

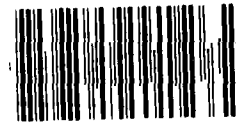
GAO

United States General Accounting Office **132963**
Report to the Secretary of the Army

May 1987

ACCOUNTING SYSTEMS

Army's Efforts To Redesign Its Accounting Systems



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**Accounting and Financial
Management Division****B-225238**

May 19, 1987

The Honorable John O. Marsh, Jr.
The Secretary of the Army

Dear Mr. Secretary:

Since January 1985 we have been monitoring the Army's project to redesign its 60 accounting systems into a small family of standard systems. The project is expected to cost about \$380 million. This figure includes some equipment and site preparation costs. The project began in the mid-1970's and is scheduled for completion in the 1990's. It is more difficult and costly to take corrective action and incorporate adequate internal controls after a system is implemented. Therefore, we decided to review the systems in the project while they are being designed rather than wait until they are implemented.

We have identified several matters which we would like to bring to your attention. We believe that the Army needs to update its development plan for an Army-wide project in a more timely manner and in sufficient detail to manage the interdependent systems. In addition, project-manager authority and control need to be strengthened. We also have several specific concerns about the internal controls in the Standard Finance System Redesign (STANFINS-R) and the computer requirements of the Program Budget Accounting System (PBAS), two key systems of the redesign project.

**Objectives of the Army
Redesign Project**

The basic objectives of the project are to (1) strengthen accounting system internal controls, (2) correct other problems, such as time-consuming manual processing, and (3) implement a single, integrated financial management system. To meet these objectives, the Army plans to develop three major accounting components: (1) departmental accounting, (2) field-level or installation-level accounting, and (3) pay systems. These systems will distribute, disburse, and account for about \$80 billion the Army manages each year to support operations at about 170 installations worldwide.

PBAS has been under development since 1977. A segment of this system has been implemented that provides timely information on the amount of funds to be spent by each Army installation. When completed, PBAS will receive and consolidate installation-level accounting information to produce reports and other financial statements

When we started our review, STANFINS-R was to do all installation-level accounting in the Army except for the Corps of Engineers. However, as a result of a February 1986 meeting held by the Comptroller of the Army, the Army decided to use three finance systems for installation-level accounting: (1) STANFINS-R, which will support accounting requirements of posts, camps, and stations, (2) Army Materiel Command Accounting System (AMAS), which will support wholesale logistics and research and development accounting requirements, and (3) Corps of Engineers Management Information System (COEMIS), which will support the military construction and public works accounting requirements. Both STANFINS-R and AMAS are under development. COEMIS is operational, but the Army plans to modernize the system.

To help satisfy an Office of Management and Budget (OMB) requirement for the development of a single, integrated accounting system, these three systems should have common data elements, input, and output. For example, standard general ledger account numbers should be used in all three systems

The Army payroll will be computed and accounted for by several systems: (1) Military Pay Redesign will pay active duty, Reserve, and National Guard, (2) Standard Army Civilian Pay System Redesign will pay civilian personnel, and (3) Army Retired Pay System will pay Army military retirees and surviving annuitants. While the Army is concurrently redesigning two of the systems, we did not review the redesign of any of the payroll systems.

Objective, Scope, and Methodology

Our objective in this review was to monitor the Army's efforts to modernize its accounting systems. This involved periodic meetings with key Army officials and the review of Army plans and other documentation describing the goals, objectives, and status of the project. In a July 30, 1985, letter to the Project Manager for Army Finance Systems, we discussed several concerns we had about the project at that time. We addressed the need to develop a project plan, develop accurate and complete cost data, ensure appropriate policy review and approval by the Office of the Secretary of Defense and OMB, and involve users in the development process. In response to our letter, the Project Manager agreed with our concerns and initiated actions to resolve the problem areas.

We focused our review effort on PBAS, since this system does the departmental-level accounting for the Army. We also concentrated on

STANFINS-R, since this system will do a portion of the field-level accounting

As previously discussed, we began monitoring the Army project in January 1985. For the areas discussed in this report, most of our work covered activities through September 30, 1986. After completing our field work, we held meetings with Army officials to discuss subjects addressed in this report. The specific areas we reviewed include

- the Army's actions on issues raised in our July 30, 1985, letter;
- management authority, responsibility, and control over the project;
- STANFINS-R and PBAS development activities; and
- coordination between the organizations scheduled to use the systems.

In carrying out our work, we used Department of Defense (DOD) directives and instructions establishing policy for automated information systems and Army regulations and technical bulletins implementing the DOD policy. In addition, we reviewed "The Army Accounting System Five-Year Plan," which was issued in February 1986. We also reviewed messages, progress reports, briefing charts, draft user manuals, and draft test plans, and we attended status briefings. Further, in completing our field work, we contacted the following Army commands and offices: the Assistant Secretary of the Army for Financial Management, Comptroller of the Army, U.S. Army Finance and Accounting Center, Army Materiel Command (AMC), Information Software Systems Support Command, Corps of Engineers (COE), Training and Doctrine Command, Forces Command, and Assistant Chief of Staff for Information Management. We met with users, STANFINS-R and PBAS functional and software development staff, and the systems integration office staff. We performed our work in accordance with generally accepted government auditing standards.

Updated Project Plan and Cost Estimates Are Needed

"The Army Accounting System Five-Year Plan" needs to be revised to reflect the recent decisions regarding STANFINS-R, AMAS, and COEMIS and the related costs of these changes. In Army's initial 5-year plan, issued in February 1986, STANFINS-R was to be the primary installation-level accounting system. The plan describes the accounting and pay systems in the project and their relationship to one another. The plan also discusses project schedules and computer equipment requirements. However, in February 1986, the Army decided to use three standard systems for field-level accounting—STANFINS-R, AMAS, and COEMIS. As a result of this decision, additional planning for the proper integration of STANFINS-R

with AMAS and COEMIS is needed to ensure that common data elements, input, and output are used for each of the systems. As of September 1986, AMC and COE had not completed plans that identified detailed work tasks, responsibilities, and resource requirements for the system development efforts. AMC, for instance, estimates that it will be 1990 before its 22 accounting systems (which account for about 30 percent of the Army's budget) will be reduced to one system. The Corps of Engineers will complete a feasibility study to redesign COEMIS by December 1988.

Until completion of these plans, it will be difficult for the Army to develop a unified overall plan describing how the critical interdependent parts and their related requirements will be integrated to implement the three systems. For example, in our report on the Financial Integrity Act,¹ we reported that DOD agencies, including the Army, need a general ledger to provide oversight control over assets, liabilities, and capital totaling hundreds of billions of dollars. On August 14, 1986, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States issued a memorandum to the heads of agencies calling attention to the need to use a U.S. government standard general ledger. To facilitate integration and sharing of more accurate and timely information among STANFINS-R, AMAS, and COEMIS, the Army needs to develop overall plans that incorporate the use of a standard general ledger and other common data elements, input, and output.

In our July 30, 1985, letter to the project manager, we stated that the project's total estimated cost needed to be developed and used as a baseline to monitor the cost of the project. In addition, developing such an economic analysis which includes cost information along with associated benefits is useful in assessing the need for internal controls in the system. The General Accounting Office's (GAO) Standards for Internal Controls in the Federal Government requires that the system of internal controls provide reasonable assurance that the objectives of the system will be accomplished. This standard of reasonable assurance also recognizes that the cost of internal control should not exceed the benefit derived. Therefore, economic analysis may help the Army determine an acceptable degree of risks and can be used to assess any additional internal controls that may be needed

¹Financial Integrity Act: The Government Faces Serious Internal Control and Accounting Systems Problems (GAO/AFMD-86-14, December 23, 1985)

In response to our letter, the project manager said updated economic analyses would be prepared for the systems under development. In accordance with Army requirements, the economic analyses should include cost and benefits. The economic analyses were to be completed by January 31, 1986. As of September 30, 1986, one of four planned economic analyses had been completed. We believe recent Army actions pertaining to the following developments need to be considered in the economic analyses:

- The Army is considering using an off-the-shelf generic accounting system. In a letter dated August 1, 1986, the Principal Deputy Assistant Comptroller for Finance and Accounting informed us that the Army is considering competitively evaluating existing off-the-shelf governmental accounting systems as the basis for a segment for STANFINS-R. Once a system has been identified, the Army will attempt to have the system modified by contract to satisfy certain detailed requirements of STANFINS-R. The Principal Deputy subsequently advised us this could cost \$1.3 million but would also reduce the overall cost of STANFINS-R.
- Various Army units have developed interim systems to use until STANFINS-R is implemented. For example, several Army installations have developed or acquired their own travel or commercial accounts systems. The development or procurement of these systems, while satisfying a local need, results in duplicate efforts within the Army.
- The Army has decided to use three systems—STANFINS-R, AMAS, and COEMIS—to accomplish field-level accounting. As a result, additional costs could be incurred to design or enhance AMAS and COEMIS.
- The Army is studying the need for additional computer hardware and telecommunication capability for processing data at the installation level. The outcome of this study could affect costs.

Once the economic analyses and the 5-year plan are updated, the Army will be in a better position to determine the total funding and other resources needed to complete the project. This information can then be used as a management tool for monitoring the project's progress.

Project Management Is Fragmented

Recent organizational changes have resulted in no one person being responsible for the day-to-day management of the total project. According to Army requirements for automation life-cycle management, a project manager should be appointed and be charged with overall responsibility for planning and coordinating the development of the system through implementation at all operating locations. Further, the requirements state that the project manager should have sufficient rank

and tenure to perform the job properly. From late-1981 to mid-1986, the project was managed on a day-to-day basis by a brigadier general who reported to the Commander of the U.S. Army Finance and Accounting Center (USAFAC). One general served as project manager from late-1981 to mid-1984, and a second general was project manager until June 1986. In July 1986, the Comptroller of the Army reorganized the project's management and directed the appointment of functional managers to carry out the various duties for which the general was responsible.

As a result of the Comptroller's actions, the following organizations will have key responsibilities in the redesign project:

- USAFAC will be responsible for the functional design of STANFINS-R, PBAS, and other financial systems;
- AMC will be responsible for the functional and technical design and deployment of AMAS;
- COE will be responsible for the functional and technical design and deployment of COEMIS; and
- Information Systems Command (ISC) will be responsible for providing the computer software engineering support, computer hardware, and communication network needed to support all standard Army systems.

The Army recognized the need to obtain commitments from the various commands involved with the redesign project. To accomplish this, the Army began drafting a memorandum of agreement in July 1986 that calls for the Commanders of USAFAC, COE, and AMC to each appoint a functional system manager to manage the development, modification, and deployment of the systems for which they are responsible. The functional system managers are to work closely with a financial system project manager, who will be appointed by the Commander of ISC. The financial system project manager is responsible for ensuring the adequacy of computer equipment acquisition, software development, communications, and system operations and maintenance.

As of September 30, 1986, the memorandum of agreement had been signed by the Commander of USAFAC and the Comptroller of the Army. The five officials who have not yet approved the memorandum are the (1) Assistant Secretary of the Army for Financial Management, (2) Commander of AMC, (3) Chief of COE, (4) Commander of ISC, and (5) Assistant Chief of Staff for Information and Management. We believe the memorandum of agreement is a step in the right direction.

Since the responsibilities for the functional requirements, software development, communications, and computer hardware are divided among commands, we believe the Army needs to appoint a project manager who will have day-to-day responsibility and authority for successfully completing the project. Appointing a project manager would fix accountability and ensure that key milestones are met and that all parts of the project are properly integrated and needed resources are obtained. To document and establish the project manager's duties and responsibilities, the memorandum of agreement should be amended to require the signature of the project manager.

Top management commitment and support is important for obtaining and applying resources needed for successful project completion. For example, USAFAC's 1986 budget requested funds for the 5-year period covering fiscal years 1988 through 1992 for PBAS, STANFINS-R, and other systems in the project; however, funds were not approved by Headquarters, Department of the Army for fiscal years 1988 and 1989. To demonstrate that the project is supported by the highest management level of the Army, the Vice-Chief of Staff should approve the memorandum of agreement. This would clearly express the Army's commitment to the successful completion of the project's objectives and reemphasize the need for all Army personnel to support the project.

Internal Controls Documentation in STANFINS-R Needs To Be Supplemented

OMB circular A-123 and GAO's Standards for Internal Controls in the Federal Government require documentation of internal controls to facilitate managerial review, as well as systems audits. Circular A-123 states that agencies shall establish and maintain a cost-effective system of internal controls to provide reasonable assurance that government resources are protected against fraud, waste, mismanagement, or misappropriation, and that both existing and new program and administrative activities are effectively and efficiently managed to achieve the goals of the agency. GAO's standards state that internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination. Documentation of transaction or other significant events should be complete and accurate, and should facilitate tracing the transaction or event and related information from the point before it occurs, through its processing, to after its completion.

One of the objectives of the redesign effort is to strengthen internal controls. The Army needs to adequately document how the internal controls in Subsystem-I of STANFINS-R will be tested. The development of

STANFINS-R is divided into two subsystems. Subsystem-I will include accounting for most of the Army's commercial accounts, disbursing, and travel activities. Subsystem-II is currently planned to include general and cost accounting. The acceptance test for Subsystem-I is scheduled to begin in early 1987, and implementation will follow if the acceptance test is successful. STANFINS-R is scheduled to be fully implemented in December 1988. We are concerned that an internal control test plan for the Subsystem-I acceptance test has not been documented.

The Army initially advised us that the acceptance test would begin in February 1986. This test was rescheduled several times and began in March 1987. The Army informed us in September 1986 that it had not documented how the internal controls would be tested. The documentation needs to explain the internal control system of STANFINS-R and identify the specific manual and automated internal controls. An acceptance test is performed to determine if all requirements are met by the system. The documentation for testing of internal control requirements is needed to assess whether the controls will work as planned.

Moreover, the Army is considering switching from a two-tier to a three-tier hardware architecture which will directly affect STANFINS-R's internal controls and operations. Under the two-tier concept, tier-2 is an online terminal located at the installation level, and tier-1 is a main computer located at a regional data center. STANFINS-R users enter data at the installation level for transmission to one of the five regional data centers located throughout the continental United States. At a regional data center (tier-1), the data would be processed, records updated on a data base, and the results transmitted back to the user terminal at the installation (tier-2). We were told by the software developers that the internal controls have been incorporated in the software programs at the regional data center (tier-1) since processing is not done at the installation level (tier-2).

Under a three-tier architecture being considered by the Army, new equipment would be added at the installation level or existing hardware would be upgraded to create a new tier within the installation to process certain data for organizations located at the installation. If the Army adopts the three-tier architecture, STANFINS-R's software will probably have to be modified and the internal controls revised to address data processing at the installation level.

PBAS Is Partially Operational

PBAS, the Army's departmental accounting system for controlling and processing budgetary and accounting data, issues program and fund authorizations to, and will receive budget execution data from, finance and accounting offices worldwide. This system, which has been under development since 1977 and operates at USAFAC on Sperry Univac computer equipment, is scheduled to become fully operational in fiscal year 1989.

The initial segment of PBAS, the fund control function, became fully operational in December 1986. Before this function became fully operational, major Army command users of PBAS's fund control function reported internal controls problems when accessing PBAS data base files. Terminal access to both the Military Pay System and PBAS was not properly controlled. When a PBAS terminal user made an inquiry about the availability of funds and processing was interrupted, the user had access to payroll data when processing resumed. As a result, the potential existed for PBAS users to have access to data for which they were not authorized.

The Army Audit Agency reported this control weakness to USAFAC in a November 1985 report. To correct the problem, USAFAC officials have installed new software and analyzed existing computer programs and believe a solution to this problem has been found. However, we did not review the actions taken by the Army.

Implementation of the departmental accounting segment of PBAS, which is scheduled to be operational in fiscal year 1989, may be delayed because the Army has not completed the analysis and other studies for determining whether it has sufficient computer capacity or the proper hardware configuration to support the redesign project. PBAS will operate on USAFAC's computer systems, which also support 16 other pay and accounting functions. The computer systems have been upgraded several times since 1979 in order to keep up with the growing work load. The USAFAC "Automatic Data Processing Equipment Replacement Milestone Plan" states that (1) another computer upgrade was to be underway as of February 1987 to meet PBAS requirements as well as other system requirements, and (2) a complete replacement of USAFAC's computer hardware will begin in March 1990 and be completed during fiscal year 1991. As previously stated, the full implementation of PBAS is scheduled for fiscal year 1989.

The General Services Administration, in a July 1985 letter to the Assistant Secretary of the Army for Financial Management, expressed concern about the need to determine short- and long-range plans for identifying total computer requirements. Since the departmental accounting segment of PBAS is a new function and will be receiving data from about 170 Army-wide accounting organizations, a significant increase in computer capacity may be required. The PBAS manager estimated that the number of incoming records submitted by the accounting organizations which would be processed to support major parts of departmental accounting will increase from 800,000 records to between 8 million and 24 million records over the next 3 years. In addition, PBAS will require an interactive processing capability to enable the 170 Army-wide accounting organizations to access their accounting records. The present USAFAC computers have approximately 57 billion bytes of storage. According to Army representatives, about 75 percent of this storage is available for use by the pay and disbursement systems, which also operate on the USAFAC computers. PBAS is processed, along with several other related functions, on a computer that has about 15 billion bytes of storage.

The Army initially estimated that the PBAS data base would require about 70 billion bytes of storage. As a result of a requirements analysis to develop a prototype for the departmental accounting function, the designers anticipate reducing the data base size from 70 billion bytes to about 30 billion bytes by reducing data element sizes. Even if the Army's estimate is correct, the data base capacity may still be uncertain because new reporting and system interface requirements could further increase the data base size. However, the final data base size will not be determined until sometime in 1987, when all the functional requirements and specifications for this segment of PBAS are completed and validated. Since PBAS may compete with the Military Pay Redesign Project and other USAFAC functions for computer availability, determining accurate requirements is imperative to ensure that any upgraded or replacement computers will have sufficient storage to handle PBAS, as well as other accounting and pay systems processing requirements.

Conclusions

We recognize that the Army's accounting system redesign effort is a difficult undertaking due to the Army-wide scope of the project. The very nature of this scope, however, mandates the establishment of a well-developed, updated plan, along with the management to coordinate and carry out this plan. In our view, the Army has not kept its plans up-to-date with recent decisions which may have a significant effect on the

progress and costs of the overall project. In addition, to fix accountability and responsibility, the designated project manager should sign the memorandum of agreement.

We acknowledge that the redesign project, because of its scope, is subject to revisions as additional information becomes available. However, the Army must ensure that STANFINS-R and PBAS—the two key systems of the project—are designed with adequate internal controls that are documented and tested before the systems are fully operational.

Recommendations

We recommend that the Secretary of the Army direct the Assistant Secretary of the Army for Financial Management to update “The Army Accounting System Five-Year Plan.” The plan should detail how the Army will integrate STANFINS-R, AMAS, and COEMIS, and consolidate the data in PBAS. In addition, the plan should include the updated economic analyses for implementing these three systems and any alternative approaches.

We also recommend that the Assistant Secretary of the Army for Financial Management require that the Director of Finance and Accounting, as project manager, sign the memorandum of agreement.

We further recommend that the Director of Finance and Accounting ensure that adequate internal controls are incorporated into the design of STANFINS-R and PBAS and that these controls are documented and tested to ensure their reliability.

Agency Comments and Our Evaluation

We obtained official oral comments from Defense representatives on the areas discussed in our draft report. Overall, they concurred with our findings and recommendations.

In our draft report, we proposed that the Secretary of the Army direct the Vice-Chief of Staff of the Army to sign the memorandum of agreement to demonstrate the Army’s commitment to successfully completing the project. We also proposed that the Secretary of the Army direct the Vice-Chief of Staff to appoint a project manager of sufficient rank to be responsible for overall planning, management, and coordination of the project.

Defense representatives advised us that the Army has implemented our proposals. The Vice-Chief of Staff has signed the memorandum of agreement and a new senior-level executive, Director of Finance and Accounting, has been appointed to have overall authority and responsibility for the project. Since Defense has implemented our proposals, we are not recommending any further action at this time.

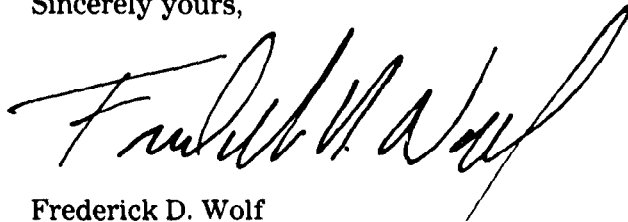
Under a reorganization of the Army's comptrollership functions that was announced in February 1987, the Assistant Secretary of the Army for Financial Management became solely responsible for these functions. This reorganization also established the position of Director of Finance and Accounting. The Director reports to the Assistant Secretary. Prior to the reorganization, other Army officials also had responsibility for certain comptrollership functions. As a result of the reorganization, we revised our proposed recommendations to reflect the duties of the Assistant Secretary and Director of Finance and Accounting.

The Defense representatives also advised us that action is being taken to implement recommendations contained in this report. "The Army Accounting System Five-Year Plan" is being updated in accordance with our recommendation and updated economic analyses will be completed by September 1987. In addition, the Director of Finance and Accounting, as the project manager, will sign the memorandum of agreement. Moreover, Defense representatives assured us that STANFINS-R and PBAS will contain adequate internal controls and that internal controls will be documented and tested to verify that the accounting systems are developed in accordance with appropriate standards.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. A written statement must be submitted to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Secretary, Department of Defense; the Director, Office of Management and Budget; the Secretary of the Treasury; the Administrator of General Services; the House and Senate Committees on Appropriations and Armed Services; other interested congressional committees; and other interested parties. Copies will also be made available to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frederick D. Wolf". The signature is written in a cursive style with a large, sweeping initial "F".

Frederick D. Wolf
Director

No. 1 of 2

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Accounting Systems: Army's Efforts to Redesign Its Accounting Systems

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| 30 | The Secretary of the Air Force Attn: Assistant Deputy Auditor General AFAA/AI, Room 4D162, The Pentagon Washington, D.C. 20330-6500 | | | | X |
| 40 | The Secretary of the Army Attn: The Inspector General DAIG-PA, Room 1E721, The Pentagon Washington, D.C. 20310 | | | | X |
| 30 | The Secretary of the Navy Attn: Comptroller of the Navy NCB-53, Room 2C345, The Pentagon Washington, D.C. 20350 | | | | X |
| 1 | Senator Orrin Hatch Attn: Mr. Silbey, 302 Senate Courts | | | | X |
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