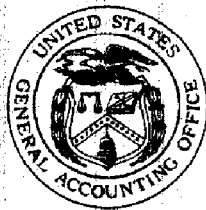


December 1993

FINANCIAL MANAGEMENT

Strong Leadership Needed to Improve Army's Financial Accountability





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

**Accounting and Information
Management Division**

B-251321

December 22, 1993

The Honorable Les Aspin
The Secretary of Defense

Dear Mr. Secretary:

This report presents the results of our review of the Department of the Army's overall financial management and accountability. This review was part of our audit of the Army's fiscal year 1992 financial operations pursuant to the Chief Financial Officers Act.

We found weaknesses in the Army's financial processes and controls which, in our view, could result in violations of laws and the misuse of funds and other resources. Accordingly, it is very important that corrective actions be implemented promptly.

This report contains recommendations to the Department of Defense's (DOD) Acting Chief Financial Officer and the Assistant Secretary of Defense for Command, Control, Communication, and Intelligence that you should be aware of. As the head of a federal agency, you are required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to DOD's Acting Chief Financial Officer; the Assistant Secretary of Defense for Command, Control, Communication, and Intelligence; the Acting Secretary of the Army; the Director, Office of Management and Budget; interested congressional committees; and other interested parties. Copies will be made available to others upon request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Donald H. Chapin'.

Donald H. Chapin
Assistant Comptroller General

Executive Summary

Purpose

For fiscal year 1992, the Department of the Army's annual appropriations totalled about \$72 billion and its noncash assets were reportedly valued at \$292 billion. In August 1992, GAO reported¹ on weaknesses which impeded Army's ability to account for and control its noncash assets. This report was prepared in conjunction with GAO's audit of the Army's fiscal year 1992 consolidated financial statements, undertaken pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). It presents the results of GAO's evaluation of key controls and the budget execution system relied on to provide overall financial accountability for the Army's disbursements during fiscal year 1992. Specifically, the report discusses (1) the reliability of the disbursements reported in Army's budget execution system, (2) the adequacy of controls over the automated data processing that supported Army's financial accountability systems, and (3) progress made on DOD-wide initiatives to improve the financial management of the Army.

Background

The Army is in the process of downsizing its forces. At the same time, DOD is consolidating accounting functions under the Defense Finance and Accounting Service (DFAS). While DFAS handles the Army's overall accounting and financial reporting, many different organizations and personnel in the Army and DOD share responsibility for the day-to-day operations of financial and related systems. These organizations rely on a network of financial systems, including data from nonfinancial Army components, to manage the Army's finances.

Results in Brief

The Army's financial accountability for billions of dollars of resources is seriously impaired by weaknesses in systems that account for and report its disbursements, inadequate controls over automated data processing of financial and logistics information, and limited progress in DOD-wide efforts to improve financial management. Overall, the lack of sustained DOD leadership has impaired Army's ability to strengthen financial accountability.

Specifically, GAO found the following:

- The Army's budget execution information could not be relied on to ensure that the Army complied with disbursement limits established by the Antideficiency Act. For example, the risk of the Army making improper payments by exceeding authorized disbursement limits was increased

¹Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992).

because about \$5 billion in disbursements were not promptly or accurately matched with related obligations at the end of fiscal year 1992.

- Adequate records were not always retained to support recorded disbursements for the Army Materiel Command. Without these supporting records, Army could neither ensure the accuracy of recorded and reported disbursements nor research any questionable items or discrepancies.
- General controls over automated data processing operations relied on to support Army's financial accountability could not ensure that financial data were accurately processed or that automated systems and data were secured.
- DOD's efforts to improve Army financial management have been impaired by vacancies in the position of the DOD Chief Financial Officer. Also, DOD has no comprehensive plan to guide the assessment of financial management personnel qualifications or other financial management improvement efforts for the Army, and the roles and respective responsibilities of the various DOD organizations involved in carrying out Army's financial management operations have not been clearly delineated.

Principal Findings

Budget Execution System Was Not Reliable

The Army's budget execution system must accurately record disbursements against various limits to ensure that the Army complies with the Antideficiency Act. However, GAO found that the Army's budget execution information was unreliable. First, as of September 30, 1992, Army had \$4.9 billion of "undistributed disbursements." Army or other disbursing officers had made these disbursements but Army accounting offices had not recorded them. Because these disbursements had not been distributed, they had not been recorded against Antideficiency Act limits below the overall appropriation level. Second, in an effort to gain some budgetary control, each disbursement is initially charged against an overall appropriation before it is finally charged against lower level limits. However, this appropriation level control was unreliable because 17 percent of these initial charges were reversed and charged to different appropriations during fiscal year 1992. Finally, Army officials told GAO that during fiscal year 1992, the Army Materiel Command did not retain records that documented the posting of individual transactions to obligation and disbursement balances reported in the Army budget execution system. Because those records were missing for one automated Army system, GAO

could not verify that disbursements were properly posted and summarized.

Weak General Controls Place Financial Systems and Data at Risk

GAO identified several material weaknesses in the general controls over the automated data processing support for Army's financial systems. These weaknesses affected the reliability of the Army's financial data and the confidentiality of its systems and data. Specifically, (1) DOD's general controls could not effectively limit access to financial systems and data, (2) hundreds of emergency changes made to the programming for a key system used to manage and account for inventory were not promptly tested to ensure that the system's processing was not impaired, and (3) DOD did not have comprehensive, tested plans for continuing data processing in the event of a disaster or other catastrophic events affecting system operations. As a result, the automated data processing operations supporting Army's financial operations were vulnerable to undetected alteration of application systems or data—which could, in turn, lead to unauthorized payments or other misuse of resources and interrupted or severely restricted data processing operations.

Limited Progress in Implementing DOD-wide Financial Management Improvements

DOD has initiated a number of efforts intended to improve the qualifications of financial management personnel as well as the organizations and systems for the Army and other military services. However, these efforts have had only limited success. DOD undertook these initiatives without first determining its current and future financial management requirements and without comparing those requirements with existing personnel, systems, and organizations. As a result, DOD has not comprehensively examined the extent to which insufficient numbers or underqualified financial management personnel may have contributed to financial accountability weaknesses. Overall, DOD financial management improvement efforts have been hampered because key financial management leadership positions, most importantly a Chief Financial Officer for DOD, have either been vacant or filled by personnel in an "acting" capacity. A strong, committed Chief Financial Officer would be a focal point for all financial management in DOD, and is critical to providing the leadership needed to successfully implement Army financial management improvements.

Recommendations

GAO is making a number of recommendations to improve DOD and Army financial management operations. Recommendations include (1) ensuring

compliance with policies and procedures established to provide control over disbursements, (2) specific improvements to computer hardware and software security, as well as disaster contingency plans at automated data processing centers, and (3) developing and implementing a comprehensive plan for improving financial management operations within the DOD and Army. Chapters 2, 3, and 4 list GAO's specific recommendations.

Agency Comments

DOD commented on a draft of this report. These comments are discussed and evaluated in chapters 2 through 4 and provided in full in appendix III. DOD concurred with four of GAO's recommendations and partially concurred with two other recommendations. DOD cited a number of actions either underway or planned to address GAO's recommendations, including the establishment of a Senior Financial Oversight Council—chaired by the Deputy Secretary of Defense—to address financial management issues.

DOD partially concurred with GAO's recommendation to maintain current and regularly tested contingency plans for automated data processing centers and to install a back-up generator at the Rock Island automated data processing center. DOD stated that existing guidance already requires centers to maintain regularly tested contingency plans. However, GAO found that this guidance was not being implemented and that plans were not current because they did not address responsibilities assigned to the centers in February 1992. DOD also stated that it recognized the need for but lacked funding for a back-up generator at the Rock Island center. Because that center processes such a large portion of the Army's transactions, GAO continues to believe that funding for a back-up generator should be given a high priority.

DOD also partially concurred with GAO's recommendation directed at (1) identifying and monitoring financial management improvements within DOD and the Army and (2) clarifying the roles and responsibilities of the various DOD and Army organizations with Army financial management responsibilities. While DOD stated that it is developing a corporate plan for complying with the Chief Financial Officers Act, GAO found that DOD's plan did not identify the number or qualifications of financial management personnel needed to carry out assigned responsibilities. DOD also stated that existing DOD policies and procedures clearly delineated the roles and responsibilities of various DOD organizations. However, GAO found that these policies and procedures were too general to address uncertainties that it identified at DOD and Army financial management organizations.

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Abbreviations

ADP	automated data processing
AMC	Army Materiel Command
ATCOM	Aviation and Troop Support Command
CFO	Chief Financial Officer
CPA	Certified Public Accountant
CIM	Corporate Information Management
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DFAS-I	Defense Finance and Accounting Service-Indianapolis
DISA	Defense Information Systems Agency
DITSO	Defense Information Technology Service Organization
DOD	Department of Defense
FIPS	Federal Information Processing Standards
GAO	General Accounting Office
MICOM	Missile Command
OPM	Office of Personnel Management
TACOM	Tank-Automotive Command

Introduction

In the Department of Defense's (DOD) current environment of constrained resources and downsizing, the Army faces the enormous challenge of managing change while maintaining a strong military capability to carry out its mission. The Army's overall mission is to prepare land forces to perform offensive and defensive operations in order to defend the United States, deter aggression, and be ready to conduct warfare in conjunction with the other armed forces.

The Army received appropriations totalling about \$72 billion in fiscal year 1992. The Army is also responsible for assets with a reported value of about \$292 billion. The Army employs about 1.3 million active and reserve component military personnel and 334,000 civilian personnel.

This report examines the ability of DOD and Army financial management organizations to provide the financial information, leadership, and accountability needed to help achieve the Army's goals in today's fiscal environment by increasing the efficiency of its operations and cost consciousness of its personnel.

In addition to this report, we have issued a separate report on the Army's fiscal year 1992 financial statements¹ and additional detailed reports on significant internal control weaknesses we found in other areas of Army's financial management operations, such as real property,² payroll,³ and equipment.⁴

Chief Financial Officers Act of 1990

The primary objective of the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) is improving the financial management of government agencies. The act requires the President to appoint a CFO for each of 23 major departments and agencies, including DOD. In addition, it required the Army to prepare financial statements for fiscal year 1992 and have them audited.

¹Financial Audit: Examination of the Army's Financial Statements for Fiscal Years 1992 and 1991 (GAO/AIMD-93-1, June 30, 1993).

²Financial Audit: Army Real Property Accounting and Reporting Weaknesses Impede Management Decision-making (GAO/AIMD-94-9, November 2, 1993).

³Financial Management: Defense's System for Army Military Payroll Is Unreliable (GAO/AIMD-93-32, September 30, 1993).

⁴Financial Management: Army Lacks Accountability and Control Over Equipment (GAO/AIMD-93-31, September 30, 1993).

Under the act, agency CFOs are responsible for such key areas as (1) overall financial management organization, (2) financial management systems, (3) planning, (4) financial management reports, including audited financial statements, (5) performance measures, (6) credit management, (7) budget and accounting information, and (8) financial management personnel capabilities. In addition, the CFO Act and its implementing guidance require agencies to prepare a 5-year financial management plan that identifies their financial management personnel needs and establishes specific milestones for meeting those needs.

The Office of Management and Budget's "Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990" and DOD's "Financial Management Regulation" provide that the CFO should either be responsible for agency information resource management or be an active participant in any agencywide decisions affecting information resources.

DOD Financial Management Improvement Initiatives

Over the past 4 years, DOD has initiated major efforts intended to bring efficiency, reliability, and credibility to its financial management operations. The objectives of these efforts were consistent with the CFO Act. If successfully completed, these efforts would revolutionize how the business side of DOD—its financial support establishment—operates.

In response to a 1989 presidential request for management improvements in the federal government, DOD undertook long-term departmentwide efforts—called Defense Management Report Decisions—to streamline and improve financial and other management activities. Specifically, DOD took actions to establish the Defense Finance and Accounting Service, the Corporate Information Management initiative, the Defense Information Systems Agency, and the Defense Information Technology Service Organization. These initiatives were intended to significantly improve the personnel qualifications, organizational structure, and systems used to carry out financial management for the Army and the other military services.

Defense Finance and Accounting Service

In January 1991, DOD established a single organization under the DOD Comptroller for all finance and accounting activities throughout the department. This organization, known as the Defense Finance and Accounting Service (DFAS), consisted of a headquarters office, 5 major finance and accounting centers, and approximately 300 accounting offices

located on DOD installations. These offices were assigned responsibility for accounting and finance functions formerly carried out by the 3 military services and the Defense Logistics Agency. The former U.S. Army Finance and Accounting Center is now a component of DFAS and is known as the DFAS-Indianapolis (DFAS-I) Center.

Corporate Information Management

The Corporate Information Management (CIM) initiative was begun in 1989 to support DOD's efforts to improve operations and cut costs. CIM's goals are to (1) implement new, improved, or more uniform business methods, (2) improve the standardization, quality, and consistency of data from DOD's management information systems, and (3) reduce or eliminate redundant information systems. Through the CIM initiative, DOD has to a large extent taken over the military services' responsibility and associated resources for systems development. DOD views this initiative as its primary vehicle to resolve current departmentwide problems in financial operations.

Defense Information Systems Agency

In June 1991, the Defense Communications Agency was redesignated the Defense Information Systems Agency (DISA) to reflect its expanded role in implementing the CIM initiative. DISA was given overall responsibility for planning, developing, and supporting all DOD command, control, communications, and information systems. DISA is organized into several different offices and centers, including the Center for Information Management which is responsible for overseeing the CIM initiative and the Defense Information Technology Service Organization.

Defense Information Technology Service Organization

In April 1992, the Assistant Secretary of Defense established the Defense Information Technology Service Organization (DITSO) within DISA. During fiscal year 1992, the Army was responsible for its own information processing, software development, and related technical support. However, in September 1992, Defense Management Report Decision 918, Defense Information Infrastructure, expanded the responsibility of DITSO to include automated information processing for the military services, including the Army, on a fee-for-service basis. DITSO has direct oversight responsibility for all of DOD's central design activities and automated information processing centers.

Army's Financial Management Structure

Many DOD and Army organizations and personnel share responsibility for establishing and carrying out Army's financial management operations. Individuals with key responsibilities include the DOD Chief Financial Officer, the DOD Comptroller, and the Assistant Secretary of the Army for Financial Management. Key organizations are DFAS, DISA, DITSO, and finance and accounting organizations at Army field locations. These individuals and organizations are all integral parts of Army's financial management structure, along with other Army components that provide logistical and related data used in Army's financial reporting.

Army's accounting is performed through a network of DOD and Army headquarters-level organizations, over 11 major Army commands, hundreds of bases, and other installations worldwide. DFAS prepares financial statements for the Army and the Army's required reports to the Department of the Treasury. These organizations rely on about 40 financial management systems to prepare financial statements. In addition, the Army uses systems other than the general ledger as the source for reporting substantial account balances in its financial statements. For example, an estimated \$53 billion in tactical military equipment was developed from operational records.

As we reported in August 1992,⁵ Army's financial reporting did not flow from and was not supported by an integrated Army-wide general ledger system. Consequently, for DFAS-I to prepare fiscal year 1992 financial statements for the Army, it had to compile over 32,000 trial balances for 128 fiscal stations. DFAS fiscal stations at Army posts, camps, and installations prepared approximately 20,000 of the trial balances. Over 7,000 trial balances from the Army Materiel Command (AMC) were prepared by 31 fiscal stations and submitted to DFAS-I using 15 different systems or system configurations, including 7 systems that were unique to a specific fiscal station. The remaining trial balances were submitted by various other Army organizations, including 3,000 trial balances from the Corps of Engineers and another 1,000 trial balances from the National Guard. Appendix I identifies key budget and accounting systems relied on to record, process, and report financial data for the Army. Four major automated information processing centers process information from these systems.

Army relies heavily on AMC and its component commodity commands—such as the Tank-Automotive Command (TACOM), Aviation

⁵Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992).

and Troop Support Command (ATCOM), and Missile Command (MICOM)—to record progress payments and other disbursements on contracts to procure major weapon systems, supplies, and spare parts for the Army. AMC was responsible for recording an estimated 30 percent of the Army's disbursements in fiscal year 1992.

Objectives, Scope, and Methodology

We conducted this review as part of our audit of the Army's fiscal year 1992 financial statements, which were prepared as required by the Chief Financial Officers Act of 1990. The objectives of this report are to present the results of our assessment of the (1) reliability of the disbursements reported in Army's budget execution system, including its policies for supporting record retention, (2) adequacy of controls over automated data processing operations, and (3) progress made on DOD-wide initiatives intended to improve Army's financial management. Because we testified⁶ on the Defense Business Operations Fund on June 16, 1993, this report does not address that initiative.

To gain an understanding of Army's financial management structure, we (1) reviewed Army and DOD policies and procedures related to the organizational structure, budget execution system, general ledger control, record retention, and automated data processing operations and (2) discussed financial management operations and accountability procedures, functions, processes, and organizational structure with managers throughout the Army, DFAS, and DOD.

To evaluate the reliability of the Army's budget execution system, we judgmentally selected for audit five locations—including two AMC locations—whose operations processed a large percentage of Army disbursements. We tested key internal controls designed to ensure the accuracy of budgetary reports, including (1) the certification of reports, (2) reconciliations of unmatched disbursements with obligations, and (3) the reconciliation of budget execution report disbursements with disbursements reported to Treasury.

To evaluate Army's general controls over its automated data processing, we reviewed Army's documented procedures for (1) physical and systems security over data processing, (2) testing emergency changes made to software programs, and (3) contingency planning for continuing data processing operations in the event of a disaster. We determined if Army's

⁶Financial Management: Opportunities to Strengthen Management of the Defense Business Operations Fund (GAO/T-AFMD-93-6, June 16, 1993).

general controls in these areas complied with Federal Information Processing Standards (FIPS) prescribed by the National Institute of Standards and Technology. We also discussed selected procedures and controls with responsible Army officials. Our work did not include any tests of the application or operating systems used to process Army's automated financial data.

To review progress in implementing DOD-wide financial management improvements, we discussed with responsible DOD, DFAS, and Army personnel efforts to improve the qualifications of financial management personnel, the organizations, and the systems used to record and process financial data for the Army. We considered our previous reports, as well as those of the Army Audit Agency, the DOD Inspector General, and reports the Army prepared pursuant to the Federal Managers' Financial Integrity Act of 1982, which were relevant to our review.

We determined the total numbers of financial management personnel at (1) the Army commands included in our review, (2) DFAS-I, and (3) the Office of the Assistant Secretary of the Army for Financial Management. In addition, for top managers at these components, we determined educational levels and professional certifications. From information provided by the commands, we identified top managers based on their organizational responsibilities. For the other components, we defined top managers as personnel with grades of 14 and above, including senior executives. We obtained information on professional certifications from an informal survey we asked all three components to conduct. For the commands, civilian personnel offices provided data on the numbers of financial management personnel and the educational levels of top managers. For DFAS-I and the Office of the Assistant Secretary of the Army for Financial Management, information on total numbers and educational levels was accumulated from a data base maintained by the Defense Management Data Center. We did not verify any of the data provided to us.

We conducted our work at the Office of the Secretary of Defense, Defense Finance and Accounting Service, and Army headquarters. In addition, we conducted work at three Army major commands, three of the Army's four automated information processing centers, the four central design activities that supported 82 percent of the Army's disbursements and equipment and inventory assets, and the Army organization responsible for establishing and maintaining automated data processing security. Appendix II presents the primary locations where we performed our audit.

Chapter 1
Introduction

We conducted our review between June 1992 and April 1993 in accordance with generally accepted government auditing standards. DOD provided comments on a draft of this report. These comments are discussed in chapter 2 through 4 and are reprinted in appendix III. We have incorporated DOD views where appropriate.

Budget Execution System Was Not Reliable

According to its records, during fiscal year 1992, the Army disbursed about \$64.8 billion, excluding payments for military personnel compensation and benefits. Under the Antideficiency Act (31 U.S.C. 1341 and 1517), the Army must ensure that disbursements do not exceed limits set in appropriations, apportionments, and certain administrative subdivisions of funds.

In response to our report entitled, Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82 August 7, 1992), DOD asserted that the Army has reasonable assurance that controls are in place to ensure that its disbursements do not exceed Antideficiency Act limits. However, we found during this review that the Army's budget execution system did not accurately or promptly record billions of dollars of disbursements. Specifically,

- billions of dollars of disbursements were not charged to applicable administrative subdivisions of funds,
- appropriation level control over billions of dollars of disbursements was not reliable,
- Army Materiel Command offices did not retain the records needed to substantiate balances reported in the budget execution system,
- contract progress payments were not always charged to correct appropriations, and
- the Army continued to incur large amounts of negative unliquidated obligations.

As a result, the Army's budget execution system could not provide responsible Army or DOD officials with reliable information needed to ensure that the Army had complied with the Antideficiency Act. In addition, the lack of reliable disbursement information could make it difficult for the Army to ensure that it disburses available appropriation balances before the appropriations are canceled. As a result, disbursements of current Army obligations could be charged to future appropriations.

Importance of Budget Execution System Information

Under the Antideficiency Act, federal agency officials may not "make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund" (31 U.S.C. 1341). Thus, the Army would violate the act if, for example, the total disbursements charged to an annual Operation and Maintenance appropriation exceeded the amount that the Congress had appropriated for a particular fiscal year. The act also prohibits making or authorizing expenditures that exceed (1) amounts

apportioned by the Office of Management and Budget and (2) administrative subdivisions of funds made by agencies under regulations prescribing their administrative control of appropriations (31 U.S.C. 1517).

Army Regulation (AR) 37-1 prescribes the administrative controls over Army appropriations. Under this regulation, Army officials may not make or authorize expenditures that exceed administrative subdivisions of funds. Army offices establish these subdivisions as they pass funds through command channels on Funding Authorization Documents that identify limitations on using the funds. According to AR 37-1, the overobligation or overexpenditure of an administrative subdivision of funds established in a Funding Authorization Document is an Antideficiency Act violation.

The Army's budget execution system provides reports to commanders regarding the status of the funds that have been distributed. The reports are designed to include the total funds available for obligation, as well as the obligations and disbursements that have been charged against available funds. Thus, these reports are designed to contain the information necessary to ensure that the Army is complying with the Antideficiency Act prohibition against overdisbursing funds.

Recording disbursements accurately and promptly is also necessary to correctly forecast future disbursements. For example, if a \$100 disbursement is "matched" to the incorrect obligation, the Army's reports will show that \$100 of obligations which are actually outstanding have been paid. Since the obligation appears to have been liquidated, the Army will not be concerned about ensuring that it has the funds to pay the obligation. This is particularly important under rules governing expired appropriations. Under 31 U.S.C. 1551-1558, all appropriation balances are canceled 5 years after the appropriations have expired. Thereafter, within certain limits, disbursements for goods or services that could have been charged to those appropriations may only be paid with current appropriations.¹ In the example above, the Army may not discover that it mismatched the \$100 obligation until the applicable appropriation balances are canceled. To pay that obligation, the Army would have to charge the disbursement against then-current appropriations or seek a

¹Up to 1 percent of each current appropriation is available to pay obligations of appropriation accounts available for the same purposes that were canceled 5 years after the accounts expired.

supplemental appropriation.² Declining Army appropriations over future years could make this problem more severe.

Administrative Subdivision Level Controls Over Billions of Dollars of Disbursements Were Not Reliable

Many Army disbursements are made by non-Army offices or Army offices which are not responsible for controlling the funds. For example, the Defense Finance and Accounting Service (DFAS) makes payments to Army contractors for major weapons systems acquisitions. During fiscal year 1992, DFAS-Columbus disbursed over \$19 billion to Army contractors.

When DFAS makes a disbursement under an Army contract, it must notify the appropriate Army funding office so that the disbursement can be matched and charged to its associated obligation and subdivision of funds. Until such disbursements are matched to obligations, they are accounted for as "undistributed disbursements" and are matched to an overall appropriation. At any given time, the Army will have undistributed disbursements. AR 37-1 states that undistributed disbursements should be matched against the correct obligations within 30 days.

At the end of fiscal year 1992, the Army had \$4.9 billion in undistributed disbursements. About \$2.9 billion of these were over 30 days old. Since disbursements are not reflected in the Army's budget execution system at the appropriate administrative subdivision level, the Army's status reports for its administrative subdivisions of funds at the end of fiscal year 1992 were incomplete. Thus, the information the Army needed to assess compliance with Antideficiency Act limits on disbursements was inaccurate and unreliable.

Appropriation Level Control of Undistributed Disbursements Was Not Reliable

As mentioned above, when disbursements are made by offices other than the Army office responsible for controlling the funds, they are initially charged to an overall appropriation rather than a specific obligation. These initial charges are relied on to provide a minimal level of control to ensure that the Army is not overexpending its appropriations in violation of the Antideficiency Act.

However, DFAS reported that during fiscal year 1992, 17 percent of those disbursements were charged to a different appropriation when the responsible funding organizations matched them to obligations. Because of the magnitude of these changes, the Army could not reliably account for

²In some circumstances, up to 1 percent of current appropriations are available to pay obligations that would have been charged to expired appropriations, but exceeded the amounts available (Public Law 102-484, section 1004).

its undistributed disbursements at the overall appropriation level. Consequently, the Army's ability to ensure that its undistributed disbursements would not cause a violation of the Antideficiency Act was impaired.

Records Not Retained to Support Balances in Budget Execution System

In a letter dated November 12, 1992,³ we requested that the Army assist us in obtaining accounting records to document the posting of individual Army Materiel Command (AMC) transactions⁴ to Army's budget execution system. In response to our letter, DOD officials told us that during fiscal year 1992, the Army Materiel Command did not retain these records. We believe that these records are needed to substantiate the obligation and disbursement balances reported in the Army's status reports on its administrative subdivisions of funds. However, the Army disagreed that these records are needed, asserting that the records merely transferred the transaction information into an automated accounting system and therefore did not need to be retained.⁵

In order to verify that disbursement transactions are correctly posted and to research any questionable items or discrepancies, the Army must have a link between the original source documents for its transactions and the cumulative balances in its budget execution system. Such a link is comparable to a check register that permits the individual transactions comprising balances to be verified for a checking account. For example, at the Army Materiel Command, the Standard Operation and Maintenance, Army Research and Development System (SOMARDS) should provide this link for Operations and Maintenance (O&M) and Research, Development, Test and Evaluation (RDT&E) appropriations.

Regarding SOMARDS, we could not verify that transactions were properly posted and summarized because (1) its data base, during normal processing, deletes the individual transactions that comprise the cumulative obligation and disbursement balances and (2) commodity commands' finance offices do not retain the hard copy printouts showing how these transactions were posted. Such records provide the only

³Acting Assistant Secretary of the Army (Financial Management), (GAO/AFMD-93-39R, Nov. 12, 1992).

⁴AMC disbursed about \$29 billion in fiscal year 1992, or about 45 percent of the Army's total nonmilitary personnel disbursements.

⁵As explained in our report, *Financial Audit: Examination of the Army's Financial Statements for Fiscal Years 1991 and 1992* (GAO/AIMD-93-1, June 30, 1993), we believe that AMC's failure to retain these records represents a material noncompliance with laws and regulations governing the Army's retention of financial records.

available means to verify that O&M and RDT&E transactions have been posted, and posted correctly, to the Army's budget execution system. Accordingly, because the Army does not retain these records, the disbursement balances in the budget execution system cannot be shown to be reliable.⁶

As with undistributed disbursements, the Army's disbursement balances could be incomplete, thus making the information needed to assess compliance with Antideficiency Act limits on disbursements inaccurate and unreliable. Similarly, the unreliable disbursement balances could be erroneously high. Overstated disbursements in the Army's budget execution system could cause the Army to underestimate its required future outlays. As discussed previously, unanticipated future outlays may have to be made from future appropriations.

According to Army officials, as a result of our letter, records for all transactions are being retained as of October 1, 1992.

Progress Payments Were Incorrectly Matched to Appropriations

The Tank-Automotive Command (TACOM), a subordinate command within AMC, did not always ensure that progress payments were charged to the correct appropriations. Most fixed priced contracts for large dollar goods and services require progress payments, to reimburse the contractor for a specified percentage of actual costs for work in progress. The payments are intended to help maintain the contractor's solvency through delivery of the finished product.

Contracts with progress payments are sometimes funded by more than one appropriation. Unless the progress payments are properly allocated, the Army may charge these disbursements to the wrong appropriation or administrative subdivision. In this regard, DOD guidance (DOD 7220.9-M) states that it is "desirable" for the contractor's request for progress payment to identify the appropriation against which payment is being requested. However, in the absence of such information, this guidance requires that progress payments be prorated based on unliquidated obligations, beginning with the oldest appropriations first.

⁶At one of the two AMC commands visited during our audit, we found that the finance office had not discarded the fiscal year 1992 hard copy printouts of disbursement transactions for RDT&E funds. As discussed later in this chapter, these records showed that certain progress payments for these funds were charged to the wrong appropriations. Similar errors cannot be detected and corrected when the records showing how individual transactions are posted have not been retained.

Of 39 progress payment disbursement transactions we reviewed at TACOM we found that 15 had not been matched in accordance with DOD guidance. Although DOD officials told us that AMC commands did not retain SOMARDS' records of individual disbursements, TACOM had not discarded hard copy printouts of disbursements that SOMARDS processed against RDT&E appropriations during fiscal year 1992. These records showed that some progress payments had been charged to wrong appropriations. Examples include the following:

- TACOM charged one entire \$25 million progress payment to the Army's fiscal year 1990 appropriation for the procurement of weapons and tracked vehicles. However, information supplied with the contractor's invoice showed that the disbursement should have also been applied to weapons and tracked vehicles procurement appropriations for other fiscal years, and to an appropriation for foreign military sales.
- TACOM posted a \$14.7 million progress payment to Army's fiscal year 1991 research and development appropriation. However, information supplied with the contractor's invoice showed that about \$6.4 million of that amount should have been posted to its appropriation for the procurement of weapons and tracked vehicles, \$15,000 to foreign military sales funds, and \$77,000 to Defense research and development funds. After 2 months, TACOM posted the correct amount to its procurement funds, but it had not corrected the foreign military sales and the DOD research and development funds.

As discussed above, Army accounting offices charge disbursements to Antideficiency Act limits (including appropriations) by matching the disbursements to corresponding obligations. Thus, unless Army can match a disbursement with a specific obligation, it cannot actually record the disbursement in its budget execution system, even if it is able to determine that a disbursement is generally chargeable to an appropriation. Thus, in order to allocate progress payments in accordance with DOD guidance, either to the appropriations identified by the contractor or to unpaid obligations on a priority basis, Army officials must identify specific corresponding obligations.

With the contractor-supplied information that we examined, TACOM officials could, through a cumbersome process, determine the obligations that should be charged. However, TACOM had not always followed this process. For example, we found that the 15 incorrectly allocated progress payments at TACOM had generally been inappropriately "matched" to only one obligation. With additional information from the contractors on the

obligations that should be charged, TACOM could more easily match progress payments to obligations in accordance with DOD guidance.

According to one TACOM product manager, applying charges “en masse” in this manner (called “bucket filling”) not only resulted in charges to the wrong appropriations, but also resulted in disbursements exceeding their associated obligations, a situation called negative unliquidated obligations (NULOs).

To address these types of problems, the DOD Inspector General reached an agreement on March 31, 1993, with the Director, Defense Procurement and Deputy Comptroller, Management Systems, to revise DOD 7220.9-M to require that specific obligations directly related to each payment request be identified before the payment is made.

Army Continued to Incur Large Amounts of Negative Unliquidated Obligations

As of September 30, 1992, three of the five directorates of DFAS-Columbus reported that Army disbursements exceeded associated obligations by \$632 million. Because disbursements should not exceed obligations these NULOs indicate a breakdown in internal controls and are symptomatic of budgetary problems that can lead to Antideficiency Act violations. In May 1990, we reported⁷ that some NULOs were caused by overpayments to contractors and by processing errors. However, we were unable to determine the causes for many of these NULOs. Also, we reported in September 1992⁸ that despite attempts by DFAS and the Army Materiel Command to reduce or prevent them, NULOs had increased. In response to that report, Army Materiel Command officials stated that ineffective communication of contract and payment information between the commands’ system and DFAS is a major cause of NULOs. According to the officials, both the contract information transmitted from the commodity commands to DFAS and the payment information transmitted from DFAS to the commodity commands are either inaccurate or incompatible.

We found that the incorrect processing of disbursement transactions which we reported in May 1990 continued through fiscal year 1992, as did duplicate and erroneous payments. During fiscal year 1992, DFAS-Columbus solicited and contractors returned approximately \$118 million, including \$50 million from Army contractors. During the first 6 months of fiscal year

⁷Financial Management: Army Records Contain Millions of Dollars in Negative Unliquidated Obligations (GAO/AFMD-90-41, May 2, 1990).

⁸Financial Management: Weak Financial Accounting Controls Leave Commodity Command Assets Vulnerable to Misuse (GAO/AFMD-92-61, September 4, 1992).

1993, DFAS received about \$751 million, including \$273 million of solicited refunds and \$478 million of voluntary refunds. DFAS-Columbus hired a contractor to identify additional erroneous disbursements for collection.

Conclusions

The Army's budget execution system has fundamental weaknesses, particularly in accounting for Army Materiel Command disbursements. These weaknesses limit the Army's ability to ensure its compliance with the Antideficiency Act. In addition, inaccurate reporting could cause the Army to underestimate its future required outlays and could lead to the Army paying its current obligations out of scarce future appropriations. Further, the fact that contractors have voluntarily refunded significant amounts to the Army indicates that the Army may be unaware of other substantial, yet inappropriate, payments it has made to contractors.

Because Army commands and DFAS share responsibility in accounting for undistributed disbursements, a cooperative effort from both would help (1) resolve budget execution system errors and (2) ensure that accurate information is available for posting. Also, the proposed revisions to DOD 7220.9-M could help ensure that progress payments are matched correctly to obligations.

Recommendations

We recommend that the DOD Chief Financial Officer head a cooperative effort with DFAS and the Army to evaluate and resolve problems and systemic difficulties in the budget execution area, including the failure to follow certain policies and procedures that are resulting in (1) numerous changes in the posting of disbursements to appropriations and (2) delays in distributing and correctly posting disbursements made by offices other than the Army office responsible for controlling the funds.

Furthermore, we recommend that the DOD Chief Financial Officer monitor progress against milestones established for the implementation of proposed changes to DOD 7220.9-M to ensure that funding/paying offices are (1) receiving the information necessary to correctly match progress payments with obligations and (2) matching payments to obligations correctly.

Agency Comments and Our Evaluation

DOD concurred with both recommendations in this chapter. DOD stated it (1) is developing a plan to eliminate systemic operational and system causes of unmatched disbursements, undistributed disbursements, and negative unliquidated obligations, (2) has established a task force to research and resolve existing unmatched disbursements, and (3) has established a Senior Financial Management Oversight Council—chaired by the Deputy Secretary of Defense—to provide a forum to discuss and review existing and emerging financial management issues. It also stated that DOD's Acting Chief Financial Officer will continue to monitor the implementation of changes to DOD guidance intended to help ensure the proper matching of payments with related obligations.

DOD, however, only partially concurred with our discussion of the issues in this chapter. While acknowledging that undistributed disbursements occur, DOD stated that there were no known Antideficiency Act violations resulting from undistributed disbursements. Because of the internal control weaknesses which led to undistributed disbursements, as well as the other control weaknesses discussed in this chapter, we continue to believe that DOD would not have the reliable information needed to determine whether any Antideficiency Act violations had occurred.

Weak Automated Data Processing Controls Place Financial Systems and Data at Risk

We reviewed general controls¹ at three of the four centers that process automated financial and management information for the Army and at four central design centers responsible for computer system software design and program changes for the majority of Army's disbursement and equipment and inventory accountability systems. We found that material weaknesses existed in the general controls over key automated data processing (ADP) operations the Army uses to support its accounting and operational systems. Specifically, weaknesses existed in the general controls used to

- limit access to Army's automated data processing systems and data,
- promptly ensure the appropriateness of emergency changes to automated program software, and
- provide for contingency plans to ensure continuing automated processing operations in the event of a disaster.

In conducting our work, we evaluated the design and effectiveness of controls and found that Army's automated data processing operations were at risk of (1) not processing information, including financial data, accurately and reliably in accordance with agency policies or regulations, (2) allowing unauthorized individuals to gain access to automated data processing programs and data, (3) allowing unauthorized changes to application software or data, and (4) having its data processing activities interrupted or severely restricted.

The Defense Information Technology Service Organization, under the direction of the Assistant Secretary of Defense for Command, Control, Communication, and Intelligence, has direct oversight responsibility for the Army's central design activities and automated information processing centers. In addition, OMB's February 1991 guidance implementing the CFO Act prescribes a consultative role for agency CFOs in any agencywide decisions affecting information resource management.

Inadequate Security Controls Over Software and Data

Army Regulation 380-19, Information System Security, specifies that access to automated data should generally be granted on a "need to know" basis. This regulation applies not only to system applications access but also to system files and data. However, because the Army has not established detailed, uniform procedures to implement this policy

¹According to generally accepted government auditing standards, general controls over an entity's automated data processing operations include (1) organization and operation controls, including contingency planning, (2) systems development and documentation controls, (3) hardware and software controls, (4) access controls, and (5) data and procedural controls.

- (1) access authorization restrictions on ADP programs and data, including critical inventory and logistics systems applications, could not prevent unauthorized use at the three processing centers we visited and
(2) controls over access to computer resources were not effective.

**Access to ADP Operations
and Information Not
Adequately Controlled**

The Army did not have detailed procedures needed to ensure that the “need to know” access restriction policy was implemented effectively and uniformly at the three Army processing centers included in our review. Specifically, the Army did not establish uniform, detailed guidance and requirements for ADP processing centers regarding (1) who should designate the individuals authorized to access specific systems and data, (2) what files or data within these systems could be accessed, and (3) the extent to which authorized users could use accessed files or data.

Access control procedures varied among the data processing centers visited because Army regulations do not define how access authorization restrictions should be implemented at the operating level. As a result, the centers’ security officers established their own methods of restricting system access and controlling files and data. For example, one center had virtually no controls and none of the centers had effective procedures to control passwords used to gain system access to files and data.² As a result, processing center security officers could have accessed passwords assigned to other personnel and, using these passwords, fraudulently added, modified, or deleted transactions to convert Army assets to their personal use.

At one processing center, we found that all personnel with valid passwords could have accessed any data files, including payroll transactions processed at that location. Unlimited access of this kind could permit the center’s personnel to increase their pay checks and destroy the routinely maintained record of who had accessed the file and made changes to avoid detection. These weak access restrictions made the centers’ systems vulnerable to abuse.

**Nonstandard Names for
Computer Resources
Security Controls**

The Army could not effectively restrict access to its computer resources—files or data, such as hourly pay rates and hours worked in a payroll system—in the current consolidated processing environment because it did not develop a standard naming format for its computer

²Passwords are a common means to provide electronic access control. Passwords, along with other access controls, can be used to limit access to the entire system or parts of a system or limit what the individual can look at or change once inside the system.

resources. A standard naming format is a common method for identifying computer resources. Limiting access to resources is important in large mainframe computers because they can control hundreds of thousands of resources. With mainframe security packages—a set of access and resource rules—computer resources can be protected by defining which users are authorized which resources. If the naming format is standardized so that resources can be grouped, one simple rule can be written to allow access to a family of resources. However, without a standard for naming resources, individual rules must be written to control access to each resource.

Before consolidating its data processing in 1992, the Army had three segregated processing environments: installations, depots, and commodity commands. Each of the three had a distinct naming format. When the three environments were consolidated, the number of users and the resources that had to be controlled greatly increased, as did the difficulty of restricting user access to resources on a “need to know” basis.

Because many different naming formats existed for the resources in the consolidated processing environment, security officers responsible for developing the rules could not write simple global rules to control groups of users and/or resources. Instead, they would have had to write thousands of rules to restrict access. According to security officers, they did not have the personnel or time to do this. As a result, rules to control access to Army’s computer system processing resources were not developed and the processing environment was not secure.

Emergency Changes to Key Systems Not Promptly Tested

The Army design center responsible for maintaining the software for key Army inventory and logistics systems did not promptly conduct independent tests of hundreds of emergency changes made to software programs for those systems during fiscal year 1992. According to design center officials, emergency changes are quick fixes made when a system stops processing. Independently testing emergency changes to these systems is particularly important because of the systems’ size and key roles in Army inventory management. For example, the Commodity Command Standard System (CCSS) annual processing includes about 1.4 million in inventory orders and an estimated \$26 billion in inventory procurements. In fiscal year 1992, CCSS processing stopped on an average of twice a day and required 673 emergency changes to various portions of its software.

Army Regulation 25-3, Army Life Cycle Management of Information Systems, requires that comprehensive and independent tests and evaluations, as well as quality assurance programs, be developed and executed for all information systems. Guidelines for Security of Computer Applications, Federal Information Processing Standards (FIPS) 73, states that an independent review of program codes, including emergency changes, is the most effective technique for preventing fraudulent or improper modifications to software. In addition, Guidelines on Software Maintenance, FIPS 106, states that (1) agencies' prescribed testing procedures should define the degree and depth of testing to be performed and (2) test procedures should, whenever possible, be developed by someone other than the person who performed the actual maintenance on the system.

While officials acknowledged the need to test emergency changes, they told us that changes were not tested when they were made, but that a required comprehensive semiannual update of system software would test the entire system, including any emergency changes.³ Since emergency changes were not tested for up to 6 months, Army could not ensure that key processing operations were functioning as intended for that period.

Without prompt, independent follow-up tests on emergency changes to determine if they may have caused unintended errors in other portions of systems processing, Army cannot be assured that CCSS and other key inventory, logistics, and depot systems have correctly processed and reported transaction information.

Disaster Recovery Plans Incomplete and Untested

The Army's four automated data processing centers did not have complete, current, or tested contingency plans. These plans are needed for ensuring that financial and other management information could be maintained on a reasonably accurate and current basis if data processing operations were unexpectedly interrupted due to a disruption of electrical power or other event that might cause operations to halt. Specifically, we found that

- the contingency plans did not include provisions for processing logistics, inventory, or depot transactions in the event of a disaster;
- none of the centers had tested their contingency plans; and

³According to design center procedures, semiannual system reviews of an entire system's programming are made every 6 months to incorporate any system changes necessary as a result of new or revised laws or regulations or system user requirements.

- if a disaster terminated electrical power at Rock Island, the largest of the Army's processing centers, operations could only be maintained through battery supplied power for 20 minutes because the center did not have a backup power generator.

As a result of these weaknesses, Army's automated data processing operations—including the processing of critical payroll, finance, and logistics transactions—were vulnerable to service disruptions or significantly reduced processing capabilities in the event of a disaster. For example, an extended service disruption at the Rock Island data processing center—which services about 40 percent of the Army's installations—would force the Army to rely on an untested contingency plan to distribute the center's processing responsibilities to the three other centers whose emergency plans were also untested.

Guidelines for ADP Contingency Planning (FIPS 87) and OMB Circular A-130, "Management of Federal Information Resources," require federal agencies to have viable contingency plans. Specifically, the plans are required to cover all locations using or relying on automated data processing or storing original source documents. In addition, OMB requires agency plans to identify and prioritize those applications that must be processed in the event of a disaster and provide for testing of the resources needed to ensure continued processing of sensitive applications.

Before Army data processing operations were reorganized in February 1992, the Army had contingency plans to continue system processing for its payroll, personnel, and installation-related financial information in the event of a disaster. However, after the reorganization, the processing centers were also given responsibility for logistics, inventory, and depot systems, along with responsibility for additional computers, peripherals, and associated software. The centers did not receive, nor have they since developed, contingency plans for this second set of systems. In addition, none of the centers had tested the contingency plans they had prior to the February 1992 reorganization.

OMB's February 1993 report, Observations of Agency Computer Security Practices, recognized that establishing viable contingency plans and periodically testing them can be expensive. However, it concluded that comprehensive tested contingency plans contribute significantly to an agency's ability to minimize processing disruption in the event of a disaster. In addition, the director of one of the processing centers recognized the need for a comprehensive and tested contingency plan but

cited funding constraints and insufficient staff as the reason for not enforcing this requirement.

Conclusions

Weaknesses in the Army's general controls over its automated data processing operations could adversely affect (1) the accuracy and reliability of the Army's financial data and (2) the Army's ability to protect that data. Unless actions are taken to correct these weaknesses, the effectiveness of efforts designed to improve Army financial accountability will be limited. In addition, because effective automated data processing is an integral part of effective financial management, consulting the DOD CFO would help ensure a coordinated, controlled ADP system design and operation.

Recommendations

We recommend that the Assistant Secretary of Defense for Command, Control, Communication, and Intelligence

- issue detailed procedures, or establish other controls, to implement existing security access policies, including specifying (1) who is responsible for identifying individuals that should be authorized access to what systems, (2) how system resources are controlled, and (3) a standard system naming convention for all automated systems;
- instruct all system design center directors to establish procedures to implement existing federal standards and regulations requiring follow-up testing of all emergency software changes; and
- maintain current, regularly tested contingency plans for all automated data processing centers and install a back-up generator for the Rock Island automated data processing center.

Agency Comments and Our Evaluation

DOD concurred with the issues discussed in this chapter and two of our three recommendations. DOD partially concurred with our recommendation concerning maintaining contingency plans for its automated data processing centers and installing a back-up generator for the Rock Island automated data processing center. Specifically, DOD stated that instructions issued in January 1993 provided guidance on maintaining regularly tested contingency plans for its automated data processing centers. However, we found that none of the centers had developed contingency plans for the systems processing responsibilities they received in February 1992. Nor had any of the centers tested the contingency plans they had previously developed for other systems.

DOD also stated that while it has recognized the need for a back-up generator at Rock Island, it has not been able to obtain funding to meet this requirement. Because of the importance of ensuring that the Rock Island center's processing—which services about 40 percent of Army's installations—remains operational at all times, we continue to believe that a back-up generator for the center should receive a high DOD funding priority. The Army previously estimated that the back-up generator would cost about \$2.6 million.

We are also concerned about DOD's proposed actions in response to the two recommendations in this chapter with which it concurred. First, in response to our recommendation that detailed procedures be issued to implement existing security access policies, DOD stated that it plans to revise DOD policy directives issued in 1985 and 1988. Specifically, it plans to revise the directives to "reemphasize existing security access policies, including the areas recommended by the GAO." We found that automated data processing centers did not adhere to existing DOD security access policies. Consequently, we are concerned that reemphasizing existing policies, without also providing more detailed procedures on how to comply with security access policy, will not address the security access weaknesses we found.

Second, in response to our recommendation that all system design center directors establish procedures to implement existing requirements for emergency software change testing, DOD stated that it has issued guidance (DOD Directives 8120.1 and 8120.2) that summarizes policies, responsibilities, and procedures for DOD life-cycle management of its automated information systems. These directives summarize design centers' responsibilities for automated system software testing. However, design center procedures only required testing emergency changes to system software every 6 months, not as the changes were made. Consequently, the Army and DOD cannot be assured that these changes are achieving their intended result for up to 6 months after they are implemented. We continue to believe that additional procedural guidance requiring independent follow-up testing of emergency system software changes at the time they are made is needed to ensure the effective implementation of existing DOD directives.

Limited DOD Progress in Strengthening Army's Overall Financial Management

Since the CFO Act was passed in 1990, DOD has made limited progress in improving the qualifications of financial management personnel, establishing an effective financial management organizational structure, and standardizing systems used to carry out Army financial operations. Because most of the military services' accounting functions have been consolidated under DOD's Defense Finance and Accounting Service (DFAS) and other DOD centralization efforts, Army's financial management operations are heavily dependent upon DOD actions and leadership. Although DOD has begun initiatives designed to fundamentally change departmentwide financial management operations, these actions were not undertaken in the context of a comprehensive, coordinated strategic plan. In addition, without sustained, strong leadership and commitment from a DOD CFO, the likelihood of successfully achieving and sustaining financial management improvements will be greatly diminished.

CFO Act and OMB Requirements for Financial Management Improvements

The CFO Act of 1990 and OMB's February 1991 guidance to agencies on preparing CFO organizational plans outline the agency CFO's authority and role in improving the qualifications of financial management personnel, as well as the agency's organizational structure and systems. Specifically, under the act and OMB's guidance, the agency CFO should

- direct, manage, and provide policy guidance and oversight of agency financial management personnel, including (1) identifying financial management personnel needs and actions to ensure those needs are met and (2) providing advice on financial management personnel qualifications, recruitment, performance, training, and retention policies;
- report directly to the agency head on all financial matters and oversee all agency financial management activities relating to agency programs and operations;
- have direct responsibility for implementing adequate systems that produce useful, reliable, and timely financial and related programmatic information; and
- prepare comprehensive annual financial statements.

Financial Management Personnel Needs Not Established

DOD has not identified current and future financial management personnel requirements needed to carry out Army financial management operations. Consequently, DOD cannot effectively take actions to meet those needs. While DOD has already begun several initiatives designed to strengthen the qualifications of Army as well as other DOD agency financial management personnel, the deficiency these initiatives were addressing was unclear,

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and DOD has little assurance that these initiatives address its most urgent need or that they will be comprehensive and effective. If DOD is to effectively carry out financial operations while at the same time downsizing and consolidating its financial personnel resources, establishing financial management personnel requirements is particularly critical.

As we have previously reported,¹ a framework for improving financial management personnel should normally include (1) identifying personnel currently responsible for carrying out financial management functions and their qualifications (levels of education, professional certifications, experience, and training), (2) assessing the number and qualifications of the personnel needed for each financial management function, and (3) developing a comprehensive plan to address any personnel needs disclosed by a comparison of current and needed personnel, including plans for recruiting, selecting, training, and retaining financial management personnel.

DOD did not have comprehensive and accurate information on the numbers or qualifications of the personnel currently responsible for carrying out financial management for the Army. Obtaining such information would be an essential step in developing a framework to strengthen DOD's financial management personnel. Specifically, systematically compiling and monitoring information—on an organizational basis—on the number and qualifications of personnel in comparison with their assigned financial management responsibilities is necessary to identify financial management personnel needs and to ensure those needs are met in accordance with the CFO Act.

If such baseline information were available, DOD could (1) assess whether individuals currently in managerial positions needed additional training or professional certifications to better carry out their assigned responsibilities and (2) specify factors that should be given preference in filling vacancies. The Office of Personnel Management (OPM) prescribes

¹The Defense Business Operations Fund (GAO/AFMD-93-52R, March 1, 1993); U.S. Department of Agriculture: Need for Improved Workforce Planning (GAO/RCED-90-97, March 6, 1990).

minimum education and experience qualification requirements,² by occupational series and grade level, that agencies must comply with in filling professional positions. For example, OPM's handbook specifies that in filling vacancies in the Accountant (510 occupational series) at the General Schedule (GS) 5 level, in general, agencies must ensure that applicants have a minimum of the equivalent of an accounting degree, including at least 24 semester hours in accounting. The handbook further provides that for positions at the GS-7 level and above, agencies must generally ensure that applicants have at least 1 year's experience at the next lower grade level in addition to these minimum requirements.

However, OPM regulations also permit agencies to use "quality ranking factors" to supplement these minimum qualification requirements in selecting individuals to fill vacant positions. Specifically, OPM regulations permit the use of ranking factors, such as professional certifications, to help determine which of the applicants meeting the minimum qualifications for a position are likely to be better qualified and perform more effectively in that position. For example, for a vacancy in a key GS-510 Accountant managerial position, DOD could identify a Certified Public Accountant (CPA) certificate as a quality ranking factor.

Using a variety of sources, we were able to assemble information on the number of financial management personnel, along with limited information on the qualifications of top managers in the finance and accounting offices of three Army Materiel Command (AMC) components' headquarters (Missile Command, Tank and Automotive Command, and Aviation and Troop Support Command), the Training and Doctrine Command, DFAS-I, and the Army's office of the Assistant Secretary for Financial Management (ASA(FM)). These offices have key roles in carrying out financial management operations for the Army. For example, AMC locations accounted for over \$29 billion of the Army's disbursements during fiscal year 1992, and DFAS-I consolidated information from over 32,000 general ledgers submitted by Army accounting offices in preparing financial statements for the Army. Table 4.1 summarizes the information we were able to obtain on the numbers of financial management personnel

²OPM's Qualification Standards Handbook specifies minimum qualification requirements for professional positions, including GS-510 Accountant positions. To meet the minimum qualifications for GS-510 Accountant positions, an applicant must meet one of the following sets of requirements: (1) a degree in accounting or a related field that includes 24 semester hours in accounting, (2) a combination of education and at least 4 years accounting experience, including 24 semester hours in accounting or a certificate as a CPA or as a Certified Internal Auditor, or (3) a degree in accounting or a related field that does not include the requisite 24 semester hours in accounting, but experience that demonstrates knowledge of accounting equivalent to that associated with the completion of an accounting degree.

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and selected information on the qualifications of top managers at these key accounting locations.

Table 4.1: Selected Qualifications of Top Managers at Key Accounting Locations

Organization	Total financial management personnel ^a	Top managers		
		Total ^b	Total with bachelors or graduate degrees	Total with professional certification ^c
Missile Command	224	21	13	0
Tank and Automotive Command	167	27	14	2
Aviation and Troop Support Command	271	25	17	2
Training and Doctrine Command	14	3	1	0
DFAS-I	1,553	84	76	7
ASA (FM)	164	72	45	3

^aThis total includes both the DFAS personnel and Army managerial accountants at command headquarters' finance and accounting offices.

^bTop managers include the directors and deputy directors; division, branch, and section chiefs for command headquarters locations; and individuals at a General Schedule 14 and above for DFAS-I and ASA(FM).

^cProfessional certifications include any type of business related certification such as a CPA, Certified Internal Auditor, Certified Management Accountant, or Certified Fraud Examiner.

DOD officials stated that job related experience and training, which are not recognized in table 4.1, are also important factors to be considered in determining financial management personnel qualifications. While we agree that job related experience and training are important, we continue to believe that education and professional certifications are also important. Furthermore, information on the job related experience and training of financial management personnel was not readily available. Consequently, we could not conclusively determine whether either the numbers or qualifications of financial management personnel at the locations shown in table 4.1 were appropriate. However, the fact that only limited information was available does serve to underscore the importance of carrying out a comprehensive and systematic assessment to determine whether improvements in financial management personnel qualifications could help eliminate the accounting and control deficiencies we observed during our attempts to audit the Army's fiscal years 1991 and 1992 financial statements.

Despite the lack of an overall financial management personnel improvement framework, DOD has begun a number of

initiatives—primarily in the training area. Specifically, DOD has (1) established the Defense Business Management University and committees to assess currently available courses and determine curriculum needs for selected financial management areas and (2) initiated a review of tasks associated with individual financial management job series to determine the adequacy of present training and to plan for future training. In addition, DOD transferred finance and accounting personnel from the Army and other military services to DFAS as part of a finance and accounting consolidation effort.

According to DOD's Director for Management Improvement, DOD's initiatives have addressed parts of our recommended framework, such as training needs. In addition, the same DOD official stated that the Defense Business Management University implementation plan, which was to have been issued in May 1993, would summarize all of DOD's education and training initiatives and outline specific short-term and long-term strategies for improving the qualifications of financial management personnel. However, as of June 15, 1993, DOD had not completed the Defense Business Management University implementation plan. Without first identifying its financial management personnel needs, DOD has little assurance that these training initiatives will be effective.

Lack of Permanent Appointments to Leadership Positions and Unclear Roles Hinder DOD Financial Management

DOD's financial management organizational structure is undergoing fundamental change. Efforts to improve it, however, have been hampered by the lack of permanent appointments to key financial management leadership positions and the lack of clearly delineated organizational responsibilities for carrying out Army's financial management operations.

Since June 1992, DOD's Deputy Chief Financial Officer has also served as the Acting Chief Financial Officer. In addition, the Army has had an Acting Assistant Secretary of Financial Management since June 1992. Having individuals serve in these key positions on a permanent basis is critical to providing the leadership and ongoing consensus-building necessary to implement and sustain the far-reaching financial management improvement initiatives envisioned by the CFO Act. As we have previously testified,³ agency financial management leaders have key roles in reversing reported weaknesses in financial management systems and controls.

In selecting individuals for the CFO and Deputy CFO positions, the qualifications set out in the CFO Act should be of paramount consideration.

³The Qualifications for and Role of Agency Chief Financial Officers (GAO/T-AFMD-91-7, June 7, 1991).

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Specifically, a CFO should "possess demonstrated ability in general management of, and knowledge and extensive practical experience in, financial management practices in large governmental or business entities." In addition, the Deputy CFO should possess "demonstrated ability and experience in accounting, budget execution, financial management analysis, and systems development, and not less than 6 years practical experience in financial management at large governmental entities."

The selection of experienced, well qualified financial management leaders in the Army is also critical, particularly an Assistant Secretary for Financial Management. Selecting a well qualified person for this position is important because that position should have a key role in improving financial management and in particular overseeing the network of nonfinancial Army systems that provide data used in Army's financial reporting. The Secretary of the Army's response to our August 1992 report is a good example of the demonstrated leadership that will be required to achieve financial management improvements. Specifically, in an August 1992 letter to all Army Commanders, the Secretary stated,

"If I do not have your commitment and assurance, I cannot fulfill my responsibility. I simply must require you to be directly involved in the internal management control process. As our resources become increasingly scarce, effective controls become even more important, because the risk of mission failure increases. We cannot win the resource battles in the Pentagon or on the Hill if we cannot reverse the perception that our stewardship of resources is suspect."

In our August 1992 report,⁴ we recommended that DOD clearly delineate the respective responsibilities and authorities of the Assistant Secretary of Financial Management, DFAS, and the Army's operating units. In response, DOD issued a "Financial Management Responsibilities" memo on September 25, 1992, which summarized the DOD Comptroller/CFO, DFAS, and DOD component responsibilities. Specifically, it stated that the DOD Comptroller/CFO is responsible for promulgating financial management policies. DFAS is responsible for (1) developing and promulgating the procedures for those policies and (2) operating and maintaining the financial systems, including the integrity of financial data after they are entered in the financial systems. The DOD components are responsible for adhering to the policies and procedures and for the accuracy of the information entered into the financial systems.

⁴Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992).

While DOD's September 1992 memorandum set out the overall policy for assigning financial management responsibilities, it did not provide detailed organizational responsibility assignments. As of May 1993, Army and DFAS had not determined the specific roles, responsibilities, and relationships between Army and DFAS personnel. The failure to clearly identify organizational roles and responsibilities adversely affected controls over financial information reported for the Army. For example, a lack of clear delineation was responsible in part for problems we discuss in separate reports concerning Army and DOD controls over real property and payroll.⁵ Specifically, it was not clear whether DFAS-I or the Army had the necessary authority and responsibility to reconcile DFAS-I's real property accounting records with the Army's detailed supporting records. We also found that neither DFAS nor the Army had clearly defined responsibility for performing the research necessary to reconcile the Army military payroll records DFAS maintained with Army's personnel records to ensure that payroll disbursements were proper.

Similarly, the assignment of organizational responsibility for financial reporting for the Defense Business Operations Fund (DBOF) was unclear. Although DBOF was created as a DOD organization to consolidate control over and reporting on the services' industrial and stock funds, DOD assigned Army the responsibility for preparing fiscal year 1992 financial statements for former Army activities now included in DBOF. This assignment of responsibility was not consistent with the centralized control concept and its effect was unclear. In May 1993, the Acting Assistant Secretary of the Army for Financial Management sent a memorandum to DOD's Acting CFO stating that he was unable to sign a letter acknowledging Army's management responsibility for any DBOF activities because "by definition, DBOF financial transactions are not controlled by the military departments, nor do the funds belong to us." A May 1993 "All Points Bulletin" from DFAS-I reported that discussions were underway concerning the most effective and productive way of meeting both DFAS and Army accounting needs.

In addition, under the CFO Act, the DOD CFO should oversee all DOD's financial management activities and report directly to the Secretary of Defense. We are concerned that this may not be the case. According to a May 1993 DOD regulation, "General Financial Management Information Systems and Requirements" (DOD 7000.14R, Volume 1), the DOD CFO is to report to the Deputy Secretary of Defense. In addition, in June 1993

⁵See footnotes 2 and 3 in chapter 1.

testimony,⁶ DOD stated that the DOD CFO and Comptroller would be separate positions. Consequently, DOD's CFO may not be in a position to oversee all DOD financial management activities.

Changing Approach to Financial Management Systems Improvements

The Corporate Information Management (CIM) initiative was established in 1989 to improve information management and systems throughout DOD over the long term. However, since its inception, CIM has been subject to several conceptual redesigns, and few actions have been taken over the short term to fix deficiencies in interim systems now relied on to provide financial management information. As a result, while efforts to broaden the conceptual approach to CIM may have merit, CIM is a long-term initiative and Army continues to rely on deficient financial management systems for decision-making purposes.

However, considering the current reexamination of the migratory systems, many of CIM's system improvements will not be implemented for a number of years. Therefore, DOD and the services will have to rely on existing weak systems for financial management reporting and decision-making. Consequently, the concern we expressed in our August 1992⁷ report about the need for interim fixes to systems currently relied on for Army financial management remains and is perhaps even more critical. If Army repairs existing systems and enforces adherence to existing policies and procedures, substantial improvement can be anticipated.

Conclusions

DOD has made limited progress in assessing and systematically improving the qualifications of its financial management personnel, organizational structure, and systems to meet the CFO objectives. Nevertheless, DOD has little assurance that the initiatives underway are comprehensive, properly coordinated, and organized in a way that will enable DOD and the Army to effectively carry out their financial management responsibilities when these improvement efforts are completed. Effectively planning and carrying out these initiatives under the broad mandate and specific objectives of the CFO Act will require strong, sustained commitment by those in financial management leadership positions in both DOD and the Army. If priority is not given to filling key DOD leadership positions with personnel having appropriate financial, budgetary, and information

⁶Statement of Alice C. Maroni, Department of Defense Principal Deputy Comptroller, before the Senate Armed Services Committee, Subcommittee on Military Readiness and Defense Infrastructure, June 16, 1993.

⁷See footnote 4 in this chapter.

resource management skills and experience, DOD's financial management personnel, organizational structure, and system improvement efforts will probably continue to experience problems.

Recommendations

We recommend that the Acting DOD Chief Financial Officer (1) develop and implement a comprehensive plan, with specific milestones, for comprehensively identifying and monitoring improvements in DOD and Army financial management, including personnel qualifications, organizational structures, and systems used to carry out Army financial management, and (2) revise existing policies and procedures to more clearly delineate the roles of the various DOD and Army organizations with Army financial management responsibilities.

Agency Comments and Our Evaluation

DOD partially concurred with the issues and related recommendations discussed in this chapter. DOD stated that the Army had obtained contract assistance to comply with the CFO Act and that both DOD and the Army are developing corporate plans to comply with the CFO Act.

DOD stated that revision of existing policies and procedures is not needed to delineate the financial management responsibilities of various DOD and Army organizations. While DOD policy broadly defines organizational roles and responsibilities for financial management, we continue to believe that additional, more detailed procedural guidance is needed to clarify the uncertainties we found concerning the responsibilities of both DOD and the services' financial management organizations. For example, as we stated in this report, specific guidance was lacking regarding the roles of the Army and DFAS in carrying out DOD requirements to reconcile the information in the payroll and real property systems.

DOD stated that its financial systems predate the requirement to produce audited financial statements and that many of the problems noted in the report are system problems. Although financial statement audits are a requirement of the 1990 CFO Act, the preparation of accurate, reliable financial reporting has been required since the passage of the Budget and Accounting Procedures Act in 1950. In addition, in our fiscal year 1991 report on Army's financial management operations,⁸ we acknowledged the existence of system-related problems that would require many years to correct. However, as discussed in this chapter, we have two concerns related to the personnel DOD relies on to direct and carry out its

⁸See footnote 5 in chapter 1.

Chapter 4
Limited DOD Progress in Strengthening
Army's Overall Financial Management

widespread and complex financial management responsibilities. First, because of vacancies in several top leadership positions, DOD was unable to ensure that it had the sustained commitment and direction needed to effectively lead DOD's financial operations. Second, we found that DOD did not systematically compare information on the number or qualifications of financial management personnel with their assigned responsibilities in order to (1) identify needed personnel improvements and (2) monitor DOD's success in meeting those needs in accordance with the CFO Act. Given the size and complexity of DOD's financial operations, it is critical not only that its systems be improved, but also that its financial management personnel have the qualifications necessary to carry out their assigned responsibilities.

Key Budget and Accounting Systems Relied on to Record, Process, and Report Financial Data for the Army

Army Procurement Appropriation Reporting System (APARS)

Command Integrated Financial Accounting and Reporting System (CINFARS)

Commodity Command Standard System (CCSS)

Departmental Budget and Accounting Reporting System (DBARS)

Headquarters Accounting and Reporting System (HQARS)

Program Budget Accounting System (PBAS)

Standard Army Procurement Appropriation System (SAPAS)

Standard Depot System (SDS)

Standard Financial System (STANFINS)

Standard Operation and Maintenance, Army Research and Development System (SOMARDS)

Locations Where Audit Work Was Conducted

Office of the Secretary of Defense, Washington, D.C.

Army Headquarters, Pentagon, Washington, D.C.

Defense Finance and Accounting Service-Headquarters, Washington, D.C.

Defense Finance and Accounting Service-Indianapolis Center, Indianapolis, Indiana

Defense Finance and Accounting Service-Columbus Center, Columbus, Ohio

Aviation and Troop Command Headquarters, St. Louis, Missouri

Missile Command Headquarters, Redstone Arsenal, Alabama

Tank-Automotive Command Headquarters, Warren, Michigan

Training and Doctrine Command Headquarters, Ft. Monroe, Virginia

5th Army Corps, Frankfurt, Germany

Ft. Hood, Texas

Ft. McPherson, Georgia

System Integration and Management Activity-East, Chambersburg, Pennsylvania

System Integration and Management Activity-West, St. Louis, Missouri

U.S. Army Information System Software Center, Ft. Belvoir, Virginia

Army Information Processing Center, Chambersburg, Pennsylvania

Army Information Processing Center, Rock Island, Illinois

Army Information Processing Center, St. Louis, Missouri

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

SEP 07 1993

(Management Systems)

Mr. Donald E. Chapin
Assistant Comptroller General
Accounting and Financial
Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office draft report, "FINANCIAL MANAGEMENT: Strong Leadership Needed to Strengthen Army's Financial Accountability and Management," dated June 25, 1993 (GAO Code 918764), OSD Case 9276-D. The DoD partially concurs with the report.

Various DoD actions are underway that will strengthen DoD financial accountability and management. For example, the Defense Finance and Accounting Service is developing a plan to eliminate operational and system causes of unmatched disbursements, undistributed disbursements, and negative unliquidated obligations. The DoD also established a Senior Financial Management Oversight Council to provide a forum for discussion and review of various financial management issues. In addition, the DoD is taking action to revise guidance concerning security access to automated systems and testing of emergency software changes.

It is important to recognize that the underlying causes for the problems cited in the report relate to the current DoD financial systems, which predate the requirements to produce audited financial statements. The correction of the DoD financial systems will require considerable time and significant additional resources.

More detailed DoD comments on the draft report are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

See comment 1.

See comment 3.

GAO DRAFT REPORT - DATED JUNE 25, 1993
(GAO CODE 918764) OSD CASE 9276-D

"FINANCIAL MANAGEMENT: STRONG LEADERSHIP NEEDED TO STRENGTHEN
ARMY'S FINANCIAL ACCOUNTABILITY AND MANAGEMENT"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

ISSUES

ISSUE 1: Budget Execution System Was Not Reliable. The GAO concluded that the Army budget execution system has fundamental weaknesses, particularly in accounting for Army Materiel Command disbursements. The GAO further concluded that the weaknesses limit the ability of the Army to ensure compliance with the Antideficiency Act. In addition, the GAO concluded that inaccurate reporting could cause the Army to underestimate future required outlays, and could lead to the Army paying current obligations out of scarce future appropriations. The GAO also pointed out that, because of the large amount of voluntary refunds, the Army may have inappropriately paid contractors substantially more than it is aware of.

The GAO also concluded that, because Army commands and the Defense Finance and Accounting Service share responsibility in accounting for undistributed disbursements, a cooperative effort from both would help (1) resolve budget execution system errors, (2) ensure that accurate information is available for posting, and (3) enforce existing policies and procedures.

During its review, the GAO found the following examples indicating that the Army budget execution system did not accurately or promptly record billions of dollars of disbursements:

- Billions of dollars of disbursements were not charged to applicable administrative subdivisions of funds;
- Appropriation level control over billions of dollars of disbursements was not reliable;
- Army Materiel Command offices did not retain the records needed to substantiate balances reported in the budget execution system;

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- Contract progress payments were not always charged to correct appropriations; and
- The Army continued to incur large amounts of negative unliquidated obligations.

The GAO further concluded that, as a result, the Army budget execution system could not provide responsible Army or DoD officials with reliable information needed to ensure that the Army had complied with the Antideficiency Act. In addition, the GAO pointed out that the lack of reliable disbursement information could make it difficult for the Army to ensure that it disburses available appropriation balances before the appropriations are canceled. The GAO further pointed out that, as a result, disbursements of current Army obligations could be charged to future appropriations. (pp. 2-4, pp. 21-34/GAO Draft Report)

Now on pp. 2-4
and 15-23.

See comment 1.

DoD RESPONSE: Partially concur. Even though the Department acknowledges that undistributed disbursements occur during the normal course of business, there are no known Antideficiency Act violations resulting from undistributed disbursements.

See comment 2.

Undistributed disbursements are required to be researched and corrected in a timely manner. In fact, the GAO report indicates that nearly 60 percent were corrected within 30 days.

Until current systems can be modified or new systems placed into service, the Department will continue to have undistributed disbursements. However, changes required to eliminate the systematic causes of undistributed disbursements involve long-term system efforts that will require considerable additional resources. In the meantime, the Defense Finance and Accounting Service has begun an effort to both reduce existing undistributed and unmatched disbursements, and to minimize future undistributed and unmatched disbursements.

ISSUE 2: Weak Automated Data Processing Controls Place Financial Systems and Data at Risk. The GAO concluded that weaknesses in the Army general controls over automated data processing operations could adversely affect (1) the accuracy and reliability of the Army financial data and (2) the ability of the Army to protect that data. The GAO further concluded that unless actions are taken to correct the weaknesses, the effectiveness of efforts designed to improve Army financial accountability will be limited. The GAO also concluded that, because effective automated data processing is an integral part of effective financial management, consulting the DoD

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Appendix III
Comments From the Department of Defense

Chief Financial Officer would help ensure a coordinated, controlled automated data processing system design and operation.

The GAO identified specific weaknesses in the general controls used to:

- Limit access to Army's automated data processing systems and data;
- Promptly ensure the appropriateness of emergency changes to automated program software; and
- Provide for contingency plans to ensure continuing automated processing operations in the event of a disaster.

The GAO found that, in evaluating the design and effectiveness of controls, the Army automated data processing operations were at risk of (1) not processing information, including financial data, accurately and reliably-- and in accordance with agency policies or regulations, (2) allowing unauthorized individuals to gain access to automated data processing programs and data, (3) allowing unauthorized changes to application software or data, and (4) having its data processing activities interrupted or severely restricted. (pp. 3-5, pp. 36-46/GAO Draft Report)

DoD RESPONSE: Concur.

ISSUE 3: Limited DoD Progress in Strengthening Army Overall Financial Management. The GAO acknowledged that the DoD had made limited progress in assessing and systematically improving the qualifications of its financial management personnel, organizational structure, and systems to meet the objectives of the Chief Financial Officer Act. The GAO concluded, however, that there is little assurance the initiatives currently underway are sufficiently comprehensive, properly coordinated, and organized in a way that will, when completed, enable the DoD and the Army to effectively carry out their financial management responsibilities. The GAO further concluded that, to plan effectively and carry out the initiatives under the broad mandate and specific objectives of the Chief Financial Officer Act, it will require strong, sustained commitment by those in financial management leadership positions in both the DoD and the Army. The GAO also concluded that, if priority is not given to filling key DoD leadership positions with personnel having appropriate financial, budgetary, and information resource management skills and experience, then DoD financial management personnel, organizational structure,

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Now on pp. 3-4
and pp. 24-30.

Now on p. 47.

See comment 3.

and system improvement efforts are likely to continue experiencing problems. (p. 60/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department certainly agrees that qualified staff and strong financial leadership is essential in achieving the Department's financial management objectives. In addition, and as recognized by the GAO, the DoD has made significant progress in strengthening overall financial management and further improvements are underway. The Department does not, however, agree with the GAO inference that the issues discussed in the report are related to a lack of qualified financial personnel. In fact, the DoD financial staff is highly qualified. The problems identified in the report are, in fact, the result of systems-related, not personnel-related, problems that will require considerable time and resources to correct. The current DoD financial systems predate the requirement for the Department to produce audited financial statements. Consequently, the DoD systems cannot produce such reports. Therefore, although the Department's financial managers are well qualified, and its financial organization structure has been improved, many of the results of the DoD efforts will not be fully visible until the Department also is able to enhance its systems. As stated previously (see DoD response to Issue 1), the correction of the DoD financial systems will require considerable time and significant additional resources.

* * * * *

RECOMMENDATIONS

● **RECOMMENDATION 1:** The GAO recommended that the DoD Chief Financial Officer head a cooperative effort with the Defense Finance and Accounting Service and the Army to evaluate and resolve problems and systemic difficulties including failure to follow certain policies and procedures, that are resulting in (1) the large number of changes in posting disbursements to appropriations, and (2) delays in distributing and correctly posting disbursements made by offices other than the Army office responsible for controlling the funds. (p. 35/GAO/Draft Report)

Now on p. 22.

See comment 1.

DoD RESPONSE: Concur. The Defense Finance and Accounting Service is developing a plan to eliminate systemic operational and system causes of unmatched disbursements, undistributed disbursements, and negative

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unliquidated obligations. The Defense Finance and Accounting Service also has established a task force to research and resolve existing unmatched disbursements.

It should be recognized that a disbursement, and the matching of that disbursement to obligation records, is the culmination of a series of events, some of which are outside of the control of accounting and disbursing officers. The Department recognizes that, in addition to the corrective actions being taken within the disbursing and accounting offices, additional corrective actions must be taken by other organizations, such as DoD contracting and contract administration offices and program managers. As corrective actions and process improvements are implemented, they will be coordinated with appropriate offices to better ensure that all sources of errors are addressed.

A Senior Financial Management Oversight Council has been established to provide a forum for discussion and review of existing and emerging financial management issues. The Council is chaired by the Deputy Secretary of Defense. Membership of the Council consists of the Secretaries of the Military Departments, the Vice Chairman of the Joint Chiefs of Staff, the Under Secretary of Defense (Acquisition), the DoD Comptroller, and the Chief Financial Officer. Other attendees include the DoD General Counsel, the DoD Inspector General, and the Director, Defense Finance and Accounting Service. The Defense Finance and Accounting Service plan relative to unmatched and undistributed disbursements is tentatively scheduled to be addressed by the Council in late 1993.

● **RECOMMENDATION 2:** The GAO recommended that the DoD Chief Financial Officer monitor progress against milestones established for the implementation of proposed changes to DoD 7220.9-M to ensure that funding/paying offices are (1) receiving the information necessary to correctly match progress payments with obligations and (2) matching payments to obligations correctly. (p. 35/GAO Draft Report)

DoD RESPONSE: Concur. The Acting Chief Financial Officer has monitored, and will continue to monitor, the status of actions required to revise appropriate guidance and ensure implementation of that guidance. On March 30, 1993, the Deputy Comptroller (Management Systems) [Acting Chief Financial Officer], tasked the Defense Finance and Accounting Service to (1) revise the DoD 7000.14-R, DoD Financial Management Regulation, (2) complete a review to identify corrective actions needed, and (3) develop a

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Now on p. 22.

See comment 1.

plan of action and milestones, to bring DoD accounting/disbursing systems into compliance with the revised guidance. The review will require close coordination between the Office of the Director of Defense Procurement and the Director Defense Finance and Accounting Service and will be monitored by the Chief Financial Officer. The Defense Finance and Accounting Service actions are to be accomplished by December 30, 1993.

- **RECOMMENDATION 3:** The GAO recommended that the Assistant Secretary of Defense (Command, Control, Communication, and Intelligence) issue detailed procedures, or establish other controls, to implement existing security access policies including specifying (1) who is responsible for identifying individuals that should be authorized access to what systems, (2) how system resources are controlled, and (3) a standard system naming convention for all Army automated systems. (pp. 46-47/GAO Draft Report)

DoD RESPONSE: Concur. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) has issued two policy documents that provide detailed guidance for the security of automated information systems. Those documents are DoD Directive 5200.28, "Security Requirements for Automated Information Systems," dated March 21, 1988, and DoD Directive 5200.28-STD, an associated publication, dated December 1985. It is planned that those issuances will be revised and reissued within one year. The revised issuances will reemphasize existing security access policies, including the areas recommended by the GAO.

Additionally, the Office of the Deputy Assistant Secretary of Defense (Counterintelligence and Security Countermeasures) is available to provide assistance and advice to the Army. Direct technical assistance in the information systems security area also may be obtained from the Center of Information Systems Security, Defense Information Systems Agency.

- **RECOMMENDATION 4:** The GAO recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) instruct all system design center directors to establish procedures to implement existing Federal standards and regulations requiring follow-up testing of all emergency software changes. (pp. 46-47/GAO Draft Report)

DoD RESPONSE: Concur. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) has issued procedural guidance which applies to systems design center directors. The guidance

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Now on p. 29.

See comment 4.

Now on p. 29.

See comment 4.

summarizes the responsibilities for total life-cycle management of automated information systems and requires Federal standards and regulations to be applied to software testing. The guidance includes:

- DoD Directive 8120.1, "Life-Cycle Management of Automated Information Systems," dated January 14, 1993. The Directive establishes the processes for administering an Automated Information System during its life-cycle, with special emphasis on early decisions that shape costs and utility. It integrates life-cycle management of Automated Information Systems into the Defense Information Management Program.
- DoD Instruction 8120.2, "Automated Information Systems (AIS) Life-Cycle Management Review and Approval Milestone Procedures," dated January 14, 1993. The Instruction and its accompanying manual lay out policies and procedures for the Major Automated Information Systems Review Council process. Those documents state that the DoD shall use life-cycle management review and milestone approval procedures to ensure that expenditure-related decisions for all Automated Information Systems are based on the total anticipated benefits that will be derived over the life of the Automated Information System.

• RECOMMENDATION 5: The GAO recommended that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) maintain current, regularly tested contingency plans for all automated data processing centers and install a back-up generator for the Rock Island automated data processing center. (pp. 46-47/GAO Draft Report)

DoD RESPONSE: Partially concur. The DoD Directive 8120.1 and DoD Instruction 8120.2, discussed in the DoD response to Recommendation 4, provide guidance that requires currently maintained, regularly tested, contingency plans for all Automated Data Processing centers.

The Army recognizes the need for a back-up generator at the Rock Island automated data processing center. Due to funding shortfalls, the requirement has been, and continues to be, recognized as an unfunded requirement. While the Rock Island automated data processing center has been under the operational control of the Defense Information Services Organization since February 1993, and is due to be capitalized by the Defense Information Systems Agency on October 3, 1993, the Army has sought,

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Now on p. 29.

See comment 4.

and will continue to seek, funding for the back-up generator. Other actions taken to date include:

- An uninterruptible power supply has been installed and is operating so that the Rock Island automated data processing center now has the capability to do an orderly shut down in the event of commercial power failure. In the event of a commercial power failure, a battery will automatically give the processing center about 20 minutes to perform an orderly shutdown. Therefore, the automated data processing center will not lose any data.
- The Rock Island data processing center has initiated actions necessary to rent back-up generators during year-end processing to ensure continued operations and processing during that crucial time period.
- The Rock Island automated processing center currently has two commercial power sources; however, both come through one power substation. The Rock Island Arsenal (of which the Rock Island automated data processing center is a tenant) has a funded FY 1995 Military Construction appropriation project to upgrade the Arsenal power substation, thereby reducing the chance of a single point power failure.

The Army has a vested interest in ensuring that the Rock Island automated processing center remains operational at all times and will work with the Defense Information Systems Agency to ensure back-up capabilities are adequate.

• **RECOMMENDATION 6:** The GAO recommended that the DoD Chief Financial Officer (1) develop and implement a comprehensive plan, with specific milestones, for comprehensively identifying and monitoring improvements in the DoD and Army financial management, including personnel qualifications, organizational structures, and systems used to carry out Army financial management and (2) revise existing policies and procedures to more clearly delineate the roles of the various DoD and Army organizations with Army financial management responsibilities. (pp. 60-61/GAO Draft Report)

DoD RESPONSE: Partially concur. The Army has contracted with Coopers and Lybrand to assist the Army with the implementation of the Chief Financial Officers Act. The Department also is developing a corporate plan for achieving compliance with the Chief Financial Officers Act. The Army plan is expected to complement the Department's overall DoD corporate plan. (See the DoD response to Recommendation 1.)

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Now on p. 39.

See comment 3.

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Further revision to existing policies and procedures is not needed to delineate the roles of the various DoD and Army organizations regarding financial management responsibilities. On various occasions, the DoD Comptroller previously has addressed the authorities of, and responsibilities and functions to be performed by, the DoD Comptroller/Chief Financial Officer, the Defense Finance and Accounting Service, and the DoD Components. Further repetition of that guidance is deemed unnecessary.

Many of the problems identified in the report are the result of systems-related problems that will require considerable time and resources to correct. The DoD financial systems predate the requirement for the Department to produce audited financial statements. Consequently, the DoD systems cannot do so. While the DoD financial managers are well qualified, and its financial organizational structure has been improved, many of the results of the DoD efforts will not be fully visible until the Department also is able to enhance its systems. However, as explained in the DoD response to Issue 1, the correction of the DoD financial systems will require considerable time and significant additional resources.

Enclosure

The following are GAO's comments on the Department of Defense's letter dated September 7, 1993.

GAO Comments

1. Discussed in the "Agency Comments and Our Evaluation" section at the end of chapter 2.
2. Our report states that only about 40 percent of Army's undistributed disbursements at the end of fiscal year 1992 were corrected within 30 days, as required by Army regulations.
3. Discussed in the "Agency Comments and Our Evaluation" section at the end of chapter 4.
4. Discussed in the "Agency Comments and Our Evaluation" section at the end of chapter 3.

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