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Insufficient Governance Over Logistics Modernization Program System Development

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Acronyms and Abbreviations

AMC	Army Materiel Command
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
AWCF	Army Working Capital Fund
BTA	Business Transformation Agency
DCMO	Deputy Chief Management Officer
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
DOD FMR	DOD Financial Management Regulation
ERP	Enterprise Resource Planning
FFMIA	Federal Financial Management Improvement Act of 1996
FSIO	Financial Systems Integration Office
GLAC	General Ledger Account Code
IRB	Investment Review Board
LMP	Logistics Modernization Program
OMB	Office of Management and Budget
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PO	Project Office
SFIS	Standard Financial Information Structure
USAAA	U.S. Army Audit Agency
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer
USSGL	U.S. Government Standard General Ledger



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

November 2, 2010

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER
DEPUTY CHIEF MANAGEMENT OFFICER
DIRECTOR, BUSINESS TRANSFORMATION AGENCY
DIRECTOR, COST ASSESSMENT AND PROGRAM
EVALUATION
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Insufficient Governance Over Logistics Modernization Program System
Development (Report No. D-2011-015)

We are providing this report for review and comment. The Army has reported to Congress that the Logistics Modernization Program system would be the Army Working Capital Fund's system solution for obtaining auditable financial statements. However, after more than 10 years in development, costing \$1.1 billion, the Army has failed to deliver a system that is U.S. Government Standard General Ledger compliant. We considered management comments on a draft of the report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller)/Chief Financial Officer and Deputy Chief Management Officer comments were generally responsive. However, they did not agree to delay further deployment of the Logistics Modernization Program system or request an analysis of alternatives to determine whether the program continuation was cost beneficial. The Assistant Secretary of the Army (Financial Management and Comptroller) comments were responsive. We did not receive comments from the Director of Cost Assessment and Program Evaluation on Recommendation 2. Therefore, we request additional comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer and Deputy Chief Management Officer on Recommendations 1.b, 1.c, and 3.a, and from the Director of Cost Assessment and Program Evaluation on Recommendation 2 by January 2, 2011.

If possible, send a .pdf file containing your comments to auddbo@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Patricia A. Marsh at (703) 601-5868 (DSN 329-5868).

Mary Ugone
Deputy Inspector General
for Auditing



Results in Brief: Insufficient Governance Over Logistics Modernization Program System Development

What We Did

We determined whether the Logistics Modernization Program system (LMP) was compliant with the U.S. Government Standard General Ledger (USSGL) at the transaction level (USSGL compliant).

What We Found

The Army reported to Congress that LMP would be the Army Working Capital Fund's (AWCF) system solution for obtaining auditable financial statements. However, after more than 10 years in development, costing \$1.1 billion, the Army has failed to deliver a system that is USSGL compliant.

Army and DOD financial communities did not establish the appropriate senior-level governance needed to develop, test, and implement the LMP financial management requirements and processes needed to record AWCF financial data at the transaction level. As a result, LMP was not substantially compliant with the Federal Financial Management Improvement Act of 1996. The system also did not resolve any of the AWCF's internal control weaknesses. Therefore, the Army will need to spend additional funds to comply with USSGL requirements and achieve an unqualified audit opinion on its AWCF financial statements.

What We Recommend

The Under Secretary of Defense (Comptroller)/Chief Financial Officer and Deputy Chief Management Officer should advise the Deputy Secretary of Defense and Deputy Director for Management at the Office of Management and

Budget to select LMP as a high-risk system for review. We also recommend that they delay further LMP deployment until, at the minimum, the Army demonstrates that funding is available and it has an approved plan in place to comply with the Standard Financial Information Structure requirements. They should also update guidance for specific general ledger accounts and transaction codes and validate compliance with these requirements.

The Assistant Secretary of the Army (Financial Management and Comptroller) should assume operational control over developing, approving, and implementing LMP financial requirements.

Management Comments and Our Response

The Under Secretary of Defense (Comptroller)/Chief Financial Officer and Deputy Chief Management Officer generally agreed to the recommendations. However, they did not agree to delay LMP deployment or request an analysis of alternatives to determine cost effectiveness. The Assistant Secretary of the Army (Financial Management and Comptroller) agreed to implement our recommendations. The Director of Cost Assessment and Program Evaluation did not provide comments. We request that DOD management reconsider its position on proceeding with a cost benefit analysis, coordinating with the DOD Efficiencies Task Force and ensuring LMP compliance with Standard Financial Information Structure requirements. DOD managers should provide additional comments to the final report as specified in the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer	1.b, 3.a	1.a, 1.c, 3.b, 3.c
Deputy Chief Management Officer	1.b, 1.c, 3.a	1.a, 3.b, 3.c
Director of Cost Assessment and Program Evaluation	2	
Assistant Secretary of the Army (Financial Management and Comptroller)		4.a, 4.b, 4.c, 4.d.(1), 4.d.(2)

Please provide comments by January 2, 2011.

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Introduction

Objectives

Our overall objective was to determine whether internal controls over Army Working Capital Fund (AWCF) accounting transactions originating in the Logistics Modernization Program system (LMP) were adequate. Specifically, we planned to determine whether LMP properly supported accounting transactions with verifiable audit trails and recorded transactions as required by the U.S. Government Standard General Ledger (USSGL). Additionally, we planned to determine the reasons for any abnormal balances reported in the general ledger account codes (GLAC). However, based on the LMP general ledger problems we initially identified, we limited the scope of this phase of the audit to determining whether LMP was compliant with the USSGL at the transaction level (USSGL compliant).

See Appendix A for a discussion of our scope and methodology and Appendix B for prior audit coverage. See the Glossary for the definition of technical terms used in this report.

Background

The Army has experienced long-standing financial reporting problems in its AWCF business areas (Supply Management and Industrial Operations). The Army did not design its legacy accounting systems to collect and record financial information using the accrual accounting method or to maintain auditable data at the transaction level to support the amounts reported on the AWCF financial statements. The legacy systems also did not have the capability to populate the required GLACs using transactional data provided by other DOD mixed systems supporting AWCF-related business events. As a result, AWCF and Defense Finance and Accounting Service (DFAS) personnel used manual data calls and journal vouchers to produce a significant portion of the amounts reported in the AWCF financial statements. In the FY 2010 AWCF Financial Statement engagement letter, the Army acknowledged 10 material weaknesses related to its AWCF business processes and systems.

Logistics Modernization Program System

In an attempt to standardize and develop an effective financial management process throughout the Department, DOD embarked on various efforts to implement new financial management systems and associated business processes. These efforts involved implementing new commercial off-the-shelf Enterprise Resource Planning (ERP) systems that were capable of handling financial transactions throughout an event's life cycle. These ERP systems would provide the integration needed to minimize system interface problems and provide greater DOD financial visibility. The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) identified LMP as the AWCF's target system for resolving its long-standing financial reporting problems.

In December 1999, the Program Director, U. S. Army Wholesale LMP, Army Materiel Command (AMC), initiated a service contract that would provide logistical and financial data to support the AWCF business areas and maintain the legacy systems until LMP could be fully deployed. Under the contract terms, the LMP contractor provides the Army with the system functionality as a service and maintains proprietary control over the actual system while the Army maintains control over its data. LMP uses SAP® ERP software that provides funds management, weapon system life cycle management, and material supply and service management capabilities. The Army developed LMP to modernize Army logistics business practices and meet future military readiness requirements. The DOD Investment Review Boards (IRBs) are responsible for ensuring that DOD systems comply with the DOD Business Enterprise Architecture. DOD assigned the Material Supply and Services Management IRB oversight responsibilities for LMP because the system performs primarily logistical functions.

LMP became operational in July 2003 as the AWCF target general ledger accounting system (target system) when the LMP Project Office (PO) deployed the system to the CECOM Life Cycle Management Command, New Jersey; Tobyhanna Army Depot, Pennsylvania; DFAS locations; and several other AMC activities supporting the AWCF Supply Management business area. For the second deployment, in May 2009, the LMP PO fielded the system to the Aviation and Missile Life Cycle Management Command, Alabama; Corpus Christi Army Depot, Texas; and Letterkenny Army Depot, Pennsylvania. The Army completed the third and final system deployment on October 21, 2010 at TACOM Life Cycle Management Command activities in Illinois and Michigan and all remaining AWCF Supply Management and Industrial Operations activities.¹ LMP supports more than 17,000 users worldwide. The LMP PO informed us that AMC spent \$1.1 billion on LMP from FY 2000 through FY 2009.

See Appendix C for the LMP deployment schedule and a timeline of key events that affected the LMP financial system development discussed in this report.

Federal Financial Management Improvement Act Requirements

Public Law 104-208, “Omnibus Consolidated Appropriations Act, 1997,” September 30, 1996, Title VIII, “Federal Financial Management Improvement Act of 1996” (FFMIA), advanced Federal financial management by requiring that Federal agencies implement financial management systems that are capable of routinely providing reliable financial information across the Federal Government and applying uniform accounting standards. FFMIA, Section 803, requires:

- agencies to implement and maintain financial management systems that comply substantially with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level (Section 803[a]);

¹ During the audit period, the Army had not accomplished the final deployment. The Army decision to accomplish the final deployment occurred on September 21, 2010, after the issuance of the draft report.

- auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports (Section 803[b]); and
- agency heads to determine annually, based on audit reports and other information, whether their financial management systems comply with FFMIA. If the financial management systems do not substantially comply, agencies in consultation with the Director, Office of Management and Budget (OMB) are required to develop remediation plans and submit them to the OMB (Section 803[c]).

The OMB, Department of Treasury, and DOD have issued regulatory and policy guidance to assist DOD activities in achieving compliance with the FFMIA.

Appendix D provides details related to the guidance issued that impact the LMP system's compliance with FFMIA. A key DOD policy to assist with FFMIA compliance was the development of the Standard Financial Information Structure (SFIS).

Appendix E provides details about how implementing SFIS requirements, including the USSGL SFIS Transaction Library (hereafter referred to as SFIS Transaction Library) and the DOD Standard Chart of Accounts, would result in target systems being USSGL compliant.

Review of Internal Controls

We determined that an internal control weakness as defined by DOD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," July 29, 2010, existed in implementing LMP. Senior DOD and Army financial managers did not define roles and responsibilities or implement policy and the proper oversight needed to ensure that they developed and maintained an LMP system chart of accounts that is USSGL compliant. Implementing Recommendation 4 will assist the Army in developing the internal control structure needed to provide proper oversight of the final development and deployment of LMP and ensure future compliance with changes in the USSGL. We will provide a copy of the report to the senior official responsible for internal controls in DOD and the Department of the Army.

Finding. Developing and Maintaining the Logistics Modernization Program System General Ledger

The Army developed and deployed LMP to AWCF activities without ensuring that the system was USSGL compliant. Specifically, LMP did not:

- contain all the necessary GLACs,
- record attribute values correctly,
- report trial balance data directly to the Defense Departmental Reporting System (DDRS), or
- have the capability to demonstrate that the LMP transaction library complied with USSGL posting logic.

This occurred because the Army and DOD financial communities² did not establish the appropriate senior-level governance over developing testing, and implementing LMP financial management requirements and processes. As a result, LMP was not substantially compliant with the FFMIA despite costing the Army \$1.1 billion. The system also does not resolve the AWCF's long-standing material internal control weaknesses. Therefore, the Army will need to spend additional funds to develop and implement the LMP functionality needed to achieve USSGL compliance and correct the known financial reporting deficiencies preventing the AWCF from achieving an unqualified audit opinion.

FFMIA Compliance

To comply with the FFMIA requirement to post financial events at the transaction level, Supplement No. S2 to the Treasury Financial Manual, volume 1 (the Supplement), requires financial management systems to post transactions using the appropriate USSGL 4-position GLACs and all applicable attribute domain values. DOD Financial Management Regulation (DOD FMR), volume 1, "General Financial Management Information, Systems, and Requirements," chapter 7, "United States Standard General Ledger," directs that all DOD target systems post DOD transactions to the appropriate GLACs and attributes using the Supplement, Section III, posting logic contained in the SFIS Transaction Library. Beginning in FY 2010, DOD FMR, volume 1, chapter 3, "Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting," requires DOD reporting entities to report annually the results of their evaluation of FFMIA compliance in the Annual Statement of Assurance.

The Deputy Chief Management Officer (DCMO) is the senior official responsible for assisting the Secretary of Defense and the Deputy Secretary of Defense in effectively and efficiently organizing DOD business operations. The DCMO supervises and oversees Business Transformation Agency (BTA) and the DOD Performance Improvement

² The DOD financial communities discussed in this report include the Offices of Under Secretary of Defense (Comptroller), DCMO, BTA, and DFAS.

Officer. The Under Secretary of Defense (Comptroller/Chief Financial Officer (USD(C)/CFO) has overall responsibility for DOD financial management systems and for issuing and monitoring DOD's FFMIA compliance policy, while the BTA has responsibility for updating the DOD Business Enterprise Architecture with the FFMIA requirements. The BTA also plays a major role in approving future system deployments through its involvement in the IRB review and approval process.

To help it satisfy its responsibility for developing DOD financial management system requirements and systems integration strategies, DFAS issued DFAS Manual 7900.4G, "A Guide to Federal Requirements for Financial Management Systems" (DFAS Blue Book). The DFAS Blue Book contains the financial management system requirements to achieve FFMIA compliance.³ The ASA(FM&C) has primary responsibility for ensuring that the Army developed its ERP systems correctly. The LMP Program Manager is responsible for developing and deploying LMP and ensuring that it complied with the DOD Business Enterprise Architecture requirements. In March 2006, the Army aligned the LMP Program under the Army Program Executive Office, Enterprise Information Systems. AMC is responsible for managing LMP's deployment to AWCF activities and tracking LMP requirements, including compliance with the USSGL and SFIS requirements, because AMC designed LMP primarily to fulfill the AWCF activities' logistical functions.

Assessing USSGL Compliance

The Army developed LMP and substantially deployed it to AWCF activities without ensuring that it was USSGL compliant. The August 2009 LMP general ledger did not:

- contain all the USSGL accounts required to support AWCF financial reporting,
- populate USSGL-required attributes at the transaction level, or
- generate a trial balance that could directly populate the DOD Standard Chart of Accounts.

In addition, the system did not have the capability to readily produce reports to demonstrate that LMP transaction codes met the posting logic required by the USSGL and SFIS Transaction Library. Army and DFAS personnel responsible for developing the LMP financial management requirements could not provide documentation showing how the Army developed LMP's functionality to achieve USSGL compliance.

³ From January 1998 through February 2010, DFAS issued 13 versions of the DFAS Blue Book. The current 8.0 version is dated February 2010 and was renamed DFAS 7900.4-M, "Financial Management Systems Requirements Manual."

LMP Does Not Contain the Chart of Accounts Needed to Support the AWCF Financial Statements

LMP did not contain all the GLACs necessary to record AWCF financial transactions because financial management personnel in the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) and Office of the ASA(FM&C) did not play a major role in establishing the LMP chart of accounts. Instead, they permitted AMC, LMP PO, and DFAS personnel to develop the LMP chart of accounts based on the GLAC structure and

As a target system, LMP should include all the GLACs necessary to record AWCF financial transactions.

business processes in the legacy systems without ensuring LMP included the additional GLACs required to be USSGL compliant. As a target system, LMP should include all the GLACs necessary to record AWCF financial transactions. The system should include those originating from DOD mixed systems, and maintain

subsidiary information and a comprehensive chart of accounts to process all AWCF financial transactions through a single general ledger system. This would alleviate the need for DFAS to record values using department-level journal vouchers and other manual processes.

Financial Managers Did Not Select the Appropriate USSGL Accounts

We compared the LMP chart of accounts, as of August 19, 2009, with the FY 2009 USSGL chart of accounts to determine whether LMP contained all the accounts necessary to record AWCF business operations accurately. The USSGL contained 433 GLACs. However, LMP's general ledger only contained 132 GLACs applicable to the AWCF. Together with the OUSD(C), we determined that Defense Working Capital Fund general ledgers should have included at least 174 of the 433 GLACs.⁴ Appendix F identifies the 42 GLACs missing from LMP. Without the 42 missing GLACs, LMP cannot record all AWCF business transactions correctly and will continue to report AWCF financial data inaccurately. For example, the LMP general ledger did not include:

- GLAC 5780, "Imputed Financing Sources." Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," July 31, 1995, requires reporting entities to measure and report the full cost of producing outputs in general purpose financial reports. For an entity to correctly record costs incurred that are paid for by other entities, the USSGL requires the accounting system to debit GLAC 6730, "Imputed Costs," and credit GLAC 5780, "Imputed Financing Sources," and requires these accounts to contain the same balance. The LMP chart of accounts contained only GLAC 6730. In addition, beginning in FY 2011, LMP must report the AWCF's use of buildings and

⁴ As of August 19, 2009, the LMP chart of accounts contained 142 GLACs: 135 GLACs that were listed in the USSGL and 7 GLACs that were not listed in the USSGL. Of the 135 USSGL GLACs, 3 are used to record transactions for the Statement of Custodial Activity (GLACs 2980, 5990, and 5991). Because the AWCF does not prepare that statement, we excluded them from our count.

other structures paid for using other than Defense Working Capital Funds (97X4930) as an imputed cost. Because the LMP chart of accounts did not contain GLAC 5780, the AWCF was unable to record imputed costs as required by the USSGL.

- Contract Authority GLACs. In first quarter FY 2010, the AWCF reported over \$11.2 billion in contract authority, which comprised 59 percent of the \$18.9 billion in total AWCF Budgetary Resources. The USSGL contains 11 budgetary GLACs that should be in a working capital fund target system to record transactions related to the use of contract authority. LMP contained only 3 of the 11 GLACs and, therefore, was not recording in the general ledger all the data necessary to populate the Statement of Budgetary Resources correctly. For example, the Statement of Budgetary Resources required 5 of the 11 contract authority GLACs to populate line 6, “Permanently Not Available.” However, the LMP chart of accounts did not contain these five GLACs. As of December 31, 2009, the AWCF reported \$5.1 billion in these five GLACs in DDRS. DFAS used manual adjustments to create the budgetary account balances. DFAS derived the data from other than LMP and other AWCF systems general ledgers.

We discussed with AMC and DFAS personnel the process they followed to develop the LMP general ledger for the first deployment in FY 2003 to determine how they ensured the general ledger was USSGL compliant. They told us that many of the individuals responsible for creating the original general ledger were no longer available. In addition, because responsible individuals had not documented the process for future reference, current personnel could not provide us documentation to support the rationale for not establishing specific GLACs in the LMP general ledger. OUSD(C) and ASA(FM&C) personnel had not verified that the LMP chart of accounts complied with USSGL requirements or approved decisions to exclude specific GLACs.

OMB Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, requires management to develop effective internal control over its financial reporting process. The Circular requires that agencies maintain documentation of both the controls that are in place and the assessment process management used to determine control effectiveness. The Army and

DFAS should have documented how they assessed the LMP business processes, verified the correct LMP posting logic, and determined whether the LMP general ledger included all applicable GLACs. DOD and Army financial managers should have validated the actions taken and ensured that the LMP chart of accounts captured all AWCF-related business events at the transaction level.

DOD and Army financial managers should have validated the actions taken and ensured that the LMP chart of accounts captured all AWCF-related business events at the transaction level.

After the initial deployment, the LMP PO and DFAS developed a process for identifying and implementing changes to GLACs in LMP. However, this process was ineffective and did not require that ASA(FM&C) personnel approve changes to the LMP chart of accounts. Based on discussions with DFAS personnel responsible for identifying GLAC

changes, we determined that the Army did not add and delete GLACs in LMP to stay current with changes to the Supplement. For example, the Supplement rescinded the use of GLAC 1450 for FY 2007 reporting, but LMP continues to populate this GLAC. DFAS personnel informed us that before August 2009, the Army had added only Army directed point accounts⁵ to existing GLACs. Neither DFAS nor Army personnel could tell us who was responsible for assessing the impact on LMP of changes made to the Supplement.

The ASA(FM&C) needs to ensure that Army financial managers examine and document AWCf business processes and determine whether the LMP chart of accounts contains the GLACs needed to record the associated events. The Army financial managers need to document the rationale for deviations from the GLACs and establish any missing GLACs or remove any unnecessary GLACs from the LMP chart of accounts. In addition, the ASA(FM&C) should establish responsibility for and develop procedures to monitor changes to the USSGL chart of accounts and ensure that LMP is updated as necessary after the release of each new Supplement.

Financial Managers Should Have Required the LMP PO to Implement the DOD Standard Chart of Accounts

The Army did not implement the DOD Standard Chart of Accounts in LMP ... and did not plan to implement it before LMP achieved full deployment in October 2010.

DOD permitted the second deployment of LMP in May 2009 before the Army implemented the DOD Standard Chart of Accounts. The Acting Deputy Chief Financial Officer issued a memorandum, DOD Standard Chart of Accounts in Standard Financial Information Structure (SFIS),⁷ August 13, 2007, that required target systems to implement a DOD Standard Chart of Accounts as an essential

component for establishing the DOD SFIS environment. However, it did not provide a specific date for target systems to comply. The Army did not implement the DOD Standard Chart of Accounts in LMP as of September 30, 2009, and did not plan to implement it before LMP achieved full deployment in October 2010.

The DOD Standard Chart of Accounts uses USSGL/DOD account numbers that allow DOD accounting systems to capture the detailed transactional data needed to correctly populate the financial statements and other financial reports.⁶ When properly implemented in all target systems, the DOD Standard Chart of Accounts will provide a consistent and reliable financial reporting process and allow the target systems to report

⁵ A point account is the 5-position extension added to the GLAC that allows agencies to track agency specific attributes and information related to financial events. The additional information is needed for making management decisions. All point accounts must roll up to the original 4-position GLAC.

⁶ DOD uses the term “USSGL/DOD account number” to refer to the 9-position account numbers in its Standard Chart of Accounts. It is comprised of the 4-position USSGL (XXXX) plus a 5-position DOD standard account extension (.XXXX). GLAC 1310.9000, “Accounts Receivable,” is an example of a USSGL/DOD account number.

trial balance data directly to DDERS thereby eliminating the need to crosswalk or adjust the data. Because DOD based the USSGL/DOD account numbers on the USSGL GLACs, the DOD Standard Chart of Accounts contains some USSGL/DOD account numbers that would not apply to AWCF operations. However, the DOD guidance did not identify which USSGL/DOD account numbers LMP needed to implement to record financial transactions correctly.

The DOD memorandum also allowed target systems to post their chart of accounts in more detail than required by the DOD Standard Chart of Accounts. However, each target system must include the DOD Standard Chart of Accounts and crosswalk any of the unique posting GLACs to a specific USSGL/DOD account number to summarize the transactional data correctly and transmit the data to DDERS in that standard format. When the Army initially deployed LMP in FY 2003, the Army established its own unique 5-position GLAC extensions (.XXXX) to record AWCF business transactions. These extensions were not compatible with the 5-position DOD standard account extensions now established for the DOD Standard Chart of Accounts. Therefore, the LMP chart of accounts is currently unable to report to DDERS correctly. LMP PO personnel informed us that LMP would be capable of using the DOD Standard Chart of Accounts and interfacing directly with DDERS when LMP is fully compliant with SFIS requirements in March 2011.

When the Deputy Chief Financial Officer issued the August 2007 guidance, ASA(FM&C) personnel should have directed AMC and the LMP PO to immediately implement the DOD Standard Chart of Accounts in LMP. They could have accomplished this by making changes to LMP so it either:

- posted transactions directly to the new USSGL/DOD accounts, or
- internally crosswalked the LMP GLACs to the DOD Standard Chart of Accounts.

Instead, LMP continued to generate and transmit its trial balance data to DFAS in the same non-standard account structure used by the AWCF legacy accounting systems. As a result, DFAS must crosswalk the trial balance data to the DOD Standard Chart of Accounts in DDERS to prepare the AWCF financial statements. To ensure that LMP contains all the appropriate GLACs and will be able to populate the AWCF financial statements correctly, the ASA(FM&C) should require the LMP PO to implement the DOD Standard Chart of Accounts in LMP and work with DFAS to ensure that the LMP trial balance data can be accurately reported directly to DDERS. In addition, the OUSD(C) should revise its guidance for the DOD Standard Chart of Accounts and identify by funding types the core guidance for which specific USSGL/DOD accounts numbers apply to assist the DOD Components in correctly populating the financial statements.

LMP Should Be Recording USSGL Attributes Values

Army financial managers did not ensure that LMP recorded each transaction with the appropriate USSGL attribute values. The Supplement requires that systems post all transactions using the appropriate 4-position GLACs and the appropriate attribute values, as defined in the Supplement, Section IV. The Supplement requires recording the attribute fields with specific domain values to provide lower-level detail about each transaction, which satisfy financial reporting requirements. We identified 23 USSGL attribute fields that a system must populate to comply with Federal Agencies' Centralized Trial-Balance System reporting requirements. For each of the 23 USSGL attribute fields, LMP either did not populate the attribute fields or did not record them correctly.

The LMP PO developed the functionality in LMP to record only 2 of the 23 attributes (Federal/Non-Federal and Trading Partner), and LMP did not correctly record them. Specifically, the December 2008 through December 2009 LMP trial balance data showed that LMP could not distinguish between Federal and non-Federal transactions or identify the trading partners involved. LMP users have generated numerous system change requests since 2003 to report problems related to this issue, and Army and DFAS financial managers have recognized the need to take action to address the problems. However, LMP system development managers have not sufficiently prioritized these problems or taken the corrective actions necessary to continue with the final system deployment in October 2010. LMP PO personnel stated that they plan to correct problems with the two existing attributes when they implement SFIS requirements in March 2011. Appendix G explains how incorrectly implementing these two attributes has adversely affected the Army's ability to resolve abnormal balances and its material weakness involving intragovernmental eliminations.

When it initially designed LMP, the Army did not direct the LMP Program Manager to establish a requirement for populating the remaining 21 of the 23 attributes. LMP PO personnel informed us that the SAP[®] ERP software had the functionality to populate 15 of the 21 attributes using the SAP[®] ERP software fields available, but it did not contain data fields for the other six attributes.⁷ The ability to record attribute values for each transaction is essential for a target system to be USSGL compliant. We reviewed the BTA SFIS Compliance Checklist, version 5.0, that the LMP PO submitted to the IRB in November 2008. The self-certification checklist reported that LMP would be able to populate all of the attribute fields in October 2009, when the system achieved compliance with SFIS requirements. However, in August 2009, Army financial managers and the LMP PO reported that LMP would not begin populating the attributes until March 2011, when LMP becomes fully compliant with SFIS requirements. Until the Army implements the SFIS requirements, LMP is not USSGL compliant at the transaction level and Army managers have little assurance that LMP can meet financial reporting requirements.

⁷ In December 2009, LMP PO personnel added data fields to the LMP Special Ledger 95 to capture many of the SFIS data elements not available in the SAP[®] ERP software, including the six attributes we reviewed.

LMP Accounts Were Incorrectly Crosswalked to Financial Reports

LMP sent DFAS trial balance files in a format that requires DFAS to use legacy procedures to crosswalk the LMP GLAC balances to the monthly Accounting Report 1307⁸ and to the USSGL/DOD accounts in DDRS. DFAS did not correctly crosswalk the LMP trial balance data directly to the corresponding USSGL accounts in DDRS. The Supplement, Section V, provides reporting requirements for USSGL accounts that crosswalk to the financial statements in SF 133, "Report on Budget Execution and Budgetary Resources," and FMS 2108, "Yearend Closing Statement."

The December 2008 through December 2009 end-of-month LMP trial balance files showed that DFAS did not crosswalk all of the GLAC balances reported in the LMP trial balance files to the same USSGL/DOD account numbers in DDRS. For example, DFAS did not use the values reported in the LMP trial balance budgetary GLACs to generate the Statement of Budgetary Resources. Instead, DFAS continued to derive this data from budgetary status reports. For example, DFAS incorrectly crosswalked data reported by the LMP trial balances in the "151X" series of GLACs, which records values related to Operating Materials and Supplies, to the "152X" series of GLACs, which records values related to Inventory. DFAS also crosswalked information reported in the LMP trial balance GLAC 1526, "Work in Process" to GLAC 1410, "Advances and Prepayments." Because LMP should be USSGL compliant, this data should not be crosswalked to different GLACs in DDRS.

The December 2009 Accounting Report 1307 database file contained 3,905 individual records with an absolute value of \$594.7 billion. However, only 2,959 of the 3,905 records (76 percent), with an absolute value of \$504.9 billion, originated from the LMP trial balance files. DFAS supplemented the LMP trial balance data with data from sources other than AWCF activities and made department-level adjustments to the trial balance data. DFAS also generated journal voucher transactions during the monthly financial reporting process. The journal vouchers included inventory accruals, beginning account balance adjustments, accounts payable adjustments, treasury warrants received, collections and disbursement account reconciliations, and adjustments to force agreement between mismatched proprietary and budgetary accounts, all of which should occur in LMP. The Army and DFAS managers did not identify the new processes or the general ledger structure needed in LMP to allow direct recording of all AWCF source transactions at the activity level. Instead, DFAS continued to use the same process to prepare manual vouchers at the AWCF department level that was in place for the legacy accounting systems. In addition, DFAS did not forward the journal voucher transactions to the AWCF activities. As a result, the AWCF activities did not record the data in LMP, resulting in mismatches between the financial reports available to AWCF managers in LMP and the AWCF financial reports. ASA(FM&C) should take steps to ensure that

⁸ The Accounting Report 1307 is a monthly management report used to provide managers with the monthly Statement of Financial Position, Statement of Cash Flow, and Statement of Operations for Defense Working Capital Fund activities.

AMC and DFAS financial managers develop LMP processes and USSGL posting logic needed to accurately record all AWCF financial events and ensure that the LMP trial balance data feeds directly to DDRS and are crosswalked correctly.

Financial Managers Must Document How the LMP Established Transaction Codes Comply with the USSGL Posting Logic

The LMP PO did not have information readily available to demonstrate that LMP can correctly record transactions in compliance with the SFIS Transaction Library. The core

... a core financial system must have the automated functionality to consistently record like accounting events using standard transactions ...

financial system requirements state that a core financial system must have the automated functionality to consistently record like accounting events using standard transactions and to define the general ledger account

postings used by each standard transaction. The standard transactions should be consistent with USSGL posting logic and include all appropriate propriety, budgetary, and memorandum accounts.

The LMP PO had developed a posting logic that applied unique codes for each transaction posted in LMP. However, LMP could not generate a report of the posting logic for each transaction code. We requested system-generated documentation showing the LMP transaction codes and posting logic used for each financial event that would result in an entry to the general ledger. LMP PO personnel stated that they had not documented the LMP transaction library and they would require approximately 1,600 work hours, at a cost of \$265,000, to develop the query producing the transaction code documentation. They also stated that they did not have the funds for the task and, therefore, could not develop the query to produce a report of the transaction code library. Without the ability to review the entire LMP transaction code library and compare it with SFIS Transaction Library, neither Army financial managers nor auditors can validate that the LMP posting logic records AWCF financial events as required by the SFIS Transaction Library.

To comply with DOD SFIS implementation policy, the LMP PO will need to document the system's transaction code library, showing the GLAC posting logic for each financial event and how the system complies with the SFIS Transaction Library and USSGL. As a target system, LMP should record financial transactions according to the SFIS Transaction Library. Without this information, the Army has limited assurance that they have correctly implemented the USSGL posting logic for AWCF financial transactions. Appendix E describes how DOD uses the SFIS Transaction Library to ensure that DOD target systems will comply with Supplement, Sections III and IV.

LMP Development Process Was Ineffective

The Army and DOD financial management communities did not establish the appropriate senior-level governance over the development of LMP financial management requirements and processes. As a result, the Army deployed LMP without first ensuring that the system's general ledger was USSGL compliant and contained the GLACs and functionality to resolve long-standing material weaknesses related to AWCF financial

reporting. As of September 30, 2009, the Army has spent \$1.1 billion developing LMP without ensuring that its general ledger module is USSGL compliant and able to resolve the AWCF material weaknesses in financial reporting.

ASA(FM&C) Oversight of the LMP Development Process was Ineffective

The ASA(FM&C) did not assume overall authority for determining, establishing, and approving the financial requirements needed to ensure that LMP was USSGL compliant and included the functionality to resolve the AWCF's long-standing material weaknesses. In the Office of the ASA(FM&C), the Deputy Assistant Secretary of the Army (Financial Operations) was responsible for the policies, procedures, programs, and systems pertaining to finance and accounting activities and operations, Army financial management systems, and data integration activities. The ASA(FM&C) had also established the Financial Information

The ASA(FM&C) did not assume overall authority ... to ensure that LMP was USSGL compliant and included the functionality to resolve the AWCF's long-standing material weaknesses.

Management Office to ensure that the Army modernized and integrated its financial management systems and processes to provide the complete range of financial and cost information needed for Army business transactions. Although both offices had direct involvement in governing the development of the Army's General Fund Enterprise Business System, neither office had active involvement in developing LMP.⁹ The Deputy Assistant Secretary of the Army (Financial Operations) should have also developed procedures to ensure that LMP would achieve and maintain USSGL compliance. Instead, senior Army financial managers allowed AMC and DFAS to have these responsibilities. While involving these organizations in the system development was essential because they represent the primary users, developing, documenting, and approving system financial requirements should have remained the overall responsibility of the Office of the ASA(FM&C). The documentation reviewed showed that ASA(FM&C) personnel were not members of any of the LMP review boards, which were responsible for reviewing, approving, and monitoring LMP requirements.

In addition, senior Army managers did not ensure that Army and DFAS financial managers developed the LMP business processes needed to ensure that all transactional data needed to populate the AWCF financial statements both processed through the LMP general ledger and complied with Federal Accounting Standards Advisory Board accounting standards. The DOD Business Enterprise Architecture and Enterprise Transition Plan identified LMP as the AWCF target system. Therefore, to assist in correcting the long-standing AWCF financial reporting problems that prevented the Army from achieving auditable financial statements, it was imperative that Army financial managers design LMP with USSGL compliant GLACs, attributes, and transactions codes.

⁹ The General Fund Enterprise Business System was the Army's other ERP system in development that included core financial management functionality.

ASA(FM&C) senior personnel's lack of involvement significantly contributed to the Army's inability to ensure that financial requirements were implemented in LMP correctly. ASA(FM&C) personnel did not approve the implementation of LMP chart of accounts and had limited involvement in the decisions not to take immediate action to implement DOD SFIS requirements or the DOD Standard Chart of Accounts. Financial management requirements generally did not receive sufficient priority during the LMP system development process. The LMP PO and AMC decided to delay LMP compliance with DOD SFIS requirements and the DOD Standard Chart of Accounts until March 2011, which is 5 months after the Army's final LMP deployment.

ASA(FM&C) senior personnel's lack of involvement significantly contributed to the Army's inability to ensure that financial requirements were implemented in LMP correctly.

The ASA(FM&C) should take a more active role in overseeing any further development of LMP's financial requirements. ASA(FM&C) personnel should establish and document the internal control processes needed for monitoring and implementing LMP financial requirements and maintaining compliance with the USSGL at the transaction level. This includes developing specific roles and responsibilities for all LMP stakeholders to ensure the successful implementation of the system and assuming direct approval authority over the implementation of future financial management system requirements.

OUSD(C) and BTA Did Not Provide Sufficient Oversight

The OUSD(C) and BTA were responsible for ensuring that new ERP systems, when deployed, are compliant with Federal financial management requirements, the USSGL, and other DOD financial requirements. Neither DOD office provided sufficient oversight over the development of LMP to ensure that it would contain the required functionality to

Neither DOD office provided sufficient oversight over the development of LMP to ensure that it would contain the required functionality to populate the AWCF financial statements when deployed.

populate the AWCF financial statements when deployed. The OUSD(C) directed DFAS to work with the LMP PO to obtain requirement compliance, user acceptance, and operational readiness. DFAS financial personnel stated that they worked with the Army and the LMP PO to ensure that LMP incorporated financial improvements that met the Army's plan to improve its logistics and financial processes. Specifically, DFAS personnel assisted

with requirements definition, system design interfaces, system validation and testing, and implementation strategies. However, DFAS Shared Services personnel informed us that they did not validate whether the Army had implemented the financial management system functional requirements in LMP correctly. DFAS also established a project management office that functioned as a liaison between the LMP PO, DFAS, and Army personnel using the system.

BTA personnel stated that their office provided both the DOD enterprise architecture that LMP must comply with and the test scripts for the Army to use with LMP before deployment, but they did not oversee the Army's work to ensure that LMP complied with the USSGL and the DFAS Blue Book. Instead, the BTA relied on the Army's self-assessment of LMP's compliance with legal and regulatory requirements for core financial management systems, including FFMIA requirements. However, neither the OUSD(C) nor BTA required any type of independent assessment of the Army's self-certification process that would have ensured that LMP actually complied with FFMIA requirements. To assist the ASA(FM&C) and developers of other financial management systems, the DCMO and the OUSD(C) should work with BTA to increase the level of validation required to assess SFIS compliance, including the correct implementation of the SFIS Transaction Library and USSGL requirements contained in the Business Enterprise Architecture. In addition, because of the wide range of functionality that a DOD activity can design in a target system, the DCMO, the OUSD(C), and BTA should take steps to identify by funding type (for example, General Fund or Working Capital Fund) the core guidance for general ledger accounts and SFIS transaction code requirements.

LMP Has Not Achieved FFMIA Compliance

To certify that LMP was substantially compliant with the FFMIA, the Army needed to ensure that LMP complied with the three FFMIA, Section 803(a), requirements (defined in Appendix D). In May 2007, the LMP project manager certified to the ASA(FM&C) that the LMP Deployed/Operational Production Baseline system was in substantial compliance with the FFMIA. The certification stated that LMP complied substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. The basis for the LMP project manager's certification included an assessment performed by the U.S. Army Audit Agency (USAAA) in FY 2006 and FY 2007. However, LMP's inability to record transactions using the USSGL 4-digit GLACs and all applicable attribute values since its inception made the system non-USSGL compliant and unable to achieve substantial compliance with FFMIA.

First Deployment Functionality Compliance Assertions Were Flawed

In September 2007, the USAAA reported the LMP system's first deployment functionality substantially complied with the FFMIA. The USAAA examinations began in July 2004 and concluded with the issuance of a report in September 2007. The report addressed the requirements the Army determined applicable to the LMP's first

The assessment did not include any new DFAS Blue Book and FSIO requirements published after December 2005 ...

deployment baseline functionality. The USAAA used the requirements from the DFAS Blue Book, version 4.1.2, November 2004,¹⁰ to determine the baseline of Federal financial management system requirements needed to design and build its first deployment functionality. The Army also considered any Financial Systems Integration Office (FSIO) Federal financial management requirements not yet published in the DFAS Blue Book as of December 2005.¹¹

To facilitate a timely completion of the first deployment system design and build phases, and to avoid other information technology project risks associated with continual requirements change, the Army did not adjust the first deployment functionality requirements baseline. The assessment did not include any new DFAS Blue Book and FSIO requirements published after December 2005 and before the completion of FFMIA system compliance testing in September 2007.

The USAAA validated that only 688 Federal financial management system requirements were applicable to the first deployment's functionality and needed to be met during compliance testing in 2006 and 2007. To validate compliance with the requirements, USAAA observed LMP PO personnel's testing of applicable functionality in quality assurance and production environments, reviewed system documentation, and questioned subject matter experts. In its report, the USAAA attested that LMP's first deployment functionality met the intent of 672 of the 688 requirements and substantially complied with the FFMIA. However, as the AWCF general ledger system, LMP needed to comply with at least the FSIO's general ledger requirements that mandate that the system be able to define standard transactions consistent with the USSGL posting rules. According to the FSIO requirements, all transactions recording financial events must post to the general ledger regardless of the transactions' origin.¹² Because the system was not USSGL compliant as configured during the first deployment, the assertion made by the

¹⁰ The purpose of the DFAS Blue Book is to assist DOD system and program managers in attaining compliance with the Federal financial management requirements issued by the FSIO and other financial requirements.

¹¹ Core financial system requirements are outlined in FSIO's "Core Financial System Requirements," January 2006, and subsequent revisions.

¹² Transactions originating in mixed systems may post to the target system's general ledger at a summary level, depending on an agency's overall financial management system design and need. At a minimum, however, summary transactions must post at a level that maintains the accounting classification elements and attributes needed to support financial reporting. The target system's general ledger must summarize and maintain account balances at both the USSGL GLAC level and attribute level.

LMP Project Manager in May 2007 should have addressed only the LMP system's compliance with the 672 Federal financial management system requirements actually tested. The assertion should not have implied that the LMP, as a core financial system, was substantially FFMIA compliant.

LMP Needed Assessment of Subsequent Deployment Functionality

The FSIO issued new system requirements in January 2006 subsequent to the Army's establishment of the December 2005 FFMIA requirements baseline. The documents included 36 additional FFMIA requirements that the Army needs to validate during future testing of LMP functionality. The Army will then need to demonstrate that LMP or other components of the AWCF core financial management system meet all mandatory Federal financial management system requirements. The Army should test this functionality when it validates that LMP complies with the SFIS Transaction Library to ensure that LMP has achieved USSGL compliance as required by DOD FMR, volume 1.

LMP Was Approved to Proceed Toward Full Deployment Without Implementing SFIS Requirements

In August 2005, DOD established the SFIS Transaction Library as the DOD solution for achieving USSGL compliance in its target systems. Since FY 2005, DOD has further defined the SFIS requirements, including establishing a requirement for target systems to meet the mandated SFIS requirements issued by BTA. The USD(C)/CFO issued memorandum, "Standard Financial Information Structure," August 4, 2005, instructing that the IRB would not approve a target system already in limited deployment for full deployment until the system had successfully completed SFIS compliance testing. The Army currently does not plan to achieve SFIS compliance until after it completes the final LMP deployment in October 2010. This schedule places the Army at great risk of fully deploying a system that is not in substantial compliance with FFMIA.

The IRB permitted the Army to further deploy LMP in May 2009 and proceed toward full deployment in October 2010 even though LMP had not achieved or demonstrated that it was SFIS compliant. In addition, the IRB review and approval process allowed the Army to self-certify that LMP complied with the USSGL and SFIS requirements without independently assessing whether LMP could fulfill all requirements as intended. The Army's Business Enterprise Architecture 5.0 self-certification, submitted in FY 2009, reported that LMP would achieve SFIS compliance in October 2009. At that time, the Army intended to fully deploy LMP in October 2010. The milestone tied directly to achieving full deployment capability. Therefore, achieving SFIS compliance would have occurred prior to October 2010 and permitted the IRB to approve LMP for full operational capability as described in the August 2005 guidance.

The IRB permitted the Army to further deploy LMP in May 2009 and proceed toward full deployment in October 2010 even though LMP had not achieved or demonstrated that it was SFIS compliant.

In its September 2009 Business Enterprise Architecture 6.0 self-certification, the Army reported that LMP would not achieve SFIS compliance until March 2011.¹³ In addition, the documentation supporting the certification stated that the ability to attain SFIS compliance by March 2011 was contingent on the receipt of additional funding or if AMC provided development effort tradeoffs. To comply with August 2005 guidance, the IRB should not approve LMP for full deployment unless the LMP PO first successfully completes SFIS compliance testing. This would entail DOD delaying approval for full deployment until after March 2011, when the Army plans to have successfully demonstrated that it has implemented and tested for SFIS compliance.

The USD(C)/CFO and DCMO should delay the final LMP deployment in October 2010 ...

The USD(C)/CFO and DCMO should delay the final LMP deployment in October 2010 until, at minimum, the Army can demonstrate that funding is available and an approved remediation plan is in place to correctly establish the SFIS requirements and DOD Standard Chart of Accounts at the transaction level. DOD's

development of the SFIS Transaction Library and DOD Standard Chart of Accounts were significant steps forward in measuring USSGL compliance, but the USD(C)/CFO, DCMO, and BTA must actively enforce these Business Enterprise Architecture requirements. Future assessments of LMP's FFMIA must validate compliance with SFIS requirements.

Reassessing System Requirements and Implementation

On June 28, 2010, OMB issued Memorandum 10-26 (OMB M-10-26), "Immediate Review of Financial Systems IT Projects," establishing Government-wide policies associated with financial system modernization. These new policies require Federal agencies to set the scope for financial system modernizations in a manner that reduces project costs, aligns projects more closely to top priority business needs, accelerates deployments, and improves the performance of the systems once deployed. The memorandum noted that Federal financial system modernizations projects had become too large and complex. The memorandum noted that by setting the scope of projects to achieve broad-based business transformations rather than focusing on essential business needs, Federal agencies had experienced substantial cost overruns and lengthy delays in planned deployments. Compounding this problem, projects persistently fell short of planned functionality and efficiencies once deployed. On July 6, 2010, the Deputy Secretary of Defense and OMB's Deputy Director for Management established a working relationship for implementing OMB M-10-26 within DOD. The senior officials agreed to select three to five DOD financial systems with greatest potential for cost and schedule improvements for review. On July 28, 2010, the OMB Federal Chief Information Officer issued OMB Memorandum 10-31 (OMB M-10-31), "Immediate Review of Information Technology Projects," which stated that in order to justify future funding for projects, agencies will need to demonstrate that project risks can be reduced to acceptable levels

¹³ The LMP PO has begun implementing a 5-phase plan to develop the structure needed for LMP to become SFIS compliant. LMP PO personnel reported that in May 2010, they completed the second phase of the plan that has identified the functionality needed to populate each of the SFIS data elements. The LMP PO plans to implement the remaining three phases by March 2011.

through actions such as setting proper project scope, defining clear deliverables and mission-oriented outcomes, and putting in place a strong governance structure with explicit executive sponsorship. Projects not meeting these criteria will not be continued. As part of the FY 2012 budget formulation process, agencies will be required to develop and put in place improvement plans for their highest risk information technology projects.

Our review of the LMP general ledger showed that it had fallen short of the functionality needed to support AWCF financial reporting requirements at the transaction level. Specifically, DOD and Army financial managers had not clearly defined the general

...USD(C)/CFO and DCMO should advise the Deputy Secretary of Defense and OMB Deputy Director for Management to select LMP as one of the information technology projects for review consistent with OMB Memoranda M-10-26 and M-10-31.

ledger accounts and attributes needed to report AWCF financial events correctly. They also had not adequately defined the AWCF end-to-end processes and functionality required to report financial events within the LMP general ledger. Therefore, the USD(C)/CFO and DCMO should advise the Deputy Secretary of Defense and OMB Deputy Director for Management to select LMP as one of the information technology projects for review consistent with OMB Memoranda M-10-26 and M-10-31. That review should consist of

determining whether further investment is warranted through an analysis of alternative solutions conducted by the DOD Director of Cost Assessment and Program Evaluation. The analysis should determine whether the cost benefit of program continuation and modification is greater or less than the cost benefit of program cancellation and recourse to alternative solutions to obtain DOD compliance with the USSGL requirements.

On August 18, 2010, the Army met with the DOD IRB. The IRB directed the Army to develop an ERP strategy for addressing how the Army will integrate the functions currently performed by LMP and the other Army ERPs. The IRB gave the Army until December 15, 2010, to present a way forward. Until the Army develops, and the IRB approves, the Army's ERP strategy, the continued deployment of LMP is questionable. This matter should be of interest to the DOD Efficiencies Task Force that the Secretary of Defense recently established to move DOD toward more cost effective ways of doing business. The need for the Army to develop an ERP strategy places LMP at high risk of not achieving the DOD goal of implementing cost effective solutions. Therefore, the USD(C)/CFO and DCMO should advise the Deputy Secretary of Defense and OMB Deputy Director for Management that they recommend that the Army's ERP strategy, including any further deployment of LMP, be reviewed by the DOD Efficiencies Task Force.

Conclusion

The Army did not provide sufficient governance over the implementation of LMP as a DOD target general ledger system. As currently implemented, LMP does not achieve USSGL compliance at the transaction level and therefore cannot be substantially

compliant with the FFMIA, as certified by the Army in 2007. Our review of FY 2009 trial balance data showed that LMP does not report general ledger data correctly at the transaction level. In addition, LMP did not contain all necessary GLACs and did not populate any of the required USSGL attributes correctly. Because LMP cannot produce its trial balance data in the DOD Standard Chart of Accounts format, it is unable to report directly to DDRS. Consequently, DFAS will be limited to using error-prone crosswalks to produce financial statements and reports. Further, the LMP PO cannot demonstrate that LMP transaction codes contain the appropriate functionality to record AWCF financial transactions in the correct GLACs as required by the USSGL and SFIS Transaction Library. The Army does not plan to implement either the DOD SFIS requirements or the DOD Standard Chart of Accounts before March 2011, which is 5 months after LMP's final deployment to all AWCF activities.

... the Army has spent \$1.1 billion and plans to complete the LMP deployment in October 2010 without first ensuring it has implemented a USSGL compliant system ...

As of September 30, 2009, the Army has spent \$1.1 billion and plans to complete the LMP deployment in October 2010 without first ensuring it has implemented a USSGL compliant system that can properly record AWCF business activity and produce auditable financial statements. As of March 2010, LMP has failed to correct any of the AWCF material weaknesses. The USD(C)/CFO and DCMO should advise the Deputy Secretary of Defense and OMB's

Deputy Director for Management that LMP should be selected as one of the DOD high-risk systems for review consistent with OMB Memoranda M-10-26 and M-10-31, that the Army's ERP strategy should be reviewed by the DOD Efficiencies Task Force, and that the Director of Cost Assessment and Program Evaluation has been requested to conduct an analysis of alternatives. They should also work with the BTA to delay any further deployment of LMP until the Army demonstrates that funding is available and an approved remediation plan is in place to correctly establish the SFIS requirements and DOD Standard Chart of Accounts. The ASA(FM&C) must assume direct control over the development of LMP, or its successor, as a target general ledger system and report to BTA and in its FY 2010 Annual Statement of Assurance that LMP is not substantially compliant with FFMIA.

As of March 2010, LMP has failed to correct any of the AWCF material weaknesses.

Recommendations, Management Comments, and Our Response

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer advise the Deputy Secretary of Defense and the Deputy Director for Management at the Office of Management and Budget that:

a. The Logistics Modernization Program system should be selected as one of the DOD financial system projects with the greatest need for improvement, consistent with the Office of Management and Budget Memoranda M-10-26 and M-10-31.

Joint USD(C) and DCMO Comments

The USD(C) and DCMO agreed and stated that LMP has been designated to participate in the Financial Systems Review in accordance with OMB Memorandum M-10-26.

Our Response

The USD(C) and DCMO comments are responsive.

b. The Director of Cost Assessment and Program Evaluation has been requested to conduct an analysis of alternatives to determine whether the cost benefit of program continuation and modification is greater or less than the cost benefit of program cancellation and recourse to alternative solutions to obtain DOD compliance with the U.S. Government Standard General Ledger requirements.

Joint USD(C) and DCMO Comments

The USD(C) and DCMO disagreed and stated that they believe it would not be an effective use of resources to conduct an analysis of alternatives on a program already fielded to the Army. They stated that the DCMO would, however, issue an Acquisition Decision Memorandum to establish a future direction for LMP.

Our Response

The USD(C) and DCMO comments are partially responsive. They stated that the DCMO would issue an Acquisition Decision Memorandum to address LMP's future direction. An Acquisition Decision Memorandum documents key management decisions related to a system and the alternatives assessed in reaching that decision. This memorandum should also address how the DCMO assessed the cost effectiveness of the Army plan for ensuring LMP achieves FFMIA compliance and resolves its sustainment issues. In addition, the memorandum should address what steps the Army needs to take for sustaining LMP once the current contract expires in November 2011. The IRB made the decision in September 2010 to recertify the funding for full LMP deployment in October 2010. During its August 2010 session, the IRB heard from DOD Cost Assessment and Program Evaluation representatives who suggested that the Army use the development of an overall ERP strategy as an opportunity to document an analysis of alternatives. The IRB also requested that the Army address its separate SAP[®] ERP efforts and develop an

overall Army ERP strategy by December 2010. We request that the USD(C) and DCMO reconsider and provide additional comments to the final report addressing when they will issue the Acquisition Decision Memorandum, how it relates to the Army's ERP strategy, and whether the memorandum will address the cost effectiveness of LMP achieving FFMIA compliance and resolving its sustainment issues.

c. They recommend that the DOD Efficiencies Task Force review the Army's Enterprise Resource Planning strategy, including any investment in the further deployment of the Logistic Modernization Program system.

Joint USD(C) and DCMO Comments

The USD(C) and DCMO partially agreed and stated that the Army is working with the DCMO and BTA to develop an overall Army ERP strategy that includes LMP. They also stated that the Combined IRB for Acquisition is tasked with ensuring business system investment are made in the best interest of the DOD enterprise. The Combined IRB for Acquisition is evaluating the overall Army ERP strategy and would be the appropriate governance body to refer matters to the DOD Efficiencies Task Force.

Our Response

The USD(C) and DCMO comments are partially responsive. We agree that the development of an overall Army ERP strategy is the correct way to resolve long-standing financial reporting issues. However, we believe that along with the Combined IRB for Acquisition, the DOD Efficiencies Task Force should review the Army's ERP strategy to ensure that the final solution is cost effective. As the decision authority for the Combined IRB for Acquisition, the DCMO should refer this issue to the task force. We request that the DCMO reconsider and provide additional comments to the final report addressing the actions to be taken to refer the Army's ERP strategy to the DOD Efficiencies Task Force.

2. We recommend that the Director of Cost Assessment and Program Evaluation conduct the analysis of alternatives referenced in Recommendation 1.b.

Management Comments Required

The Director of Cost Assessment and Program Evaluation did not comment on a draft of this report. We request the Director provide comments to the final report.

3. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer work with the Business Transformation Agency to:

a. Delay the further deployment of the Logistics Modernization Program system until the recommended cost benefit analysis and DOD Efficiencies Task Force review are completed. Regardless of the analysis results, at a minimum, require the Army to demonstrate that funding is available and a plan is in place to correctly establish the Standard Financial Information Structure requirements and DOD Standard Chart of Accounts at the transaction level.

Joint USD(C) and DCMO Comments

The USD(C) and DCMO partially agreed and stated that they did not believe they should delay LMP implementation until the cost benefit analysis or DOD Efficiencies Task Force review are completed. They stated that on September 2, 2010, the Commanding General, AMC conducted a Go-Live Readiness review of the third deployment sites and determined that the sites were prepared to transition to LMP in October 2010. They also stated that the Secretary of the Army had certified to Congress the AMC's readiness for this deployment.

However, the USD(C) and DCMO agreed that the Army should demonstrate the availability of funding and ensure that a plan is in place to establish the SFIS requirements and DoD Standard Chart of Accounts at the transaction level. They stated that the Army has demonstrated to them that it has completed these actions.

Our Response

The USD(C) and DCMO comments are partially responsive. The DOD guidance for implementing ERP solutions required that new ERP systems meet established SFIS requirements before allowing the full deployment of the system. However, DOD did not enforce this requirement in deploying LMP. The DOD decision to proceed with the October 2010 deployment allowed the Army to fully deploy a non-compliant system that incorrectly reports AWCF financial information and that will require additional DOD funding to rectify noncompliance issues. The current Army plan does not implement full SFIS functionality until at least March 2011. In addition, the IRB has questioned the reasonableness of the current Army ERP strategy and has given the Army until December 2010 to present an overall strategy. Therefore, we believe a delay in the final LMP deployment was warranted until at least these actions had occurred. Based on their decision to fully deploy LMP on October 21, 2010, we request that the USD(C) and DCMO provide additional comments to the final report detailing how they will ensure LMP compliance with SFIS requirements and the DOD Standard Chart of Accounts at the transaction level.

b. Update the “DOD Standard Chart of Accounts in Standard Financial Information Structure (SFIS),” August 13, 2007, policy memorandum and DOD Financial Management Regulation, volume 1, to identify by funding types the core guidance for general ledger accounts and Standard Financial Information Structure transaction codes.

Joint USD(C) and DCMO Comments

The USD(C) and DCMO agreed and stated that DOD issued an updated DOD Standard Chart of Accounts and SFIS posting guidance for FY 2010 and FY 2011. In addition, they stated that DOD is working diligently to complete a transaction library at the DOD Standard Chart of Accounts level providing posting guidance for both General Fund and Working Capital Fund programs. They anticipate the completion of the entire General Fund and Working Capital Fund set of transaction level guidance in March 2011.

Our Response

The USD(C) and DCMO comments are responsive.

c. Increase the level of validation required to assess compliance with the Standard Financial Information Structure, including the transaction library and the U.S. Government Standard General Ledger requirements in the Business Enterprise Architecture.

Joint USD(C) and DCMO Comments

The USD(C) and DCMO agreed and stated that they were piloting an SFIS and USSGL validation process, which expands the current Financial Management IRB process. The process validates system configuration in accordance with SFIS business rules and the DOD Standard Chart of Accounts requirements. They also stated that if the pilot is expanded to all ERP systems under development, it would become part of the Financial Management IRB process.

Our Response

The USD(C) and DCMO comments are responsive. We believe the SFIS and USSGL validation process should become a standard part of the Financial Management IRB process. If the pilot is not expanded, other actions should be taken to increase the level of validation required to ensure compliance with SFIS requirements.

4. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) assume operational control over the development, approval, and implementation of the Logistics Modernization Program, or its successor, system financial requirements. Specifically,

a. Develop an internal control structure that assigns specific roles and responsibilities for all system stakeholders to ensure successful implementation and maintenance of the system, including responsibility for developing the system processes and posting logic needed to accurately record all financial events, monitoring changes to the U.S. Government Standard General Ledger and DOD Standard Chart of Accounts and update the system as necessary.

ASA(FM&C) Comments

The ASA(FM&C) agreed and stated that she would continue to provide oversight of LMP developmental activities through use of the Army's Business System Information Technology Executive Steering Group. In addition, she stated that her office would monitor changes to the USSGL and DOD Standard Chart of Accounts to ensure that the LMP chart of accounts remains current. The ASA(FM&C) is also developing an Army financial operations standard operating procedure related to updating the chart of accounts in Army ERP systems.

Our Response

The ASA(FM&C) comments are responsive. The standard operating procedure should clearly specify the roles and responsibilities for all aspects of developing and maintaining the Army ERP systems.

b. Assume direct authority over the implementation of any further financial management requirements.

ASA(FM&C) Comments

The ASA(FM&C) agreed and stated that she would assume oversight of LMP financial management requirements. The oversight will include ensuring that LMP adds the required accounts to the general ledger structure, completes and maintains compliance with SFIS requirements, and implements any additional system changes and other transactional adjustments required to correct LMP abnormal balance conditions. She also stated that she will coordinate and sign a memorandum of agreement/understanding reflecting this new role with all LMP stakeholders and is leading a team to develop and manage an integrated plan addressing LMP systems changes, general ledger updates, SFIS compliance, and data cleansing.

Our Response

The ASA(FM&C) comments are responsive.

c. Examine and document all Army Working Capital Fund business processes, identify the U.S. Government Standard General Ledger accounts needed to record events, document the inclusion or exclusion of all U.S. Government Standard General Ledger accounts in the Logistics Modernization Program system, or its successor, and establish any missing U.S. Government Standard General Ledger accounts in the Logistics Modernization Program, or its successor, system's chart of accounts.

ASA(FM&C) Comments

The ASA(FM&C) agreed and stated that the LMP PO will add the 42 missing general ledger accounts and establish the business rules needed to identify the posting logic for populating each account. She also stated that developing the business rules would determine the final number of accounts required.

Our Response

The ASA(FM&C) comments are responsive. The business rules and posting logic should cover all AWCF business processes and include all the USSGL accounts needed to report these events in the LMP general ledger. The rationale for not adding any of the 42 accounts should be documented.

d. Report to the Business Transformation Agency and in its FY 2010 Annual Statement of Assurance that the Logistics Modernization Program system is not

substantially compliant with the Federal Financial Management Improvement Act of 1996 until the Army can:

(1) Implement and validate compliance with the U.S. Government Standard General Ledger Standard Financial Information Structure Transaction Library. This should include ensuring the transaction codes populate the correct attribute values in each transaction.

(2) Implement the DOD Standard Chart of Accounts in the Logistics Modernization Program, or its successor, system.

ASA(FM&C) Comments

The ASA(FM&C) partially agreed and stated that the Army had submitted the FY 2010 Statement of Assurance before receiving a draft of this report. She also stated that LMP requirements were developed before DOD adopted SFIS and that they have developed a 5-phase process for achieving SFIS compliance by March 2011. She asserts that these phases will complete SFIS development and provide compliant interfaces with DDRS and an electronic data warehouse for SFIS attributes. In addition, she stated that LMP would add the 42 missing general ledger accounts and develop a standard operating procedure to ensure LMP compliance with the DOD Standard Chart of Accounts.

Our Response

The ASA(FM&C) comments are responsive. The Army's FY 2010 Statement of Assurance provided sufficient notification that Army systems were not FFMIA compliant. The ASA(FM&C) must continue to report FFMIA non-compliance in the Army's annual statement of assurance and financial statements until LMP has complied with all requirements of FFMIA, Section 803(a).

Appendix A. Scope and Methodology

We conducted this performance audit from March 2009 through September 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The Army was not able to provide all the LMP data we requested. Specifically, we requested a file of all LMP transaction codes documenting the logic used to post financial transactions to the GLACs. The LMP PO was not able to provide the data, so we were unable to determine whether the transaction codes established in LMP had implemented the USSGL transaction codes correctly. As a result, we could not determine whether the LMP posting logic fully complied with the USSGL. We believe the evidence we did obtain provides a reasonable basis for our findings and conclusions based on our audit objective.

We reviewed Army and DFAS procedures to establish and maintain the LMP general ledger, as well as the processes followed by the DOD BTA and the OUSD(C) to ensure that LMP complied with DOD policies and regulations governing the deployment of financial systems that can produce general ledger postings in the correct GLACs according to USSGL posting logic. We interviewed staff from the OUSD(C), BTA, Office of the Deputy Assistant Secretary of the Army (Financial Operations), DFAS, AMC, CECOM Life Cycle Management Command, and Aviation and Missile Life Cycle Management Command. We also interviewed personnel in the LMP PO and LMP contractor personnel.

From the LMP PO, we obtained the LMP chart of accounts in use during FY 2009, including the account attributes used. We judgmentally reviewed trial balance files submitted to DFAS Indianapolis by the AWCF activities using LMP. Specifically, we reviewed Accounting Report 1307 data files compiled by DFAS for December 2008, January 2009, March 2009, May 2009, and December 2009 to determine whether LMP complied with the USSGL at the transaction level. We selected these data files because they showed how DFAS used the trial balances to populate the general ledger accounts on the quarterly financial statements. We also selected the May 2009 data file to assess the impact of the LMP second deployment on the general ledger accounts.

We determined whether LMP complied with the USSGL by comparing LMP's chart of accounts to the requirements contained in the Supplement. Specifically, we determined whether the LMP chart of accounts contained all the GLACs required by the USSGL to support the AWCF, LMP posted transactions using the mandatory USSGL attributes, and LMP GLACs were crosswalked to the correct USSGL accounts for financial reporting. We also analyzed the LMP trial balances and Accounting Report 1307 files to identify any abnormal GLAC balances or anomalies that existed at the AWCF activity level or at the USSGL GLAC level. We reviewed the procedures followed by DFAS Indianapolis, Departmental Reporting Directorate personnel for the monthly Accounting Report 1307 financial reporting process to determine the type, quantity, and value of manual journal vouchers they prepared for the AWCF; where DFAS obtained the source data for the vouchers; and why it was necessary to manually adjust the LMP trial balance data.

We coordinated with Government Accountability Office (GAO) personnel who were evaluating how the Army implemented LMP during the May 2009 deployment. We also coordinated with and interviewed personnel from USAAA who had conducted the attestation engagement to assess FFMIA compliance of LMP. We examined their database of FFMIA testing results and interviewed auditors to determine whether their documentation contained sufficient evidence to support how the LMP chart of accounts complied with the USSGL. We considered the following laws, regulations, and policies in evaluating Army and DOD procedures, the LMP GLAC structure, and the Army's plans to complete LMP system development and deployment.

- FFMIA
- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management System Requirements
- OMB Circular No. A-127, "Financial Management Systems," January 9, 2009
- DOD FMR, volumes 1, 4, 6A, 6B, and 11B
- U.S. Treasury Financial Manual, USSGL Supplement
- SFIS Transaction Library
- USD(C) memorandum, "Standard Financial Information Structure (SFIS) Implementation Policy," August 4, 2005
- Acting Deputy Chief Financial Officer memorandum, "DOD Standard Chart of Accounts in Standard Financial Information Structure (SFIS)," August 13, 2007

Use of Computer-Processed Data

To perform this audit, we used FY 2009 and FY 2010 LMP trial balance data and the Accounting Report 1307 data files compiled by DFAS Indianapolis. We did not independently verify the data for accuracy, but took steps to identify potential data problems. Specifically, we discussed data integrity with financial management and system design experts, agency officials, and officials at organizations involved with developing LMP. We validated the accuracy of the DOD Standard Chart of Accounts and SFIS requirements we obtained from the DOD Web site with BTA personnel; and reviewed trial balance data and Accounting Report 1307 data files to analyze for anomalies, such as abnormal account balances and missing accounts. We used this information to determine whether the Army had implemented USSGL and SFIS requirements in LMP. We also reviewed the manual journal vouchers input monthly by DFAS Indianapolis to compile the Accounting Report 1307 data file to identify the types of vouchers prepared and their purpose. We used this information to identify which USSGL accounts the vouchers affected and determine whether LMP had the capability to populate these accounts. We believe the computer-processed data we used were adequate to support the findings and conclusions in this report.

Appendix B. Prior Coverage

During the last 5 years, the GAO, Department of Defense Inspector General (DOD IG), USAAA have issued 10 reports discussing the deployment of LMP and its compliance with the USSGL and FFMIA and its ability to record financial transactions according to accounting standards. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil>.

GAO

GAO Report No. 10-461, “Actions Needed to Improve Implementation of the Army Logistics Modernization Program,” April 30, 2010

GAO Report No. 09-852R, “Defense Logistics: Observations on Army’s Implementation of the Logistics Modernization Program,” July 8, 2009

GAO Report No. 07-860, “DOD Business Transformation: Lack of an Integrated Strategy Puts the Army’s Asset Visibility System Investments at Risk,” July 27, 2007

DOD IG

DOD IG Report No. D-2009-87, “Controls Over Contract Obligation Data in the Logistics Modernization Program,” July 15, 2009

DOD IG Report No. D-2007-065, “Controls Over the Prevalidation of DOD Commercial Payments,” March 2, 2007

Army

USAAA Report No. A-2007-0205-FFM, “Logistics Modernization Program System Federal Financial Management Improvement Act of 1996 Compliance—First Deployment Functionality,” September 7, 2007

USAAA Report No. A-2007-0163-FFM, “FY 03–FY 05 Obligations Recorded in the Logistics Modernization Program,” July 27, 2007

USAAA Report No. A-2007-0154-ALR, “Follow up Audit of Aged Accounts—U.S. Army Communications-Electronics Life Cycle Management Command,” July 2, 2007

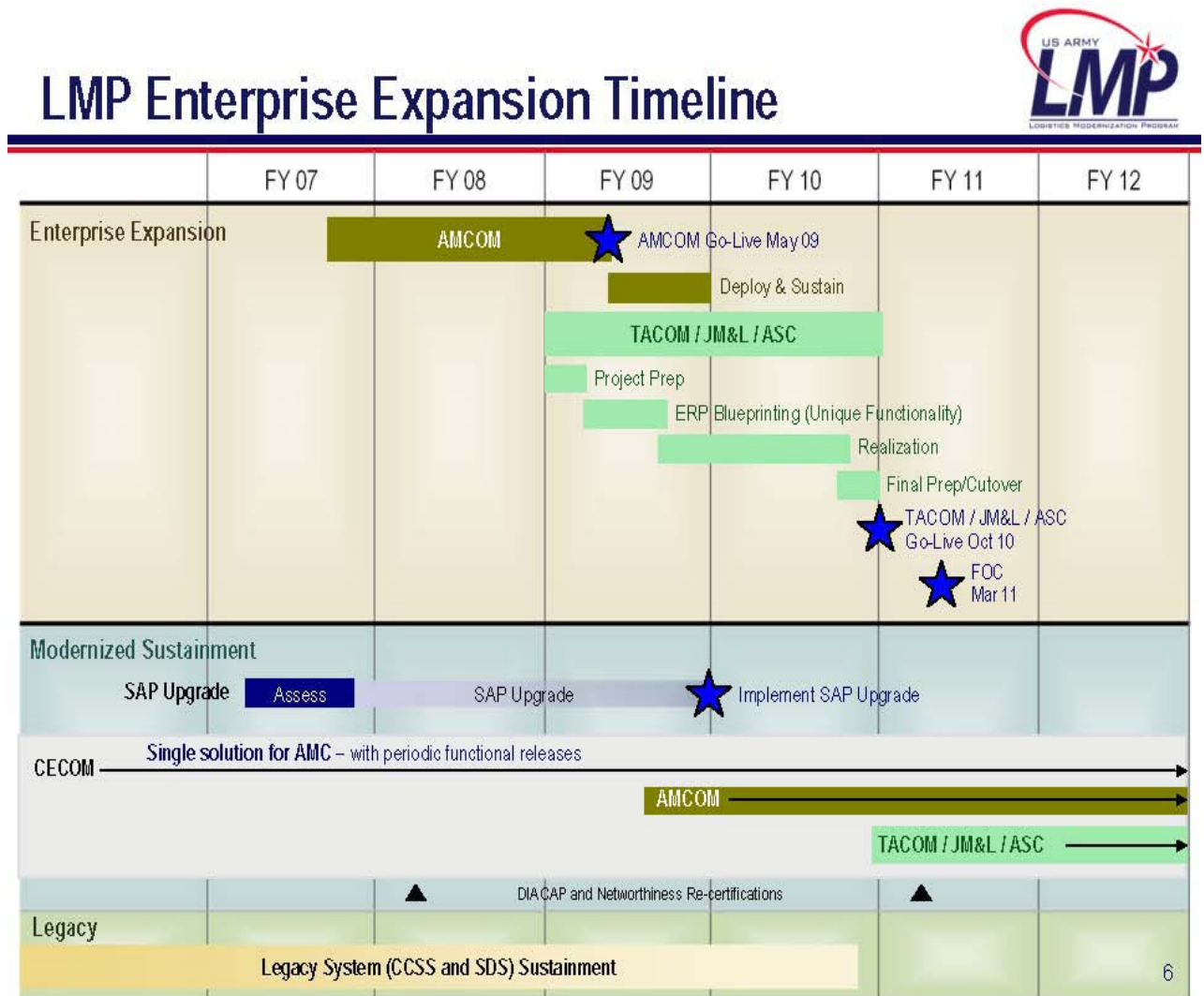
USAAA Report No. A-2006-0234-FFM, “Attestation of Logistics Modernization Program, Federal Financial Management Improvement Act of 1996–FY 06 Phase 1 Quality Assurance Environment Testing,” September 21, 2006

USAAA Report No. A-2006-0137-FFM, “Logistics Modernization Program System Federal Financial Management Improvement Act Compliance—Revalidation,” June 20, 2006

Appendix C. Logistics Modernization Program System Deployment Schedule and Schedule of FFMIA Guidance Issued

Figure C-1 shows the planned LMP timeline as provided by the LMP PO.

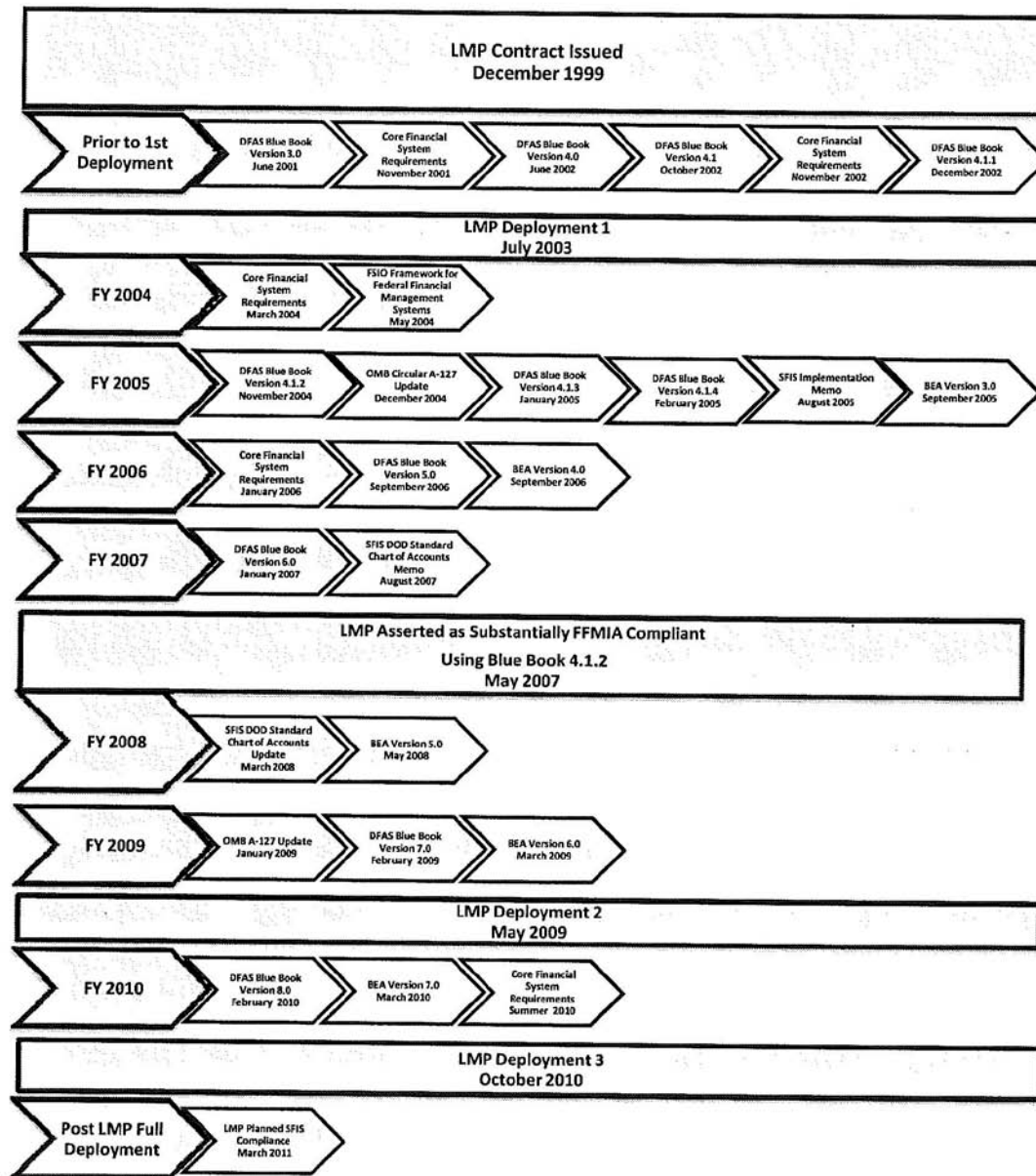
Figure C-1. Deployment Timeline



AMCOM Aviation and Missile Command
 ASC Army Sustainment Command
 DIACAP DOD Information Assurance Certification and Accreditation Process
 JM&L Joint Munitions and Lethality Life Cycle Management Command
 SDS Standard Depot System

Figure C-2 shows how the dates of issuance of FFMIA related guidance compares to key events in the LMP deployment timeline.

Figure C-2. Issuance of FFMIA Related Guidance Compared to LMP Deployments



Appendix D. Regulatory and Policy Guidance

OMB Circular No. A-127

OMB Circular No. A-127 implemented the FFMIA requirements and provided the policies and standards for executive departments and agencies to follow concerning their financial management systems. The circular establishes policies for each Federal agency to establish an integrated financial management system that complies with specific accounting, operational, and internal control standards. It also explains the FFMIA, Section 803(a), financial management system requirements, defines how agencies are to determine whether their systems are substantially compliant, and assigns responsibilities for compliance.

The circular further states that USSGL compliant means that each time a system records an approved transaction, it will generate postings to the correct GLACs according to USSGL rules. The circular requires financial management systems used by Federal agencies to substantially comply with the following three requirements of FFMIA Section 803(a).

1. Federal Financial Management System Requirements. Requirements exist in three specific areas.
 - a. Computer security requirements are defined in the Federal Information Security Management Act of 2002 and OMB Circular No. A-130, “Management of Federal Information Resources,” November 28, 2000.
 - b. OMB Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, including Appendix A, defines internal control requirements. These requirements ensure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports.
 - c. FSIO’s “Core Financial System Requirements,” January 2006, and subsequent revisions outline the core financial system requirements. These requirements establish mandatory and value added system capabilities that core financial management systems need to be compliant.
2. Federal Accounting Standards. Agency financial management systems must maintain accounting data to permit reporting as defined in Federal accounting standards issued by the Federal Accounting Standards Advisory Board and reporting requirements issued by the OMB Director and the Secretary of the Treasury. When a Federal accounting standard has not been issued to cover a particular situation, the system must maintain data in accordance with the applicable accounting standards used by the agency for preparing its financial statements.

3. USSGL at the Transaction Level. Federal agencies must apply the USSGL requirements when recording financial events. Application of the USSGL at the transaction level means that each time a system records an approved transaction, it will generate appropriate postings in the correct GLACs according to the rules defined in the USSGL guidance.

OMB Circular No. A-127 directs that all systems must comply with computer security and internal control requirements. However, only core financial management systems must also comply with FSIO core financial system requirements, accounting standards, and application of the USSGL at the transaction level. DOD mixed systems do not need to comply with the core financial system requirements unless the systems perform a core financial management system function. Additionally, mixed systems only have to adhere to the specific accounting standards applicable to that system. Finally, mixed systems do not have to record transactions using GLACs, but data received from the mixed system by the core financial management system must post in the core financial management system's general ledger using proper USSGL accounts and accounting standards.

The circular also states that a financial management system substantially complies with the FFMIA when it routinely provides reliable and timely financial information for managing day-to-day operations. Substantial compliance also requires that the system produces reliable financial statements, maintains effective internal control, and complies with legal and regulatory requirements. Agencies subject to the Chief Financial Officer Act are required to assess annually whether their systems achieved substantial compliance with the FFMIA risk model provided in the January 2009 revision of the circular by applying the risk model indicators identified in each of three risk categories (nominal, moderate, and significant) that determine the level of risk for an agency. Risk model indicators include:

- weaknesses in internal control over financial reporting,
- audit opinion issued,
- auditor-reported material weaknesses,
- persistent auditor-reported significant deficiencies related to financial management systems,
- significant manual year-end adjustments (in number and value),
- findings of nonconformance with financial system requirements reported under Section 4 of the Federal Managers Financial Integrity Act, or
- significant deficiencies affecting financial management systems identified using the criteria defined in the Federal Information Security Management Act.

The risk model indicators represent the major criteria for determining FFMIA compliance. Agencies must make their assessment using both auditor reports and their own evaluations. The FY 2009 United States Army Annual Financial Statement, Note 1, “Significant Accounting Policies,” states that LMP is substantially compliant with FFMIA as determined by USAAA.

U.S. Government Standard General Ledger Supplement

The Supplement provides the USSGL rules. The Supplement establishes a uniform chart of accounts and technical guidance for standardizing Federal agency accounting. The Department of Treasury updates the Supplement at least annually. The following describes the five Supplement sections:

- Section I, Chart of Accounts, provides the USSGL basic structure, including the proprietary, budgetary, and memorandum GLACs comprised of 4-digit account numbers, account titles, and normal balances (debit or credit).
- Section II, Accounts and Definitions, defines the purpose and use of each proprietary, budgetary, and memorandum GLAC.
- Section III, Account Transactions, lists a unique 4-position alphanumeric code assigned to each Federal accounting event. The code includes a detailed event description and provides the standard posting logic to record each event to the appropriate proprietary, budgetary, and memorandum GLACs.
- Section IV, USSGL Account Attributes, lists the USSGL attribute fields that provide additional modifiers describing how to use each GLAC to meet specific reporting requirements. The section lists the attribute field and valid domain values reportable in each attribute. It also identifies the GLACs and attribute data that Federal agencies must report to the Department of Treasury Federal Agencies’ Centralized Trial-Balance System.¹
- Section V, USSGL Crosswalks to Standard External Reports, links GLACs to external financial reports required by OMB guidance, the Federal Accounting Standards Advisory Board, and the Department of the Treasury. The section also identifies additional attributes not in Section IV needed to comply with OMB Circular No. A-136, “Financial Reporting Requirements,” June 10, 2009.

To comply with the OMB policy for recording transactions at the transaction level, the Supplement requires that Federal agencies post transactions using the 4-digit GLAC and applicable attribute domain values. The Supplement permits Federal agencies to expand the GLAC numbering system to more than four digits to accommodate agency-specific requirements. However, the more detailed agency account numbers must summarize to one of the 4-digit GLACs and any related attributes.

¹ Federal Agencies’ Centralized Trial-Balance System I is a reporting system that collects Federal agency preclosing adjusted trial balances at the fund group level using the GLACs. The information is used to prepare the Financial Report of the U.S. Government. Federal Agencies’ Centralized Trial-Balance System II allows agencies to submit one set of accounting data for budgetary reporting. These reporting systems require Federal agencies to use specific attribute domain values.

DOD Financial Management Regulation

Three chapters in DOD Regulation 7000.14-R, “DOD Financial Management Regulation,” volume 1, “General Financial Management Information, Systems and Requirements,” apply to this audit.

- Chapter 3, “Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting,” provides DOD’s FFMIA implementation policy.
- Chapter 4, “Standard Financial Information Structure (SFIS),” provides SFIS implementation policy.
- Chapter 7, “United States Standard General Ledger,” provides USSGL compliance requirements.

Standard Financial Information Structure Policy Memoranda

DOD developed the SFIS as a comprehensive common business language to support its information and data requirements for budgeting, financial accounting, cost and performance management, and external reporting. The BTA led the SFIS development effort to standardize DOD financial reporting by developing the standard data element definitions and business process rules needed for DOD financial management systems to incorporate a DOD-wide financial information structure that is USSGL compliant.

The USD(C)/CFO issued memorandum, “Standard Financial Information Structure (SFIS) Implementation Policy,” August 4, 2005, establishing the enterprise-wide standard. The policy required systems containing financial information to have the ability to capture and transmit SFIS data or demonstrate an internal crosswalking capability to the SFIS format. DOD policy stated that for target systems that began limited deployment, the Army must successfully test the system’s ability to comply with the SFIS requirements and present compliance information to the designated IRB to receive approval for full operational capability.²

The Acting Deputy Chief Financial Officer issued memorandum, “DOD Standard Chart of Accounts in Standard Financial Information Structure (SFIS),” on August 13, 2007. It requires the DOD Standard Chart of Accounts in all DOD target systems.

² On October 28, 2009, Congress enacted Public Law 111-84, which replaced the terms “full operational capability” with “full deployment” and “initial operational capability” with “full deployment decision” for information systems.

Appendix E. Standard Financial Information Structure

Section 2222(d), title 10, United States Code (2005) requires DOD to develop an information infrastructure that integrates budget, accounting, program information, systems, and performance. OMB Circular A-127 requires agency financial management systems to comply with the USSGL. The FSIO Core Financial System Requirements direct the standardization of accounting classification elements and definitions to ensure uniform and efficient DOD accounting treatment, classification, and reporting. The DOD Business Transformation Agency established the SFIS to address these requirements. DOD memorandum, “Standard Financial Information Structure (SFIS) Implementation Policy,” August 4, 2005, requires that the certification process for target accounting systems include an assessment of the system’s ability to receive SFIS data with source transactions and post the correct proprietary and budgetary GLACs in accordance with the SFIS Transaction Library. It also states that the SFIS Transaction Library must be part of the target system’s testing documentation and successfully pass testing before Milestone C (production and deployment of the system). However, for those target accounting systems already in limited deployment when DOD issued this policy in 2005, the IRB would not approve the system for full operational capability until the system had successfully completed its SFIS compliance testing. The IRB oversees the investment review process for business capabilities, guided by the Business Enterprise Architecture and Enterprise Transition Plan.

The following discussion describes how implementing the DOD Standard Chart of Accounts and SFIS Transaction Library will assist the Army in achieving USSGL compliance at the transaction level in LMP.

SFIS Transaction Library

The SFIS Transaction Library identifies the standard DOD business transactions that must be included in system functionality and crosswalks the DOD transactions to corresponding USSGL accounting events. Sections III, IV, and V of the Supplement identify the specific GLACs and attributes that target accounting systems must populate when recording these transactions.

Compliance with USSGL Transaction Codes

Section III of the Supplement contains 570 transaction codes required for use by Federal entities. The USSGL groups the transaction codes as follows.

- A 100-799 - Funding Sources (165 transaction codes)
- B 100-699 - Disbursements and Payables (64 transaction codes)
- C 100-799 - Collections and Receivables (112 transaction codes)
- D 100-799 - Adjustments, Write offs, and Reclassifications (100 transaction codes)

- E 100-799 - Accruals and Non-Budgetary Transfers Other Than Disbursements and Collections (39 transaction codes)
- F 100-499 – Year-end Entries (76 transaction codes)
- G 100-299 - Memorandum Entries (8 transaction codes)
- H 100-399 - Other Specialized Transaction Entries (6 transaction codes)

The SFIS Transaction Library converts the 570 USSGL transaction codes into 4,619 USSGL related transaction codes plus 11 DOD-specific transaction codes (DOD transaction codes) for use in transacting DOD business events. The DOD transaction codes identify the GLACs a target system must populate when executing that specific transaction.

The following information shows the relationship between the USSGL and the SFIS Transaction Library and DOD Standard Chart of Accounts. It demonstrates how implementing the SFIS Transaction Library and DOD Standard Chart of Accounts achieves USSGL compliance at the transaction level. Figure E-1 identifies the proprietary and budgetary accounting entries in the USSGL associated with USSGL transaction code B402, designed for Federal entities to record the delivery of goods or services and to accrue a liability.

Figure E-1. Illustration of USSGL Transaction Code B402

Budgetary Entry

Debit 4801 Undelivered Orders - Obligations, Unpaid

Credit 4901 Delivered Orders - Obligations, Unpaid

Proprietary Entries

Debit 1511 Operating Materials and Supplies Held for Use

Debit 1512 Operating Materials and Supplies Held in Reserve for Future Use

Debit 1521 Inventory Purchased for Resale

Debit 1522 Inventory Held in Reserve for Future Sale

Debit 1525 Inventory - Raw Materials

Debit 1527 Inventory - Finished Goods

Debit 1561 Commodities Held Under Price Support and Stabilization Support Programs

Debit 1571 Stockpile Materials Held in Reserve

Debit 1572 Stockpile Materials Held for Sale

Debit 1591 Other Related Property

Debit 1711 Land and Land Rights

Debit 1712 Improvements to Land

Debit 1720 Construction-in-Progress

Debit 1730 Buildings, Improvements, and Renovations

Debit 1740 Other Structures and Facilities

Debit 1750 Equipment

Debit 1820 Leasehold Improvements

Figure E-1. Illustration of USSGL Transaction Code B402 (continued)

Debit 1830 Internal-Use Software
Debit 1832 Internal-Use Software in Development
Debit 1840 Other Natural Resources
Debit 1890 Other General Property, Plant, and Equipment
Debit 1990 Other Assets
Debit 6100 Operating Expenses/Program Costs
Debit 6900 Nonproduction Costs
Credit 2110 Accounts Payable
Credit 2130 Contract Holdbacks
Credit 2190 Other Liabilities with Related Budgetary Obligations
Credit 2191 Employee Health Care Liability Incurred but Not Reported
Credit 2210 Accrued Funded Payroll and Leave
Credit 2211 Withholdings Payable
Credit 2213 Employer Contributions and Payroll Taxes Payable

Using USSGL transaction code B402 to record the passing of title upon receipt of the goods also requires the posting of transaction codes G120, G122, and G124 to track purchases. These G-series memorandum entries identify specific information related to the accounting events. Figure E-2 shows the memorandum entries to record when tracking current year purchases.

Figure E-2. Illustration of USSGL Transaction Codes G120, G122, and G124

G120. To record activity for current-year purchases of property, plant, and equipment.

Memorandum Entry

Debit 8802 Purchases of Property, Plant, and Equipment
Credit 8801 Offset for Purchases of Assets

G122. To record activity for current-year purchases of inventory and related property.

Memorandum Entry

Debit 8803 Purchases of Inventory and Related Property
Credit 8801 Offset for Purchases of Assets

G124. To record activity for current-year purchases of other assets not recorded as Property, Plant, and Equipment or Inventory and Related Property.
--

Memorandum Entry

Debit 8804 Purchases of Assets - Other
Credit 8801 Offset for Purchases of Assets

The SFIS Transaction Library breaks down USSGL transaction code B402 and its corresponding G-series memorandum entries into 57 DOD-specific business events. By breaking down each of the USSGL transaction codes, the SFIS Transaction Library provides the target systems with a standard method for recording the required GLACs needed to populate the general ledger. Table E-1 shows 3 of the 57 DOD business events, described in terms of DOD transaction codes and GLACs, that result from USSGL transaction code B402.

Table E-1. SFIS Transaction Library for USSGL Transaction Code B402

Transaction Codes		DOD	Budgetary Accounts		Proprietary Accounts		Memorandum Accounts	
USSGL	DOD	Description	Debit	Credit	Debit	Credit	Debit	Credit
B402	B402-003	To record goods or services delivered and to accrue an accounts payable for inventory held for sale.	4801	4901	1521	2110	8803	8801
	B402-013	To record goods or services delivered and to accrue an accounts payable for buildings.	4801	4901	1730	2110	8802	8801
	B402-058	To record delivery of goods or services and to accrue an employee health care liability incurred but not reported for nonproduction costs.	4801	4901	6900	2191	N/A	N/A

N/A = not applicable

Compliance with USSGL Attributes Values

SFIS defines 71 data elements needed to support DOD financial reporting. The SFIS Transaction Library identifies which SFIS data elements a DOD transaction code must populate. The SFIS Matrix 7.0 identifies the data elements used for USSGL attribute reporting, the valid values for each data element, and the associated business rules. The SFIS data elements fall in these six information categories:

- appropriation account
- budget program
- organizational
- transactional
- trading partner
- cost accounting

To demonstrate how the SFIS Transaction Library assists the DOD Components in complying with the USSGL, we illustrate below how the SFIS Transaction Library identifies the appropriate reporting of trading partner information. When identifying trading partners, SFIS requires that systems populate the following three data elements.

- **Federal/Non-Federal Attribute.** This indicator designates the type of entity involved in the transactions with the reporting entity. An “F” indicator denotes another Federal entity and an “N” denotes a non-Federal entity, such as a private party or local/state/tribal/foreign government.
- **Trading Partner Attribute.** This indicator represents the Department Regular Code of the other Federal entity involved in transactions with the reporting entity. The indicator is used in conjunction with the Federal/Non-Federal attribute of “F.”
- **Business Partner Number Attribute.** This attribute is a unique, 9-character alphanumeric identifier primarily used to identify buying or selling entities processing intragovernmental transactions for use in making intragovernmental eliminations. The Business Partner Number from the Business Partner Network must be used in conjunction with the Department Regular Code, Main Account Code, and Sub-Account Code for intragovernmental eliminations. Non-Federal governmental and civilian agencies use Data Universal Numbering System numbers. These entities are non-Federal entities and should be used in conjunction with the Federal/Non-Federal attribute of “N.” DOD uses an equivalent Business Partner Number, which consists of the letters “DOD” and the 6-character DOD Activity Address Code.

Table E-2 shows how the three DOD transaction codes associated with USSGL transaction code B402 should populate these three SFIS trading partner data elements.

Table E-2. Trading Partner Information

USSGL Transaction Code	DOD Transaction Code	Federal/Non-Federal Indicator	Trading Partner Indicator	Business Partner Number
B402	B402-003	M	M	M
	B402-013	M	M	M
	B402-058	M	M	M

M = mandatory

Target systems can capture several of the other USSGL-required attribute values by correctly populating each transaction using one of the SFIS data elements. Table E-3 identifies whether USSGL transaction code B402 should populate these attribute values.

Table E-3. Requirement to Populate Selective SFIS Data Elements

USSGL Transaction Code	DOD Transaction Code	Debit/Credit	Begin/End Indicator	Exchange/Non-Exchange Indicator	Custodial/Non-Custodial Indicator	Entity/Non-Entity Indicator	Covered/Uncovered Indicator	Current/Noncurrent
B402	B402-003	N/A	N/A	N/A	M	M	M	N/A
	B402-013	N/A	N/A	N/A	M	M	M	N/A
	B402-058	N/A	N/A	N/A	N/A	N/A	M	N/A

M = mandatory; N/A = not applicable

Compliance with USSGL Statement Crosswalking

To ensure compliance with Supplement, Section V, requirements, the SFIS Transaction Library also identifies which financial statements a transaction code will effect. SFIS requires that DOD target systems implement the DOD Standard Chart of Accounts. This is necessary to capture transactional data in the specific USSGL/DOD account numbers that DOD managers have created in DDRS. The target systems must report their trial

balance data in this format to ensure transactions are recorded correctly in the financial statements and other financial reports. The DOD Standard Chart of Accounts contains 9-position GLACs, which DDRS uses to populate the statements and other financial reports. Using this standardized chart of accounts:

- reduces customization of target systems,
- eliminates translation and crosswalking of account values in the DDRS, and
- improves comparability of data across the target systems.

Table E-4 shows the financial statements populated by each of the three DOD transaction codes used in the earlier example.

Table E-4. Transaction Code B402 Impact on Financial Statements

USSGL Transaction Code	DOD Transaction Code	Balance Sheet	Statement of Net Cost	Statement of Changes in Net Position	Statement of Budgetary Resources
B402	B402-003	X			X
	B402-013	X			X
	B402-058	X	X		X

Note: “X” identifies which financial statements use the data from each transaction code.

Appendix F. Additional U.S. Government Standard General Ledger Accounts Needed in the Logistics Modernization Program System

With assistance from USD(C) personnel, we determined that Defense Working Capital Fund accounting systems should have used a minimum of 174 USSGL accounts to record business operations correctly. As of August 19, 2009, the LMP chart of accounts did not include the following 42 USSGL accounts.*

Account Number	Account Title
1090	Fund Balance With Treasury Under a Continuing Resolution
1110	Undeposited Collections
1190	Other Cash
1349	Allowance for Loss on Interest Receivable
1369	Allowance for Loss on Penalties, Fines, and Administrative Fees Receivable
1591	Other Related Property
1599	Other Related Property – Allowance
2120	Disbursements in Transit
2190	Other Liabilities With Related Budgetary Obligations
2211	Withholdings Payable
2400	Liability for Nonfiduciary Deposit Funds, Clearing Accounts, and Undeposited Collections
2590	Other Debt
2650	Actuarial FECA Liability
2940	Capital Lease Liability
2960	Accounts Payable From Canceled Appropriations
2985	Liability for Non-Entity Assets Not Reported on the Statement of Custodial Activity
2995	Estimated Cleanup Cost Liability
4034	Anticipated Adjustments to Contract Authority

* We based this list on the FY 2009 reporting requirements contained in the Supplement. For FY 2010, some of these accounts may change. Therefore, DOD financial managers should assess the current version of Supplement No. S2 Treasury Financial Manual to determine which GLACs to include in the LMP chart of accounts.

Account Number	Account Title
4119	Other Appropriations Realized
4130	Appropriation To Liquidate Contract Authority Withdrawn
4132	Substitution of Contract Authority
4133	Decreases to Indefinite Contract Authority
4134	Contract Authority Withdrawn
4135	Contract Authority Liquidated
4137	Transfers of Contract Authority
4138	Appropriation To Liquidate Contract Authority
4190	Transfers - Prior-Year Balances
4392	Permanent Reduction - New Budget Authority
5209	Contra Revenue for Services Provided
5319	Contra Revenue for Interest Revenue - Other
5329	Contra Revenue for Penalties, Fines, and Administration Fees
5600	Donated Revenue - Financial Resources
5609	Contra Revenue for Donations - Financial Resources
5619	Contra Donated Revenue - Nonfinancial Resources
5755	Nonexpenditure Financing Sources - Transfers-In
5765	Nonexpenditure Financing Sources - Transfers-Out
5780	Imputed Financing Sources
5909	Contra Revenue for Other Revenue
5993	Offset to Non-Entity Collections - Statement of Changes in Net Position
5994	Offset to Non-Entity Accrued Collections - Statement of Changes in Net Position
6190	Contra Bad Debt Expense - Incurred for Others
7600	Changes in Actuarial Liability

Appendix G. Effects of Incorrectly Implementing Attributes

LMP incorrectly implemented two required USSGL attributes (Federal/Non-Federal and Trading Partner), which resulted in the system providing inaccurate data to financial managers. The following explains how the Army attempted to implement the Federal/Non-Federal and Trading Partner attributes.

Federal and Non-Federal Attribute

The Supplement, Section IV, identifies the valid attribute value required for each GLAC. Some GLACs use either a Federal entity “F” or a non-Federal entity “N,” some use both “F” and “N,” and some do not use this attribute at all. The LMP trial balance data we reviewed indicated that the system incorrectly reports both an “F” and “N” attribute value for almost every GLAC reported to DFAS, including those GLACs that should have only reported either an “F” or “N” value, but not both. This resulted in many of the LMP account balances submitted to DFAS in the trial balance files having an abnormal balance. We reviewed the May 2009 trial balance files submitted by the 16 AWCF activities using LMP and found that these activities reported 476 individual lines on the trial balance that contained abnormal account balances. The abnormal balances had an absolute value of \$96.1 billion. AMC and DFAS financial managers explained to us that these abnormal balances resulted from not posting transactions with the correct Federal/Non-Federal attribute value and, once DFAS consolidated the individual trial balance lines that reported with an “F” and “N” for each GLAC, most of the abnormal balances would net to a normal balance at the GLAC level. However, we determined that this is a significant issue because no reconciliation is accomplished at the transaction level.

To demonstrate the impact of this problem, we examined the December 2009 LMP trial balance data reported for GLAC 2110.1000, “Accounts Payable - Federal.” The LMP trial balances for this account reported an overall \$1.6 billion abnormal balance when we consolidated the amounts that 14 of the 16 LMP-supported AWCF activities reported. However, DFAS Indianapolis eliminated the abnormal balance from the AWCF financial statements by preparing two journal vouchers that increased the Accounts Payable - Federal (GLAC 2110.9000F) account balance and decreased the Accounts Payable - Nonfederal (GLAC 2110.9000N) account balance by \$2.1 billion each. DFAS Indianapolis personnel forced the dollar value of the AWCF’s Accounts Payable – Federal (GLAC 2110) to match the dollar values of Accounts Receivable (GLAC 1310) account balances reported by the AWCF’s Federal trading partners. Preparing journal vouchers to mask abnormal balances continued the long-standing accounting practice used to address inherent problems with the AWCF legacy systems that the Army should have resolved with LMP. If LMP had accurately recorded its Federal/Non-Federal attributes, AWCF activities could identify which transactions applied to each trading partner and financial managers would be able to reconcile the data and correct any system problems. However, financial managers were unable to reconcile the account balances because LMP incorrectly reports the attribute values.

Trading Partner Attribute

LMP did not accurately capture the trading partner information for each transaction recorded with the Federal attribute. LMP should have recorded the appropriate Treasury Department Code or DOD Business Partner Number in the Trading Partner attribute field to identify the correct Federal entity associated with each Federal transaction. Instead, LMP records trading partner code “99” (the Treasury General Fund) for all Federal transactions.

The Army recognized intragovernmental eliminations as an AWCF material weakness because of the inability of its legacy accounting systems to capture trading partner financial data at the transaction level. The legacy systems were unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in the need for adjustments that were not verifiable. However, the Army did not require loading the Treasury Department Codes for each trading partner in LMP or for LMP to be capable of identifying transactions associated with each individual Federal trading partner. As a result, DFAS personnel continued to force the LMP trial balance data to match the amounts reported by Federal trading partners. For example, in compiling the FY 2009 AWCF Financial Statements, to force the AWCF financial statement values to agree with corresponding records of intragovernmental trading partners, DFAS personnel adjusted account balances by more than \$12.9 billion.

Glossary

Attributes. Attributes are the characteristics of a USSGL account captured and used to meet a specific reporting requirement. Examples are Apportionment Category, Authority Type, Reimbursable Flag, and Trading Partner. Agency systems must record transactions using USSGL 4-digit accounts plus attributes to capture information needed to meet external reporting requirements.

Attribute Domain Values. Attribute domain values are the valid choices for an attribute. For example, the valid domain values for the Reimbursable Flag attribute are D (Direct) and R (Reimbursable).

Business Enterprise Architecture. The DOD Business Enterprise Architecture is the enterprise architecture for the DOD Business Mission Area that defines DOD business transformation priorities, the business capabilities required to support those priorities, and the combinations of enterprise systems and initiatives that enable those capabilities. The architecture includes activities, processes, data, information exchanges, business rules, system functions, system data exchanges, terms, and links to laws, regulations, and policies. Within the Financial Management domain, the requirements include implementing the SFIS and DOD Standard Chart of Accounts.

Core Financial Management System. The core financial management system is the information system that may perform all financial functions, including general ledger management, funds management, payment management, receivable management, and cost management. It is the system of record used for collecting, processing, maintaining, transmitting, and reporting data regarding financial events. Other uses include supporting financial planning, budgeting activities, and preparing financial statements. It can be integrated through a common database or interfaced electronically to meet defined data and processing requirements. Any data transfers to the core financial management system must be traceable to the transaction source, posted to the core financial management system in accordance with applicable guidance from the Federal Accounting Standards Advisory Board, and in the data format of the core financial management system.

Financial Event. A financial event is any activity having financial consequences to the Federal Government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits provided, or other potential liabilities; distribution of grants; or other reportable financial activities.

Financial Management System. A financial management system includes a core financial management system and the financial portions of mixed systems necessary to support financial management, such as procurement systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, and travel systems. The system includes automated and manual processes, procedures, and

controls, along with data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

Full Deployment. Full deployment means, with respect to a major automated information system program, the fielding of an increment of the program in accordance with the terms of a full deployment decision. This term was formerly “full operational capability.”

Full Deployment Decision. Full deployment decision means, with respect to a major automated information system program, the final decision made by the Milestone Decision Authority authorizing an increment of the program to deploy software for operational use. This term was formerly “initial operational capability.”

Limit. A limit is a 4-digit suffix to the Treasury account number. The limit identifies a subdivision of funds that restricts the amount and use of funds for a certain purpose, or identifies sub-elements in the account for management purposes. For example, for Defense Working Capital Fund account number 97X 4930.AC5F, the first position of the limit is an “A” for AWCF, the second position identifies the business area (Supply Management), and third and fourth positions identify the secondary business area (Aviation and Missile Command).

Material Weakness. A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. In FY 2010, the Army acknowledged 10 AWCF material weaknesses: Financial Management Systems; Inventory; General Property, Plant, and Equipment; Intragovernmental Eliminations; Other Accounting Entries; Abnormal Account Balances; Statement of Net Cost; Accounts Payable; Reconciliation of Net Cost of Operations to Budget; and Statement of Budgetary Resources.

Mixed System. A mixed system, also known as a feeder system, is an information system that can support both financial and nonfinancial functions.

Joint Under Secretary of Defense (Comptroller) and Deputy Chief Management Officer Comments



OFFICE OF THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

OCT 8 2010

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE (DEFENSE BUSINESS OPERATIONS)

SUBJECT: Comments to Draft Audit Report, "Insufficient Governance over Logistics
Modernization Program System Development" (Project No. D2009-D000FI-0139.000)

This memorandum is in response to your request for comments on audit recommendations contained in the subject draft audit report issued September 2, 2010. We generally concur with – and either have implemented or are in the process of implementing – most of the recommendations contained in the subject draft audit report. Our detailed responses to recommendations 1(a)-(c) and 3(a)-(c) are outlined in the attachment. However, we do not concur with 1(b), and partially concur with recommendations 1(c) and 3(a), as explained in the attachment.

We appreciate the opportunity to comment on the audit recommendations.
[REDACTED] is the single point of contact for our joint response. She can be reached by telephone at [REDACTED]

Elizabeth A. McGrath
Deputy Chief Management Officer

Robert F. Hale
Under Secretary of Defense (Comptroller)

Attachment:
As stated



**DEPARTMENT OF DEFENSE (DoD) OFFICE OF THE INSPECTOR GENERAL (OIG)
DRAFT REPORT DATED SEPTEMBER 2, 2010, PROJECT NO. D2009-D000FI-0139.000
“INSUFFICIENT GOVERNANCE OVER LOGISTICS MODERNIZATION PROGRAM
SYSTEM DEVELOPMENT”**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
(OUSD(C))/CHIEF FINANCIAL OFFICER AND DEPUTY CHIEF MANAGEMENT
OFFICE (DCMO)**

JOINT COMMENTS TO DoD OIG RECOMMENDATIONS

RECOMMENDATION 1a: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer advise the Deputy Secretary of Defense and the Deputy Director for Management at the Office of Management and Budget (OMB) that the Logistics Modernization Program (LMP) system should be selected as one of the DoD financial system projects with the greatest need for improvement, consistent with the Office of Management and Budget (OMB) Memoranda M-10-26 and M-10-31.

USD(C) and DCMO RESPONSE: **Concur.** LMP was designated to participate in the Financial Systems Review in accordance with OMB Memorandum M-10-26.

RECOMMENDATION 1b: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer advise the Deputy Secretary of Defense and the Deputy Director for Management at the Office of Management and Budget that the Director of Cost Assessment and Program Evaluation has been requested to conduct an analysis of alternatives to determine whether the cost benefit of program continuation and modification is greater or less than the cost benefit of program cancellation and recourse to alternative solutions to obtain DOD compliance with the U.S. Government Standard General Ledger requirements.

USD(C) and DCMO RESPONSE: **Non-Concur.** We do not believe it is an effective use of resources to conduct an analysis of alternatives on a program that has been fielded to Army. However, the Milestone Decision Authority (DCMO) will issue an Acquisition Decision Memorandum that establishes future program direction.

RECOMMENDATION 1c: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer advise the Deputy Secretary of Defense and the Deputy Director for Management at the Office of Management and Budget that they recommend that the DOD Efficiencies Task Force review the Army's Enterprise Resource Planning strategy, including any investment in the further deployment of the Logistic Modernization Program system.

USD(C) and DCMO RESPONSE: **Partially Concur.** The Army is currently working with DCMO and the Business Transformation Agency (BTA) to develop an Enterprise Resource Planning (ERP) strategy that includes LMP. The existing governance, including the Combined Investment Review Board for Acquisition (CIRB-A), is evaluating the ERP strategy. The CIRB-

A is tasked with ensuring business systems investments are made in the best interest of the DoD enterprise, and would be the appropriate governance body to refer matters to the DoD Efficiencies Task Force.

RECOMMENDATION 3a: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer work with the Business Transformation Agency to delay the further deployment of the Logistics Modernization Program system until the recommended cost benefit analysis and DOD Efficiencies Task Force review are completed. Regardless of the analysis results, at a minimum, require the Army to demonstrate that funding is available and a plan is in place to correctly establish the Standard Financial Information Structure requirements and DOD Standard Chart of Accounts at the transaction level.

USD(C) and DCMO RESPONSE: **Partially concur.** We do not believe LMP system implementation should be delayed until a cost benefit analysis or DoD Efficiencies Task Force review is complete. Specifically, on September 2, 2010, the Commanding General of the Army Materiel Command (AMC) conducted a Go-Live Readiness review of the Army Sustainment Command, TACOM Life Cycle Management Command, and Joint Munitions and Lethality Command's preparedness to implement the LMP solution. The Commander determined these sites are prepared to transition to LMP in October 2010. The Secretary of the Army certified to Congress AMC's readiness for this deployment.

However, we do agree the Army should demonstrate funding is available, and ensure a plan is in place to correctly establish Standard Financial Information Structure (SFIS) requirements and a DoD Standard Chart of Accounts (SCOA) at the transaction level. Since the draft report was issued, the Army has demonstrated funding is available, and ensured a plan is in place to correctly establish SFIS and a DoD SCOA at the transaction level.

RECOMMENDATION 3b: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer work with the Business Transformation Agency to update the "DOD Standard Chart of Accounts in Standard Financial Information Structure (SFIS)," August 13, 2007, policy memorandum and DoD Financial Management Regulation, Volume 1, to identify by funding types the core guidance for general ledger accounts and Standard Financial Information Structure transaction codes.

USD(C) and DCMO RESPONSE: **Concur.** On August 23, 2010, Deputy Chief Financial Officer (DCFO) issued an updated DoD SCOA in its memorandum, "Department of Defense (DoD) Standard Chart of Accounts (SCOA), Transactions, and Posting Guidance in Standard Financial Information Structure (SFIS) Update for Fiscal Year (FY) 2010 and FY 2011." In addition, DoD is working diligently to complete a transaction library at the DoD SCOA level, providing posting level guidance for both General Fund (GF) and Working Capital Fund (WCF) programs. Over the past ten months, BTA facilitated two working groups with active participation of both GF and WCF accounting and reporting subject matter experts, as well as experts in ERP configuration. With full cooperation of all participants, completion of the entire GF and WCF set of transaction level guidance is expected to be presented for DCFO signature in March 2011.

RECOMMENDATION 3c: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer work with the Business Transformation Agency to Increase the level of validation required to assess compliance with the Standard Financial Information Structure, including the transaction library and the U.S. Government Standard General Ledger requirements in Business Enterprise Architecture.

USD(C) and DCMO RESPONSE: **Concur.** DCFO, DCMO and BTA are piloting an SFIS and U.S. Government Standard General Ledger validation process. This is an expansion of the current Financial Management (FM) Investment Review Board (IRB) process. For a given program, a cross-functional task force validates system configuration in accordance with SFIS business rules and the DoD SCOA. If the pilot is expanded to all ERP systems under development, then this validation will become part of the FM IRB process.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

September 27, 2010

MEMORANDUM FOR Assistant Inspector General, Defense Business Operations, Office of the Inspector General, Department of Defense

SUBJECT: Army Response to Draft Report Project No D2009-D000FI-0139.000, Insufficient Governance Over Logistics Modernization Program System Development

1. Enclosed please find our response to recommendations contained in the subject draft report. The draft report recommends improvements in the governance of the Logistics Modernization Program (LMP) and development of a fully funded plan to establish compliance with the DoD Standard Financial Information Structure (SFIS), and to add 42 accounts to the LMP U.S. Standard General (USSGL) structure. We generally agree with these recommendations.

2. The office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)) will continue to provide senior level governance over financial matters related to the development and deployment of LMP and will assume operational control over LMP financial requirements. Since its inception, the OASA(FM&C) has participated in several LMP oversight bodies including the LMP Corporate Board, the Senior Executive LMP Oversight Committee and served as a process executive on the Senior Army Logistics Executive Council. During the LMP stabilization period, the OASA(FM&C) assumed a significant oversight role in ensuring all applicable Federal Financial Management Improvement Act (FFMIA) criteria were met prior to further system deployments.

3. A funded plan is in place to ensure SFIS compliance and the addition of the required accounts to the LMP USSGL structure. Development and deployment of LMP began prior to the Department's adoption of SFIS. Consequently, SFIS requirements were identified after significant financial transaction activity was processed in the system. The SFIS requirements will be added to the LMP baseline over a five-phased period that began in October 2009 and will be completed in March 2011. We will add the 42 accounts to the LMP USSGL structure and will map the accounts to the corresponding financial statements. Development of posting rules for the accounts based on the Treasury Financial Manual is in process and will ultimately determine the accounts required.

4. My point of contact for this action is [REDACTED] She can be reached by e-mail at [REDACTED]

Enclosure


Mary Sally Matiella, CPA

Enclosure: Official Comments
Insufficient Governance Over Logistics Modernization Program Systems Development
Project No. D2009-D000FI-0139.000
September 2, 2010

Recommendation.

4. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) assume operational control over the development, approval, and implementation of the Logistics Modernization program, or its successor, system financial requirements. Specifically,

- a. Develop an internal control structure that assigns specific roles and responsibilities for all system stakeholders to ensure successful implementation and maintenance of the system, including responsibility for developing system processes and posting logic needed to accurately record all financial events, monitoring changes to the U.S. Government Standard General Ledger and DOD Standard Chart of Accounts and update the system as necessary.
 - **Concur. ASA-FM&C will continue to provide oversight of LMP developmental activities related to general ledger posting logic and controls. This oversight will be provided through the Army's Business System Information Technology—Executive Steering Group. In addition, the DASA(FO) will monitor changes to the USSGL and DOD Standard Chart of Accounts to ensure that the LMP chart of accounts is current and updated as needed. An Army financial operations SOP related to updating the chart of accounts in the Army ERPs is in draft and will be finalized by 31 December 2010.**
- b. Assume direct authority over the implementation of any further financial management requirements.
 - **Concur. Based on recommendations in this report, the ASA-FM&C assumed oversight of LMP financial management requirements including adding the required accounts to the general ledger structure, completing SFIS development requirements, and implementing additional system changes and transaction adjustments required to correct LMP abnormal balance conditions. The ASA(FMC) will draft and coordinate a memorandum of agreement/understanding reflecting this new role with all stakeholders by 31 October 2010. In addition, the ASA(FMC) is leading a team to develop and manage an integrated plan addressing the financial recommendations in this report. The team will include members from DFAS, AMC, PM LMP, and ASA- FMC (both budget and financial reporting). The integrated plan addressing systems changes, general ledger updates, SFIS Compliance and data cleansing will be completed by 15 October 2010.**
- c. Examine and document all Army working Capital Fund business processes, identify the U.S. Government Standard General Ledger accounts needed to record events, document the inclusion or exclusion of all U.S. Government Standard General Ledger accounts in the Logistics Modernization Program system, or its successor, and establish any missing U.S. Government Standard General Ledger

accounts in the Logistics Modernization Program or its successor, system's chart of accounts.

- **Concur. We will add the 42 accounts identified by the draft report. Business rules identifying posting logic are under development and will be included in the LMP baseline by April 2011. Development of the business rules will inform the number of accounts required. We anticipate several accounts will not be required.**
- d. Report to the Business Transformation Agency and in its FY 2010 Annual Statement of Assurance the Logistics Modernization Program system is not substantially compliant with the Federal Financial Management Improvement Act of 1996 until the Army can:
- (1) Implement and validate compliance with the U.S. Government Standard General Ledger Standard Financial Information Structure Transaction Library. This should include ensuring the transaction codes populate the correct attribute values in each transaction.
- **Partially concur. The Army's fiscal year 2010 Statement of Assurance was completed and submitted prior to publication of this draft audit. LMP requirements were developed prior to the adopting of SFIS by the Department. For LMP, SFIS development is 5-phase process. The first two phases were implemented in October 2009 and May 2010 and extended the software to accommodate and populate all required SFIS attributes. Phase 3, applying SFIS attributes to all historical data, will be delivered in October 2010. Phases 4 and 5 will be delivered in March 2011. These phases complete SFIS development and provide compliant interfaces with DORS and DTS, and an electronic data warehouse for SFIS attributes.**
- (2) Implement the DOD Standard Chart of Accounts in the Logistics Modernization Program, or its successor, system.

Concur. The 42 required accounts will be added to the standard chart of accounts. Development of the SOP as mentioned in the reply to Recommendation 4.a. above will ensure that the chart of accounts is correctly implemented and remains current.



Inspector General Department of Defense

