Audit Report

THE 2000 DOD FINANCIAL MANAGEMENT IMPROVEMENT PLAN

Report No. D-2001-085 March 19, 2001

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Acronyms

CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officers
DFAS	Defense Finance and Accounting Service
FFMIA	Federal Financial Management Improvement Act
JUMPS	Joint Uniform Military Pay System
OMB	Office of Management and Budget
SAS	Statement on Auditing Standards
SLDCADA	Standard Labor Data Collection and Distribution Application
USD(C)	Under Secretary of Defense (Comptroller)

INSPECTOR GENERAL
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March 19, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Audit Report on the 2000 DoD Financial Management Improvement Plan (Report No. D-2001-085)

We are providing this audit report for review and comment. We conducted the audit as part of our responsibility under the Federal Financial Management Improvement Act of 1996 to report on DoD plans to improve financial management systems. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Due to the late issuance of the final 2000 DoD Financial Management Improvement Plan, we revised the systems compliance finding and Recommendations 1., 2., and 3. from the draft report and added a finding and Recommendations A.1. through A.7. on the overall assessment of the 2000 DoD Financial Management Improvement Plan. Therefore, we request that management provide additional comments on Recommendations B.1., B.2. and B.3. and comments on Recommendations A.1. through A.6. by May 21, 2001.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Ms. Cindi M. Miller at (317) 510-3855 (DSN 699-3855) (cmiller@dodig.osd.mil). If management requests, we will provide a formal briefing on the results. See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

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for Auditing

Office of the Inspector General, DoD

Report No. D-2001-085 **March 19, 2001**
(Project No. D2001FI-0018)

The 2000 DoD Financial Management Improvement Plan

Executive Summary

Introduction. The Federal Financial Management Improvement Act of 1996 requires DoD financial management systems to comply substantially with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Since 1997, we have reported, and DoD has acknowledged, that DoD financial management systems do not substantially comply with the three requirements. As a result, DoD has prepared the Financial Management Improvement Plan (the Plan), which is a strategic framework that includes the Department's financial management concept of operations for the future. The Plan identifies the initiatives DoD is implementing to improve critical financial systems and processes. Also, the Plan addresses critical finance and accounting systems, critical program feeder systems, and legacy systems. The Plan was submitted to Congress in January 2001 and provided to us on January 30, 2001.

Objectives. Our objectives were to perform an overall assessment of the Plan, including compliance with the requirements of the National Defense Authorization Act for FY 2000, and to determine whether the Plan had adequately identified the status of financial management systems compliance. In addition, we reviewed the transition from the 1999 Financial Management Improvement Plan.

Results. The Plan was a valid attempt to develop a strategic framework that includes the Department's financial management concept of operations and describes the manner in which the Department intends to carry out financial management operations in the future. However, the Plan is an evolving product that was prepared from a data call rather than from information readily available to management, was not prepared in a timely manner, and has yet to capture all required information. DoD did not fully comply with the requirements for the Plan included in the National Defense Authorization Act for FY 2000. Further, although the Plan showed cost estimates of $3.7 billion for FY 2000 through FY 2003 to correct systems deficiencies and result in systems that are compliant with the Federal Financial Management Improvement Act, the amount is understated. As a result, the Plan was incomplete and did not ensure that DoD will correct system deficiencies and result in an integrated financial management system structure (finding A).

The DoD Components did not conduct proper or complete evaluations of critical financial management systems reported as compliant with the Federal Financial

Management Improvement Act of 1996 in the Plan. DoD used incorrect or incomplete criteria to perform the system evaluations for six systems listed as compliant. Also, DoD did not maintain adequate documentation to support compliance evaluations for six systems before reporting the systems as compliant. As a result, at least 12 of the 19 systems included in the Plan as compliant were either not Federal Financial Management Improvement Act compliant or the compliance status was not supported (finding B).

Summary of Recommendations. We recommend that for future Financial Management Improvement Plans, the Under Secretary of Defense (Comptroller) develop processes to map the flow of data from the transaction origination points to presentation on the DoD Component and Agency-Wide financial statements; ensure all the required information is included in the Plan; validate the amounts budgeted for the Financial and Feeder Systems Compliance Process; and establish a senior steering group to describe performance characteristics and training requirements, and validate the number and types of the future financial management human capital requirements. We also recommend that future Plans include details on the Defense Finance and Accounting Service blueprint for progress, standardizing data elements, implementing managerial cost accounting systems, and developing integrated budget formulation systems.

We recommend that the Under Secretary of Defense (Comptroller) redesignate, for the 2001 Financial Management Improvement Plan, the compliance status of three systems as noncompliant; five systems as not determined; and, require the Military Departments and the Defense Finance and Accounting Service to review the system evaluations of four systems. See the recommendations section of finding B for the list of specific systems.

Management Comments. The Deputy Chief Financial Officer provided comments for the Under Secretary of Defense (Comptroller). The Deputy stated that two draft report recommendations, which pertained to changing the compliance status of systems in the 2000 Plan, have been overcome by events because the 2000 Plan was finalized and published before the draft report was received. The Deputy also stated that it was the responsibility of the DoD Components to determine the compliance status of their systems. In addition, the Deputy stated that the Financial and Feeder Systems Compliance Process, issued January 5, 2001, will improve the systems compliance process and address our concerns. See finding B for a discussion of management comments, and the Management Comments section of the report for the text of the comments.

Audit Response. We agree that the recommendations in the draft report have been overcome by the issuance of the final 2000 Plan. However, we have revised the systems compliance recommendations and they now apply to the preparation of the 2001 Plan. Although the DoD Components are responsible for determining the compliance status of their systems, we believe the Under Secretary of Defense (Comptroller) also has a responsibility to ensure the data it includes in the Plan are complete, supported, and in compliance with governing statutes. The Financial and Feeder Systems Compliance Process, if properly implemented, should help ensure that

the Plan is complete, supported, and in full compliance with governing statutes. We added a finding (finding A) on the overall assessment of the 2000 Plan to the final report and revised the system compliance recommendations. We request that the Under Secretary of Defense (Comptroller) provide additional comments on the new and revised recommendations by May 21, 2001.

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Background

This audit was conducted pursuant to the responsibility of the Inspector General, DoD, under the Federal Financial Management Improvement Act (FFMIA) of 1996 to assess the progress made toward substantial system compliance with applicable guidelines and standards. This report is the second in a series of audit reports related to the FY 2000 DoD Agency-Wide Financial Statements. The first report discussed the internal controls and compliance with laws and regulations for DoD. This report discusses the 1999 Financial Management Improvement Plan (the 1999 Plan) and the 2000 Financial Management Improvement Plan (the 2000 Plan) issued by DoD regarding efforts for improving financial management systems containing the data used to prepare the DoD Component and Agency-Wide financial statements.

Responsibility for Financial Management Systems. The Military Departments and Defense agencies are responsible for implementing, modifying, and maintaining the feeder systems that supply source-level data to the finance and accounting systems. The Defense Finance and Accounting Service (DFAS), under the authority of the Under Secretary of Defense (Comptroller) [USD(C)], is responsible for implementing, modifying, and maintaining the finance and accounting systems. Sound financial management, reliable financial information, and auditable financial statements depend on reliable data processed collectively by the finance, accounting, and feeder systems.

National Defense Authorization Act for FY 1998. The National Defense Authorization Act for FY 1998 (the 1998 Authorization Act) required the Secretary of Defense to submit to Congress a biennial strategic plan for the improvement of financial management within DoD. The plan was to address all aspects of financial management, including the finance systems, accounting systems, and data feeder systems that support financial functions of DoD. The 1998 Authorization Act included additional detailed requirements for a statement of objectives, performance measures, schedules, and the identification of individual and organizational responsibilities.

The Financial Management Improvement Plan. FY 1998 was the first year in which DoD attempted to consolidate all its financial management system reporting requirements into one document by issuing the DoD Biennial Financial Management Improvement Plan. Since the DoD Biennial Financial Management Improvement Plan was intended to meet a variety of reporting requirements, including annual requirements, it required DoD to update it each year. In September 1999, DoD began issuing the DoD Financial Management Improvement Plan (the Plan) on an annual basis. The Plan is a strategic framework that includes the Department's financial management concept of operations and describes the manner in which the Department intends to carry out financial management operations in the future. It addresses the Department's critical financial systems and critical program feeder systems that provide the majority of the financial source data. The Plan identifies the initiatives DoD is implementing to improve critical financial systems and processes, and initiatives the Military Departments and Defense agencies are implementing to improve the financial data provided by critical feeder systems. DoD prepared the 2000 Plan to meet the requirements of the National Defense

Authorization Act for FY 2000 (2000 Authorization Act) in addition to the requirements of the Federal Financial Managers' Integrity Act of 1982, the Chief Financial Officers (CFO) Act of 1990, and the FFMIA. The requirements in the 2000 Authorization Act and DoD compliance with the requirements are discussed in finding A of this report. We received a copy of the 2000 Plan on January 30, 2001. The 2000 Plan included 167 critical accounting, finance, and feeder systems of which 19 were reported as compliant with requirements of the FFMIA.

Requirements in Federal Managers' Financial Integrity Act of 1982 for Section IV of the Annual Statement of Assurance. The Federal Managers' Financial Integrity Act of 1982 required that each Federal agency annually submit a self-assessment of internal control weaknesses. Section IV of the submission deals specifically with weaknesses in financial management systems.

Chief Financial Officers Act of 1990. The CFO Act required the Office of Management and Budget (OMB) to prepare a government-wide Five-Year Plan that addressed planned improvements to financial management. The CFO Act also required each Federal agency to submit a specific supporting Five-Year Plan to improve its financial management. The CFO Act reporting requirements for the Five-Year Plan are similar to the reporting requirements of the 1998 Authorization Act.

Federal Financial Management Improvement Act of 1996. The FFMIA required DoD financial management systems to comply substantially with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. If DoD systems do not substantially comply with the three requirements, DoD is required to prepare a remediation plan. The plan should include the remedies, resources, and intermediate target dates necessary to bring the financial management systems into substantial compliance with the FFMIA. Since FY 1997, we have reported, and DoD has acknowledged, that the DoD financial management systems do not substantially comply with FFMIA requirements.

Critical Financial Management Systems. DoD defines a critical financial management system as one that provides information that is materially important to agency-wide financial management, financial control, and financial reporting. Criticality is based on the concept that a system provides information that is important in producing reliable financial reports or statements, ensuring DoD missions are met within the financial parameters and constraints imposed by the Congress, or assisting decision-makers, including the Congress.

Legacy Systems. A major part of DoD reform initiatives is the consolidation and standardization of finance, accounting, and feeder systems. To accomplish consolidation and standardization, certain existing systems must be designated as migratory systems into which similar systems (designated as legacy systems) are to be consolidated. The migratory systems were to undertake enhancements to correct deficiencies. The ultimate goal is to reduce the number of DoD systems while making the finance, accounting, and feeder systems provide complete, reliable, timely, and auditable information.

Objectives

Our objectives were to perform an overall assessment of the 2000 Plan, including compliance with the requirements of the 2000 Authorization Act and to determine whether the 2000 Plan had adequately identified the status of financial management systems compliance. In addition, we reviewed the transition from the 1999 Financial Management Improvement Plan.

A. Assessment of the DoD Financial Management Improvement Plan

The 2000 Plan was a valid attempt to develop a strategic framework that includes the Department's financial management concept of operations and describes the manner in which the Department intends to carry out financial management operations in the future. However, the 2000 Plan was an evolving product that was developed using data collected from various sources via a data call, was not prepared in a timely manner, and has yet to capture all required information. DoD did not fully comply with the requirements of the 2000 Authorization Act. As a result, the 2000 Plan was incomplete and did not ensure that DoD will correct system deficiencies and result in an integrated financial management system structure. Specific areas of noncompliance with the 2000 Authorization Act and the impact of the noncompliance are discussed below.

Improvements to the 2000 Plan

DoD continues to refine the Plan as evidenced by the modifications made to the critical financial management systems inventory. We noted progress in updating the information included in the 2000 Plan for some systems. However, the 2000 Plan lacked all the information required by the FFMIA regarding the funds and time frames required to correct all system deficiencies. We would expect DoD to continue to make progress in identifying all critical financial management systems and providing the full remedies, resources, and intermediate target dates as the DoD Components begin implementation of the Financial and Feeder Systems Compliance Process, a systematic approach for use in overseeing the Department's efforts to correct major financial management deficiencies in its automated systems.

Preparation of the 2000 Plan

Requirements for System Reviews. Enactment of the CFO Act and the Federal Managers' Financial Integrity Act of 1982 led to the issuance of OMB Circular A-127, "Financial Management Systems," as revised, July 23, 1993. OMB Circular A-127 required each Federal agency to ensure that appropriate reviews were conducted and improvements made to financial management systems.

Use of Data Call. As with the previous DoD Financial Management Improvement Plans, the 2000 Plan was prepared by the USD(C) using data collected from the Military Departments, DFAS, and other Defense agencies. Because the necessary data were not available, the USD(C) used a data call questionnaire to attempt to collect information from the Military Departments, DFAS, and other Defense agencies on DoD financial management systems to use in preparing the 2000 Plan.

The fact that it was necessary to use a questionnaire to collect data on DoD financial management systems demonstrated that DoD had not conducted system reviews as required by OMB Circular A-127 or developed a repository where data can be reviewed and updated as required so as to provide management with the information necessary to successfully manage system improvements. If the overall systems improvement efforts were actively managed on an integrated basis, frequent systems status data updates would be available to senior management on a routine basis.

DoD-Wide Involvement. As previously stated, the Military Departments and Defense agencies are responsible for implementing, modifying, and maintaining the feeder systems that supply source-level data to the finance and accounting systems. DFAS has reported that 80 percent of the data on DoD Component and Agency-Wide financial statements originated in the feeder systems owned by the Military Departments and Defense agencies. Because such a large percentage of the data on the DoD Component and Agency-Wide financial statements is supplied by feeder systems, little progress in meeting CFO requirements is possible without the financial and other functional communities collectively working toward financial management system compliance.

Timeliness and Accuracy of the 2000 Plan. The 2000 Plan, both the draft and final versions, was not issued in a timely manner. The 2000 Authorization Act required that the 2000 Plan be submitted to Congress not later than September 30, 2000. However, a draft of the 2000 Plan was not issued for comment until late November 2000, and the final 2000 Plan was not issued until January 2001. In addition, our reviews of the 1999 and 2000 Plans have identified many instances where the data were inaccurate, incomplete, or major changes were not explained. For example, for the Air Force Military Modification Initiative, the 2000 Plan showed a completion milestone date of FY 2002. However, the 2000 Plan showed resource requirements for implementation of the Military Modification Initiative until FY 2004, and there was no explanation why resource requirements are needed beyond the completion milestone date. In addition, the 1999 Plan listed the Centralized Accounting and Financial Resources Management System as a legacy system. However, the 2000 Plan listed the Centralized Accounting and Financial Resources Management System as an FFMIA compliant system but provided no explanation for the change in compliance status from the 1999 Plan. Conflicting data such as these are confusing and can mislead the reader. In addition, the 2000 Plan reported 19 systems as FFMIA compliant. However, 12 of the 19 systems reported as FFMIA compliant were either not FFMIA compliant or the compliance status was not supported (see finding B). The lack of a timely and accurate plan negatively impacts the Department's ability to manage financial improvements and develop budget estimates for financial management systems funding. Until DoD develops an ongoing process to prepare the Plan in a timely and accurate manner, the Plan will not be a viable management tool.

National Defense Authorization Act for FY 2000. The 2000 Plan did not fully meet the requirements of the 2000 Authorization Act. The 2000 Authorization Act contained requirements for the 2000 Plan that were in addition to the requirements for the Plan in the 1998 Authorization Act. Additional requirements of the 2000 Authorization Act include a systems inventory, major procurement actions, a financial management competency

plan, improvements to DFAS, and an internal controls checklist. The table below shows the status of the 2000 Authorization Act reporting requirements for the 2000 Plan.

Table 1. Status of 2000 Authorization Act Requirements for the 2000 Plan

Requirement	Reported in the 2000 Plan	Adequately Reported in the 2000 Plan
Inventory of systems	Yes	No
Major procurement actions	Yes	No
Financial management competency plan	Yes	No
Improvements to DFAS	Yes	No
Internal controls checklist	Yes	No

We will discuss each of the reporting requirements for the 2000 Plan from the 2000 Authorization Act, whether or not DoD reported on each requirement, and the adequacy of the reporting in the following sections.

Inventory of Systems

The 2000 Plan did not contain a complete inventory of financial management systems and did not include all the information required by the 2000 Authorization Act for systems in the inventory.

Completeness of Systems Inventory. The 2000 Authorization Act required DoD to include within the 2000 Plan an inventory of finance, accounting, and feeder systems. However, the 2000 Plan did not contain a complete financial management system inventory because of the following.

- The definition of a critical financial management system used by DoD was inadequate.
- The application of the definition of a critical financial management system by the DoD Components was inconsistent.
- DoD did not map the flow of data from transaction origination points to presentation on the DoD Component and Agency-Wide financial statements.

Definition of a Critical Financial Management System. In the 2000 Plan, DoD included only critical financial management systems in the system inventory. The Draft DoD Financial Management Regulation, volume 1, chapter 3, defined a critical financial management system as a system that provides information that is materially important to agency-wide financial

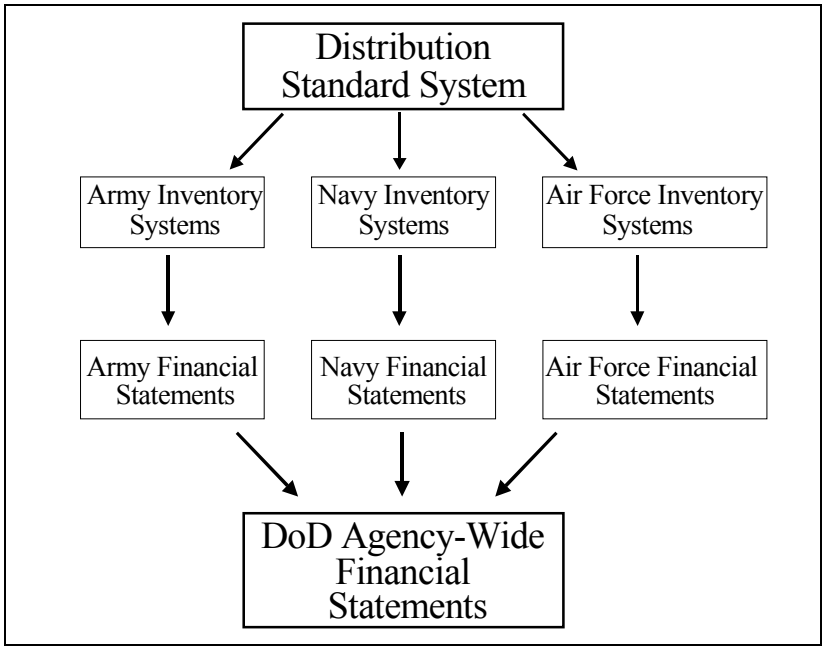
management, financial control, and financial reporting. Criticality is based on the concept that a system provides information that is important in producing reliable financial reports or statements, ensuring DoD missions are met within the financial parameters and constraints imposed by the Congress, or assisting decision-makers. Initial guidance for the Financial and Feeder Systems Compliance Process, a systematic approach for use in overseeing the Department's efforts to correct major financial management deficiencies in the automated systems, included the same definition of a critical financial management system as the DoD Financial Management Regulation. However, we informed the USD(C) that the definition was too broad and should be made more specific. In addition, we suggested that the terms "materially important" and "agency-wide" needed explanation to ensure consistent interpretation and application. As a result of our concerns, significant changes were made to the definition of a critical financial management system when the final version of the Financial and Feeder Systems Compliance Process was issued on January 5, 2001. To ensure consistency throughout DoD, the revised Critical Financial and Feeder System Compliance Process also included guidance on the application of the definition of a critical financial management system.

Application of the Definition of a Critical Financial Management System. DoD Components inconsistently applied the definition of a critical financial management system in determining the critical system inventory for the 2000 Plan. The Army applied the definition of critical at the Army-wide level, the Navy used a $500 million threshold to determine which systems could be considered as critical, the Air Force applied the definition of critical at the general funds and working capital funds level, and the Defense agencies applied the definition of critical at various levels. However, the previously mentioned changes to the definition of a critical financial management system and the guidance for applying that definition should improve the way in which the definition of a critical financial management system is consistently applied.

Mapping of Data Flow. DoD has not completely mapped data flows from transaction origination points to presentation on the DoD Component and Agency-Wide financial statements. Mapping needs to be completed early in the compliance process so that all critical and non-critical systems that are involved in the flow of data from transaction origination points to presentation on the DoD Component and Agency-Wide financial statements can be identified and any deficiencies corrected. Failure to identify all systems involved in the flow of data from transaction origination points to presentation on the DoD Component and Agency-Wide financial statements and not correcting deficiencies in the identified systems will continue to impact the accuracy and reliability of data used to prepare the DoD Component and Agency-Wide financial statements.

As a result of the broad definition of a critical financial management system, the inconsistent application of the definition of a critical financial management system, and the failure to completely map data flows, the DoD Components did not identify all systems that are the originating source of transactions for data that are reported on DoD Component and Agency-Wide financial statements. DoD is at risk of excluding systems that should be included in the inventory in the Plan, not evaluating these systems for FFMIA compliance, and not correcting any system deficiencies identified during the process. For example, the Distribution Standard System is a DLA-owned system that feeds inventory

data to Army, Navy, and Air Force inventory systems and is the accountable record for 75 percent of Army, Navy, Air Force, and DLA inventory. However, the Distribution Standard System was not identified as a critical system and therefore was not included in the systems inventory in the 2000 Plan and has not been evaluated for FFMIA compliance. The figure below shows the general flow of data from the Distribution Standard System through to the DoD Agency-Wide financial statements.



Flow of Data from the Distribution Standard System Through to the DoD Agency-Wide Financial Statements

The 2000 Plan reported 167 finance, accounting, and feeder systems in the system inventory. However, the 167 systems included in the system inventory in the 2000 Plan was not an accurate portrayal of how the future system infrastructure will look. For example, of the 167 systems listed in the systems inventory in the 2000 Plan, 99 are legacy systems that will eventually be eliminated. In addition, the 2000 Plan identifies 20 systems initiatives for new systems that are not yet included in the systems inventory. Although the number of systems in the systems inventory has been a very visible and controversial issue, the financial management system arena is a dynamic and changing environment. Even though DoD can develop a systems inventory and report the number of systems in that inventory at a point in time, it is reasonable to expect the inventory to change as the Financial and Feeder Systems Compliance Process evolves.

Requirements for the System Inventory. The 2000 Authorization Act also required that for each system contained in the inventory, the 2000 Plan was to present specific information, including:

- a statement regarding the system's compliance with applicable requirements,

- a statement regarding whether the system is to be retained, consolidated, or eliminated, and

- a plan of actions to ensure easy and reliable interfacing between systems and to institute internal controls to ensure the integrity of system data.

For those systems that are to be consolidated or eliminated, the 2000 Plan should have included a detailed plan of the actions that are being taken or are to be taken, including provisions for schedule and interim milestones, in carrying out the consolidation or elimination. In addition, regarding the systems that are to be consolidated or eliminated, the 2000 Authorization Act required the 2000 Plan to include a discussion of both the interim or migratory systems and any further consolidation that may be involved.

Compliance Status. Although the 2000 Plan included a statement regarding the compliance status of each of the 167 systems included in the inventory, the information could not be relied on. For example, the 2000 Plan reported 19 systems as FFMIA compliant. However, 12 of the 19 systems reported as FFMIA compliant were either not FFMIA compliant or the compliance status was not supported.

Statements on Retention, Consolidation, or Elimination of Systems. The 2000 Plan would have been more user friendly if it included specific statements regarding whether each system in the inventory is to be retained, consolidated, or eliminated. However, only upon review of the Transition Plan section of volume I and the compliance tables in volume II can a reader determine whether or not a system is being retained, consolidated, or eliminated.

Action Plans to Ensure Easy and Reliable Interfacing. The 2000 Plan did not include a plan of actions to ensure easy and reliable interfacing between systems and to institute internal controls to ensure the integrity of system data. The 2000 Plan simply listed the systems with which each system in the inventory interfaces. The 2000 Plan did not include clearly stated objectives, performance measures, schedules, and responsibilities for developing and reporting a plan of actions taken or to be taken to ensure easy and reliable interfacing between systems and to institute internal controls to ensure the integrity of the data. As a result, DoD is at risk of having systems that do not interface properly with other systems and that do not have adequate internal controls, both of which can negatively impact the data used to prepare DoD Component and Agency-Wide financial statements.

Plans for Systems to be Consolidated or Eliminated. For those systems that are to be consolidated or eliminated, the 2000 Authorization Act required that the 2000 Plan include a detailed plan of the actions that are being taken or are to be taken. The detailed plan must include provisions for schedules and interim milestones in carrying out the consolidation or elimination and include a discussion of both the interim or migratory systems and any further consolidation that may be involved. Although the 2000 Plan showed which systems are replacing the systems scheduled for elimination or consolidation along with a date and resources for the consolidation, the 2000 Plan did not provide detailed plans for the elimination and consolidation efforts.

Major Procurement Actions

The 2000 Plan did not include all the information on major procurement actions that was required by the 2000 Authorization Act.

Requirements of the 2000 Authorization Act for Major Procurement Actions. The 2000 Authorization Act required that the 2000 Plan describe each major procurement action being taken by DoD to replace or improve a finance, accounting, or feeder system contained in the systems inventory. For each major procurement action, the 2000 Plan should have included the measures that are being taken or are to be taken to ensure that the new or enhanced system:

- provides easy and reliable interfacing of the system with the core finance and accounting systems and with other data feeder systems, and

- includes appropriate internal controls that ensure the integrity of the data in the system.

Data in the 2000 Plan Addressing Major Procurement Actions. The 2000 Plan included information on several initiatives for developing systems that will be replacing many of the legacy systems included in the 2000 Plan. The information on the initiatives included what systems will be replaced by or consolidated into new systems. However, the information on the initiatives did not provide detail on the measures being taken or to be taken to ensure easy and reliable interfacing of new systems with the core finance and accounting systems and with other data feeder systems. In addition, the 2000 Plan did not include any discussion of internal controls that will be implemented to ensure the integrity of the data in the system. Because DoD has not identified all systems that need to be included in the inventory, it is impossible to know if all the required procurement actions necessary for replacing or consolidating noncompliant systems have actually been identified.

Office of Management and Budget Requirements. OMB Circular A-11, section 52 requires Federal agencies to submit financial management budget justification materials and a report on resources for financial management activities. The financial system information required by OMB Circular A-11, section 52 fulfills the requirement in the FFMIA for submitting to OMB in budget justification materials a remediation plan to bring agency financial management systems into substantial compliance with FFMIA. The OMB Circular A-11, section 52 budget materials submitted to OMB for FY 2000 reported different resources from those reported in the 2000 Plan because the budget materials submitted to OMB included the resources for all financial management systems while the 2000 Plan included only the resources for critical financial management systems. The budget materials submitted to OMB reported $1.5 billion for all DoD financial management systems for FY 2000 and FY 2001. The 2000 Plan estimated $3.7 billion for the critical DoD financial management systems for FY 2000 through FY 2003. This estimate is understated. Some systems lacked a cost estimate for corrective actions, there is no process to validate the cost estimates, and it is uncertain that all systems have been identified. The fact that the OMB Circular A-11, section 52 budget materials submitted to OMB reported different resources from those in the

2000 Plan brings into question the accuracy of both sets of data. It is possible that the 2000 Plan excluded systems that should have been considered as critical or the OMB Circular A-11, section 52 budget materials submitted to OMB included requests for funding that was unnecessary. The USD(C) should work with the Military Departments and Defense agencies to develop a process to ensure that future OMB Circular A-11, section 52 budget materials submitted to OMB include the funds required to support the Financial and Feeder Systems Compliance Process and that the budget materials match the Plan.

The usefulness of the Plan for planning and implementing an integrated financial management system structure is limited until more firm procurement plans are developed and until internal controls are implemented to ensure the integrity of the data in the systems.

Financial Management Competency Plan

The 2000 Plan did not include all the information on the financial management competency plan that was required by the 2000 Authorization Act.

Requirements of the 2000 Authorization Act for Financial Management Competency Plan. The 2000 Authorization Act requires DoD to include in the 2000 Plan a financial management competency plan that includes performance objectives, responsible officials, and the necessary resources to accomplish the performance objectives. Specifically, the 2000 Plan was to include the following:

- a description of the actions necessary to ensure that the person in each comptroller or comparable position has the education, technical competence, and experience to perform in accordance with the core competencies necessary for financial management;

- a description of the education that is necessary for a financial manager in a senior grade to be knowledgeable in applicable laws and administrative and regulatory requirements; the strategic planning process and how the process relates to resource management; budget operations and analysis systems; management analysis functions and evaluations; and the principles, methods, techniques, and systems of financial management;

- the advantages and disadvantages of establishing and operating a consolidated DoD school that instructs in financial management principles; and

- the applicable requirements for formal civilian education.

Data in the 2000 Plan Addressing Financial Management Competency Plan. The 2000 Plan included a description of the efforts being taken by the Military Departments and five Defense agencies to ensure that financial management personnel have the necessary education, technical competence, and experience to perform their financial management functions. However, the 2000 Plan did not include a description of the education necessary for a financial manager in a senior grade to meet the requirements listed above. The development of

DoD-wide standard training for senior grade and other DoD financial managers would help ensure that personnel are skilled in the financial management duties and functions required to perform financial management responsibilities for an organization as complex as DoD. In addition, the 2000 Plan did not include any information on the advantages and disadvantages of establishing and operating a consolidated DoD school that instructs in financial management principles nor does the 2000 Plan include information on the applicable requirements for formal civilian education.

Systems are only as good as the human capital complementing them. Even where all DoD financial management systems are FFMIA-compliant, financial management personnel not adequately skilled in their duties and responsibilities could negatively impact the accuracy and reliability of financial data. The 2000 Plan did not include any information on the number and types of financial management personnel currently working in the various levels of financial management within DoD or the planned future staffing requirements including the types of skills necessary for those persons to fulfill their financial management duties and responsibilities. Until DoD implements standards to ensure the competency of financial management personnel, such as the development of DoD-wide standard training for all levels including senior grade and other DoD financial managers, DoD is at risk of having unreliable financial data. One approach to addressing the future financial management human capital requirements would be to establish a senior steering group, similar to the one envisioned by the acquisition community for "Shaping The Civilian Acquisition Workforce Of The Future." A similar approach would establish human capital requirements including the number and types of financial management personnel there are now and the planned future staffing requirements. In addition, the senior steering group should describe the necessary performance characteristics and training requirements for investment in future financial management human capital and outline action plans and the requisite documentation, legislation, and other tools to support career paths for transitioning to the DoD financial management workforce of the 21st century.

Improvements to the Defense Finance and Accounting Service

The 2000 Plan did not address all the requirements in the 2000 Authorization Act for improvements to DFAS.

Requirements of the 2000 Authorization Act for Improvements to DFAS. The 2000 Authorization Act required the 2000 Plan to include a detailed plan, including performance objectives and milestones and standards for measuring progress toward attainment of the performance objectives for the following:

- Improving the internal controls and internal review processes of DFAS to provide reasonable assurance that:
    - obligations and costs are in compliance with applicable laws;
    - funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation;

- revenues and expenditures applicable to agency operations are properly recorded and accounted for so as to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets;

- obligations and expenditures are recorded contemporaneously with each transaction;

- organizational and functional duties are performed separately at each step in the cycles of transactions; and

- use of progress payment allocation systems results in posting of payments to appropriation accounts consistent with section 1301 of title 31, United States Code.

- Ensuring that DFAS has:

  - a single standard transaction general ledger that uses double-entry bookkeeping and complies with the U.S. Government Standard General Ledger at the transaction level as required by the FFMIA;

  - an integrated database for finance and accounting functions; and

  - automated cost, performance, and other output measures.

- Providing a single, consistent set of policies and procedures for financial transactions throughout DoD;

- Ensuring compliance with applicable policies and procedures for financial transactions throughout DoD; and

- Reviewing safeguards for preservation of assets and verifying the existence of assets.

Data in the 2000 Plan Addressing Improvements to DFAS. The 2000 Plan discussed the late 1999 reorganization of the DFAS field internal review staff from service aligned to geographically aligned. However, the 2000 Plan did not discuss details for measuring progress towards improving DFAS internal controls, internal review processes, performance measures, and other selected items. As the primary accounting and financial arm of DoD, DFAS needs to set the standards for other financial organizations to model. DFAS has accomplished significant reengineering of its business practices and supporting system concepts since 1999 but has yet to clearly outline its blueprint for progress so that it can obtain appropriate recognition for its accomplishments. Therefore, DoD should expand the Plan to address the actions DFAS is taking to improve its business practices and supporting system concepts.

Internal Controls

The 2000 Plan did not include all the information on internal controls that was required by the 2000 Authorization Act.

Requirements of the 2000 Authorization Act for Internal Controls. The 2000 Authorization Act required the 2000 Plan to include an internal controls checklist which would provide standards for use throughout DoD together with a statement of the DoD policy on use of the checklist throughout DoD. Statement on Auditing Standards (SAS) No. 78, "Consideration of Internal Controls in a Financial Statement Audit: An Amendment to SAS No. 55," December 1995, defines internal controls as a process performed by an entity's board of directors, management, or other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas: reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Data in the 2000 Plan Addressing Internal Controls. The 2000 Plan did not include the checklist required by the 2000 Authorization Act. Instead, the 2000 Plan stated that while internal control objectives are similar across DoD, the specific procedures and steps to satisfy control objectives are not the same for various organizations. Although this is true, DoD could still develop a checklist of standard internal controls expected to be in place and operating for all DoD Components while the specific procedures for implementing the standard internal controls could vary from Component to Component. The 2000 Plan does acknowledge the importance of the internal controls required by the 2000 Authorization Act, but it does not provide details on how DoD plans to ensure the controls are in place and operating effectively. Since 1988, the General Accounting Office and the DoD audit community have reported that internal controls within the Department were not adequate to ensure that resources were properly managed and accounted for, that DoD complied with applicable laws and regulations, and that the financial statements were free of material misstatements. Developing and implementing effective internal controls would aid DoD in receiving other than a disclaimer of opinion on the DoD Component and Agency-Wide financial statements as has been the case for the last 13 years.

Approach for the 2001 Plan

The USD(C) has plans to make major modifications to the 2001 Plan. Rather than look at each of the 167 financial management systems in isolation, as has been the practice in the previous plans, DoD intends to address groups of systems and the way they interact with each other for each major reporting entity. DoD plans to begin with the critical feeder systems and map the flow of data through to the systems that contain the data to be used in preparing the DoD Component and Agency-Wide financial statements. This process is intended to highlight problem areas related to a group of systems because before a group of systems can be considered compliant, all systems in the group must be compliant. However, to develop a complete systems inventory and identify

all problems with those systems, DoD must be sure to map the flow of data from the transaction origination points through to the DoD Component and Agency-Wide financial statements.

Other Issues

In addition to the requirements of the 2000 Authorization Act, there are several other issues we believe need to be addressed in the Plan to make it a viable tool for management.

Data Standardization. Data standardization is essential for DoD financial management systems to communicate with each other without increasing the risk of material errors in the data. Currently, DoD does not have a set of standard data elements. As a result, many systems communicate with each other by cross-walking the information from one system into a format usable by the other system. The 2000 Plan states that DoD is developing the Defense Information Infrastructure to facilitate the transmission of mission critical information, including financial services, necessary to sustain operations. However, the 2000 Plan does not provide details of how DoD plans to implement the Defense Information Infrastructure or how DoD plans to deal with the many non-standard data elements used by the Military Departments and Defense agencies.

Cost Systems. The Department needs to initiate actions to implement managerial cost accounting systems and include these initiatives in the Plan. Most DoD activities lack even rudimentary managerial cost accounting systems and the cost accounting systems of industrial activities may not produce accurate information on a real-time basis. The cost management function provides relevant, internal cost measurement for operational managers and decision-makers to continuously improve operations. Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," July 31, 1995, states that each reporting entity should accumulate and report the cost of its activities on a regular basis for management information purposes. Managerial cost accounting should be a fundamental part of the financial management system and should be an essential element of proper financial planning, control, and evaluation. Until DoD develops and implements managerial cost accounting systems, the Department will not be able to comply with the requirements of Statement of Federal Financial Accounting Standards No. 4 and will lack the cost information necessary to control and reduce costs, control work processes, and measure performance.

Budgetary Systems. The 2000 Plan did not include information on budget formulation systems. The 2000 Plan acknowledged that DoD has various budget formulation processes and systems, ranging from electronic spreadsheets and manual processes to automated information systems. The 2000 Plans states that it is the Department's approach to determine what efforts are required to address budget formulation systems once its finance, accounting, and feeders systems are FFMIA compliant. However, because of the length of time required to implement an integrated information system, the Department should start now on developing requirements for an integrated and on-line information system for budget formulation.

Conclusion

Although we identified several improvements, the Plan continues to be a work in process. The 2000 Plan was a valid attempt to comply with difficult reporting requirements. However, several aspects of the 2000 Plan were incomplete, unsupported, or did not comply with the additional reporting requirements of the 2000 Authorization Act. Until DoD establishes procedures to ensure that the Plan is complete, supported, and in full compliance with governing statutes, it will be of limited use to DoD financial managers and decision-makers, including Congress.

Recommendations

A. We recommend that the Under Secretary of Defense (Comptroller):

1. Ensure all systems involved in the flow of data from the transaction origination points to presentation on the DoD Component and Agency-Wide financial statements are considered for inclusion in the system inventory by mapping the flow of data from the transaction origination points to presentation on the DoD Component and Agency-Wide financial statements.

2. Work with the Military Departments and Defense agencies to:

a. Develop a detailed plan on the measures being taken or to be taken to ensure easy and reliable interfacing of any new systems with other finance, accounting and feeder systems.

b. Develop a plan of internal controls that will be implemented to ensure the integrity of data in new systems.

c. Develop a process to ensure that future Office of Management and Budget Circular A-11 budget materials submitted to Office of Management and Budget include the funds required for implementing the Financial and Feeder Systems Compliance Process and that the budget matches the Financial Management Improvement Plan.

3. Establish a senior steering group which will, at a minimum:

a. Describe the performance characteristics and training requirements of the future financial management human capital requirements and to outline action plans and the requisite documentation, legislation, and other tools to support career paths for transitioning to the DoD financial management workforce of the 21st century.

b. Ensure that future Financial Management Improvement Plans include information on the number and types of financial management personnel currently working in the various levels of financial management within DoD and the planned future staffing requirements including the types of skills necessary for those persons to fulfill their financial management duties and responsibilities.

4. Include in a future Financial Management Improvement Plan a discussion of the advantages and disadvantages of establishing and operating a consolidated DoD school that instructs in financial management principles and information on the requirements for formal civilian education requirements for financial managers.

5. Expand the Financial Management Improvement Plan to ensure that the Defense Finance and Accounting Service clearly outlines its blueprint for progress.

6. Develop and implement a DoD-wide checklist of standard internal controls for financial management.

7. Ensure that future Financial Management Improvement Plans include:

a. Details of how DoD plans to implement the Defense Information Infrastructure and how to deal with the many non-standard data elements used by the Military Departments and the Defense agencies.

b. Plans for developing and implementing managerial cost accounting systems for DoD.

c. Plans for developing the requirements for an integrated and on-line information system for budget formulation.

B. Systems Compliance

The DoD Components did not conduct proper or complete evaluations of 12 critical financial management systems reported as FFMIA compliant in the 2000 Plan. This occurred because DoD used incorrect or incomplete criteria to perform system evaluations of six systems listed as FFMIA compliant in the 2000 Plan. In addition, DoD did not maintain adequate documentation to support compliance evaluations of six systems before reporting the systems as FFMIA compliant in the 2000 Plan. As a result, at least 12 of the 19 systems reported as FFMIA compliant in the 2000 Plan were either not FFMIA compliant or the compliance status was not supported. We identified similar problems with the systems reported as compliant with FFMIA in the 1999 Plan.

Guidance

Office of Management and Budget Bulletin No. 01-02. OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," October 16, 2000, requires auditors to report whether a reporting entity's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger.

USD(C) and DFAS Guidance. In preparation for issuing the 1999 Plan, the USD(C) sent a memorandum to the DoD Components requiring that critical feeder systems and migratory finance and accounting systems be evaluated for compliance with Federal financial management system requirements and accounting standards. For any systems determined to be in full compliance, DoD Components were required to identify the method used to validate the compliance. In addition, the DFAS prepared "A Guide To Federal Requirements For Financial Management Systems," also known as the Blue Book. The guide incorporates more than 1,500 requirements from many authoritative sources applicable to Federal financial management systems. Some of these sources include OMB, the Federal Accounting Standards Advisory Board, the Department of the Treasury, and the Joint Financial Management Improvement Plan Program Office. DFAS has made the guide available to the DoD Components on the DFAS Internet site.

System Compliance

The 1999 Plan and the 2000 Plan provide information on the compliance status of critical financial management systems in DoD. The table that follows identifies the number of finance, accounting, and feeder systems identified as compliant with the FFMIA in the 1999 Plan and those listed as FFMIA compliant in the 2000 Plan.

Table 2. Systems Listed as FFMIA Compliant in the Improvement Plan				
Type of System	Systems Reported Compliant for 1999	Systems Removed from Compliant List for 2000	Systems Added to Compliant List for 2000	Total Systems Reported Compliant for 2000
Finance and Accounting	7	1	7	13
Army feeder	3	2	0	1
Navy feeder	11	9	2	4
Air Force feeder	1	1	0	0
Defense agency feeder	1	0	0	1
Total	**23**	**13**	**9**	**19**

We attempted to verify whether the systems were compliant with FFMIA requirements by reviewing the evaluation and validation methods applied to each system. We reviewed the information included in the 1999 Plan and the 2000 Plan, met with representatives from the Military Departments and system program offices, collected documentation related to the evaluations and validations, and reviewed audit results related to systems identified as FFMIA compliant. The DoD Components did not conduct proper evaluations of their systems before reporting them as compliant with FFMIA requirements. For some systems, the information in the 1999 Plan and the 2000 Plan was inconsistent with audit results. For other systems, the evaluations were incomplete. The Military Departments acknowledged that their feeder systems listed in the 1999 Plan were not FFMIA compliant.

Finance and Accounting Systems. At least 8 of the 13 finance and accounting systems reported as compliant in the 2000 Plan were either not substantially compliant with the FFMIA requirements or the compliance status was not supported. In addition, review of compliant finance and accounting systems in the 1999 Plan had similar results. We determined that at least five of the seven finance and accounting systems reported as compliant in the 1999 Plan were not substantially compliant with FFMIA requirements. Of the seven finance and accounting systems reported as FFMIA compliant in the 1999 Plan, one system was removed from the list of FFMIA compliant systems for the 2000 Plan and seven systems were added to the list of FFMIA compliant systems for the 2000 Plan.

Defense Retiree and Annuitant Pay System. The Defense Retiree and Annuitant Pay System is a DFAS-owned system that establishes, adjudicates, and maintains accounts for DoD military retirees, their former spouses, garnishment recipients, and survivors. Although the Defense Retiree and Annuitant Pay System was listed in both the 1999 Plan and the 2000 Plan as an FFMIA-compliant system, we determined it was not substantially compliant with FFMIA requirements. Inspector General, DoD, Report No. D-2001-068, "Inspector General, DoD, Oversight of the Audit of the FY 2000 Military Retirement Fund Financial Statements," February 28, 2001, states that the electronic data processing systems used by the Military Retirement Fund did not

comply substantially with the requirements of FFMIA. Specifically, the general ledger is not transaction based or derived from an integrated financial system.

Corps of Engineers Financial Management System. The Corps of Engineers Financial Management System (CEFMS) is an Army-owned financial management system that fully integrates the U.S. Army Corps of Engineers' business processes and supports the management of all types of work and funds. CEFMS was listed in the 1999 Plan and the 2000 Plan as an FFMIA-compliant system. However, CEFMS was not substantially compliant with FFMIA requirements. The Army Audit Agency conducted several reviews of CEFMS. In Army Audit Agency Report No. 01-187, "FY 2000 Financial Statements, U.S. Army Corps of Engineers, Civil Works," February 14, 2001, the Army Audit Agency concluded that until a review of CEFMS is completed, they could not verify that the system complies with the Federal financial management system requirements portion of FFMIA. Therefore, CEFMS should be listed in the 2001 Plan as noncompliant with FFMIA requirements.

Defense Debt Management System. The Defense Debt Management System is a DFAS-owned automated financial management system developed to pursue debt collection efforts and recoup monies owed the Government by individuals out of the Service and delinquent contractors. The system was listed in the 1999 Plan and the 2000 Plan as an FFMIA-compliant system. However, the evaluation conducted of the Defense Debt Management System to support the compliance status was incomplete. The Defense Debt Management System was evaluated only for functions that apply to individual debt and not for contractor debt. The Defense Debt Management System should not be reported as FFMIA compliant until it is evaluated for all applicable functions it supports.

Defense Joint Accounting System. The Defense Joint Accounting System is identified as the DFAS general accounting system for specific DFAS Indianapolis customers, which includes the Defense agencies; Army Posts, Camps and Stations; the Army National Guard; and the Army Materiel Command. The Defense Joint Accounting System has not been evaluated against FFMIA requirements for all system users. We believe that reporting the Defense Joint Accounting System as a compliant system is misleading. The Defense Joint Accounting System is compliant with the applicable requirements only for the Defense agency customer base, not for its customer base as a whole. We believe it is premature to report the Defense Joint Accounting System as FFMIA compliant until evaluated for all the customers it will support.

Defense Civilian Pay System. The Defense Civilian Pay System is the automated information system that supports civilian payroll operations for DoD. Although the Defense Civilian Pay System was listed as a noncompliant with FFMIA requirements in the 1999 Plan, it is listed as an FFMIA-compliant system for the 2000 Plan. However, we determined that the Defense Civilian Pay System was not substantially compliant with FFMIA requirements. Inspector General, DoD, Report No. D-2001-055, "General Controls for the Defense Civilian Pay System," February 21, 2001, identified material general and application control weaknesses that impact the ability of auditors performing Chief Financial Officer audits to rely on the data within the Defense Civilian Pay System without substantial verification. As a result, the Defense Civilian

Pay System was not compliant with the Federal financial system requirement portion of FFMIA and should be listed in the 2001 Plan as noncompliant with FFMIA requirements.

Centralized Accounting and Financial Resources Management System. The Centralized Accounting and Financial Resources Management System is a financial management system that provides a centralized, real-time data source for accounting, budgeting, and programming functions. The Centralized Accounting and Financial Resources Management System is listed in the 1999 Plan as a legacy system but in the 2000 Plan as an FFMIA-compliant system. Our discussions with personnel at the Defense Threat Reduction Agency, who owns the Centralized Accounting and Financial Resources Management System, revealed that the system had not been formally evaluated for FFMIA compliance but that a contractor will be performing the evaluation in the near future.

Federal Financial Accounting Management Information System. The Federal Financial Accounting Management Information System is a commercial-off-the-shelf system used by the Defense Information System Agency Defense Working Capital Fund within the Telecommunications and Acquisition Services business area. The system was not included in the inventory of systems in the 1999 Plan but is included in the 2000 Plan as an FFMIA-compliant system. The Federal Financial Accounting Management Information System was purchased from the General Services Administration schedule of Joint Financial Management Improvement Program-approved systems that were tested as compliant with Federal financial management system requirements. The compliance status of any core accounting system purchased as compliant with Federal financial management system requirements must be documented, and the documentation must be available and maintained. Also, there was no documentation to support that the system was compliant with other requirements such as those published by the OMB and the Federal Accounting Standards Advisory Board. Any core accounting system purchased as compliant with Federal financial management system requirements based on Joint Financial Management Improvement Program testing that is subsequently modified can no longer be considered FFMIA compliant without an evaluation by DoD. DoD should develop a methodology to ensure that Joint Financial Management Improvement Program-approved systems which are modified by DoD are evaluated for FFMIA compliance. In addition, DoD should develop a process to ensure that the compliance status of Joint Financial Management Improvement Program-approved systems which are not modified by DoD is fully and adequately documented. Until DoD develops methodologies for Joint Financial Management Improvement Program-approved systems that are not modified and for those that are modified, DoD should not report commercial-off-the-shelf systems in the annual Plan as FFMIA compliant.

Program Budget Accounting System-Funds Distribution. The Program Budget Accounting System-Funds Distribution is a system used by the Office of the Secretary of Defense, the Navy, and the U.S. Army Corps of Engineers to distribute funds. The Program Budget Accounting System-Funds Distribution is also used to distribute U.S. Army Corps of Engineers Civil Works and Air Force construction funds. The system was included in the 1999 Plan and the 2000 Plan as an FFMIA-compliant system. We requested documentation from the program office to support the responses to the Blue

Book requirements. The program office informed us that although they had maintained such documentation in the past, they had not done so in recent years. However, the program office agreed with the need to be able to support responses to the Blue Book requirements and stated that they intended to begin work on documenting the support for responses to the requirements in the near future.

Military Department and Defense Agency Feeder Systems. We determined at least four of the six Military Department feeder systems listed as FFMIA compliant in the 2000 Plan were either not substantially compliant with FFMIA requirements or the compliance status was not supported. In addition, our review of compliant Military Department feeder systems in the 1999 Plan had a similar outcome. Although the 1999 Plan identified 15 Military Department feeder systems as FFMIA compliant, the Military Departments acknowledged that none of the 15 systems were FFMIA compliant. Of the 15 Military Department feeder systems reported as FFMIA compliant in the 1999 Plan, 12 were removed from the list of compliant systems for the 2000 Plan and 2 systems were added to the list of FFMIA-compliant systems for the 2000 Plan.

We collected data on Military Department feeder systems to verify the methods and criteria used to evaluate the systems. We determined that some Military Department feeder systems were not properly evaluated and should not have been reported as FFMIA compliant.

Army Feeder Systems. The list of Military Department feeder systems reported as FFMIA compliant for the 2000 Plan includes one Army system — the Real Estate Management Information System. However, we determined that the compliance status could not be supported.

The Real Estate Management Information System supports the real estate business process at the U.S. Army Corps of Engineers district level. However, when we contacted the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) we were informed that the Army (Financial Management and Comptroller) had no documentation to support the compliance status for the 2000 Plan. The Real Estate Management Information System was also listed as FFMIA compliant in the 1999 Plan.

The Army identified two additional systems as FFMIA compliant in the 1999 Plan but removed both systems from the compliant list in the 2000 Plan. The two systems are the Joint Uniform Military Pay System (JUMPS) Standard Terminal Input System, which is the military pay system for the Army National Guard, and the Procurement Automated Data and Document System, which is an acquisition system that receives requests for procurement and awards contracts. When we attempted to verify the 1999 compliance status of the Army JUMPS Standard Terminal Input System, we were told by the system program office they misunderstood the data call questionnaire. The Army JUMPS Standard Terminal Input System program office had completed the data call questionnaire as they believed it applied to Year 2000 compliance, and not compliance with FFMIA requirements. We did not conduct audit work on the compliance status of the Procurement Automated Data and Document System.

Navy Feeder Systems. The list of Military Department feeder systems reported as FFMIA compliant for the 2000 Plan includes four Navy systems. However, when we attempted to verify the 2000 compliance status of the four Navy systems, we determined that three of the four systems are not FFMIA compliant or that the compliance status was not supported. In addition, the Navy reported 11 systems as FFMIA compliant in the 1999 Plan. When we met with personnel from the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) in May 2000, we were informed at that time that the Navy did not consider any of its systems FFMIA compliant.

Momentum Financial Information System. The Momentum Financial Information System is a commercial-off-the-shelf system used by the Navy. Although the system was not included in the inventory in the 1999 Plan, it was included in the list of compliant systems in the 2000 Plan. The system was purchased from the General Services Administration schedule of Joint Financial Management Improvement Program-approved systems that were tested as compliant with Federal financial management system requirements. According to the responsible program office, the source code for the system has not been modified since purchase. However, until DoD develops a methodology to ensure that the compliance status of Joint Financial Management Improvement Program-approved systems not significantly modified after purchase are fully and adequately documented, DoD should not report these systems in the Plan as being FFMIA compliant. Also, documentation is necessary to ensure that the system meets applicable OMB and Federal Accounting Standards Advisory Board requirements.

Normalization of Data System. The Normalization of Data System is used for project planning, cost estimating, relative risk ranking, predicting future requirements, and reporting to higher authority on environmental cleanup work by the Naval Facilities Engineering Command. The Normalization of Data System was listed in the 1999 Plan as an FFMIA-compliant system. When we contacted the program office and requested documentation to support the compliance status, we were informed that no documentation was available. To make the compliance determination, program office personnel reviewed the requirements in the Blue Book and OMB Bulletin No. A-130, "Management of Federal Information Resources," February 8, 1996, and concluded the system was compliant but did not document the review. The system was also included in the 2000 Plan as an FFMIA-compliant system. We contacted the program office again to update the information obtained concerning the compliance status and determined that no additional reviews had been performed or documentation generated that supports the compliance status of the system in either the 1999 Plan or the 2000 Plan.

Standard Labor Data Collection and Distribution Application. The Standard Labor Data Collection and Distribution Application (SLDCADA) has been selected by the Navy as the standard time and attendance system. SLDCADA allows for centralized or distributed input and provides the capability to track civilian, military, and contractor labor hours against job order number for financial purposes and against type hour codes for pay purposes. SLDCADA was listed in the 1999 Plan as an FFMIA-compliant system. However, when we contacted the program office concerning the 1999 compliance status, we were informed that the system evaluation was performed by using only a portion of the Blue Book and was not documented. SLDCADA

was also included in the 2000 Plan as an FFMIA-compliant system. Although no additional evaluation work had been performed, we were informed by personnel at the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) that the Navy had received the money to perform the validation of SLDCADA.

Previously Reported Compliant Systems. The Navy identified nine additional systems as FFMIA compliant in the 1999 Plan which are not reported as FFMIA compliant in the 2000 Plan. The nine additional systems are:

- Aircraft Engine Management System;
- Aircraft Inventory Readiness and Reporting System;
- Craft and Boat Support System;
- Industrial Logistics Support Management Information System;
- Metrology Automated System for Uniform Recall and Reporting;
- Naval Vessel Register;
- Strategic Weapons Facility, Atlantic, Missile History and Status Report System;
- Strategic Weapons Facility, Pacific, Missile History and Status Report System; and
- Support Equipment Resources Management Information System.

We reviewed the evaluations supporting the 1999 compliance status of three of the above systems: the Naval Vessel Register; the Strategic Weapons Facility, Atlantic, Missile History and Status Report System; and the Strategic Weapons Facility, Pacific, Missile History and Status Report System. A review of the evaluations of the three systems showed that the evaluations were either inadequate or not documented. We did not review the evaluations supporting the compliance status of the remaining six Navy feeder systems listed as FFMIA compliant in the 1999 Plan because before we could start the reviews, the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) informed us in May 2000 they did not consider any Navy feeder systems to be FFMIA compliant at that time.

Air Force Feeder System. The Air Force did not report any systems as FFMIA compliant in the 2000 Plan. The one system the Air Force reported as FFMIA compliant in the 1999 Plan — the Job Order Cost Accounting System — was not included in the 2000 Plan as an FFMIA-compliant system. When we met with personnel at the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) to discuss the 1999 compliance status of the Job Order Cost Accounting System, we were informed that the Air Force did not consider any Air Force feeder systems to be FFMIA compliant.

Defense Agency Feeder Systems. The Defense agencies reported one system as FFMIA compliant in both the 1999 Plan and the 2000 Plan — the Defense Property Accountability System. However, we did not review the evaluation of this system to determine the accuracy of the compliance status.

Conclusion

The DoD Components did not conduct proper or complete evaluations of critical financial management systems. As a result, at least 12 of the 19 systems included in the 2000 Plan as FFMIA compliant were either not FFMIA compliant or the compliance status was not supported. We identified that at least 8 of the 13 finance and accounting systems and 4 of the 6 Military Department and Defense agency critical feeder systems reported as FFMIA compliant in the 2000 Plan were either not FFMIA compliant or the compliance status could not be supported. Also, at least five of the seven finance and accounting systems listed in the 1999 Plan were not FFMIA compliant. In addition, the Military Departments acknowledged that none of their feeder systems listed as compliant in the 1999 Plan were FFMIA compliant at the time the 1999 Plan was issued. As a result, at least 20 critical financial management systems were erroneously reported in the 1999 Plan as FFMIA compliant.

Recommendations, Management Comments, and Audit Response

Renumbered and Revised Recommendations. As a result of adding an additional finding (new finding A) to this report, draft report Recommendations A., B., and C. were renumbered as Recommendations B.1., B.2., and B.3. In addition, the recommendations in the draft of this report were for the draft of the 2000 Plan. After we issued the draft of this report on January 29, 2001, we received and reviewed the final 2000 Plan. Therefore, our recommendations are now directed toward corrective actions for the 2001 Plan.

B. We recommend that the Deputy Chief Financial Officer:

1. Redesignate the compliance status of the following systems as noncompliant for the 2001 Financial Management Improvement Plan:

a. Defense Retiree Annuitant System,

b. Corps of Engineers Financial Management System, and

c. Defense Civilian Pay System.

2. Redesignate the compliance status of the following systems as not determined for the 2001 Financial Management Improvement Plan:

a. Defense Debt Management System,

b. Defense Joint Accounting System,

c. Centralized Accounting and Financial Resources Management System,

d. Federal Financial Management Information System, and

e. Momentum Financial Information System.

3. Require the Military Departments and the Defense Finance and Accounting Service to review the system evaluations for the following systems to ensure that the compliance status for the 2001 Financial Management Improvement Plan is adequately documented and supported:

a. Program Budget Accounting System-Funds Distribution,

b. Real Estate Management Information System,

c. Normalization of Data System, and

d. Standard Labor Data Collection and Distribution Application.

Management Comments. The Deputy Chief Financial Officer stated that two draft recommendations, which pertained to changing the compliance status of systems in the 2000 Plan have been overcome by events because the 2000 Plan was finalized and published before the draft report was received. The Deputy also commented that for development of the 2000 Plan, it was the responsibility of the DoD Components to determine the compliance status of their systems. The Deputy stated that any disagreement we have with the compliance status of a particular system should be directed to the DoD Component responsible for that system. In addition, the Financial and Feeder Systems Compliance Process, issued January 5, 2001, will involve senior Department-level oversight and a standardized process for the DoD Components to follow in compliance determinations. Further, Inspector General, DoD, personnel will play a critical role in the validation phase of the Financial and Feeder Systems Compliance Process by developing a standard validation methodology to be used. The Deputy anticipates that the Financial and Feeder Systems Compliance Process will improve the systems compliance process and address our concerns.

Audit Response. Management comments to the draft report were responsive. We agree that the first two recommendations in the draft report have been overcome by the issuance of the final 2000 Plan. However, we have revised the systems compliance recommendations and they now apply to the 2001 Plan. Although the DoD Components are responsible for determining the compliance status of their systems, we believe the USD(C) also has a responsibility to help ensure the compliance status of systems reported in the Plan is accurate and supported. The Financial and Feeder Systems Compliance Process, if properly implemented, should help ensure that the compliance status of systems reported in the Plan is accurate and supported. We request that management provide comments on the revised system compliance recommendations.

Appendix A. Audit Process

Scope and Methodology

Work Performed. This financial-related audit was conducted as part of our responsibilities under the FFMIA to assess the DoD financial management system improvement plan. We reviewed the 2000 Plan for compliance with the specific requirements of the 2000 Authorization Act. In addition, we reviewed and assessed the compliance status information in the 2000 Plan. We also reviewed the 1999 Plan and assessed the information in the 1999 Plan. We reviewed the data calls used by the USD(C) to request information from the system managers. We attempted to verify that the systems listed as FFMIA compliant in the 1999 Plan and the 2000 Plan were compliant with FFMIA requirements by reviewing the evaluation and validation methods applied to each system. We spoke with representatives from the USD(C), the Military Departments, the Defense agencies, and system program offices; collected documentation related to the evaluations and validations; and reviewed audit results related to the systems identified as compliant.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following corporate-level goals, subordinate performance goal, and performance measures.

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.5.1.)**

- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

- **Financial Management Area. Objective:** Consolidate finance and accounting operations. **Goal:** Consolidate and standardize financial systems. **(FM-2.1)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We did not rely on computer-processed data to perform this audit.

Audit Type, Dates, and Standards. We performed this financial-related audit during the period of April through March 2001 according to auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Prior Coverage

General Accounting Office

General Accounting Office Report No. AIMD-99-44, "Financial Management: Analysis of DOD's First Biennial Financial Management Improvement Plan," January 29, 1999

Inspector General, DoD

Inspector General, DoD, Report No. 99-123, "Assessment of the DoD Biennial Financial Management Improvement Plan," April 2, 1999

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Comptroller (Program/Budget)
  Deputy Chief Financial Officer
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Deputy Chief Financial Officer Comments

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COMPTROLLER

MAR 2 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on "Compliance Status of Systems Reported in the DoD Financial Management Improvement Plan" (Project No. D2001FI-0018)

The following comments are provided in response to your request for review and comments on the subject draft audit report. The report's first two recommendations pertain to changing the compliance status of systems in the Financial Management Improvement Plan. The draft audit report, however, was not received until after the Plan was finalized and published. Therefore, those recommendations have effectively been overtaken by events.

Additionally, it should be noted that, for the development of this Plan, it was the Components' responsibility for determining the compliance status of their systems and reporting that status for incorporation into the Plan. Any disagreement that the Inspector General, Department of Defense may have with a particular system's compliance status should have been taken up directly with the Component concerned.

Regarding the third recommendation to review system evaluations and ensure compliance status for certain systems, it should be noted that the Under Secretary of Defense (Comptroller) issued the Department of Defense (DoD) Financial and Feeder Systems Compliance Process on January 5, 2001. The Process instituted senior Department-level oversight and a standardized process for the DoD Components to follow in compliance determinations. The Office of the Inspector General, Department of Defense plays a critical role in the Validation Phase of the Process by promulgating a standard validation methodology to be used by independent auditors. It is anticipated that these changes will improve the systems compliance process and address the concerns noted in the draft audit report.

Nelson Toye
Deputy Chief Financial Officer

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The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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