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FINANCIAL MANAGEMENT

DOD Inventory of Financial Management Systems Is Incomplete





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

Accounting and Information
Management Division

B-275789

January 31, 1997

The Honorable John P. White
The Deputy Secretary of Defense

Dear Mr. White:

In conjunction with our responsibilities under the Government Management Reform Act of 1994 to audit the consolidated governmentwide financial statements, we are reviewing the Department of Defense's (DOD) financial management systems. This report discusses the results of the portion of our initial work that evaluated the accuracy and completeness of DOD's inventory of financial management systems. An accurate inventory is a critical step in DOD's efforts to develop reliable financial management systems and resolve its long-standing financial management problems. DOD's ability to produce accurate, auditable financial statements and other reliable management reports as required by the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994, has been hampered by the lack of integrated financial systems that link accounting, budgeting, and program information.

This report is addressed to you because of your role as the chairman of DOD's Senior Financial Management Oversight Council,¹ which was established to ensure the involvement of senior DOD leaders in the financial reform process. We believe that the Council could appropriately address the cross-cutting issues raised in this report.

Results in Brief

DOD does not have a comprehensive inventory of the systems it relies on to record, accumulate, classify, and report financial information. The number of systems included in DOD's inventory was limited because the regulations and guidance from the Defense Finance and Accounting Service (DFAS) did not properly define financial management systems. Office of Management and Budget (OMB) Circular A-127, Joint Financial Management Improvement Program (JFMIP) system requirements, and the recently

¹According to its charter, the Council meets on a regular basis to address financial management deficiencies, approve plans for proactive solutions to financial management weaknesses and deficiencies, assign responsibility for correcting financial management problems, and monitor progress in reforming DOD's financial management. The Council's high-level membership includes the Secretaries of the military departments, Vice Chairman of the Joint Chiefs of Staff, Under Secretary of Defense (Acquisition and Technology), Under Secretary of Defense (Comptroller), Chief Financial Officer, DOD General Counsel, Assistant Secretary of Defense (Command, Control, Communications and Intelligence), Director of the Defense Performance Review, and Under Secretary of Defense for Policy.

enacted Federal Financial Management Improvement Act of 1996 define financial management systems to include the financial systems and the financial portions of mixed systems necessary to support financial management. A mixed system is defined as an information system that supports both financial and nonfinancial functions of the federal government or its components.

DOD considers mixed systems that are generally not within the CFO (Comptroller) organization (such as acquisition, logistics, and personnel systems) to be nonfinancial and therefore does not include them in its inventory. Although we did not identify all of the systems that should have been included, several of the excluded systems account for billions of dollars of assets and clearly meet the required definition of financial management systems.

Scope and Methodology

In performing our evaluation of the accuracy and completeness of DOD's reported inventory of financial management systems, we

- reviewed DOD guidance related to classifying its systems as financial, mixed financial, and nonfinancial;
- determined whether systems categorized as nonfinancial contained information needed to produce DOD financial statements and other financial reports;
- compared DOD's financial management systems inventory to other DOD systems inventories to determine whether categories of systems not included in financial management systems inventories and reports were properly categorized as nonfinancial (however, we did not test the accuracy of these inventories);
- interviewed appropriate DOD, OMB, and DFAS staff to obtain information regarding the categorizing and reporting of financial management systems;
- reviewed federal financial management system guidance and applicable laws, the Joint Financial Management Improvement Program's (JFMIP) Framework for Federal Financial Management Systems, and OMB Circulars A-123, A-127, and A-130; and
- reviewed military service audits to identify systems used to prepare financial statements.

We performed our work from December 1995 to November 1996 in the Washington, D.C., area in accordance with generally accepted government auditing standards. We requested agency comments from the Secretary of Defense or his designee. The Deputy Chief Financial Officer provided us

with written comments that are discussed in the “Agency Comments and Our Evaluation” section of this report and reprinted in appendix II.

Requirements for Identifying Financial Management Systems

Legislative and other requirements to which DOD is subject recognize the significance of developing a complete financial management systems inventory. The intent of these requirements, as indicated in the policy statement found in section 6 of OMB Circular A-127, is to ensure that financial management systems provide complete, reliable, and timely information to enable government entities to carry out their fiduciary responsibilities; deter fraud, waste, and abuse; and facilitate efficient and effective delivery of programs through relating financial consequences to program performance. Further details on federal financial management systems requirements can be found in appendix I.

The Chief Financial Officers (CFO) Act of 1990 gives agency CFOs the responsibility for developing and maintaining integrated accounting and financial management systems. In addition, the act requires that the agency CFO provide policy guidance and oversight of agency financial management personnel, activities, and operations, including the implementation of agency asset management systems such as those for property and inventory management. OMB implementing guidance states that the CFO is to approve the design for information systems that provide, at least in part, financial and/or program performance data used in financial statements, solely to ensure that CFO needs are met.

In addition, CFOs are required to prepare and annually revise agency plans to implement OMB’s 5-year financial management plan for the federal government. Agency 5-year plans are to include information such as the agency’s strategy for developing and integrating agency accounting, financial information, and other financial management systems.

A recent congressional initiative in this area is the Federal Financial Management Improvement Act of 1996, which provides a legislative mandate to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger. The legislative history of the act expressly refers to JFMIP requirements and OMB Circular A-127 as sources of the financial management systems requirements. If the head of an agency determines that the agency’s financial management systems do not comply with the requirements of the act, a remediation plan must be established that

includes resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

The act defines financial management systems to include the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. A mixed system is defined as an information system that supports both financial and nonfinancial functions of the federal government or its components.

Additional key financial management systems requirements include the following.

- JFMIP's Framework for Federal Financial Management Systems provides a model for the development of an integrated financial management system.
- Circular A-127 requires that executive agencies develop and maintain an agencywide inventory of financial management systems and ensure that appropriate assessments of these systems are conducted. Circular A-127 applies to financial management systems, which include financial and mixed systems. The circular also requires that agencies establish and maintain a single, integrated financial management system. According to the circular, a single, integrated financial management system refers to a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, the Congress, and the public.
- The Paperwork Reduction Act establishes a broad mandate for agencies to perform their information resources management activities in an efficient, effective, and economical manner. Consistent with the act, Circular A-130 states that the head of each agency shall maintain an inventory of the agency's major information systems.
- OMB requires that executive agencies, under section 4 of the Federal Managers' Financial Integrity Act (FMFIA), produce an annual statement on whether their financial management systems conform with governmentwide principles, standards, and requirements.

DOD's Inventory of Financial Management Systems Is Not Complete

DFAS maintains a DOD inventory of financial systems in the Systems Inventory Data Base (SID). Using SID, DOD reported 249 systems in its fiscal year 1995 annual financial management systems inventory to OMB. However, this does not include many systems that DOD relies on to produce financial management information and reports. A complete inventory is a critical step in DOD's efforts to correct its long-standing financial systems deficiencies and develop a reliable, integrated financial management system. These deficiencies have been a major factor contributing to DOD's inability to fulfill its stewardship responsibilities for its resources, including maintaining control over specific assets, such as shipboard supplies and weapons systems, and over its expenditures, such as payroll and contract payments. In addition, the DOD Inspector General (IG) recently reported² that (1) the overarching deficiency that prevented auditors from rendering audit opinions on fiscal year 1995 DOD general fund financial statements was the lack of adequate accounting systems and (2) disclaimers of opinion can most likely be expected until the next century.

The number of reported systems has been limited because both DOD regulations and DFAS guidance did not properly define financial management systems, as required. Although we did not identify all of the systems that should have been included, several of the excluded systems account for billions of dollars of DOD assets and are clearly mixed systems that meet the OMB and JFMIP definition of financial management systems.

DOD Definition Excludes Mixed Systems

DOD Financial Management Regulation (DOD 7000.14-R, Volume 1) does not include all mixed systems in its definition of financial management systems, as required. Instead, the regulation states that "feeder systems ... [that] are the initial record of financial data for processing by accounting systems" are not within the scope of financial management systems reporting. The regulation provides the following specific examples of feeder systems: (1) logistics and inventory systems that provide acquisition cost, location, and quantity information, (2) personnel systems that provide grade and entitlements information, and (3) timekeeping systems that provide attendance and leave information.

DFAS repeats DOD's limited definition of financial management systems in its annual guidance to Defense components for conducting financial management systems reviews. The feeder systems generally excluded by

²Major Deficiencies Preventing Auditors From Rendering Audit Opinions on FY 1995 DOD General Fund Financial Statements (Report No. 97-026, Nov. 19, 1996).

DOD are typical of systems used to track financial events and are specifically mentioned in the JFMIP Framework document as critical to an integrated financial management system.

An integrated system under general ledger control is necessary to provide oversight and control to ensure accurate and complete accounting for DOD's resources. To be truly effective, DOD's integrated financial management system must link program delivery to the systems that process and track financial events. This linkage is crucial to support the information needs of management, central agencies, and the Congress. Integrated systems help to provide the overall discipline needed to ensure the accuracy and completeness of the information that is used to support DOD's stewardship responsibilities for the vast resources entrusted to it.

Audit reports have disclosed numerous problems resulting from the lack of an integrated financial management system that directly affect the military services' ability to achieve mission objectives. For example, in our review of the Department of the Navy's inventory management, we reported³ that Navy's item managers could not keep track of the \$5.7 billion in operating materials and supplies on board ships and at 17 redistribution sites. The Atlantic and Pacific Fleets and other Navy components are pursuing separate, nonintegrated systems projects in an attempt to improve visibility and thus management of their operating materials and supplies.

In another example, at the end of fiscal year 1995, DOD reported that it had inventory valued at almost \$70 billion, and we estimate that about half of the inventory includes items that are not needed to support DOD war reserves or current operating requirements. Since 1990, GAO has designated DOD inventory management a high-risk area, with billions of dollars being wasted on excess supplies. The lack of integrated financial management systems and the lack of accurate reliable data to support the quantity, condition, and value of items have been major contributing factors to DOD's inability to account for and control its inventory.⁴

In addition, we previously reported⁵ that thousands of soldiers on Army's payroll could not be matched with Army personnel records, and Army had

³Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, August 16, 1996).

⁴Defense Inventory Management (GAO/HR-95-5, February 1995).

⁵Financial Management: Defense's Systems for Army Military Payroll Is Unreliable (GAO/AIMD-93-32, Sept. 30, 1993).

no assurance that these individuals should have been paid. In fact, we found that DFAS paid \$6.1 million to 2,279 soldiers who should not have been paid. In response to our recommendation that steps be taken to integrate its payroll and personnel systems, DOD stated that neither the DOD CFO nor the DFAS Director alone had sufficient authority to ensure that specific steps were taken toward the integration or interface of payroll and personnel systems.

Since financial transactions are initiated in systems such as acquisition, logistics, and personnel, the DOD Comptroller is a stakeholder in them and has oversight responsibilities in accordance with the CFO Act. Furthermore, these systems are covered under the newly enacted Federal Financial Management Improvement Act of 1996. We believe that the Senior Financial Management Oversight Council could appropriately address issues dealing with systems that have multiple stakeholders that cross departmental boundaries.

Key Systems Excluded From Inventory

We compared DOD's inventory of financial management systems to the systems inventories contained in the Defense Information Systems Agency's (DISA) Defense Integration Support Tools (DIST) database.⁶ As of April 1996, DIST contained 8,624 information systems which were segregated by category. DIST labeled 931⁷ of the systems as financial, 682 more than the 249 systems included in the DOD inventory. While DOD officials have indicated that the DIST listing may be incomplete or systems may be incorrectly identified as supporting financial management, the large discrepancy indicates that additional financial management systems likely exist.

Most acquisition, personnel, property, and time and attendance systems were not included in the DIST financial systems category. For example, the DIST database did not identify as financial systems the Defense Civilian Personnel Data System, used for civilian personnel management, or the Civil Engineering Material Acquisition System, an inventory management system. These systems were also excluded from the DOD inventory. We

⁶According to a November 5, 1996, memorandum from the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), the DIST is the backbone tool for managing the Department's information technology investment strategies and for identifying functional information systems interfaces and data exchange requirements.

⁷We noted that some of the systems classified as financial appeared more than once under the financial classification. A total of 1,081 systems were listed in the financial category. We eliminated the apparent duplicates, reducing the number to 931 financial systems.

performed a limited search on the entire DIST database for the key words acquisition, personnel, property, and time and attendance and identified 282 systems that contained one or more of these words in their system name and therefore appeared to meet the OMB and JFMIP definitions of financial management systems; however, only 43 of those systems were classified in the DIST as financial and only 6 were reported in the DOD financial management systems inventory.

Several systems that were not included in DOD's inventory provide critical information for use in formulating the financial statements of the military services. These systems clearly meet the OMB and JFMIP definition for financial management systems. For example, DOD's list of 249 financial management systems did not include the following key systems, which account for billions of dollars of DOD assets and were identified in recent financial statement audit reports or other financial reporting.

- Continuing Balance System - Expanded (CBSX). Army uses CBSX to report the year-end value of retail equipment on hand and in transit for active Army and Army Reserve activities. In its fiscal year 1995 financial statements, Army reported about \$82.6 billion of equipment on hand and about \$500 million of assets in transit.
- Reliability and Maintainability Information System (REMIS). REMIS is an Air Force system designed to track inventory, status, and utilization of aircraft, as well as compute their value. For fiscal year 1995, Air Force used REMIS to report on over 9,450 aircraft and 4,500 guided and ballistic missiles valued at \$144.6 billion.
- Support Equipment Resources Management Information System (SERMIS). This system is Navy's automated source of information on naval aviation support equipment assets currently in use. SERMIS maintains financial and management information on support equipment valued at \$5.3 billion in fiscal year 1995.
- Standard Installation/Division Personnel System (SIDPERS). SIDPERS is the personnel system operated by Army installation and field commanders for active duty personnel. This system is used to report data to the Total Army Personnel Data Base which in turn reports five pay events to DFAS for about 493,000 personnel. Army plans to fully implement a version of SIDPERS within the next 2 years which will interface directly with DFAS and account for 88 pay events. Despite their importance to the payroll process, neither SIDPERS nor the Total Army Personnel Data Base have been identified as financial management systems.

Conclusions

A comprehensive inventory of the financial management systems used to record, accumulate, classify, and report DOD's financial management information is a critical step if DOD is to (1) effectively manage its existing systems, (2) prioritize and coordinate efforts to correct its long-standing financial systems deficiencies, and (3) develop a reliable, integrated financial management system. DOD's severe systems deficiencies have been a major factor contributing to its inability to meet its stewardship responsibilities for the vast resources entrusted to it. Finally, until a complete inventory of financial management systems is developed, DOD will not be able to fulfill the requirements of the financial management improvement initiatives enacted by the Congress.

Recommendations

As part of DOD's long-term systems improvement strategy, we recommend that

- you direct that the Under Secretary of Defense (Comptroller) revise the Department of Defense Financial Management Regulation, DOD 7000.14-R, Volume 1, to include all mixed systems in its definition of financial management systems;
- the Senior Financial Management Oversight Council oversee the development of an inventory of all financial management systems, using the revised definition; and
- systems identified be incorporated in the DOD Chief Financial Officer Financial Management 5-Year Plan, DFAS Chief Financial Officer Financial Management 5-Year Plan, and FMFIA section 4 reporting.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD's Deputy Chief Financial Officer stated that DOD concurred or partially concurred with all of our recommendations. In response to our first recommendation that DOD revise its financial management regulations to include all mixed systems in its definition of financial management systems, DOD stated that it will use the definition provided in OMB Circular A-127 as a base for the revised definition. DOD further stated that it will also include other relevant statutory and regulatory requirements in the revised definition. We want to reiterate our position that the OMB requirements be fully implemented. Since 1984, OMB's Circular A-127 and all subsequent guidance have included a definition of financial management systems that includes personnel, property, procurement, and inventory. These are the types of systems that DOD has specifically excluded from its reporting. The most recent guidance, issued by OMB in 1993, classifies these types of systems as

mixed systems. Also, the recently enacted Federal Financial Management Improvement Act of 1996 uses the same definitions for financial management systems and mixed systems as OMB Circular A-127. We provided OMB officials with a copy of our draft report, and they concurred with the representations of OMB Circular A-127 requirements included in our report.

DOD partially concurred with our recommendation that the DOD Senior Financial Management Oversight Council oversee the development of the financial management systems inventory. DOD agreed that oversight was necessary but stated that the Council was not the appropriate body. Rather, DOD indicated that this responsibility will remain with the Chief Financial Officer and DFAS, with assistance from the DOD components. In light of the serious deficiencies in DOD's financial management, DOD must address its financial management systems problems immediately. In our view, timely resolution of this issue can only be accomplished with the involvement of top-level management throughout the affected components of DOD, such as those responsible for logistics, acquisition, and personnel. We continue to believe that the Council's oversight, together with participation of the CFO and DFAS, is necessary to ensure that the inventory is completed as soon as possible.

We support DOD's efforts to review the DIST database to determine if any of the systems should be included. For this effort to succeed, DOD must adopt a definition of financial management systems that is consistent with OMB Circular A-127 and the Federal Financial Management Improvement Act.

In response to our recommendation that the financial management systems identified be incorporated in the DOD Chief Financial Officer Financial Management 5-Year Plan, DFAS Chief Financial Officer Financial Management 5-Year Plan, and FMFIA section 4 reporting, DOD stated that it has and will continue to report on its financial systems. However, until DOD changes its definition of financial management systems in accordance with OMB guidance and the provisions of the Federal Financial Management Improvement Act, its reporting will continue to be incomplete. DOD needs to identify all of the systems it relies on to manage its vast resources as a critical step in its efforts to develop reliable financial management systems and resolve its long-standing financial management problems.

Although DOD generally concurred with the report's recommendations, DOD stated that some of the issues addressed in the report were significantly

inaccurate. Specifically, DOD took issue with the report in its treatment of three areas.

First, DOD asserted that its System Inventory Database provides a comprehensive inventory of financial management systems. Our report recognizes that DOD has an inventory maintained in the Systems Inventory Database. However, our report points out that DOD's inventory is not a comprehensive inventory of all DOD financial management systems. The report states that the number of reported systems has been limited because both DOD regulations and DFAS guidance did not properly define financial management systems. Most personnel, property, procurement, and inventory systems have been excluded from DOD's reporting. Our report includes examples of systems not included in DOD's inventory that account for billions of dollars of DOD assets. These systems meet OMB's definition of a mixed system and must be included in a comprehensive inventory if DOD is to develop a reliable, integrated financial management system.

Second, DOD stated that DIST is not a database that is used for baselining financial systems and that the database does not contain a process or procedure for classifying or certifying systems as financial systems. As stated in the report, although the DIST listing may be incomplete or systems may be incorrectly identified as supporting financial management, the large disparity between the number of systems identified in DIST and SID indicates that additional financial management systems likely exist.

Third, DOD stated that it is complying with the provisions of OMB Circular A-127. Our report recognizes that DOD has an established process intended to meet OMB requirements. However, because DOD has not adopted the OMB definition for financial management systems, its inventory and reporting have not been comprehensive.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services, the House Committee on National Security, the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, and the Director of the Office of Management and Budget. We are also sending copies to the Secretary of Defense and the Under Secretary of Defense (Comptroller). Copies will also be made available to others upon request.

Please contact me at (202) 512-9095 if you have any questions on this report. Major contributors to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink, reading "Lisa G. Jacobson". The signature is written in a cursive style with a large initial "L" and a stylized "G".

Lisa G. Jacobson
Director, Defense Financial Audits

Financial Management Systems Requirements

The following are the specific requirements for financial management systems to which DOD, as an executive agency, is subject.

Chief Financial Officers Act

The CFO Act specifies that the responsibilities of an agency CFO are to include

- developing and maintaining integrated accounting and financial management systems;
- directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations; and
- approving and managing financial management systems design and enhancement projects.

On February 27, 1991, OMB issued guidance (M-91-07) for preparing organization plans required by the CFO Act. The guidance details the authorities, functions, and responsibilities that a CFO is to have to comply with the act. Specifically, the guidance states that the organization plans should provide the CFO with authority

- to manage directly and/or monitor, evaluate, and approve the design, budget, development, implementation, operation, and enhancement of agencywide and agency component accounting, financial, and asset management systems;
- to clear the design for other information systems that provide, at least in part, financial and/or program performance data used in financial statements, solely to ensure that CFO needs are met;
- to ensure that program information systems provide financial and programmatic data (including program performance measures) on a reliable, consistent, and timely basis to agency financial management systems; and
- to evaluate, where appropriate, the installation and operation of such systems.

In addition, the CFO Act requires OMB to prepare annually and submit to the Congress a governmentwide 5-year financial management plan that describes planned OMB and agency activities for the next 5 fiscal years to improve the financial management of the federal government. Further, the act requires agency CFOs to prepare and annually revise agency plans to implement OMB's 5-year plan. Each 5-year plan is to include information such as the following:

- a description of the existing financial management structure and any changes needed to establish an integrated financial management system;
- a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems; and
- proposals to eliminate duplicate and other unnecessary systems and projects to bring existing systems into compliance with applicable standards and requirements.

OMB Requirements

DOD is subject to section 4 of FMFIA; OMB requires executive agencies under section 4 to produce an annual statement on whether its financial management systems conform with governmentwide principles, standards, and requirements. Governmentwide systems requirements, developed by OMB in consultation with the Comptroller General, are presented in section 7 of OMB Circular A-127, “Financial Management Systems Requirements.”

Circular A-127 requires that executive agencies, including DOD, develop and maintain an agencywide inventory of financial management systems and ensure that appropriate assessments are conducted of these systems. In addition, DOD must consider the results of its FMFIA reviews when it develops its financial management systems plans.

Requirements for reporting the results of FMFIA section 4 systems assessments are found in OMB Circular A-123, “Management Accountability and Control.” Executive agencies, including DOD, must produce an annual statement on whether the agency’s financial management systems conform with governmentwide requirements found in Circular A-127. If the agency does not conform with these requirements, the statement must discuss the agency’s plans for bringing its systems into compliance. If the agency head judges any financial management systems weakness to be material, the issue must be included in the annual FMFIA report. The FMFIA report is to be transmitted to the President, the President of the Senate, the Speaker of the House of Representatives, the Director of OMB, and key congressional committees and subcommittees.

Circular A-127 applies to financial management systems, which include financial and mixed systems. In determining which systems are subject to these requirements, the Circular categorizes and defines information systems in the following manner.

- A financial system (1) collects, processes, maintains, transmits, and reports data about financial events, (2) supports financial planning or

budgeting activities, (3) accumulates and reports cost information, or (4) supports the preparation of financial statements.

- A mixed system supports both financial and nonfinancial functions.
- A nonfinancial system supports nonfinancial functions and any financial data included in the system are insignificant to agency financial management and/or not required for the preparation of financial statements.

Circular A-127 also requires that DOD establish and maintain a single, integrated financial management system. According to the Circular, a single, integrated financial management system refers to a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, the Congress, and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically to provide the agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

In addition, Circular A-130 provides governmentwide information resources management policies as required by the Paperwork Reduction Act of 1980, as amended. The Paperwork Reduction Act establishes a broad mandate for agencies to perform their information resources management activities in an efficient, effective, and economical manner. Consistent with the act, Circular A-130 states that the head of each agency shall maintain an inventory of the agency's major information systems.

Clinger-Cohen Act

Developing and maintaining a complete inventory of DOD's information resources is essential to implementing a strategic information resources management process, as required by the Paperwork Reduction Act and the recently enacted Clinger-Cohen Act of 1996. The Clinger-Cohen Act calls for agency heads, under the supervision of OMB's Director, to design and implement a process for maximizing the value and assessing and managing the risks of their information technology acquisitions, including establishing minimum criteria on whether to undertake an investment in information systems. This process is to be integrated with the processes for making budget, financial, and program management decisions with the agency. In addition, the act states that the head of each executive agency,

in consultation with the Chief Information Officer and the Chief Financial Officer, is responsible for establishing policies and procedures that ensure that the accounting, financial, and asset management systems and other information systems of the agency are designed, developed, maintained, and used effectively to provide financial or program performance data for financial statements.

JFMIP's Model for Integrated Financial Management Systems

JFMIP's Framework for Federal Financial Management Systems provides a model for the development of an integrated financial management system. This document points out the importance of financial management systems in the overall effort to improve government.

"These systems should not only support the basic accounting functions for accurately recording and reporting financial transactions but must also be the vehicle for integrated budget, financial, and performance information that managers use to make decisions on their programs....Without meaningful financial information and supporting systems, neither the President, the Congress, nor the program managers can effectively carry out their stewardship responsibilities."

According to the Framework, an integrated system includes, among others, the following financial management system types:

- a core financial system that supports general ledger management, funds management, payment management, receipt management, and cost management;
- a personnel/payroll system;
- an inventory system;
- a property management system;
- an acquisition system;
- a budget formulation system; and
- a managerial cost accounting system.

To function as a single, integrated system, the types of systems listed above must have these physical characteristics: common data elements, common transaction processing, consistent internal controls, and efficient transaction entry.

Comments From the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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JAN 24 1997

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FINANCIAL MANAGEMENT: DoD Inventory of Financial Management Systems Is Incomplete," dated December 20, 1996 (GAO Code 918886/OSD Case 1273).

The Department continuously is revising its policies to include new legislative and other regulatory requirements such as the requirement for identifying financial management systems in section 6 of Office of Management and Budget (OMB) Circular A-127. Additionally, the Chief Financial Officer (CFO), DoD, provides policy guidance and oversight to agency financial management personnel, activities, and operations, including the implementation of agency asset management systems such as those for property, inventory management, and mixed systems to ensure the CFO needs are satisfied.

An inventory of DoD certified financial management systems is a continuous ongoing process. Further, an up-to-date inventory is one of the critical steps in DoD's efforts to develop a reliable, integrated financial management system including maintaining control over all assets, expenditures, and contract payments. With a current inventory of financial systems, the Department is in a better position to identify and correct deficiencies.

Enclosed are detailed comments on the subject report's recommendations. While the Department generally concurs with the report's recommendations, some of the issues addressed in the report are significantly inaccurate and are addressed in this letter. For example, the report states that the DoD does not have a comprehensive inventory of systems it relies on to record, accumulate, classify, and report financial information. That statement is not accurate. The Department does have a comprehensive inventory of financial systems; the inventory is maintained by the Defense Finance and Accounting Service in the Department's Systems Inventory Database. The Systems Inventory Database--which has a formal process with specific criteria that must be met prior to a system being certified into the database--is used for the Department's Federal Managers' Financial Integrity Act Section 4 reporting purposes.

The report also states that the DoD has a repository of systems called the Defense Integration Support Tools (DIST) database which contained 8,624 systems, of which 931 were classified as financial systems, 682 more than the 249 included in DoD's inventory. The DIST database is not a database that is used for baselining financial systems. The DIST database was

See comment 1.

See comment 1.

Appendix II
Comments From the Department of Defense

developed for monitoring systems, migration tracking and management information reporting. The database does not contain a process or procedure for classifying or certifying systems as financial systems. The DIST database only is a registration system. Its classification of a system's functionality is but an owner-based identification process without verification, validation or approval by the responsible functional manager within the Department--the CFO, for example, for financial management systems. Thus, many such systems in the DIST database that have been designated as being a financial system by their owners have been found to fail to meet the requirements of criteria contained within the OMB Circular A-127.

The report also states that the DoD is not complying with the provisions OMB Circular A-127--which requires that executive agencies develop and maintain an agency-wide inventory of financial management systems, including financial and mixed systems. This also is not an accurate statement. Although, the Department needs to revise its financial management regulation to specifically include the A-127 definition, the OMB requirement is being satisfied through the Systems Inventory Database. That database includes both financial and mixed systems; and currently there are some 70 mixed systems in that inventory. The systems listed in the Systems Inventory Database have gone through an established formal process for being classified and certified as a financial system prior to being included in the inventory. The applicable identification process is a continuous process; the additional 682 systems referenced in the report have failed to satisfactorily complete the required process and qualify as a legitimate financial system.

The Department appreciates the opportunity to comment on the draft audit report.



Alvin Tucker
Deputy Chief Financial Officer

Enclosure

GAO DRAFT REPORT - DATED DECEMBER 20, 1996
OSD CASE 1273, GAO CODE 918886

“FINANCIAL MANAGEMENT: DOD INVENTORY OF FINANCIAL
MANAGEMENT SYSTEMS IS INCOMPLETE”

DEPARTMENT OF DEFENSE COMMENTS ON
THE GAO RECOMMENDATIONS

RECOMMENDATION 1: As part of the DoD long-term systems improvement strategy, the GAO recommended that the Secretary of Defense direct that the Under Secretary of Defense (Comptroller) revise the Department of Defense Financial Management Regulation, DoD 7000.14-R, Volume 1, to include all mixed systems in its definition of financial management systems. (p. 23/GAO Draft Report)

DOD RESPONSE: Concur. The Department concurs with revising the definition of financial management systems in its Financial Management Regulation, DoD 7000.14-R, Volume 1. The Department will use the definition provided in OMB Circular No. A-127, as its definition base, but also will include such additional guidance as deemed appropriate based on other relevant statutory and regulatory requirements.

RECOMMENDATION 2: Also, as part of the DoD long term systems improvement strategy, the GAO recommended that the Senior Financial Oversight Council oversee the development of an inventory of all financial management systems, using the revised definition. (p. 23/GAO Draft Report)

DOD RESPONSE: Partially Concur. The DoD concurs with the need to oversee the development of an inventory of all financial management systems, using the revised definition. However, the DoD Senior Financial Management Oversight Council is not considered to be the appropriate body for overseeing the development of an inventory of financial management systems. Rather, the Chief Financial Officer, DoD and the Defense Finance and Accounting Service (DFAS), with assistance from the DoD Components, are responsible for overseeing the development and maintenance of an inventory of approved financial management systems. That inventory, currently, resides in the Department's financial management Systems Inventory Database maintained by the DFAS. The Systems Inventory Database has a formal process for, with specific criteria that must be met prior to, certifying a system for entry into the database. The Systems Inventory Database is the data base used by the DoD/DFAS for Federal Managers' Financial Integrity Act (FMFIA) Section 4 reporting. The Department will review the Defense Integration Support Tools database--a repository of all systems in the DoD that are registered for information management purposes--to determine if any of the systems in that data base should be included in the Systems Inventory Database in accordance with the revised definition.

Appendix II
Comments From the Department of Defense

See comment 1.

RECOMMENDATION 3: Also, as part of the DoD long-term systems improvement strategy, the GAO recommended that systems identified should be incorporated in the DoD Chief Financial Officer Financial Management 5-Year Plan, DFAS Chief Financial Officer Financial Management 5-Year Plan and FMFIA Section 4 Reporting. (p. 23/GAO Draft Report)

DOD RESPONSE: Concur. All financial systems have been, and will continue to be, considered in the CFO Financial Management 5-Year Plan and FMFIA Section 4 Reporting.

The following are GAO's comments on the Department of Defense's letter dated January 24, 1997.

1. See the "Agency Comments and Our Evaluation" section of this report.
2. In a follow-up discussion on DOD's statement that the additional 682 DIST systems have failed to satisfactorily complete the required process and qualify as legitimate financial management systems, DOD officials stated that these systems have not yet undergone the required process. As stated in DOD's response to our second recommendation, DOD plans to review the DIST database to determine if any of these systems should be included in its SID.
3. In a January 10, 1997, discussion on a draft of this report, DOD officials stated that the Department defines a mixed system as an integrated system that performs both financial and program functions. For example, they told us that the Marine Corps Total Force System meets DOD's definition because it is an integrated payroll and personnel system that shares the same database for both functions. In our discussions, DOD officials indicated that a personnel system that provided data to a separate payroll system with which it was not physically integrated would not meet its definition of a mixed system and therefore would be excluded from its inventory of financial management systems. However, neither Circular A-127 nor the Federal Financial Management Reform Act uses integration as a criterion in its definition of financial management systems.

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