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FINANCIAL MANAGEMENT

DOD's Approach to Financial Control Over Property Needs Structure





**United States
General Accounting Office
Washington, D.C. 20548**

**Accounting and Information
Management Division**

B-275088

September 30, 1997

The Honorable John J. Hamre
Deputy Secretary of Defense

Dear Dr. Hamre:

The Department of Defense (DOD) identified its long-standing problem with accurately reporting its real and personal property as a high-risk area as far back as fiscal year 1990. Recent financial statement audits continued to find unreliable financial balances of real and personal property. Further, the Department's Federal Managers' Financial Integrity Act (FMFIA) Annual Statement of Assurance¹ for fiscal year 1996 indicated that accounting for real and personal property was still a problem area. DOD stated that a contributing factor was that its financial systems were not designed to satisfy accounting and reporting requirements.

Federal accounting standards identify general property, plant, and equipment (PP&E)² as a separate category of assets to be accounted for and reported in DOD's financial statements. General PP&E includes assets such as mainframe computers, office equipment, and vehicles. DOD reported over \$182 billion of general PP&E in its fiscal year 1996 financial statements, which represents over half of the more than \$358 billion of general PP&E reported governmentwide for this period.

In December 1994, the DOD Comptroller nominated the Defense Property and Accountability System (DPAS) to account for real and personal property throughout the Department in order to bring DOD assets under proper accountability and financial control, remedy its problem of inaccurate financial reporting and meet the objectives of recent financial management reform legislation. The selection of DPAS as the DOD migratory property system was approved by the Deputy Assistant Secretary of Defense for Command, Control, Communication and Intelligence in May 1995. The Chief Financial Officers (CFO) Act of 1990, as expanded by

¹FMFIA requires that the head of each executive agency provide an annual statement to the President and the Congress stating whether the systems of internal accounting and administrative control fully comply with standards issued by the Comptroller General.

²According to Statement of Federal Financial Accounting Standards (SFFAS) No. 6, PP&E consists of tangible assets, including land, that has an estimated useful life of 2 years or more; is not intended for sale in the ordinary course of operations; and has been acquired or constructed with the intention of being used, or being available for use by the entity. General PP&E has one or more of the following characteristics: it could be used for alternative purposes (e.g., by other Federal programs, etc.) but is used to produce goods or services or to support the mission of the entity; it is used in business-type activities; or it is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to other hospitals).

the Government Management Reform Act (GMRA) of 1994, and federal accounting standards,³ are aimed at gaining better control over government operations, providing reliable costs and performance measures for decision-making, and improving financial reporting. In addition, the Federal Financial Management Improvement Act of 1996 requires agencies to comply with federal accounting standards, federal financial management system requirements,⁴ and the U.S. Government Standard General Ledger.⁵ Successfully meeting these requirements for having reliable data is essential for ensuring effective management of government activities, safeguarding assets entrusted to the federal government, and achieving reliable financial reporting.

Our objectives were to determine whether (1) DPAS was designed to meet functional accounting requirements⁶ for general PP&E and (2) DPAS was implemented at the Defense Information System Agency's (DISA) Defense Megacenters in a manner that ensures it meets functional accounting requirements for general PP&E. We chose DISA because it represents one fourth of the sites where DPAS has been implemented. Through our work at DISA, we also identified several opportunities for improvements to DOD's agencywide implementation strategy for DPAS.

Results in Brief

As functionally designed, DPAS can provide financial control and generate information to account for most general PP&E. However, DPAS cannot yet meet requirements that become effective for accounting periods beginning after September 30, 1997. For example, DPAS does not contain the information needed to meet new federal accounting standards for deferred maintenance and environmental clean-up costs. These items will be significant to the financial statements. Also, the DPAS design does not meet several current DOD accounting requirements for certain minor types of general PP&E. For example, DPAS does not have the information to meet the requirements for recording depletion of natural resources, which represent 1.2 percent of DOD's total general PP&E. DPAS needs to be modified

³The Federal Accounting Standards Advisory Board (FASAB) recommends accounting standards, and the Office of Management and Budget (OMB), Treasury, and GAO decide whether to adopt the recommended standards; if they are adopted, the standards are published by OMB and GAO.

⁴Federal financial management system requirements are defined in OMB Circular A-127 and the Joint Financial Management Improvement Program's systems requirements series.

⁵The purpose of the U.S. Government Standard General Ledger is to provide a uniform chart of accounts and supporting transactions to be used to standardize federal agency accounting and to support the preparation of standard external reports.

⁶Functional accounting requirements are contained in Statements of Federal Financial Accounting Standards and DOD Financial Management Regulations.

with the addition of data elements and financial transactions to meet new standards and requirements as well as the current ones not yet covered.

Implementation of DPAS at DISA did not ensure financial control and accurate reporting of general PP&E. For example, DPAS was not correctly interfaced with the accounting system due to errors in the interface program used to translate DPAS data to data understandable to DISA's general ledger. This caused transactions to be recorded incorrectly in the general ledger, resulting in a material difference of over \$118 million in property values between DPAS detailed records and the general ledger summary records. The problem with the interface program could have been mitigated if transactions using the standard general ledger accounts were created in DPAS. In addition, compensating controls, such as routine reconciliations between the two systems, were not in place.

Many of the problems with the accuracy of property data experienced at DISA can be linked to several issues that affect DOD-wide implementation of DPAS. For example, DOD, as part of its DPAS strategic planning process, has not defined the roles, responsibilities, and relationships among the various DOD entities involved, including identification of needed manual and automated interfaces and related controls. This part of the strategic planning process is referred to as a concept of operations. In addition, DOD has not developed a detailed DPAS implementation schedule that identifies at what sites and when the system will be implemented. Rather, DOD has left it up to each military service to determine where, when, and how DPAS is to be implemented without providing adequate implementation guidance or ensuring that the implementation schedule includes all sites, making it unlikely that DPAS will be implemented across DOD by the Comptroller's target date of 2000.

Background

DOD has been reporting problems with its data accuracy for real and personal property since at least 1990. The Department has provided a number of reasons for the unreliable reporting, including property systems that maintain item accountability not being integrated with financial accounting systems. In fiscal year 1995, the DOD Comptroller concluded that this lack of integration adversely affected the accuracy of accounting systems data and financial reporting. The DOD Comptroller also stated that general ledger control over property, which is necessary to ensure that all financial transactions are recorded in the official accounting records, is lacking or inadequate. Accordingly, the DOD Comptroller selected DPAS to

remedy these deficiencies and had implemented the system at over 150 sites as of June 1997.

The DOD Comptroller designated DPAS as the property accounting system for all DOD real and personal property⁷ in order to bring DOD assets under proper accountability and financial control. DPAS is expected to provide on-line capability to support all functions that are associated with property accountability and equipment management, as well as financial control and reporting. In addition, DPAS is expected to produce the financial transactions necessary to record additions, reductions, or changes in the value of capital assets to the various general ledgers used in DOD.⁸ DPAS is also the subsidiary ledger containing all the detailed property information necessary to support the general ledger summary totals.

DPAS was adapted from the Army Materiel Command's Installation Equipment Management System by the Army's Industrial Logistics Systems Center (ILSC) personnel. Under the oversight of the DOD Comptroller, the Financial Systems Activity (from the Defense Finance and Accounting Service's (DFAS) Columbus, Ohio, operating location) and ILSC are responsible for maintaining and enhancing (1) the DPAS software, (2) all systems documentation, such as the user's manual, functional description, and system specifications, and (3) processing equipment required to host DPAS. The DOD Comptroller is responsible for defining all accounting requirements, including any new accounting requirements.

One of the organizations where DPAS was implemented is DISA, the DOD agency responsible for information technology. One of DISA's organizations is the Defense Megacenter business area which consists of a headquarters and 16 Defense Megacenters that provide information processing services to DOD customers on a fee-for-service basis. DPAS has been implemented at 39 DISA sites overall, including the 16 Defense Megacenters as of June 1997.

The DOD Comptroller's office published an overall Implementation Handbook for DPAS. The current version at the time of our review was dated April 1996. A specific implementation plan is also developed for

⁷According to DOD's Financial Management Regulation, Volume 4, real property includes land, buildings, and related structures. Personal property includes weapons systems and other military equipment. However, the DPAS program manager and DPAS documentation indicated that weapons systems and tactical systems are not included in the DPAS design. The real and personal property included in DPAS is consistent with the SFFAS No. 6 definition of general PP&E.

⁸As described in DOD's Chief Financial Officer's Financial Management Status Report and Five Year Plan, finance and accounting systems lack a single standard transaction driven general ledger—an essential ingredient for sound reliable financial reports.

each implementing agency, of which DISA is one. DISA's implementation plan for DPAS was dated February 6, 1996. Some of the items included in the plan were (1) an implementation schedule, (2) a description of each organization's responsibilities, (3) equipment requirements, and (4) a description of training to be provided. Also, the plan stated the Director, DISA, is responsible for specifying interface requirements for each DISA DPAS location and working with the DOD Comptroller's implementation team to develop the required interfaces.

Scope and Methodology

To determine whether DPAS meets federal accounting standards, we used relevant public laws, Office of Management and Budget (OMB) Circulars, Statements of Federal Financial Accounting Standards (SFFAS), Joint Financial Management Improvement Program (JFMIP) publications, and DOD's Financial Management Regulation (FMR). We also used our Draft Federal Financial Management System (FFMS) review methodology⁹ sections on Fixed Assets, Funds Control, General Ledger, and Cost Accounting to evaluate the financial control functions of DPAS and how general PP&E information is shared or exchanged with other financial areas such as cost accounting. Financial control functions include ensuring that the system design allows proper recording of transactions for general PP&E in the general ledger. It also includes ensuring the system has been implemented with adequate internal controls to ensure data accuracy.

To evaluate DPAS as designed and implemented, we obtained and reviewed the DPAS system documentation and reviewed the DPAS Implementation Handbook. In addition, we reviewed DPAS implementation at the Huntsville DISA Defense Megacenter. We selected Huntsville because a DISA official stated that this center had the fewest implementation problems. At the time we began audit work, DISA was one of the larger DOD agencies that had implemented DPAS at multiple sites.

We visited DFAS-Pensacola, Florida, and the DISA Financial Management Liaison Office (FMLO) in Pensacola to review how the DISA Defense Megacenter's DPAS financial transactions were processed and to better understand the processing logic for the interface between DPAS and the DISA general ledger. DFAS Pensacola provides finance and accounting services to some DOD activities. The FMLO serves as the liaison between DISA and DFAS on financial matters.

⁹GAO's draft methodology incorporates JFMIP's systems requirements and will be finalized when JFMIP completes its development of the requirements. The FFMS methodology has been endorsed by the Chief Financial Officer Council as one method for reviewing systems.

Our scope did not include assessing technical design and software development issues, with the exception of DPAS' integration with other functional areas such as procurement. Also, our review was limited to the financial control functions of DPAS and therefore did not include logistics functions. We did not evaluate, from either a cost-benefit or a technical standpoint, the DOD Comptroller's selection of DPAS as a standard migration system, nor did we assess whether there are viable alternatives to DPAS.

We reviewed documents and interviewed officials at the following locations: (1) DISA headquarters, Arlington, Virginia, (2) DISA's western hemisphere office, Falls Church, Virginia, (3) DISA's Defense Megacenter, Huntsville, Alabama, (4) Industrial Logistics Systems Center at Letterkenny Army Depot, Chambersburg, Pennsylvania, (5) DFAS-Pensacola, Florida, (6) DFAS-Columbus, Ohio, and (7) Information Technology Financial Management Directorate, Office of the Comptroller, Arlington, Virginia.

We performed our work from August 1996 to August 1997 in accordance with generally accepted government audit standards.

We requested written comments from the Secretary of Defense or his designee on a draft of this report. The Acting Under Secretary of Defense (Comptroller) provided us with written comments. These comments are evaluated in the "Agency Comments and Our Evaluation" section and are reprinted in appendix I.

As Designed, DPAS Can Process Most General PP&E Transactions

DPAS is designed to provide information to account for most general PP&E. This information is created based on information recorded in the DPAS property book. However, DPAS does not have the financial information to process certain minor types of general PP&E, such as foreclosed assets and the depletion of natural resources, in accordance with DOD policy and existing accounting requirements. Although DPAS, as DOD's property system, should be able to record all required transactions, the omitted items do not affect a significant portion of DOD's assets. For example, natural resources represent only 1.2 percent of DOD's total general PP&E.

Also, the DOD Comptroller has not yet provided guidance to ILSC on implementing federal accounting standards that become effective for periods beginning after September 30, 1997. In contrast to the omitted items referred to in the previous paragraph, implementation of these new standards may have a significant effect on DOD's financial reporting. For

example, accounting for deferred maintenance costs for assets such as buildings, facilities, and equipment is a new requirement under SFFAS No. 6 and therefore was not included in the original DPAS design. According to a DOD Comptroller official, DOD is currently updating its Financial Management Regulation to incorporate the new standards' requirements. A DPAS project office official indicated that specific system changes to DPAS needed to meet the new standards cannot be identified until the DOD Financial Management Regulation is updated.

The DPAS functional design can be modified to meet all current and pending property accounting requirements through changes that include the addition of data elements and financial transactions. DPAS as designed does not include the standard general ledger postings in its financial transactions. As a result, each site must determine the general ledger posting logic for DPAS financial transactions.

The following are specific areas where DPAS should be expanded to meet these requirements.

- DPAS does not provide the capability to calculate the cost of a capital lease. Capital leases transfer substantially all the benefits and risks of ownership to the lessee. Agencies are required by federal accounting standards (SFFAS No. 5 currently in effect and SFFAS No. 6 effective October 1, 1997) to calculate the net present value of lease payments to determine the cost of capital leases.
- DPAS cannot track deferred maintenance costs. Deferred maintenance, as defined in SFFAS No. 6, paragraph 77, is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period. SFFAS No. 6 requires a line item on the statement of net cost with a note reference for deferred maintenance, if the amount is determined by management to be material. It also requires the activity to identify each major class of asset for which maintenance has been deferred and the method of measuring it. Also DOD's draft Federal Accounting Standards and Requirements, dated February 24, 1997, which applies to Defense accounting systems, includes requirements to account for deferred maintenance.

Further, DPAS does not allow the user to designate deferred maintenance as critical or noncritical. The standard allows the optional disclosure of deferred maintenance to be stratified between critical and noncritical amounts needed to return each major class of asset to its acceptable operating condition. If management elects to disclose critical and

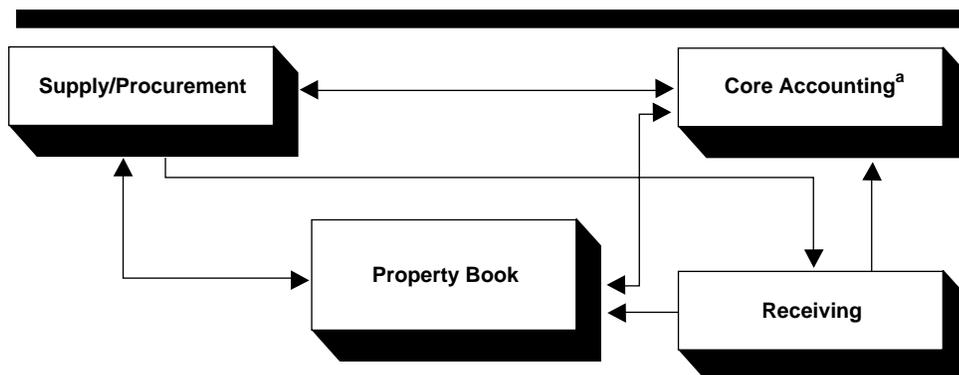
noncritical amounts, the disclosure shall include management's definition of these categories.

- DPAS does not provide features to record, value and report foreclosed property, or record any increase or decrease in the value of these assets. SFFAS No. 3 (effective October 1, 1993) contains explicit guidance on recognizing, valuing, disposing, and disclosing each of these assets. Also DOD's draft Federal Accounting Standards and Requirements, dated February 24, 1997, which applies to defense accounting systems, includes requirements to account for foreclosed property.
- DPAS does not have the capability to provide a transaction to the accounting system to record gain or loss amounts. For example, SFFAS No. 6 requires that the net realizable value of an asset be used to calculate a gain or loss upon disposal or exchange with a non-federal entity.
- DPAS does not provide the ability to record the total estimated environmental clean-up costs for an asset when it is placed in service, or upon discovery of the need for clean up, nor to periodically update these costs. Also, the capability is not provided to calculate the annual expense and accrued liability amounts. SFFAS No. 5 requires recognition of the liability for cleanup from federal operations resulting in hazardous waste. SFFAS No. 6 contains detailed guidance for accounting for clean-up costs and recognizing the annual expense and accrued liability amounts.
- DPAS does not provide features to deplete assets such as natural resources. While SFFAS No. 6 does not address natural resources, DOD's FMR, Volume 4, requires DOD activities to use the depletion of natural resources account when management deems that depletion accounting is necessary.

Implementation of DPAS at DISA Does Not Ensure Financial Control and Accurate Reporting

An objective of implementing DPAS DOD-wide is to ensure financial control and accurate reporting of general PP&E. Figure 1 illustrates how, in general, information must flow among property and related systems to ensure financial control over property. Although the DPAS design allows it to be implemented as shown in figure 1, which gives DOD the ability to have a fully automated property system that assures financial control and data integrity, DISA's implementation of DPAS failed to achieve this objective.

Figure 1: Financial Control Over Property



^aCore accounting includes general ledger, funds, receipt, payment, and cost management.

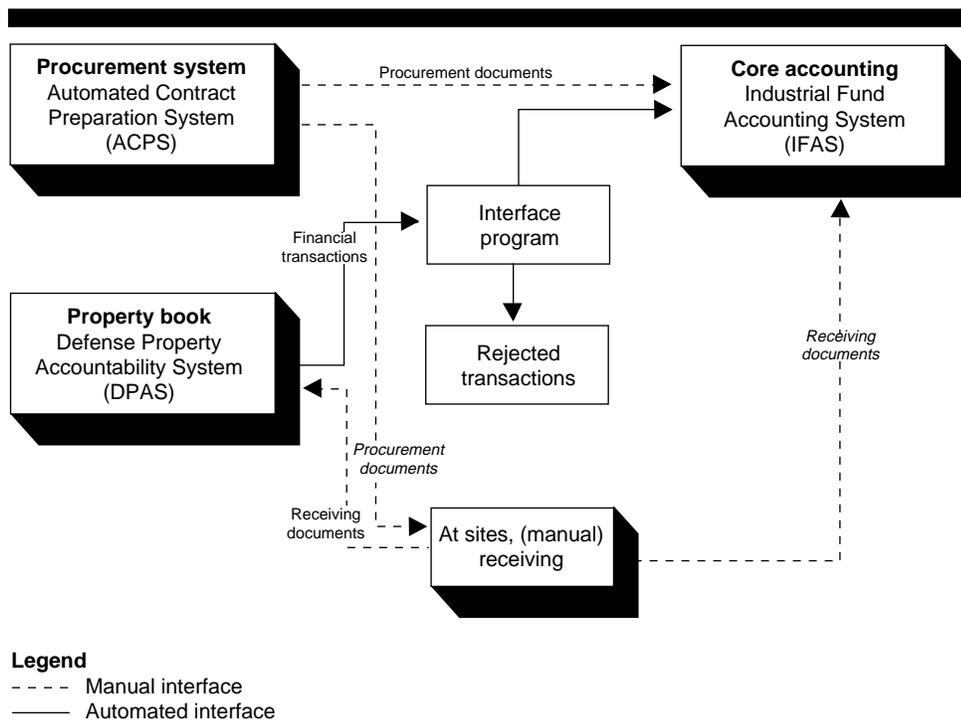
Financial control over property is established when detailed transactions maintained at one location are also maintained in a summary form in the financial records—referred to as the general ledger. For example, when it is determined that property is needed, the property book officer notifies both the supply/procurement officer and core accounting personnel. When the contract is issued, procurement personnel, in turn, notify both the property book officer to expect the item and core accounting, which includes the general ledger. When the item is received, receiving personnel notify both the property book officer and core accounting officials.

This duality provides not just financial control, such as ensuring accurate recording of purchase price, but also operational control, such as recording the location and condition of the asset. Ensuring data accuracy in this process requires that the transaction be edited for the processing requirements of each system. In addition, if data reside in two systems, periodic reconciliations must be performed to ensure that the data in the two systems remain in balance.

The only automated interface implemented for DPAS at DISA is between the property book and the core accounting system. There is no interface between DPAS and procurement, and interfaces between DPAS and the other functions, such as receiving, are manual. As such, achieving operational and financial control over assets is highly dependent on the accuracy of data that are manually processed or maintained, and on manual compensating controls, such as routine reconciliations.

As shown in figure 2, the DISA procurement system—the Automated Contract Preparation System (ACPS)—did not send information to the property book, DPAS, at the same time it was sent to the core accounting system. According to DISA officials, the interface between ACPS and DPAS was not built because it would have required an extensive interface development effort. The absence of this interface, either automated or manual, means that DPAS is not used to record initial procurement activities. Therefore, DPAS data cannot be completely reconciled with DISA’s core accounting system data.

Figure 2: Property Accounting Function as Implemented at DISA



We found over \$100 million in differences between the values shown in the DPAS detailed property records and the summary-level records maintained in the DISA general ledger. Although the DISA Financial Management Liaison Office representative was aware of the differences and was preparing reconciliation procedures, he could not explain the reasons for the differences, nor had a reconciliation been attempted at the time of our review. As discussed below, one cause was DPAS transactions were

incorrectly recorded in the DISA general ledger. As of May 31, 1997, DISA had submitted journal vouchers totaling over \$118 million to correct the differences.

We identified the following DPAS implementation problems at DISA. These contributed to the material difference discussed above and have the potential to erode both operational and financial control over property.

- DPAS transactions were incorrectly recorded in the DISA general ledger. The DISA general ledger contained items that were recorded incorrectly due to errors in the automated interface program which allows DPAS to communicate directly with DISA's general ledger. This interface program contains processing rules¹⁰ for recording DPAS transactions based on the transaction function code and certain other fields in DPAS as increases or decreases in the appropriate DISA general ledger accounts. Because these processing rules are neither included in DPAS nor the DOD Comptroller's DPAS Implementation Handbook, DISA developed general ledger processing rules for the interface program. However, errors in the processing rules resulted in increases being recorded as decreases and decreases as increases in the balance of assets held. For example, transfers-in of assets were recorded as decreases instead of increases. As a result of our work, DISA and DFAS officials began taking actions to correct the interface program and the account balances.
- Procedures were not adequate to ensure control of rejected transactions. In order to ensure control of rejected transactions, ideally, data should be edited for all systems at the original point of entry, and those which failed the edits should be placed in a suspense file.¹¹ If all edits are not performed at the original point of entry, additional edits can be included in automated interface programs and a second suspense file created. DISA used edits in the interface programs, but failed to set up the needed suspense file. Therefore, DISA cannot ensure that DPAS transactions rejected in the automated interface program to the general ledger were corrected and recorded properly in the general ledger.
- Reconciliations were not performed. Internal controls were not in place to ensure that discrepancies were corrected promptly. DISA was not performing reconciliations between DPAS and its general ledger. For example, transactions had been posted incorrectly to the DISA general ledger as decreases instead of increases, as noted in our first example

¹⁰Processing rules lay out the specific debit and credit postings to general ledger accounts in a double entry accounting system in accordance with the U.S. Government Standard General Ledger.

¹¹A DPAS project office official indicated that site-specific edits could be added by making a program change request. The official indicated that such changes would not be difficult to make or to maintain.

above, since processing began in September 1996. These posting errors went unresolved because reconciliations were not performed. The DPAS Implementation Handbook said that reconciliations should be performed but did not provide guidance on how to perform them nor state how often or who should perform them. DISA was developing reconciliation procedures but as of July 1997 they were not finalized.

- The DPAS financial transaction for equipment in transit was not used. DISA does not use the financial transaction for equipment in transit which DPAS provides. Equipment in transit information updates the general ledger to provide visibility over assets that are no longer under a site's physical control but for which the site is still accountable. However, when DISA assets are moved from one site to another, instead of processing an equipment in transit transaction, the assets remain in the DISA general PP&E asset accounts until the receiving activity indicates receipt of the asset. If a physical inventory were taken, assets identified as lost might actually be in transit to another location. DOD FMR, Volume 4, requires that equipment in transit be recorded as such in an agency's accounting system when transfer begins and that the equipment be removed from the account only when it is received and accepted by the gaining activity. The DPAS Implementation Handbook did not specifically require users to use certain DPAS financial transactions.

DOD Does Not Have a Detailed DPAS Implementation Strategy

Many of the problems experienced at DISA and resulting in inaccurate property data can be linked to several issues that affect DOD-wide implementation of DPAS. Specifically, DOD has not completed its strategic planning process for agencywide systems integration, which would include defining how the property function is accomplished and the responsibilities of all involved parties. Also, DOD's implementation strategy for DPAS relies on the services and Defense agencies to determine where and when to implement the system, with no overall oversight to ensure that the DOD Comptroller's stated goal of full implementation by the year 2000 is met. Finally, as illustrated by the problems we found at DISA, the DPAS Implementation Handbook lacks specific guidance on several important factors, such as reconciliations.

Concept of Operations Would Help Ensure Functionality

Development of a concept of operations for DOD's property function would help ensure that DPAS is able to achieve data accuracy and the financial control it was designed to produce, in both DOD's current and future

operating environments. As we stated in our June 1997 letter¹² on DFAS' draft Federal Accounting Standards and Requirements, the strategic planning process for systems should include a concept of operations that delineates how the property function is (or will be) accomplished and defines the roles, responsibilities, and relationships among the various DOD entities involved. Validating DPAS and the services' and Defense agencies' related property systems against the concept of operations would allow DOD to determine whether each system is appropriately interfaced, either manually or automated, with other systems to provide data accuracy and property accountability.

In addition, for the concept of operations to be useful, it should encompass (1) all financial management functions related to property not just those under the control of the DOD Comptroller and (2) both current and future property operations to document how DOD is working today and obtain mutual agreement from all of the parties on how DOD will conduct its property operations in the future. Not preparing a concept of operations may result in development efforts in other business areas being incompatible with DPAS, the selected property system. For example, during the course of our audit we learned that Air Force officials have expressed concern as to whether DPAS will fit into their planned functionality.

In the absence of an overall concept of operations that would lay out how the system is to be implemented to maintain data accuracy, each implementing site essentially is charged with developing its own concept of operations with no assurance of adequate controls or consistency among sites. When DPAS was selected as DOD's standard property system, it was anticipated that it would be interfaced with a single standard system in each business area such as accounting, supply, and procurement. Under this scenario, a limited number of automated interfaces would need to be developed. However, due to the long-term nature of DOD's standard systems development effort, DOD is currently using multiple systems in these areas and will continue to do so for the foreseeable future. For example, DOD has at least 76 procurement systems. DOD plans to replace 10 of these systems with the Standard Procurement System. However, the standard system will not be fully implemented until at least 2001.

Currently, data accuracy at DOD can be maintained either through automated interfaces with numerous nonstandard systems or through manual procedures such as reconciliations between stand-alone systems.

¹²Financial Management: Comments on DFAS' Draft Federal Accounting Standards and Requirements (GAO/AIMD-97-108R, June 16, 1997).

According to JFMIP systems standards, interfaces should be electronic unless the number of transactions is so small that it is not cost beneficial to automate the interface. In either case, reconciliations, including automated matching, between systems should be maintained to ensure accuracy of the data. In general, manual interfaces that rely on the physical keying and rekeying of data substantially increase the opportunity for error and create the need for manual compensating controls.

Although a relatively small organization such as DISA could use manual procedures, if effectively implemented, to maintain data accuracy, such procedures would be too labor-intensive and inefficient on a DOD-wide basis. However, the DOD Comptroller's implementation strategy relies on individual sites to specify property system interfaces and determine how data accuracy is to be maintained. Therefore, DOD has no assurance that automated interfaces and automated matching processes will be developed wherever cost-effective and in accordance with an overall strategy and that manual controls will be maintained where necessary.

DOD Does Not Have an Implementation Schedule

Although DOD has established a goal of achieving financial control over its assets by the year 2000, the DOD Comptroller does not have a schedule to implement DPAS consistently at all sites by that date. DOD has not identified its universe of DPAS users—those sites in the services and Defense agencies that must use DPAS to ensure control over property is maintained—DOD-wide. Rather, the DOD Comptroller has left it up to each military service and Defense agency to identify where and when they want to implement DPAS without providing time frames for identification of sites or ensuring that the correct sites are identified. Thus, DOD could not tell us how many sites remain to be implemented and associated time frames for meeting its year 2000 goal. A complete implementation schedule would also help ensure that the DPAS program office is able to allocate its resources to adequately support the implementation schedule.

DOD's Implementation Handbook Could Be Improved

In addition, the guidance DOD has developed for implementing DPAS is inadequate, as illustrated by the problems we found at DISA. Specifically, the DPAS Implementation Handbook does not provide instruction for accurately posting DPAS transactions to the general ledger. This may result in inconsistent and inaccurate reporting of DOD property. Further, the Handbook does not specify that all transactions generated by DPAS, which are applicable to the agency, should be used. Inaccurate and inconsistent financial reporting may result. Also, the Handbook states that

reconciliations should be performed but does not specify how or by whom. Failure to perform reconciliations, as we found at DISA, may result in inaccurate data going undetected.

Conclusions

As designed, DPAS produces transactions to provide financial control and to account for most general PP&E, but needs to be enhanced to meet all applicable federal accounting standards. Also, issues related to the need for planning and implementation guidance must be addressed. As evidenced by DISA's implementation problems, DOD has not defined how the property function is to be performed or provided implementation guidance to ensure internal controls are in place. DOD implementation strategy relies on individual sites to determine whether and what interfaces to develop—automated or manual—and establish necessary controls. Given the size and complexity of DOD, this approach is unlikely to result in an efficient and cost-effective implementation of DPAS by the year 2000.

Recommendations

To ensure that DPAS meets the DOD Comptroller's stated goal of achieving financial control and accountability over general PP&E by the year 2000, we recommend that the Deputy Secretary of Defense take the following steps.

- Develop, in consultation with the appropriate Assistant Secretaries, a concept of operations that (1) lays out how the property function is to be accomplished, including identification of needed manual and automated interfaces and related controls, and (2) defines for both the current and future operating environments the roles, responsibilities, and relationships among the various DOD entities involved, such as the Comptroller's office, DFAS, DOD component agencies, and the military services.
- Develop a detailed DPAS implementation plan that includes a schedule that identifies at what sites and when the system will be implemented.
- Revise the DPAS Implementation Handbook to (1) specify the complete financial transactions for posting DPAS data to the general ledger, (2) include specific guidance on how and when to perform reconciliations and who should be performing them, including automated matching of DPAS records to the general ledger, where appropriate, and (3) require that all financial transactions generated by DPAS, such as equipment in transit, be used.
- Expand DPAS functionality to ensure it includes transactions to meet all current and pending requirements related to property found in federal accounting standards and DOD financial management regulations.

Transactions produced by DPAS for updating the general ledger should reflect the posting logic for both the debit and credit in accordance with the U.S. Government Standard General Ledger.

In addition, to resolve the implementation problems specific to DISA, we recommend that the Director, DISA, (1) submit a request to the DPAS project office to include appropriate additional transaction edits required by DISA for general ledger processing, (2) correct the interface program, and (3) finalize procedures for reconciliation of DISA's general ledger accounts for property to DPAS property records, including provisions to ensure timely reconciliations are accomplished and general ledger control is maintained over general PP&E.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD's Acting Under Secretary of Defense (Comptroller) stated that the Department generally agreed with the report findings and recommendations. The letter also stated that the Department will provide comments on each recommendation later.

Although DOD generally agreed with the report findings and recommendations, DOD stated that it believes that it is erroneous to find deficiencies in DPAS' ability to comply with requirements that have not been finalized by the Federal Accounting Standards Advisory Board (FASAB) and for which implementation instructions have not been issued by the Office of Management and Budget (OMB).

All accounting requirements for general PP&E which are addressed in this report, as were developed by FASAB, were approved by GAO, OMB, and Treasury and issued by GAO and OMB in 1995. These requirements are currently in effect or will become effective October 1, 1997. OMB guidance in Bulletin No. 97-01, Form and Content of Agency Financial Statements, was issued October 16, 1996 for the preparation of financial statements for the fiscal year ending September 30, 1998.

In commenting on our draft report, DOD asked that we clarify that the DISA posting problem did not involve a deficiency in the internal operations of DPAS. We believe that the implementation issue which arose at DISA could have been mitigated if the DPAS design included the standard general ledger posting logic. Because all DOD general ledgers do not currently use the U.S. Government Standard General Ledger, any crosswalks required to enter DPAS transactions in these nonstandard general ledgers should be in

interface programs. In response to DOD's comments, we clarified our recommendation to include that transactions produced by DPAS for updating the general ledger should reflect the posting logic for both the debit and credit in accordance with the U.S. Government Standard General Ledger.

This report contains recommendations to you. Within 60 days of the date of this letter, we would appreciate receiving a written statement on actions taken to address these recommendations.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services, the House Committee on National Security, the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, and the Senate and House Committees on Appropriations. We are also sending copies to the Director of the Office of Management and Budget; the Acting Under Secretary of Defense (Comptroller); the Acting Director, Defense Finance and Accounting Service; and the Director, Defense Information System Agency. Copies will be made available to others upon request.

Please contact me at (202) 512-9095 if you have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,



Lisa G. Jacobson
Director, Defense Audits

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Abbreviations

ACPS	Automated Contract Preparation System
CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
DISA	Defense Information System Agency
DOD	Department of Defense
DPAS	Defense Property Accountability System
FASAB	Federal Accounting Standards Advisory Board
FFMS	Federal Financial Management System
FMFIA	Federal Managers' Financial Integrity Act
FMLO	Financial Management Liaison Office
FMR	Financial Management Regulation
GMRA	Government Management and Reform Act
ILSC	Industrial Logistics Systems Center
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
PP&E	property, plant, and equipment
SFFAS	Statement of Federal Financial Accounting Standards

Comments From the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
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SEP 15 1997

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report "FINANCIAL MANAGEMENT: DoD's Approach to Financial Control Over Property Needs Structure," dated August 22, 1997 (GAO Code 918883/OSD Case 1444).

The Department generally agrees with the report findings and recommendations. The Department is pleased that the GAO has reported that the Defense Property Accountability System (DPAS), as functionally designed, can provide financial control and generate information to account for most general Plant, Property, and Equipment (PP&E). The Department believes that it is making substantial progress in implementing the DPAS.

While some accounting standards are fully defined, others still are open. Therefore, the Department believes it is erroneous to find deficiencies in DPAS, or any other system, concerning its ability to comply with requirements that have not been finalized by the Federal Accounting Standards Advisory Board (FASAB) and for which implementation instructions have not been issued by the Office of Management Budget.

Additionally, the report should be modified to clarify that the selection of DPAS as the DoD migratory property system was approved by the Deputy Assistant Secretary of Defense for Command, Control, Communication and Intelligence (DASD(C3I)). The draft report (page 2) states that the Under Secretary of Defense (Comptroller) (USD(C)) selected DPAS as the DoD-wide system for accounting for real and personal property. Although the system was nominated by the USD(C), the DASD(C3I) performed an extensive review of the support for the nominated system and approved the system as a migratory system for all DoD. The USD(C) nominated the system in December 1994, and DASD(C3I) approved it as a migratory system in May 1995.

Also, a more concise explanation of what caused the erroneous postings for the Defense Information Systems Agency (DISA) is required in order to assist the Department in correcting the alleged erroneous postings. In this regard, the issue concerning the DISA posting problem mentioned on page 4 of the draft report should be clarified to state that the problem did not involve a deficiency in the internal operations of DPAS.



Now on p. 1.

Now on p. 3.

Appendix I
Comments From the Department of Defense

Comments on each of the recommendations will be provided at a later date. Due to the importance of the issues, the Department will require additional time to respond to the recommendations in more detail.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,



Alice C. Maroni
Acting Under Secretary of Defense
(Comptroller)

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