

November 18, 2003



Financial Management

Corps of Engineers Financial
Management System Accounting
Processes
(D-2004-023)

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Acronyms

CEFMS	Corps of Engineers Financial Management System
GLAC	General Ledger Account
USACE	U.S. Army Corps of Engineers
USSGL	U.S. Government Standard General Ledger



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 18, 2003

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Corps of Engineers Financial Management System Accounting Processes (Report No. D-2004-023)

We are providing this report for your review and comment. We considered management comments on a draft of this report when preparing the final report.

By mutual agreement with the U.S. Army Corps of Engineers, we deleted Recommendation 1. and renumbered Recommendations 2. and 3. as Recommendations 1. and 2., respectively.

DoD Directive 7650.3 requires that all issues be resolved promptly. The Commander, U.S. Army Corps of Engineers provided comments that were not fully responsive. We request that the Commander, U.S. Army Corps of Engineers reconsider his position on the recommendations and provide revised comments by January 16, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846). For the report distribution, see Appendix B. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Paul J. Granetto".

Paul J. Granetto
Director
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2004-023

November 18, 2003

(Project No. D2003FI-0136)

Corps of Engineers Financial Management System Accounting Processes

Executive Summary

Who Should Read This Report and Why? This report should be read by DoD and U.S. Army Corps of Engineers (USACE) civilians and uniformed officers responsible for promoting proper financial management and preparing the USACE Civil Works financial statements. The report identifies weaknesses within the Corps of Engineers Financial Management System accounting processes, which led to the preparation of avoidable journal voucher adjustments.

Background. The audit was performed in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This report is a result of work performed in support of the audit of the U.S. Army Corps of Engineers, Civil Works, FY 2003 Financial Statements. The USACE Finance Center (Finance Center) provides operational finance and accounting support for USACE worldwide. The Finance Center is also responsible for performing research, analysis, development, installation, and systems maintenance for the Corps of Engineers Financial Management System (CEFMS). CEFMS fully integrates USACE business processes, supports the management of all work and funds, and provides the financial information for the USACE financial statements. CEFMS processes and summarizes accounting transactions based on general ledger correlations. The Directorate for System Development and Maintenance serves as a principal advisor to the Finance Center Director for financial systems development and maintenance. The Federal Financial Management Improvement Act states that an entity's financial reporting systems must substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger (Standard General Ledger) at the transaction level. To comply with the Standard General Ledger requirements of the Federal Financial Management Improvement Act, Federal agencies must capture the basic 4-digit Standard General Ledger account and its associated attribute values.

Results. CEFMS did not process and summarize all accounting transactions in accordance with the Standard General Ledger. USACE did not have a process in place to ensure that the CEFMS general ledger correlations were promptly updated, or that deficiencies were corrected. As a result, the Finance Center made \$2.08 billion in avoidable adjustments to the FY 2002 financial statements to correct accounting errors because of general ledger correlation deficiencies. About \$1.49 billion of these adjustments were unsupported. The avoidable adjustments reduced the reliability of the USACE financial statements and caused unnecessary work during the compilation of the financial statements. USACE should expand their corrective action plan to include the CEFMS accounting process and financial statement compilation deficiencies and prepare

problem reports to assign the proper “Federal” or “non-Federal” attribute for advances, accounts payable, and expenses. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Commander, U.S. Army Corps of Engineers provided comments that were not fully responsive. We request that the Commander, U.S. Army Corps of Engineers reconsider his position on the recommendations and provide revised comments by January 16, 2004. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Inspector General of the Department of Defense is required to audit the annual financial statements of the Department of Defense. This report is a result of work performed in support of the audit of the U.S. Army Corps of Engineers, Civil Works, FY 2003 Financial Statements.

U.S. Army Corps of Engineers. The U.S. Army Corps of Engineers (USACE) provides engineering services to the Army and to the nation. These services include:

- planning, designing, building, and operating water resources and other civil works projects;
- designing and managing the construction of military facilities for the Army and Air Force; and
- providing design and construction management support for other Defense and Federal agencies.

Headquarters USACE consists of an Executive Office and 17 Staff Principals that create policy and plan the future direction of all other Corps organizations. One of those organizations is the USACE Finance Center (Finance Center).

USACE Finance Center. The Finance Center, located in Millington, Tennessee, provides operational finance and accounting support for USACE worldwide, which includes disbursing, accounting, and financial reporting for Civil Works and Military Programs appropriated funds as well as revolving and trust funds. The Finance Center is also responsible for performing research, analysis, development, installation, and systems maintenance for the Corps of Engineers Financial Management System (CEFMS). The Finance Center has four directorates.

Directorate for Systems Development and Maintenance. The Directorate for System Development and Maintenance (the Directorate), one of the four directorates of the Finance Center but located in Huntsville, Alabama, serves as a principal advisor to the Finance Center Director for financial systems development and maintenance. The Directorate leads, directs, manages, and supervises the execution of the research, analysis, development, installation, and maintenance of standard USACE-wide automated financial management systems, including CEFMS.

Federal Financial Management Improvement Act of 1996. The Federal Financial Management Improvement Act states that an entity's financial reporting systems must substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level.

U.S. Government Standard General Ledger. The USSGL includes both proprietary and budgetary general ledger accounts (GLACs), each identified by a unique 4-digit number. Accountants use proprietary GLACs to record assets, liabilities, equity, revenues, expenses, and miscellaneous gains and losses. Budgetary GLACs contain the record of the receipt and use of budgetary authority provided by the Congress. The U.S. Treasury Financial Management Service (the Financial Management Service) defines the GLACs that make up the USSGL in Treasury Financial Manual releases. Treasury Financial Manual Release S2-02-02, August 7, 2002, listed the USSGL GLACs for FY 2002, and Treasury Financial Manual Release S2-02-03, January 29, 2003, listed the USSGL GLACs for FY 2003.

Federal agencies often need more detailed financial information than the 4-digit USSGL account structure can provide. To accommodate this need, the Financial Management Service defines several attributes that further refine the financial information recorded in the GLACs. Each of the attributes may have two or more values. When added to a basic 4-digit USSGL GLAC, the attribute values provide the detail needed for agency reporting and, in effect, create new USSGL GLACs. For example, the GLAC (2110) for Accounts Payable includes an attribute, which indicates whether payment is due to another Federal agency ("Federal") or to some other creditor outside the Federal government ("non-Federal").

Federal agencies must capture this lower level of detail, the basic 4-digit USSGL GLAC and its associated attribute values, to comply with the USSGL requirements of the Federal Financial Management Improvement Act. Agencies may add GLACs to their own chart of accounts by increasing the number of digits necessary to accommodate agency-specific requirements. CEFMS uses 6-digit GLACs with attributes. For example, the USSGL GLAC for Accounts Payable is 2110, but CEFMS has 14 different GLACs (2110.10 through 2110.95) for different types of Accounts Payable. However, GLACs added to agency-unique charts of accounts must consolidate into the 4-digit USSGL accounts, plus any related attributes.

Corps of Engineers Financial Management System. CEFMS fully integrates USACE business processes, supports the management of all work and funds, and provides the financial information for the USACE financial statements. One of the functions of CEFMS is general ledger accounting. CEFMS processes and summarizes accounting transactions based on general ledger correlations that are stored in data manager tables. General ledger correlations are pro-forma accounting entries that automatically debit and credit GLACs based on the nature of the transaction being processed.

USACE Civil Works Financial Statements. The Finance Center uses financial information from CEFMS, modified by accounting adjustments, to prepare the USACE Civil Works financial statements. For FY 2002, USACE reported total assets of \$43.2 billion, total liabilities of \$2.4 billion, total budgetary resources of \$11.9 billion, and net cost of operations of \$3.7 billion for Civil Works. For the mid-year FY 2003 financial statements, USACE reported total assets of \$46.7 billion, total liabilities of \$2.4 billion, total budgetary resources of \$10.6 billion, and net cost of operations of \$1.9 billion.

Objective

Our overall audit objective was to determine whether CEFMS processes and summarizes accounting transactions accurately and correctly. See Appendix A for a discussion of the scope and methodology.

Implementation of the U.S. Government Standard General Ledger

The CEFMS did not process and summarize all accounting transactions in accordance with the USSGL. USACE did not have a process in place to ensure that the CEFMS general ledger correlations were promptly updated, or that deficiencies were corrected. As a result, the Finance Center had to make \$2.08 billion in avoidable adjustments to the FY 2002 financial statements to correct accounting errors because of general ledger correlation deficiencies. About \$1.49 billion of the adjustments were unsupported. The avoidable adjustments reduced the reliability of the USACE Civil Works financial statements and caused unnecessary work during the compilation of the financial statements.

CEFMS Accounting Processes

The CEFMS did not process all accounting transactions in accordance with the USSGL. CEFMS general ledger correlations did not record accounting data related to the following types of transactions in the correct GLACs.

Classifying Federal and Non-Federal Transactions. CEFMS did not record all advances, expenses, and accounts payable correctly with the proper “Federal” or “non-Federal” attribute. Advances, expenses, and accounts payable resulting from activities with the public (non-Federal) were recorded as if they resulted from activities within the Federal Government (Federal). Other expenses and accounts payable resulting from Federal activities were recorded as if they resulted from non-Federal activities. CEFMS assigned the incorrect “Federal” or “non-Federal” attribute to these transactions.

Accounting for Net Position. CEFMS general ledger correlations improperly posted amounts to Unexpended Appropriations (GLACs 3100-3109) and Expended Appropriations (GLAC 5700) for revolving funds, trust funds, and borrowing authority as though they were receiving appropriated funds. However, these fund accounts do not receive appropriated funds and do not have transactions that should affect these GLACs.

Accounting for Budgetary Transactions. A series of CEFMS general ledger correlations affecting USACE revolving funds did not record amounts in budgetary GLACs properly. CEFMS did not correctly transfer resources among the proper budgetary GLACs.

Accounting for Unexpended Appropriations. CEFMS did not record transactions affecting Unexpended Appropriations in the level of detail required by the USSGL. In July 2001, the Financial Management Service updated the USSGL chart of accounts, adding eight GLACs (3101 through 3107 and 3109) to provide additional detail for transactions involving Unexpended Appropriations (GLAC 3100). In September 2002, the Financial Management Service added another GLAC (3108) to this series. However, the Directorate did not implement

the additional GLACS until the third quarter of FY 2003. Until that time, CEFMS general ledger correlations still used GLAC 3100 as the only GLAC for Unexpended Appropriations and did not use the new GLACs (3101 through 3109). The preparation of the Statement of Changes in Net Position requires the use of the new GLACs because they appear on separate lines in the statement. Because financial data had to be placed in the new GLACs to comply with DoD financial reporting requirements, the Finance Center had to manually compute the amount to be placed in each of the new GLACs. If the Directorate had implemented the changes required by the Financial Management Service in July 2001, the Finance Center could have avoided 15 adjustments for \$500 million. The Finance Center did not support five of these avoidable adjustments for \$70 million.

Updating General Ledger Correlations

The USACE did not have a process in place to ensure that the Directorate updated general ledger correlations and corrected deficiencies promptly. Specifically, USACE personnel did not always prepare CEFMS problem reports. When problem reports were prepared, the Directorate could not correct general ledger correlations promptly. In addition, the general ledger deficiencies were not identified as an issue in the USACE corrective action plan.

Problem Reports. USACE personnel did not always prepare CEFMS problem reports so the Directorate could make the needed corrections to the general ledger correlations. For example, the USACE did not prepare a problem report to properly classify certain non-Federal transactions as Federal transactions. Finance Center field activity personnel identified the need for system corrections through the CEFMS Problem Reporting System. Directorate personnel used problem reports to identify changes that they should make to CEFMS. The USACE should ensure that problem reports are prepared and submitted to the Directorate as soon as general ledger correlation deficiencies are identified.

Correction Efforts. The Directorate was unable to make prompt corrections to CEFMS general ledger correlations. The Directorate was tasked with realigning its workload to give Chief Financial Officer-related system corrections the highest priority. Several corrections to general ledger correlations identified in the problem reports have been implemented, while other corrections were in process or awaiting action. However, additional work should be done to correct previously identified CEFMS deficiencies and achieve full USSGL implementation into the general ledger correlations. For example, Finance Center personnel first identified the problem with accounting for budgetary transactions in November 1999 (or more than 720 days prior to this audit), but Directorate personnel did not expect to begin the system changes necessary to correct the problem until FY 2004 at the earliest. Other problems have no estimated date for completion. See Table 1 for the age of problem reports.

Table 1. Problem Report Aging		
Number of Days Since Problem Report Preparation ¹	Number of Problem Reports Prepared But Not Yet Completed	Number of Affected General Ledger Correlations ²
91-180	3	3
181-360	5	7
361-720	0	0
more than 720	1	59
<p>1. Number of calendar days between the preparation date and June 20, 2003. 2. Some correlations appear in multiple Problem Reports. The total number of correlations affected is 63.</p>		

The USACE should increase the emphasis placed on keeping CEFMS compliant with the USSGL.

Action Plan. The USACE had not identified deficiencies in CEFMS general ledger correlation or unsupported adjustments as subject areas requiring corrective actions tracked by management. In May 2003, the Commanding General, USACE tasked the USACE Financial Audit Committee with developing a FY 2003 audit corrective action plan. The USACE Financial Audit Committee established workgroups that issued corrective action plans that used an information paper approach to guide its components on correcting audit-related issues. Workgroups were required to prepare self-assessments for each subject area on a monthly basis and report to the USACE Financial Audit Committee by Major Subordinate Command. Local Internal Review offices were to validate corrective actions rated as complete. The USACE identified areas such as Construction-in-Progress, Buildings and Structures, Land, and CEFMS security issues as subject areas requiring corrective actions tracked by management. However, the corrective action plans did not address deficiencies in CEFMS general ledger correlations or the related financial statement compilation issue of unsupported adjustments.

Avoidable Adjustments

FY 2002 Year-End Adjustments. During the compilation of the FY 2002 Civil Works Financial Statements, the Finance Center had to prepare 54 adjustments for \$2.08 billion to correct accounting errors caused by deficiencies in the CEFMS general ledger correlations. However, 34 of the 54 adjustments for \$1.49 billion were unsupported. See Table 2 for additional details.

Table 2. FY 2002 Journal Vouchers Prepared to Correct Accounting Errors Due to Deficiencies in CEFMS General Ledger Correlations (Dollars in Billions)				
<u>Category</u>	<u>Unsupported Adjustments</u>		<u>All Adjustments</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Classifying Federal and Non-Federal Transactions	23	\$1.36	32	\$1.50
Accounting for Net Position	3	.01	3	.01
Accounting for Budgetary Transactions	3	.05	4	.07
Accounting for Unexpended Appropriations	<u>5</u>	<u>.07</u>	<u>15</u>	<u>.50</u>
Total	34	\$1.49	54	\$2.08

The unsupported adjustments did not meet the requirements of volume 6A of DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” or USACE internal policy. The Finance Center could not properly support the amounts presented in the 34 adjustments or provide the necessary audit trails. The unsupported avoidable adjustments reduced the reliability of the USACE Civil Works financial statements.

FY 2003 Mid-Year Adjustments. Although we did not perform a full audit of FY 2003 mid-year adjustments, we found six avoidable adjustments, totaling \$1.02 billion. The adjustments were made to correct accounting errors caused by deficiencies in CEFMS general ledger correlations during the compilation of the FY 2003 Mid-Year Civil Works Financial Statements. Four of the six adjustments were due to CEFMS recording non-Federal advances, expenses, and accounts payable as if they were due to business transacted within the Federal government. The other two adjustments were required because CEFMS general ledger correlations continued to improperly account for net position for revolving funds, trust funds, and borrowing authority. None of these adjustments met the support requirements of volume 6A of DoD Regulation 7000.14-R or USACE internal policy. Although noted during the preparation of the FY 2002 Civil Works Financial Statements, these deficiencies were not corrected in time to prevent avoidable adjustments to the FY 2003 Mid-Year Civil Works Financial Statements.

Conclusion

Known deficiencies in the general ledger correlations result in CEFMS being noncompliant with the Federal Financial Management Improvement Act because Federal accounting standards were not being followed. The resulting avoidable adjustments caused unnecessary increases in the Finance Center workload that reduced the effectiveness of the financial statement compilation process and the

reliability of the financial statements. The accounting data submitted to the Defense Departmental Reporting System-Audited Financial Statements module for the USACE financial statements must comply with the USSGL. These two weaknesses will increase the risk of not achieving a favorable opinion on the USACE financial statements. Corrective action plans should include these system deficiencies and compilation-related weaknesses, and USACE management should track the implementation status of the necessary corrective actions. Because the Office of Management and Budget has greatly reduced the time available to complete financial statement preparation, any avoidable work unnecessarily increases the risk of error. If the Directorate had kept the CEFMS general ledger correlations current, the Finance Center would have avoided the 54 adjustments at FY 2002 year-end.

Management Comments on the Finding and Audit Response

Management Comments on Classifying Non-Federal Transactions. USACE stated that the CEFMS general ledger correlations determine the correct non-Federal/Federal GLAC to update based on a debtor classification code. If the debtor classification code is correct, then the general ledger updates will be correct. USACE stated that if an “incorrect” GLAC update occurred, it was caused by an incorrect debtor classification code assigned to an entity. USACE also stated that general ledger updates made to record the execution of non-Federal advances consistently update the correct GLACs based on the applicable debtor classification code. USACE stated that no corrective action could be taken because they had not been provided a specific example of an incorrect general ledger update of this nature.

Audit Response. The documentation shows that many of the adjustments were caused by CEFMS. For example, 18 adjustments for \$291.9 million were employee benefit contribution expenses reclassified from expenses with the public to expenses within the Federal Government for FY 2002. The justification on the journal vouchers specifically stated that the adjustments were necessary because CEFMS was unable to account for these transactions properly. We agree with USACE suspicions that an incorrect debtor classification code may have caused an adjustment to be made because of a CEFMS accounting error. For example, an unsupported adjustment for \$1 billion was made to reclassify FY 2002 Federal expenses to non-Federal expenses. However, debtor classification codes are contained in data manager tables embedded in CEFMS and affect how transactions are processed. USACE needs to correct these deficiencies.

We disagree with the USACE statement that no specific example of an incorrect general ledger process had been provided. We discussed FY 2002 journal vouchers that we had identified as CEFMS processing deficiencies with Finance Center personnel in August 2003. Finance Center personnel confirmed our findings. We provided the Finance Center a listing of the journal voucher adjustments on October 9, 2003. This listing identified the journal voucher adjustments that reclassified advances, accounts payable, and expenses.

Management Comments on Accounting for Budgetary Transactions.

USACE acknowledged that a problem report had been filed for some time and stated that USACE had attempted to obtain the identification of the proper GLACs to correctly record the transfer of revolving fund resources. However, USACE had not yet been provided any information, which would enable it to determine the general ledger correlation changes needed. Once the information is provided, USACE will be able to evaluate the extent of the system changes required and provide an estimated completion date.

Audit Response. Waiting until one problem report provides an example will not fix the CEFMS deficiency and move the USACE, Civil Works, financial statements closer to a clean audit opinion. The Finance Center was able to identify the problem in order to make a proper and supported adjustment to the financial statement data, see Table 2. In June 2003, Finance Center System Development and Maintenance Directorate personnel stated that accounting for budgetary transactions in the revolving fund would require a significant level of resources to correct the entire series of revolving fund transactions.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. We deleted draft report Recommendation 1, based on an agreement with USACE personnel. We have renumbered Recommendations 2. and 3. as final report Recommendations 1. and 2., respectively.

1. We recommend that the Commander, U.S. Army Corps of Engineers prepare problem reports to correct the Corps of Engineers Financial Management System to assign the proper “Federal” or “non-Federal” attribute for advances, expenses, and accounts payable.

Management Comments. USACE partially concurred and stated that guidance will be issued to the field emphasizing the need to properly code the debtor class of vendors. The target date for the Director of the Finance Center to issue this guidance is April 30, 2004.

Audit Response. The USACE comments were not responsive. The FY 2002 journal vouchers discussed in “Management Comments on the Finding and Audit Response” to reclassify expenses showed that the adjustments were necessary because CEFMS was unable to account for the transactions properly as Federal or non-Federal. USACE needs to prepare a problem report and take action to correct this deficiency. We request that the Commander reconsider his position and provide comments by January 16, 2004.

2. We recommend that the Commander, U.S. Army Corps of Engineers address the Corps of Engineers Financial Management System general ledger correlation deficiencies and the need to support accounting adjustments in the U.S. Army Corps of Engineers corrective action plan. Specifically:

a. Issue an information paper that addresses corrective actions in accordance with:

(1) the Corps of Engineers Financial Management System Problem Reporting System for the Corps of Engineers Financial Management System accounting process deficiencies and

(2) the DoD Financial Management Regulation requirements regarding the preparation of journal voucher adjustments.

Management Comments. USACE concurred and stated that the Director, U.S. Army Corps of Engineers Finance Center will review current operating policy and issue updated guidance by June 30, 2004.

Audit Response. The USACE comments were not responsive. The proposed policy does not constitute acknowledgement of financial statement compilation-related weaknesses and system deficiencies. It will not provide USACE a mechanism to ensure that needed corrective actions are completed in a timely manner and measure progress. The USACE Corrective Action Plan outlines numerous processes whereby corrective actions are needed to correct previous auditor-identified process deficiencies. Corrective actions are outlined on separate information papers; however, there is no information paper on compilation weaknesses and system deficiencies. The compilation weaknesses and system deficiencies are a major impairment to an unqualified opinion on the USACE, Civil Works, financial statements. We request that the Commander reconsider his position and provide comments by January 16, 2004.

b. Track the status of corrective actions on a monthly basis through previously established monitoring procedures.

Management Comments. USACE concurred and stated that the Director, U.S. Army Corps of Engineers Finance Center will initiate this action in January 2004.

Audit Response. The USACE comments were partially responsive. USACE did not provide an explanation of how the status of corrective actions will be tracked and monitored. The USACE comments to Recommendation 2.a. did not state that compilation weaknesses and system deficiencies would be part of the Corrective Action Plan. The Corrective Action Plan provides a mechanism for monitoring corrective actions. We request that the Commander provide additional comments on how the status of corrective actions will be tracked and monitored by January 16, 2004.

Appendix A. Scope and Methodology

We reviewed the CEFMS processes for accounting and summarizing transactions. Specifically, we reviewed the general ledger correlations within CEFMS, as they affected financial reporting for the USACE mid-year FY 2003 financial statements. We examined whether the CEFMS general ledger correlations were presented in accordance with Federal accounting standards and properly implemented changes to the USSGL chart of accounts. Our review included the USACE process to updated general ledger correlations and preparation of CEFMS problem reports. In addition, we reviewed the USACE corrective action plan to determine if financial statement compilation issues were addressed.

We also examined accounting adjustments made to the FY 2002 and the mid-year FY 2003 USACE, Civil Works, financial data to determine what caused the adjustments. The accounting adjustments consisted of journal voucher and supporting documentation prepared by the Finance Center. We reviewed 241 journal voucher adjustments for FY 2002, totaling \$13.3 billion, and 43 journal vouchers for mid-year FY 2003, totaling \$10.8 billion. The adjustments made in FY 2003 constituted about 95 percent of the value for all journal voucher adjustments prepared. The journal voucher adjustments reviewed were recorded in the Defense Departmental Reporting System-Audit Financial Statements module.

We performed this audit from May 2003 through September 2003 in accordance with generally accepted government auditing standards.

We did not review the management control program during the audit. The management control program was reviewed as part of the audit work for Project No. D2003FI-0065, "Compilation of the U.S. Army Corps of Engineers, Civil Works, FY 2003 Financial Statements." We did not review adjustments made to USACE FY 2002 and mid-year FY 2003 financial data other than those entered into the Defense Departmental Reporting System-Audited Financial Statements module.

Use of Computer-Processed Data. We examined the general ledger correlations contained in CEFMS. General ledger correlations are pro-forma accounting entries that automatically debit and credit GLACs based on the nature of the transaction processed. General ledger correlations are not computer-processed data. We compared the CEFMS general ledger correlations to the USSGL, and the deficiencies are discussed in the finding. We did not use computer-processed financial data to perform the review of journal vouchers.

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

Prior Coverage

No audit reports have been issued by the General Accounting Office or the Inspector General of the Department of Defense in the past 5 years addressing general ledger correlations or USSGL compliance. The U.S. Army Audit Agency has issued one report in the past 5 years addressing general ledger correlations or USSGL compliance.

Army

U.S. Army Audit Agency Report No. AA 99-18, "Corps of Engineers Financial Management System," November 6, 1998.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
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Department of the Army

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Commander, U.S. Army Corps of Engineers
Auditor General, Department of the Army

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U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CEIR (36-2b)

27 October 2003

MEMORANDUM FOR Director, Defense Auditing Service, Inspector General
Department of Defense, 400 Army Navy Drive, Arlington VA 22202

SUBJECT: Draft Report on the Corps of Engineers Financial Management System
Accounting Process (Project No. D2003FI-0136)

1. USACE provides the following additional facts to clarify the draft report's page 4 and 5 CEFMS Accounting Policy Process narrative.

a. Classifying Non-Federal Transactions

The draft report states: 'CEFMS did not record certain non-federal advances, expenses, and accounts payables correctly. Advances, expenses, and accounts payable accrued due to business transacted with the public were recorded as if they were due to business transacted within the Federal Government. Therefore, CEFMS incorrectly assigned the "Federal" attribute to these "non-Federal" transactions.'

CEFMS general ledger correlations determine the correct non-Federal/Federal GLAC to update based on a debtor classification code. Each non-Federal/Federal entity recorded in CEFMS is classified and assigned a debtor classification code. If the debtor classification code assigned to the entity is correct, the general ledger updates made based on the debtor classification will be correct. We have not been provided a specific example in any form (i.e., problem report, supporting documentation, etc.) supporting an incorrect "Federal" update of a non-Federal transaction. We suspect if an 'incorrect' GLAC update occurred, it was caused by an incorrect debtor classification code assigned to an entity. We believe general ledger updates made to record execution of non-Federal advances consistently update the correct GLACs based on the applicable debtor classification code. No corrective action can be taken because we have not been provided a specific example of an incorrect general ledger update of this nature.

b. Accounting for Net Position

The draft report states: 'CEFMS general ledger correlations improperly posted amounts to Unexpended Appropriations (GLACs 3100-3109) and Expended Appropriations (GLAC 5700) for revolving funds, trust funds, and borrowing authority as though they were receiving appropriated funds. However, these fund accounts do not receive appropriated funds and do not have transactions that should affect these GLAC's.'

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SUBJECT: Draft Report on the Corps of Engineers Financial Management System Accounting Process (Project No. D2003FI-0136)

We have requested UFC provide the accounting classifications (Department, Transfer Department, Appropriation Fiscal Year, Appropriation Symbol, Appropriation Limitation) for which adjusting journal entries are being made. This will help insure that the system changes will cover all known conditions. We estimate these changes will be completed by September 30, 2004.

c. Accounting for Budgetary Transactions

The draft report states: 'A series of CEFMS general ledger correlations affecting USACE revolving funds did not record amounts in budgetary GLACs properly. CEFMS did not correctly transfer resources among the proper budgetary GLACs.'

A problem report has been filed for some time regarding the above. We have been unable to determine the proper general ledger updates. We have attempted on a number of occasions to obtain from the problem reporter the identification of the proper GLACs to correctly record the transfer of revolving fund resources. We have provided copies of the current general ledger correlation entries and requested these correlations be annotated to identify the proper general ledger updates. To date, we have not been provided any information which would permit us to determine the general ledger correlation changes needed. Once this information is provided, we will be able evaluate the extent of the system changes required and provide an estimated completion date.

d. Accounting for Unexpended Appropriations

The draft report states: 'CEFMS did not record transactions affecting Unexpended Appropriations in the level of detail required by the USSGL. In July 2001, the Financial Management Service updated the USSGL chart of accounts, adding eight GLACs (3101 thru 3107 and 3109) to provide additional detail for transactions involving Unexpended Appropriations (GLAC 3100) to this series. However, the Directorate did not implement the additional GLACs until the third quarter of FY2003..... If the Directorate had implemented the changes required by the Financial Management Service in July 2001, the Finance Center could have avoided 15 adjustments for \$500 million. The Finance Center did not support five of these avoidable adjustments for \$70 million.'

This problem has already been corrected. Further we have implemented a more standardized approach to tracking and implementing the numerous changes made to the USSGL chart of accounts. This Directorate supports 40,000 users across 61 production sites with 22 government functional experts. Problems which adversely affect the largest number of our 40,000 users are corrected first. We believe the priority for correcting the stated problem was correct based on the information provided in the audit report.

2. The USACE command response to each DODIG draft report recommendation follows:

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a. Recommendation. Increase the emphasis placed on keeping the Corps of Engineers Financial Management System compliant with the U.S. Government Standard General Ledger.

Deleted

Command Response. Not necessary since by e-mail dated 16 October 2003 Mr. Craig Zimmerman of the DoDIG advised that this recommendation dealing with the SGL had been dropped from the draft report.

b. Recommendation. Prepare a problem report to correct the Corps of Engineers Financial System for the non-Federal attribute.

Renumbered
as
Recommendation 1.

Command Response. Concur in part, guidance will issued to the field emphasizing the need to properly code the debtor class of vendors. The target date for the Director of the Finance Center to issue this guidance is April 30, 2004.

c. Recommendation. Address the Corps of Engineers Financial Management System general ledger correlation deficiencies and the need to support accounting adjustments in the U.S. Army Corps of Engineers corrective action plan. Specifically:

Renumbered
as
Recommendation 2.

(1) Issue an Information paper that addresses corrective actions in accordance with: (a) the Corps of Engineers Financial Management System Problem Reporting System for the Corps of Engineers Financial Management System accounting process deficiencies; and (b) the DoD Financial Management Regulation requirements regarding the preparation of journal voucher adjustments.

Command Response. Concur, the Director of the USACE Finance Center will review current operating policy and issue updated guidance by 30 June 2004.

(2) Track the status of corrective actions on a monthly basis through previously established monitoring procedures.

Command Response. Concur, the Director USACE Finance Center will initiate this action January 2004.

The POCs for this response are John Templeton (202-761-1985), Mike Walsh (202-761-5440), and Linda Brooks (256-864-1800).

FOR THE COMMANDER:



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Team Members

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