensitive to the rules and regulations governing financial management and accounting. Whenever funding or payment directions are to be changed, command comptroller and/or counsel should be consulted. Specific paying instructions to DFAS not provided in Section G of the contract and not affecting the contractor invoicing process should be provided to DFAS in written correspondence or contract modification.

Questions or comments may be addressed to Ronald G. Ostrom (703) 602-2798, fax (703) 602-2117, or email (ostrom.ronald@hq.navy.mil).

A handwritten signature in black ink, appearing to read "Peter M. Chase", is located below the contact information.

Peter M. Chase
Director, Policy and Resources
Acquisition and Business Management

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ACQUISITION,
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THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

01 OCT 2001

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTENTION: SERVICE ACQUISITION EXECUTIVES
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Improper Adjustments to Cancelled Department of Defense
Appropriations

The General Accounting Office (GAO) criticized DoD for a lack of adequate systems, internal controls, and managerial attention to ensure that adjustments affecting closed appropriations are legal and otherwise proper. GAO auditors asserted that the Military Departments used contract modifications to instruct the Defense Finance and Accounting Service to charge some payments to closed appropriations. The GAO further indicated that documentation supporting these adjustments did not adequately explain the underlying reasons for the adjustments. Because of these criticisms, the GAO recommends that I, as the Under Secretary of Defense (Acquisition, Technology, and Logistics) issue policy guidance prohibiting contract modifications resulting in improper adjustments to contract payment terms. Additionally, the Under Secretary of Defense (Comptroller) requests that the acquisition community take appropriate action to prevent improper adjustments.

Accordingly, I request that you make certain that all contracting activities have procedures in place that ensure compliance with the requirements of the Department's financial management policies, which currently preclude the improper adjustments identified by the GAO. Instructions for charging and processing adjustments to closed appropriation accounts are included in Volume 3, Chapter 10 of the Department of Defense Financial Management Regulation (DoD 7000.14-R). All contract modifications that include adjustments to closed appropriation accounts must be supported with contract file documentation sufficient to establish that the adjustments are legal and proper, and that they received supervisory review. The modifications must also be approved in writing by the appropriate level comptroller or financial resource manager.



ENCLOSURE(/)

Actions taken to comply with this direction must be completed within 60 days from the date of this memorandum. Any questions should be addressed to Mr. Richard Brown in Defense Procurement at (703)695-7197, or Richard.G.Brown@osd.mil.



E. C. Aldridge, Jr.