

DOCUMENT RESUME

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[Design of Navy Reserve Pay System]. FGMSD-77-57; B-159797. July 21, 1977. 13 pp. + appendix (24 pp.).

Report to Secretary, Department of Defense; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting (2800); Automatic Data Processing (100).

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of the Navy: Naval Reserve; Department of the Navy: Navy Regional Finance Center, Cleveland, OH.

The design of the Navy Reserve Pay System was approved. The system was designed to pay Naval Reservists for: (1) performing active duty for training; (2) performing temporary active duty for less than 30 days; and (3) attending drills. The automated portion of the system was designed to establish and maintain individual pay accounts and to pay members from a central site. It is located at the Navy Finance Center, Cleveland, Ohio, and processes data received from the Naval Reserve Personnel Center. Findings/Conclusions: The internal controls in the system appeared to be adequate. Interface data that enter the system are edited and validated by the Personnel Center's systems, and source documents pertaining to personnel data are retained at the Personnel Center. Transactions can be traced for audit through social security numbers and other unique numbers assigned to forms and batches. Automated programs can be used to extract accounts. Minor problems were identified; there is a need for: (1) redesign of the software system to take advantage of enhancements offered by the new computer configuration being used; and (2) a contingency plan at the Navy Finance Center's central site computer facility. Recommendations: Navy internal auditors should periodically review the system to assure that it is operating as designed with particular attention to preparation of field input, control over input, and retention of documents supporting input and the timeliness of reporting of events affecting a member's pay. (Author/HTW)



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

Mr. Wagon
Rm 6110
MAO Bldg

B-159797

JUL 21 1977

The Honorable
The Secretary of Defense

Attention: Assistant Secretary of Defense
(Comptroller)

Dear Mr. Secretary:

It is my pleasure to approve the design of the Navy Reserve Pay System, as requested in your letter of July 1, 1977. The system is designed to pay Naval Reservists for (1) performing active duty for training, (2) performing temporary active duty for less than 30 days, and (3) attending drills.

In evaluating the system design, we looked at the automatic data processing aspects primarily to determine their adequacy as to internal controls, audit trails, data integrity, and consistency with the accounting specifications.

Because the administrative control of funds used to pay reserve Navy personnel is maintained as part of the Bureau of Naval Personnel--Military Personnel (Command Level) System rather than as part of the Navy Reserve Pay System, we will evaluate these controls when that system is submitted for approval.

To maintain the approved status of the design, planned changes should be discussed with our representatives and, if deemed significant, submitted formally for approval.

We suggest that the Navy internal auditors periodically review the system to assure that it is operating as designed. The internal auditors should pay particular attention to (1) the preparation of field input, the control over the input, and retention of documents supporting the input because of the significance of field input upon the accuracy of the master pay account, and (2) the timeliness of the reporting of events affecting a member's pay.

At some future date, we will examine the system or selected aspects thereof and advise you as to whether it is functioning effectively and in accordance with this approved design.

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We commend you and the Navy for your continued efforts in improving the Navy financial management systems.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

DEPARTMENT OF THE NAVY
NAVAL RESERVE PAY SYSTEM
(CODE 93679)

SUMMARY OF ADP EVALUATION

RECOMMENDED ACTION: APPROVAL

A. INTRODUCTION

1. Name of Department: Department of the Navy
2. System Being Evaluated: Naval Reserve Pay System
3. Date Formally Submitted for Evaluation: July 1977
Date Informally Submitted: April 1976
Date Evaluation was Completed: April 1977
Staff Days Expended: 38
4. Recommended Action: Approval

B. BACKGROUND

1. Approach Used in Evaluation:

Normal procedures using the ADP Review Guide. The accounting aspects were evaluated by the Detroit Regional Office, Cleveland Suboffice.

2. Nature and Scope of the ADP Objectives:

A reserve member can receive pay for performing any one of the following duties: drill performance, active duty for training, or temporary active duty for less than 30 days. Pay is computed in two ways either manually or by the automated portion of the system.

If a reserve member is on active duty for training, the member is paid manually by the disbursing officer at the activity where assigned. The member's orders are used as the authorizing document, and published pay schedules are used to determine base pay. A copy of the orders and pay voucher are provided to the Navy Finance Center, Cleveland, Ohio, as an interface to the automated portion of the system by the disbursing office to preclude duplicate payment and to report FICA wage to Social Security Administration.

If a reserve member is on temporary duty for less than 30 days, the member's pay is manually processed as a claim at the Navy Finance Center. The payment is made based upon source documents received from Bureau of Naval Personnel and the member; such as, orders, travel voucher, dependency application, and employee's withholding exemption certificate (W-4).

The remainder of this summary will address the automated portion of the system. The manual portion is addressed in the accounting summary.

The automated portion of the system is designed to establish and maintain individual pay accounts and to pay members of the Naval Reserves for drill performances from a central site. The system pays a reserve member in a drill pay status and for drills performed while in a temporary drill pay status. A member is paid on the basis of drill performance data submitted by a reserve unit commanding officer through any one of the 372 decentralized Naval Reserve Centers to the Naval Reserve Personnel Center, New Orleans, Louisiana.

3. Description of Operational Environment

The pay system is centrally located at the Navy Finance Center, Cleveland, Ohio, and is designed to process data received from the Naval Reserve Personnel Center on magnetic tape via air express. The system was designed and developed in-house using COBOL as the programming language.

The system is designed to process data using the computer facility that processes data to pay active, reserve, and retired personnel. The data are processed on two IBM 370/158 computers using multiprogramming with a fixed number of tasks operating systems. An IBM 1401 computer is used to perform edit, validation, and block proofing on key-punched data. An IBM 360/30 is used to convert cards to tape, punch and print reports. The computer vendor's standard operating system software is used to perform utility type tasks, e.g., routine sorts.

4. Degree of Automation and Interface:

The system is a centralized, tape-oriented, batch processing system designed to compute pay for reserve members based on drill performance data. The system interfaces with:

- a. Reserve Field Reporting System (see page 4, para. b)
- b. Manpower and Personnel Management Information System
- c. Navy Regional Finance Center Disbursing Offices
- d. Universal Check System (See Appendix)
- e. Bureau of Naval Personnel Financial Management System
- f. Centralized Expenditure and Reimbursement Processing System
- g. Social Security Administration
- h. Internal Revenue Service
- i. Department of Commerce (see page 6, para. f)
- j. Veterans Administration
- k. Treasury Department

C. ESSENTIAL FEATURES OF THE SYSTEM

1. System Description:

The system design consists of seven subsystems: (1) 1401 Card Edit/Validation and Block Proof List, (2) Input Edit and Validation, (3) Master Update and Pay Computation, (4) End-of-Month Report Processing, (5) End-of Year/Microfiche, (6) Search/Sort, and (7) Servicemen's Group Life Insurance. Approximately 105,000 drill performance transactions and 31,000 personnel change transactions are processed by the system each month. During the summer months approximately 88,000 active duty orders and pay records are processed. The various functions performed by each subsystem are discussed below.

a. The 1401 Card Edit/Validation Subsystem is designed to edit and validate data keypunched at the Finance Center from source documents on a weekly basis. This method is used to enter the active duty for training data and to enter unit and individual member data when difficulty is experienced through the regular channel, i.e., via magnetic tape from the Naval Reserve Personnel Center. The source documents are blocked and predetermined totals are established. Each card is edited and the data is validated. Cards that are in error are listed, and error codes are indicated. Totals are accumulated, and a block proof list is produced. A block of cards is reentered until all cards are error free, and the block is in balance.

b. The Input Edit and Validation Subsystem is the entry point for all input into the system. It is designed to edit and validate all input data weekly. The data which are not acceptable are rejected and are reentered after correction. Two types of data are entered: the first is all data keypunched into cards from source documents at the Finance Center, and the second is all data received from the Reserve Personnel Center via magnetic tape which includes personnel data and the scanned drill performance data reported through the Reserve Field Reporting System.

The subsystem creates a transaction file to be used to update the master file and two mini-master files. The first is the FICA mini-master, which is an accumulation of reservist's FICA wages earned while on active duty for training. Every six months, this mini-master file is used to create a tape file for the Social Security Administration for the purpose of updating the member's social security account. The second is the unit mini-master which contains the name of each of the 3,500 reserve activities, authorized drills, and the appropriate fiscal year code authorization. This information is later used to verify drill performances.

c. The Master Update and Pay Computation Subsystem is designed to update each member's account on the master file on a weekly basis and to compute drill pay monthly. The master file contains 12 to 18 months of drill performance and personnel information. It is also designed to: (1) produce a case jacket label for each new member, (2) compute the base pay rate, (3) compute the incentive pay rate, if applicable, (4) draw off accounts where the social security number has changed and resequence the accounts for pay computation purposes and (5) produce a check issue tape. Other functions performed by the subsystem are to disqualify prior paid drills because of the change in personnel information, produce a hard copy record for research purposes based upon a search request, compute withholding tax and year-to-date totals for the calendar and fiscal year, deduct servicemen's group life insurance premiums, compute retroactive pay adjustments based on requalification, produce a listing reflecting drills not paid and reason for non-payment, and produce print files for various other reports such as earning statements and W-2(s) when applicable.

d. The End-of-Month Report Processing Subsystem is designed to prepare various reports which are generated by the Master Update and Pay Computation Subsystem in the proper format.

Two of the most important reports that are printed and sent to each of the 3,500 units in the field are the money list and the non-pay list. The money list displays the member's name and amount paid, and the non-pay list indicates what drills were not paid and the reason for non-payment.

A print tape of all obligations incurred for the month is produced and forwarded to Chief of Naval Personnel's Financial Management System.

Another report produced is a listing, which contains history for a 12-month period, of pay accounts having had a discrepancy or which were subject to an inquiry. This document is used by the payclerks to answer inquiries concerning non-payments.

Various other reports are produced which aid in researching and managing the master file.

e. The End-of-Year/Microfiche Subsystem is designed to produce a microfiche record of the master file and prepare it for the new fiscal year. The master file is designed to store 18 months of data, but every 6 months the oldest 6 months of data in each account is microfiched for audit purposes and removed. The processing is done semi-annually based on the fiscal year. During the processing at the end of the fiscal year, additional functions are performed, i.e., the accounts of members who have become inactive are removed and certain fields in each account are set to zero.

f. The Search/Sort Subsystem is designed to provide the pay department with the ability to identify and locate accounts on the master file. and have a hard copy printout prepared for research purposes on an as required basis. The subsystem also performs some miscellaneous functions such as preparing self-sticking address labels for mailing member's pay checks, updating a member's address in his account if an address change arrives after the regular monthly update, producing a listing of all activity addresses, and producing a report for the Department of Commerce indicating by totals the number of checks and the amount being distributed by zip code.

g. The Servicemen's Group Life Insurance Subsystem is designed to update a master file weekly, prepare semi-annual payment notices for participating reservist in a non-pay status, record premium payments deducted from the reservist's drill performance pay and payments submitted by members in a non-pay status, and prepare various reports for management and the Veterans Administration. A reservist can elect to have either no insurance or full time coverage in multiples of \$5,000 up to \$20,000. At the death of a reservist, the Navy Bureau of Personnel verifies with the Navy Finance Center the status of the deceased member's account. If the premium payments are not up to date, the amount owed is deducted from the face value of the policy.

2. System Controls:

The internal controls in the system appear to be adequate. All interface data that enter the system have been edited and validated by the Personnel Center's systems. The data that are entered at the Finance Center are edited and validated by the system and controlled using batch totals.

Source documents pertaining to personnel data are retained at the Personnel Center. The Personnel Center provides the Finance Center with a microfiche copy of the drill performance source documents for research and audit purposes.

Drill performance information is recorded daily on a drill recording form using plastic "credit" cards and the rotary wheels of a data recorder. Each unit batches its drill recording forms and provides a block total on the drill recording control form for each batch submitted. The drill recording form must be certified by the reservist or his commanding officer

in his absence, and the drill recording control form must be certified by the commanding officer or his designated representative.

Through the use of optical character recognition scanners and data recorders, the manual transcription of data has been eliminated in the system except for the entry of data at the Finance Center for active duty for training and temporary active duty for less than 30 days. Using automated source data procedures for capturing data, payments are possible by the twelfth of the month following an end-of-the-month cutoff.

The system is designed to perform additional edits on the interface data received from the Personnel Center. Drill performance or personnel data errors detected by the system are returned to the Personnel Center for correction to keep the master pay file synchronized with pay effecting data on the master personnel file. The corrected data re-enters using the same control procedures as original data.

An automated suspense file is not used to control rejected transactions. Rejects are controlled manually by batch using error listings and batch totals.

A copy of the weekly drill performance transaction tape is air expressed from the Personnel Center to the Finance Center and retained for 90 days for backup.

Checkpoints are taken during processing for restart purposes in case of malfunction.

Separation of duties and the initiation of transactions are adequately provided for. Program change requests and their implementation must be approved in writing before the ADP department can proceed. Procedures exist that appear adequate to implement the provisions of the Privacy Act of 1974.

3. Auditability:

Transactions can be traced by the reservists' Social Security number and unique numbers preassigned to the drill recording forms and the unique number assigned to the batch on the drill recording control form which indicates the total number of drill recording forms in the batch and beginning and ending numbers on the drill recording form.

The master file is microfiched every 6 months prior to the removal of the oldest 6 months of data in each account. The microfiche file is retained a minimum of 3 years on site for research and audit purposes then forwarded to the record center for retention.

The automated programs in the Search/Sort Subsystem can be used to extract an account or a group of accounts from the master file for audit.

4. Security:

The procedures for controlling access to the computer facility and off-site storage were evaluated previously in the Navy JUMPS design.

D. PROBLEM AREAS

1. It would appear that this system has evolved from a system previously designed for an earlier generation of computers. There is a need to redesign the software system to take advantage of the enhancements offered by the computer configuration now being used and at the same time upgrade the system documentation.

2. The need for a contingency plan at the Navy Finance Center's central site computer facility was called to the Navy's attention in the evaluation of the JUMPS design. A study is being performed by personnel at the Finance Center to determine how this requirement can be satisfied.

The above problems are not of a significant nature to withhold approval. However, they will be highlighted in a management letter to bring them to the Navy's attention for resolution.

E. STATUS OF THE SYSTEM DEVELOPMENT

This system has been operational since July 1965.

There should be only limited involvement of FGMSD staff during the next 12-month period.

Name of Agency Department of the Navy

Name of System Naval Reserve Pay System

Date Review Completed April 29, 1977

ADP APPLICATION WITHIN A
FINANCIAL ACCOUNTING SYSTEM

	YES	NO	N/A
1. General ledger			X
2. Accounts receivable analysis			X
3. Invoice billing and customer statements			X
4. Merchandise inventory analysis			X
5. Fixed asset analysis			
Buildings, improvements, and leaseholds			X
Machinery and equipment			X
Office furniture and equipment			X
6. Depreciation			X
7. Journal entries			X
8. Accounts payable			X
9. Payroll & Leave			
Timekeeping			X
Payroll checks and register	X		
Forms W-2	X		
FICA reports	X		
State unemployment reports			X
10. Sales analysis			X
11. Cost analysis			X
12. Budget analysis			X
Appropriations			X
Contract authority			X
Limitations			X
Apportionments			X
Reimbursements			X
Obligations			X
Accrued expenditures			X
Expenditures			X
13. Financial statements			
Balance Sheet			X
Statement of Income and Expense			X
14. Does the agency use an automated audit program? If yes, please furnish name		X	

Universal Check System

The Navy Finance Center designed and developed an automated system to produce the checks for five interfacing pay systems: (1) Navy Reserve, (2) Navy Reserve Officers Training Corps, (3) Navy Armed Forces Health Scholarship Program, (4) Navy Retired, and (5) Allotments for JUMPS. The interfacing systems provide check issue tape files.

Each tape file has a specially constructed trailer record that provides the Universal Check System with the number of checks to be issued and the total dollar value. The Universal Check System is designed to accumulate the number of checks produced and the total dollar value and make a comparison. Check production is terminated until the out-of-balance condition is corrected. A money list and a pay group totals report are produced. These reports are used to manually reconcile each check.

The procedures for controlling blank negotiable instruments and facsimile plates appear adequate. Separation of duties is provided for in the procedures by assigning the responsibilities of handling the blank checks and mailing the printed checks to different departments.

The DP department receives the blank checks and must account for used and unused checks through the use of a control log.

DEPARTMENT OF THE NAVY
NAVAL RESERVE PAY
SYSTEM
(CODE 93679)

SUMMARY REPORT ON
ACCOUNTING FEATURES

SUBMITTED FOR APPROVAL ON: JULY 1977
RECOMMENDED ACTION: APPROVAL

A. INTRODUCTION

This summary is a report on the Detroit Regional Office evaluation of the accounting features of the Naval Reserve Pay System. The FGMSD/FM staff has evaluated the ADP features of the system and has prepared a summary on their evaluation.

The Navy submitted the system design for our informal evaluation on April 30, 1976. Based on our evaluation of the design documentation for compliance with Titles 2 and 6 of the GAO Manual for Guidance of Federal Agencies, we recommend approval of the accounting features of the system.

B. BACKGROUND

1. Nature and Scope of Operations

The design provides for paying Naval Reservists for (1) attending drills, (2) performing active duty for training (ACDUTRA) and (3) performing temporary active duty (TEMAC) for less than 30 days. Reservists who perform TEMAC for 30 days or longer are paid under the Joint Uniform Military Pay System.

A pay record is maintained at the Navy Finance Center (NAVFINCEN), Cleveland, Ohio, on magnetic tape for each reservist eligible for drill pay. These records are updated weekly with personnel changes and drill performance data. Drill pay is computed and paid monthly by checks issued at NAVFINCEN. Reservists are paid for ACDUTRA by local disbursing officers

where the training is performed. The ACDUTRA dates are reported by the disbursing officers to NAVFINCEN and entered on the drill pay records to prevent concurrent payments for drills and ACDUTRA. Payments for TEMAC are processed as claims at NAVFINCEN.

In 1976 about 94,000 reservists were eligible for drill pay and about 85,600 periods of ACDUTRA were reported to NAVFINCEN for entering on pay records. In addition, NAVFINCEN paid 154 TEMAC claims.

2. Organizational Environment

Naval Reserve Centers at 372 locations record and report drill attendance and personnel changes under the Reserve Field Reporting System. Reports are sent to the Naval Reserve Personnel Center (NRPC), New Orleans, where the data is transferred to magnetic tapes. The drill attendance tapes are then sent to NAVFINCEN for input to the pay system. Personnel changes tapes are processed through the Manpower and Personnel Management Information System (MAPMIS) at NRPC and sent to NAVFINCEN for input to the pay system. ACDUTRA periods and FICA taxes are reported to NAVFINCEN by local disbursing officers.

The Commanding Officer, NAVFINCEN, is responsible for all central site functions of the system, including: establishing, up-dating, and maintaining drill pay accounts; settling claims arising from Naval Reserve status; preparing checks and earning statements; reporting on taxable income and taxes withheld; and reporting financial obligation data to the appropriation manager.

3. Annual Funding Level

Funds for paying reservists for drills and ACDUTRA are included in Reserve Personnel, Navy, appropriations and funds for payments for TEMAC are included in Military Personnel, Navy, appropriations. The estimated funding level for drills and ACDUTRA for fiscal year 1976 was \$165 million. Estimates of the costs of TEMAC are not readily available. The appropriations are managed by the Chief of Naval Operations and administered by the Chief, Bureau of Naval Personnel (CHNAVPERS). Obligations for drills are reported monthly to CHNAVPERS by NAVFINCEN and all disbursements are reported to CHNAVPERS through the Centralized Expenditure and Reimbursement Processing System (CERPS).

4. Relationship to Other Management Systems

The Naval Reserve Pay System interfaces with (1) CHNAVPERS' financial management system, (2) CERPS, and

(3) MAPMIS. The interface with the financial management system is by monthly reports produced by the system on obligations for drill pay. The CERPS interface occurs at the Navy Accounting and Finance Center, Washington, D.C., where disbursement data extracted from vouchers in all Navy disbursing officers' accounts by the five Navy Regional Finance Centers and NAVFINCEN is consolidated and reported to CHNAVPERS. The interfaces with MAPMIS are through system input (personnel changes) and system output (drill performance and ACDUTRA data).

In addition, the system generates information for reports to the Social Security Administration and Internal Revenue Service on taxable income and taxes withheld, the Veterans Administration on life insurance premiums, and the Treasury Department on checks issued (check number and amount).

5. Degree of Automation

The system is a highly automated pay system operating with one general equipment group, an IBM 360/30 operating system "Multi duty" and two IBM 370/158 operating systems - OS Multiple Fixed Tasks. Details of the ADP operation are included in the ADP summary.

C. ESSENTIAL FEATURES OF THE SYSTEM

1. System Characteristics

a. Application of accrual basis of accounting

The Naval Reserve Pay System is a payroll system

that does not involve accrual accounting. It provides information to the appropriation manager where accrual accounting methods are used.

b. System for the administrative control of funds

The administrative control of funds is maintained by CHNAVPERS.

c. Control over and accountability for assets

(1) Cash

Payments for drill attendance and TEMAC are made by checks printed at NAVFINCEN and mailed directly to reservists. Payments for ACDUTRA are made by local disbursing officers either by check or cash. In either event, all payments are accounted for by local disbursing officers or the disbursing officer at NAVFINCEN in their monthly financial returns.

(2) Receivables

Indebtedness of reservists is centrally controlled by the Naval Reserve Department, NAVFINCEN. The indebtedness is recorded in the pay account and collection is automatic provided the member has entitlement to pay. Any indebtedness remaining upon separation from the Naval Reserve is referred to another department within NAVFINCEN for collection action.

d. Internal controls

The system provides for the complete separation of functional duties and for the internal controls commonly used in automated data handling systems. These include controls over input, processing, programming and output. The ADP controls are discussed in the ADP summary. Examples of manual controls are:

- predetermined totals for all system hard copy input,
- individual pay jacket for hard copy input/output,
- certification of drill performance, and
- record of disposition of rejected transactions.

e. Basic types of reports

The system provides management with monthly internal reports showing obligation and disbursement data.

External reports are prepared for the Veterans Administration, the Treasury Department, the Internal Revenue Service and the Social Security Administration, covering life insurance premiums, and wage, check, and tax data.

2. Evaluation by ADP Staff

The ADP portion of the system design has been evaluated by FGMSD/FM staff.

D. PROBLEM AREAS

The problem discussed below is not significant enough to delay approval of the system. However, we believe that it should be mentioned in the management letter if the Navy has not completed corrective action by the time the letter is issued.

Concurrent Drill and TEMAC Pay

The system provides no controls to prevent concurrent payment for drills and TEMAC for less than 30 days. We discussed this problem with NAVFINCEN representatives and suggested that procedures be changed to require periods of TEMAC for less than 30 days be recorded on the automated drill pay record--similar procedures are used to prevent concurrent payments for drills and ACDUTRA. NAVFINCEN representatives agreed to change the procedures as suggested.

E. STATUS OF SYSTEMS DEVELOPMENT

This system has been operational since July 1965 without significant operating problems or major changes.

The Navy Accounting Principles and Standards approved March 7, 1973 apply to the system design.

Incomplete Documentation Package

The documentation package does not include complete information on a change in procedures for automating source data. The change will be effective January 1, 1978, when the function of automating source data on drill attendance will be transferred from NAVFINCEN to NRPC. That change will speed up data flow and is expected to result in prompter

drill payments and fewer input data errors. We reviewed a draft of the documentation, which was provided in January 1977, and the procedures appear adequate. NAVFINCEN will provide a copy of the final version of the document when it is published. It will be reviewed prior to incorporating it into the documentation package.

We expect involvement of FGMSD staff during the next 12-month period to be limited to the evaluation of the corrective actions now in progress as discussed in Section D.

SUMMARY REPORT
OF
ACCOUNTING SYSTEM DESIGN
FIELD ACTIVITY LEVEL SYSTEM,
GENERAL ACCOUNTING, FLEET (SURFACE)
DEPARTMENT OF THE NAVY

SUBMITTED FOR APPROVAL JUNE 21, 1977

RECOMMENDED ACTION: APPROVAL

Field Activity Level System,
General Accounting, Fleet (Surface)

A. INTRODUCTION

1. Department of the Navy
2. Accounting system design: Field Activity Level System, General Accounting, Fleet (Surface)
3. Informal submission received July 1976
4. Recommended action: Approval
Advise the Department of the Navy to formally submit the system design for approval.

B. BACKGROUND

1. Nature and Scope of Operation

The surface fleets are responsible for the operation and maintenance of floating ships and staff units. The ship operating forces comprise ships, ship commands, headquarters commands, and administration staffs.

The accounting and reporting system was designed in accordance with requirements of NAVSO P-3013, Financial Management of Resources - Operating Forces, November 1974. The system is based essentially on the Resource Management System, implemented within the Department of Defense on July 1, 1968. The objective of the Resource Management System is to provide management with an accounting and reporting system encompassing the total cost and measurement of resources consumed or applied in accomplishing a task or mission. It is concerned with operating resources, as contrasted with investment resources. Thus the system is limited to

accounting for resources that are financed under the Operation and Maintenance and Military Personnel appropriations; and not with appropriations for Procurement, Construction, or Research and Development.

2. Organizational Environment

Fleet Commanders, Atlantic and Pacific, have overall responsibility for the operation of the surface forces as well as other operating forces under their respective commands. Type Commanders, Atlantic and Pacific, the next lower level, are directly responsible for the operations of the surface ships under their respective commands. Their financial responsibility involves the development of resource requirements, and the administration of available funds, including the efficient and effective use of resources. Ships or staff units under the Type Commanders are the basic operating units or cost centers, whose funds and costs are budgeted through operating targets (OPTARs).

Official accounting and reporting is centralized at Navy Regional Finance Center (NRFC) at Norfolk, Va., for the Atlantic forces, and at San Diego, Calif., for the Pacific forces. The role of the NRFC is to provide end-use accounting services for the fleet and type commanders within the Operation and Maintenance and Military Personnel appropriations, and the several minor allotments granted to Type Commanders for specific purposes.

3. Annual Funding

Surface Ship Operating activities are financed under an annual Operation and Maintenance, Navy (O&MN) appropriation which is budgeted in terms of the following Five Year Defense Program (FYDP): (1) Strategic Forces, (2) General Purposes Forces, (3) Intelligence and Communications, and (4) Training, Medical, and General Personnel Activities (Atlantic Fleet only).

The Operation and Maintenance appropriation for fiscal year 1975 programmed \$1,876 million to the ship forces. Of this amount, \$1,107 million was for ship overhaul and maintenance, \$391 million for fuel, \$317 million for supplies and equipage, \$46 million for maintenance of real property, and \$15 million for travel.

4. Relationship to Other Accounting System

Disbursement data for input to the Fleet Accounting System (Surface) is provided by the Navy Regional Finance Centers and the Navy Supply Centers Accounting systems. Military personnel standard cost data is provided by the Military Labor Cost System.

The Fleet Accounting System (Surface) provides financial data for consolidation at the two command level systems, Major Command/Fund Management, Pacific and Atlantic Fleets, with data of other operating forces (General Accounting, Fleet (Air)) financed under the O&MN appropriation. Ultimately, these systems provide data for input into the Navy Cost Information System (NCIS).

5. Degree of Automation

Official accounting for the Fleet Surface operation is substantially automated. The system is a batch processing system which provides end use accounting services for the Type Commanders through the recording of obligations and disbursements at the operating target holder level. General ledgers are maintained manually, and except for those reports extracted directly from accounts in the general ledger, the reports and listings are automated in the ADP system. Details of the ADP system are covered in the attached ADP summary.

C. ESSENTIAL FEATURES OF THE SYSTEM

The basic characteristics of the system include (1) double entry method of accounting, (2) a modified application of the accrual basis of accounting, (3) an effective system for the administrative control of funds, (4) internal control of all transactions, (5) integration of expense (cost) accounting records with the general books of account, and (6) the production of financial reports from the official accounting records on a timely basis to meet the needs and objectives of internal management, and to comply with external requirements.

1. System characteristics

a. Application of accrual basis of accounting-

(1) Accrual of expense (costs)

Expense generally are applied simultaneously with the processing of detail unfilled order (obligation) documentation by the Navy Regional Finance Center. Although this practice may appear to deviate

from accepted accrual accounting principles, in effect it results in a reasonable and timely equating of costs with resource consumption.

A recent study by the Navy revealed that about 82 percent of the costs incurred in fleet operations consist of ship maintenance, fuel, maintenance of real property, and minor construction. Ship maintenance is overhaul and significant maintenance projects (restricted availability and technical availability) represented by work orders. The work is performed by the Navy industrially funded work centers or by contract. Ship maintenance costs are reported on the accrual basis. For fuel, obligations for such requisitions are reported and recorded on the basis of fuel receipts. Since there are no inventories maintained in this operation, the fuel receipts represent a replenishment of fuel consumed. It would be considered that the recorded obligations and consumption costs occur simultaneously.

Maintenance of real property and minor construction are performed under reimbursable orders or contracts. The performing activity will send monthly billings based on costs incurred to the requesting activity. The billings will then be costed when received.

Approximately 17 percent of the costs involve primarily supplies and equipage of the ships. Acquisitions in supplies and equipage category are obtained for the most part from the Navy Stock Fund. The rationale for assigning costs on the basis of requisitions is that the requisitions generally are initiated to replace items which have been consumed in

operations. The rationale appears reasonable since the original outfitting of ships, designated "shipboard allowance list" material, is provided at no current cost to the ship.

The remaining 1 percent is for travel expenses. Although these expenses are handled similarly to those described above, that is, expenses are charged simultaneously with the issuance of a travel order, the same rationale should not apply. Although this is a deviation in accrual principles in the current documentation, a revision will be made to the system at an early date which will correct the handling of travel expenses. (See Problem Area on page 15 for further discussion.)

(2) Accrual of expenditures

As stated immediately above, expenditures for about 82 percent of the cost incurred are on a true accrual basis insofar as recognizing accrued expenditures on the basis of goods and services received. With respect to the 17 percent, consisting primarily of Navy Stock Account purchases, accrued expenditures or accrued liabilities are to be determined at month-end on a percentage basis due to the impracticability of arriving at a precise cut-off (dropped inventory basis) because of the wide-spread sources of supply and the resulting delays in the receipt of data for timely reporting. The accrual of travel expenditures, consisting of 1 percent of the remaining funds provided, is an apparent deviation from accrual principles. (See Problem Area on page 15 for further discussion.)

b. Administration control of funds

The administration control of funds conform to the system prescribed by the Department of Defense (Secretary of Defense Directive 7200.1), approved by the Office of Management and Budget on April 19, 1963.

Under the Department of Defense Resource Management System concept, resources (funds) are administered at the command level where resource trade-off decisions can best be made. In line with this concept, funds for certain expense elements are centrally controlled at the level of Fleet Commanders (e.g., propulsion fuel), or at the Type Commander level (e.g., military personnel services and travel of personnel). Other expense elements are controlled at the operating or cost center levels.

Resources are identified, budgeted, and accounted for in terms of the Five Year Defense Plan -- budget activities. The system for the administrative control of funds is designed as follows:

- (1) Funds identified by budget activities are allocated by the Chief of Naval Operations to major claimants-- the Commanders-in-Chief, Atlantic and Pacific Fleets.
- (2) The Fleet Commanders issue fund limitations in the form of operating budgets for each budget activity to themselves for fleet level functions, and to their respective Type Commanders for expenses under their control.
- (3) Type Commanders, in turn, issue separate operating budgets for each budget activity to themselves, and to

shore (field) activities designated as responsibility centers. Operating budget holders at this level are subject to violations under Section 3679 R.S. Reimbursable orders are allotted separately and accounted for separately.

- (4) From operating budgets issued to themselves, Type Commanders issue operating targets (OPTARs) to themselves for staff operations, and to ships, staffs, and other operating units, designated as cost centers. Fleet Type Commanders likewise issue OPTARs to their staffs under which operating units, may incur obligations for centrally controlled expenses. OPTAR holders are not subject to violations under Section 3679 R.S. Nonetheless, the OPTARs are used as a tool for day-to-day obligations control since they are administrative limitations.
- (5) Each OPTAR holder is required to maintain a Requisition/OPTAR Log to record OPTARs and the value of transactions authorized to be incurred. Although OPTAR holders are not subject to Section 3679 R.S., prevalidation of obligations is accomplished through this media. The procedures are equally applicable to accounting for operating targets for those costs controlled centrally at the fleet/type commander level. The requisition/OPTAR Logs parallel and provide a check on the official accounting records maintained at the Navy Regional Finance Center.

- (6) Separate general ledgers are maintained by the Navy Regional Finance Center for each operating budget or responsibility center, which include budgetary accounts indicating the status of fund authorizations.
- (7) Monthly reports on the status of operating targets and operating budgets are produced by the Naval Regional Finance Center for use by Fleet and Type Commanders.

c. Basic structure of accounts

The general ledger structure consists of asset, liability, expense (cost), and disbursement accounts. Manual postings to the general ledgers are based on journal vouchers prepared from fund distribution documents and from mechanized listings for fund usage. A cross-checking process shows general ledger control by matching totals of various ADP listings, the data base used to produce financial reports, and voucher postings with the balances in the general ledger accounts.

Separate general ledgers are established for each operating budget on a fiscal year basis. Since an operating budget is provided for each reimbursable order, separate general ledgers are maintained accordingly. With respect to billings and collections for reimbursable projects, several accounts are maintained, as prescribed in NAVSO P-3006, in support of reports prepared and submitted to the major claimants (Fleet Commanders), for consolidation and further submission.

Subsidiary records consisting of machine listings/tapes are maintained in support of various control accounts as follows: (1) Expense Control - further summarized at the cost center and expense element levels, (2) Undistributed Disbursements - disbursements which have not

been validated by matching with a related unfilled order, (3) Unfilled Orders, (4) Accounts Payable, and (5) Travel Advances.

d. Asset accountability and control

Assets under the system consist of the operating budget, accounts receivable, travel advances, and reimbursable orders received. The fleet accounting system does not account for investment-type assets, such as inventories or nonexpendable property held by the operating forces.

Inventories consisting of repair parts and reparable are maintained aboard designated ships for intermediate level operation and maintenance of embarked ships, designated "Consolidated Shipboard Allowance List" (COSAL) inventories. The COSAL operates as an on-board local stock fund (under control of Type Commanders) whose replenishments for items issued are derived from transfers of obligational authority from users. The Navy Regional Finance Center is merely responsible for consolidating the annual (end of fiscal year) COSAL reports received from the COSAL reporting activities and for transmitting them to the Chief, Naval Material Command with copies to the Type Commanders.

e. Criteria for capitalization of nonexpendable property

Investment-type items are not accounted for under the Fleet Surface System.

f. Controls for each type of liability

Provision is made in the account structure to distinguish between amounts owed to Government agencies and to the public.

Liabilities resulting from acquisitions of fuel are readily identified as payables on the basis of fuel receipts, and are traced to specific documents on file in that status. Accrued liabilities resulting from Navy Stock Account purchases which are to be determined on a percentage basis, however, are not individually identified in the payable category. The documents in this category remain in the unfilled order file until notification of receipt or constructive receipt (dropped inventory).

g. Cost accounting for major organizational segments, budget activities, and programs

The classification of expenses (costs) is accomplished through a uniform expense account coding structure. Nine fields provide the automated accounting classifications for all types of transactions. Among these are classifications for (1) location - Atlantic or Pacific fleets, (2) the budget activity - FYDP, (3) expense element, and (4) cost center designation. Reimbursable costs are charged directly to each reimbursable order.

h. Treatment of unfunded costs

The system does not account for unfunded leave or depreciation costs. Military personnel costs funded by the Military Personnel Appropriation are recorded as statistical costs. These costs are provided by the Bureau of Navy Personnel and are compiled on the basis of strength data contained in the personnel accounting machine records as of the first day of each month; computed on the basis of standard rates. The costs are distributed to the benefiting operating cost centers.

i. Internal controls

Our evaluation of the system design disclosed that the assignment of duties both organizationally and functionally provides adequate controls which result in accuracy, timeliness, and reliability of inputs to the system, and the resultant effect of the outputs. By conducting all the divisional control log procedures, by bumping the totals of the various files against the data base used to produce reports, and by crosscheck of the several reports, reasonable assurances of the accuracy and control is attained over obligations, disbursements, cost distribution, and reimbursements.

All financial documents are controlled through (1) the assignment and use of specific sequence of numbers, (2) the systematic flow of documents, (3) the maintenance of registers and other appropriate controls by the Navy Regional Finance Center to assure that all documents are received promptly, and have been approved by authorized officials. All financial transactions recorded in the accounts of record must be supported by documentary evidence which becomes part of the accounting records. Through the assignment of a batch control number to every transaction, combined with the transaction document number, all transactions are traceable back to their origin.

The ADP support provides the necessary data for postings to general ledger accounts. Details of the ADP internal controls are covered in the ADP summary attached.

j. Cost-based operating budgets

The system provides for the projection and accumulation of costs at the most center operating level. These costs, with the exception of statistical personnel costs are based essentially on current operation and maintenance funding requirements.

k. Basic types of reports

The General Ledger and subsidiary records are the bases for accumulating and summarizing financial transactions for each operating budget and for the preparation of financial reports. The principal financial reports produced and their general contents and frequency was as follows:

- (1) Trial Balance (monthly) - A separate report is prepared for each operating budget for use by the grantor of the operating budget and the operating budget holder.
- (2) Budget Classification/Functional Category/Expense Report - Detail by Chargeable UIC (monthly) - This report provides detail input to claimants for summarization and submission to the Navy Cost Information System (NCIS) at the NavCompt level, and consists of accrued expenses and gross adjusted obligations for the month and fiscal year to date, in terms of budget classification, functional/subfunctional categories, expense elements and subhead.
- (3) Budget Classification/Functional Category/Expense Report - (monthly) - This report provides similar information as (2) above, but, instead, shows obligations and expenses categorized as they are budgeted at the operating budget level, also for input to the NCIS.
- (4) Report of Expense Within Functional/Subfunctional Category and Overall Expense Element Totals (monthly) - This report is prepared as a supplement to (3) above, and contains the same data as that report, but in different arrangement.

- (5) Ship/Staff Status Report (monthly) - This report provides the status of operating targets and operating budgets to the fleet and type commanders.
- (6) Reconciliation Report (Expenditures/Collections) (Quarterly) - This report is prepared for each operating budget, and distributed to the operating budget holder and major claimant (fleet commander). It is used by the major claimant to monitor and reconcile undistributed disbursements at the appropriation and fleet level.
- (7) Summary Restricted Availability/Technical Availability, Ship Overhaul Project Order/Work Request Report (monthly) - This report is to provide status information on project orders and work requests for major maintenance work. It displays accrued costs against authorized amounts, remaining balances, and matched and unmatched expenditures. This report is provided to the fleet commanders.
- (8) Excessive Difference Listing (monthly) - This report shows transactions in excess of \$500 which have not been matched, and allows the fleet accounting offices to research the transactions which are believed to be potentially erroneous.
- (9) Selected OPTAR Date Information Report (monthly) - This report is a by-product of the reconciliation process. It provides data for analysis of the threshold concept-unmatched charges of less than \$50.01 and over \$50.00.
- (10) Report of Outstanding Travel Advances (monthly) - This report provides the detail data on the Travel Advance general ledger account. It provides an aged listing for follow-up.

1. Control over and accountability for pay, leave, and allowances

Accountability for all military payroll related activities is the responsibility of separate pay systems.

2. ADP Review

The computerized portion of the system has been reviewed by Mr. Wysong's staff and recommended its approval. Details of the ADP system are covered in the attachment.

D. PROBLEM AREA

The documentation contains provisions for recording travel expense at the time the travel orders are issued. This is not in accordance with the accrual principle that expenses should be recorded based on actual performance. This had been a problem in the Department of Defense Accounting Guidance Handbook. However, the Handbook was revised in February 1977 to correct the accrual method of handling travel expense. The Navy will incorporate in the design documentation the accrual accounting revision at an early date. We believe that the approval should be given with the understanding that the revisions will be made and the approval letter should be so qualified.

E. STATUS OF SYSTEMS DEVELOPMENT

1. The design submitted for approval is in operation at both the Atlantic and Pacific Navy Regional Finance Centers.

2. We anticipate no involvement of the FGMSD/FM staff with the system in the ensuing 12-month period.