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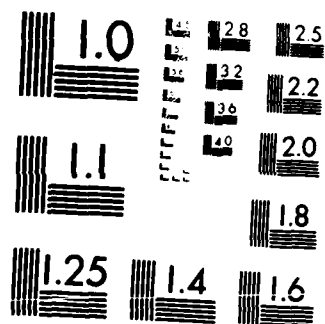
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THESIS

THE DON EVALUATION AND CONTROL PROCESS
FOR FINANCIAL MANAGEMENT SYSTEMS

by

Glenn A. Main

June 1986

Thesis Advisor:

Jim R. Duke

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The Office of Management and Budget has prescribed overall policy for government agencies to follow in developing, operating, evaluating, and reporting their financial management systems. As a result of this guidance and subsequent Department of Defense directive, the Department of the Navy has developed an integrated and coordinated approach for the review, evaluation, and control of financial management systems called the DON Evaluation and Control Process for Financial Management Systems. Divided into the five components of Information System Architecture, Systems Inventory, Compliance Review, Internal Control, and Master Plan, it is aimed at satisfying higher authority requirements as well as internal organizational and informational needs. The Process is designed and implemented to meet financial management standards and to achieve improved			
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The DON Evaluation and Control Process
for Financial Management Systems

by

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Lieutenant Commander, United States Navy
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Submitted in partial fulfillment of the
requirements for the degree of

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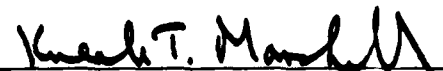

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ABSTRACT

The Office of Management and Budget has prescribed overall policy for government agencies to follow in developing, operating, evaluating, and reporting their financial management systems. As a result of this guidance and subsequent Department of Defense directive, the Department of the Navy^(Don) has developed an integrated and coordinated approach for the review, evaluation, and control of financial management systems called the DON Evaluation and Control Process for Financial Management Systems. Divided into the five components of Information System Architecture, Systems Inventory, Compliance Review, Internal Control, and Master Plan, it is aimed at satisfying higher authority requirements as well as internal organizational and informational needs. The Process is designed and implemented to meet financial management standards and to achieve improved financial management. The purpose of this study is to review the policies and procedures of the Process that DON executive departments must follow in the development, operation, evaluation, and reporting of DON financial management systems, and to provide DON financial managers an appreciation and awareness for the importance of this process.

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I. INTRODUCTION

A. ISSUE

The Department of the Navy (DON) is comprised of 27 major commands whose functional areas of responsibilities are very different in nature and complexity. Therefore, the resulting financial support requirements of these commands vary widely. The associated accounting systems are particularly complex because they must meet not only diverse operational and management information needs, but certain mandatory external requirements as well. One of these external requirements is the establishment of a single, integrated financial management system.

The unique operating and processing environments of DON accounting systems present a difficult managerial and technical problem for consolidation. The development of a well-planned, structured response is required for a consolidated system. Aimed at satisfying higher authority as well as internal organizational needs, the DON has implemented a coordinated approach to the planning, development, operation, review, and evaluation processes involved in financial management. The Evaluation and Control Process for DON Financial Systems has been designed to improve the economy and efficiency of accounting and financial management systems.

B. PURPOSE

The purpose of this study addresses the following specific question: How has the DON met Office Management and Budget (OMB) objectives and requirements for the establishment of a single, integrated financial management system?

As concern has grown over the numerous instances of poor fiduciary control, mismanaged financial systems, and decreasing resources to meet increasing demands, new legal mandates, directives, and standards have been developed to strengthen financial management. Therefore, there is a need for financial managers to gain a knowledge and understanding of the evaluation and control process involved in order that better financial management is achieved. A secondary purpose of this thesis is to provide this requisite awareness and understanding these financial managers require. The result will be better financial management.

C. METHODOLOGY

Since the basic planning methodology and requirements are provided by higher authority, appropriate legislative mandates were reviewed in order to provide a working background for the establishment of a DON financial management system. The policies and procedures that DON financial managers must follow in the planning, development, operation, review, and evaluation of financial systems were subsequently reviewed. Further research consisted primarily of a detailed search and evaluation of associated literature pertaining

to government financial management and control. Program sponsors at the Naval Accounting and Finance Center were questioned when it was necessary to confirm or to clarify information.

Presentation of this research effort is organized into four chapters. Chapter II discusses legislative and executive mandates that provide the basic planning methodology used by DON to formulate its evaluation and control process. Chapter III focuses on the overall financial management planning and developmental process. It examines the evaluation and control process in detail with the five major components of Information System (IS) Architecture, Accounting Systems Inventory, Compliance Review Process, Internal Control, and the Strategic Financial Management Master Plan (SFMMP) being discussed. Finally, Chapter IV concludes with improvements, milestones, and summary of DON compliance with OMB requirements.

II. DEVELOPMENTAL DIRECTIVES

A. INTRODUCTION

Certain legislative and executive mandates underlie the basic planning methodology used by the DON to formulate its evaluation and control system. Interest in improving financial management in the federal government started as early as 1950 with the passage of the Budget and Accounting Act. The concepts of internal control, conformance with prescribed Comptroller General principles and standards, and GAO approval of accounting systems provided the foundation for financial management in the federal government.

This law was further expanded by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 which placed the responsibility for the effectiveness of financial management systems to prevent waste, fraud, abuse, and unauthorized use of government funds upon federal managers. Agency heads are now required to certify annually that their respective accounting and administrative control systems are operating in accordance with prescribed Comptroller General standards so as to reasonably assure that: (1) obligations and costs comply with applicable law; (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and

expenditures are recorded and properly accounted for. Agency heads must also submit an annual FMFIA report to the President and Congress on the accounting system's conformance to prescribed principles and standards which identifies deficiencies with respective corrective actions.

Many other laws, mandates, and requirements have had an impact on the operation and development of DON financial management systems. Reform 88, a major effort on the part of the present administration to overhaul management practices, concentrates on streamlining, consolidating, and standardizing financial management systems. With recent Congressional emphasis on improving federal government financial management systems' effectiveness, increased media interest, and keen public awareness of fiduciary responsibility, compliance with these directives and initiatives has become more and more important in the determination of investment of resources. Some of the sources of external requirements are the Treasury Financial Manual (TFM), GAO Title 2, the Prompt Payment Act of 1982 (PL 97-177), the Debt Collection Act of 1982 (PL 97-365), and the DOD Accounting Manual (DODD 7220.9M). In terms of DON financial management, however, the most important is OMB Circular A-127.

B. OMB CIRCULAR A-127

OMB Circular A-127 [Ref. 1] provides overall guidance and direction by prescribing the policies and procedures to be followed in the development, operation, evaluation, and

reporting (including FMFIA Section 4 reporting) of financial management systems. A financial management system is defined as:

the total of agency financial systems, both manual and automated, for the planning, budget formulation and execution, program and administrative accounting, and audit; as well as all other systems for recording and classifying financial data and reporting financial management information, including purchasing, property, inventory, etc. [Ref. 1:p. 2]

A-127 requires that agencies issue a directive to implement the Circular's intentions, to document the inventory of financial systems, evaluate the systems for compliance with OMB objectives, and to develop a plan to correct any non-compliance. Funded projects are directed towards a single, integrated financial management system via the agency's budget submission. These requirements are the responsibility of the system manager.

In addition, the system manager must ensure that each system meets the following objectives: (1) the system must use the best of acceptably priced, contemporary technology to achieve usefulness, timeliness, reliability and completeness, comparability and consistency, and efficiency and economy; (2) the system must have reasonable controls designed, operated, and evaluated in accordance with OMB Circulars A-123 (Internal Control Systems) and A-71 (Responsibilities for the Administration of Automatic Data Processing Facilities); (3) financial management data must be recorded, stored, and reported to facilitate budget preparation,

analysis, and execution; (4) financial management data must be recorded, stored, and reported to assist managers in the execution of their responsibilities; and (5) financial management data must provide full financial disclosure and accountability in accordance with appropriate accounting principles and standards.

DOD has implemented this guidance by issuing DODD 7045.16 [Ref. 2]. The DON has incorporated both OMB and DOD guidance by issuing SECNAVINST 7000.18D [Ref. 3]. The objective of this instruction establishes a framework by which the system managers can assure that applicable law, appropriate budget and accounting principles and standards, Department of the Treasury (DOT) reporting requirements, and the best contemporary financial practice are achieved. A-127, however, is the basic directive that the DON must comply with in order to achieve a single, integrated financial management system.

III. EVALUATION AND CONTROL PROCESS

A. INTRODUCTION

The result of OMB, DOD, and Secretary of the Navy policy and guidance is the DON Evaluation and Control Process for Financial Management Systems. The Navy's response has been directed towards attaining OMB compliance through a standardized evaluation and control process that is divided into five components. Each component is coordinated and integrated to the processes involved in financial management. Figure 1 [Ref. 3] illustrates the overall process and provides a logical structure of the flow and sequence of the documentation required. In general, planning encompasses the setting of long-term goals and objectives compatible with an organization's mission, the analysis of alternative courses of action, and recommendations for the allocation of resources. Emphasis on strategic planning places additional importance on the assessment of environmental conditions and their probable impact on the organization.

The Evaluation and Control process consists of an orderly series of interdependent but interactive steps (as discussed below). It is a structured, dynamic, and cyclical activity modified as needed with regard to needs, analytical studies, management priorities, and environmental changes. The fundamental elements of this process are formulation, documentation,

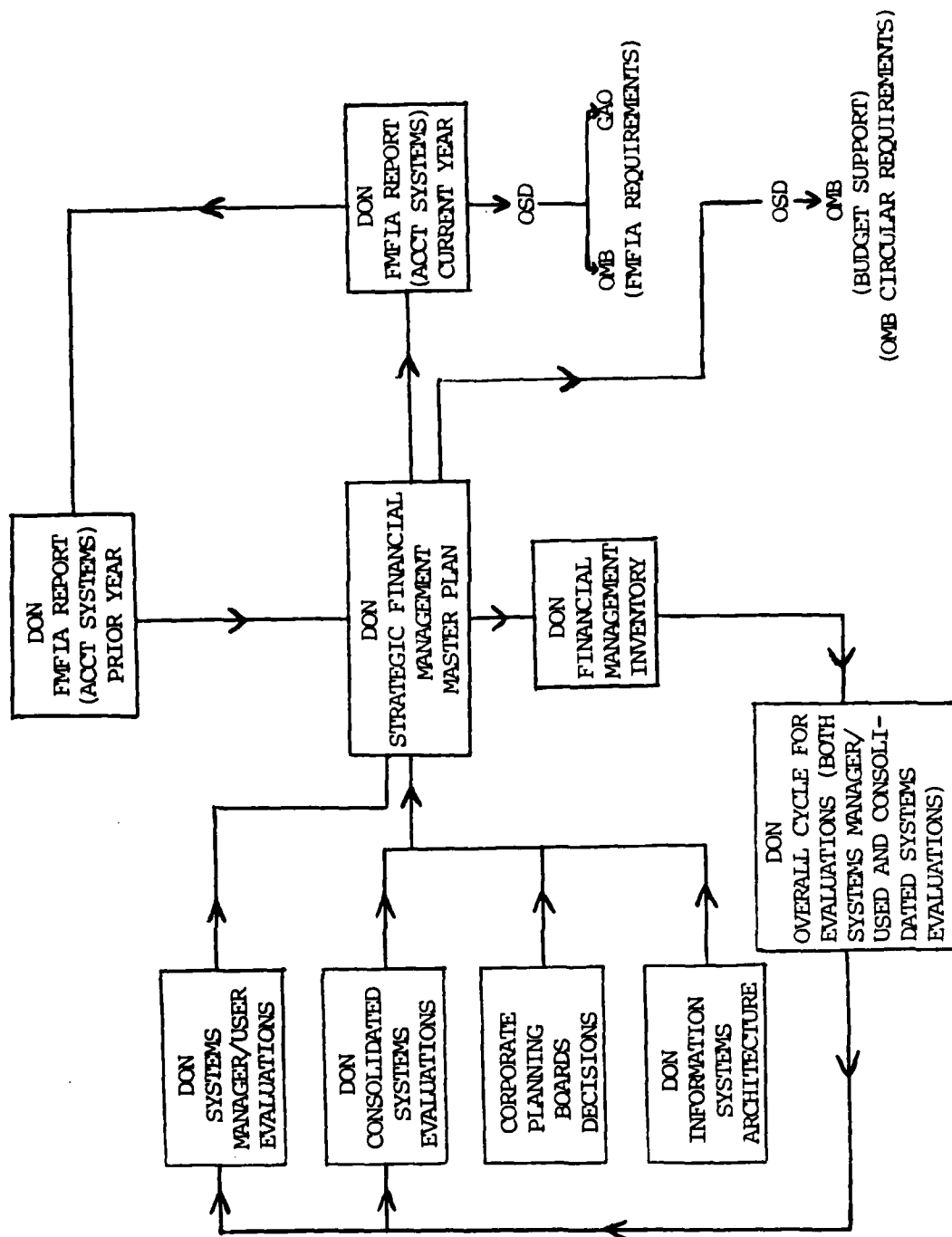


Figure 1. Department of the Navy Evaluation and Control Process for Financial Management

decision-making, implementation, monitorship, and evaluation. Prior to formulating the plan, necessary planning data (e.g., the status of ongoing efforts, proposed projects, new ideas, budget projections, time frames, system criteria, and decision rationale) are gathered from all affected components and incorporated into an IS Architecture and a Systems Inventory. After this information is summarized and documented into an initial draft, all affected components confer together to: (1) discuss the relevancy and impact of the data; (2) assess environmental assumptions and external influences (technological, economical, and political) on the plan; (3) determine priorities; (4) develop alternative "what-if" scenarios; and (5) address fallback positions.

This conference provides an interface with the Planning, Programming, and Budgeting System (PPBS) process where management decisions and direction are made. Programming considerations such as the continuation of existing programs, viability of new projects, and overriding priorities for competing efforts are discussed. Once the resource impact on the plan has been determined and decision-making feedback has been accomplished, a SFMMP is documented, published, and distributed to DON financial managers for implementation. Monitorship is ongoing through Internal Control while evaluation is achieved through a Compliance Review Process.

B. GOALS

The overall goal of the process is better financial management. In particular, however, the DON Financial

Management System Evaluation and Control Process, consisting of the five previously mentioned components, Chapter I.C, has been designed to achieve the following specific goals:

1. To provide for the development of financial management systems with a capability to furnish useful, timely, and accurate financial information to DON managers for use in the PPBS cycle in a cost effective manner.
2. To provide for implementation of GAO Title 2 and DOD Accounting Manual requirements in DON accounting systems.
3. To ensure that financial systems are in compliance with OMB objectives, GAO principles, standards, and related requirements, and are reported as so under FMFIA.
4. To provide positive technical control and coordination over all financial management system development and improvement efforts.
5. To ensure effective and efficient utilization of available resources to preclude duplicate and counter-productive efforts in the development or modification of financial management systems.
6. To ensure accounting processes are responsive to changes and specific requirements.
7. To provide review of major financial management system modifications and/or development projects prior to commencing development.
8. To provide for full disclosure of financial transactions.
9. To ensure accountability and control of all funds, property, and other assets.
10. To ensure suitable integration of DON accounting with DOT central accounting and reporting operations.
11. To monitor all major financial management efforts and provide information to managers of progress and problems of developmental efforts.

12. To consolidate financial operations utilizing standardized systems and dedicated hardware with on-line, real time interactive capabilities.
13. To provide strategic and long-range planning and research to insure implementation of technical and production state-of-the-art advances.
14. To provide education, training, and career development to accomplish all the above.
15. To accomplish all the above in the most efficient manner, economically apply resources to meet all needs, and allow the release of excess resources to support DON overall operational missions.

C. COMPONENTS

The Evaluation and Control Process is divided into the five components of Information System (IS) Architecture, Operational Accounting System Inventory, Compliance Review Process, Internal Control, and the Strategic Financial Management Master Plan (SFMMP). These components are discussed in detail below.

1. Information System (IS) Architecture

a. Definition

(IS) Architecture is defined as a statement of information requirements, data flows, and system interfaces showing how individual financial management systems fit together [Ref. 4]. The Comptroller of the Navy is required to exercise positive management control, technical control, and coordination over operational and developmental financial management systems, as well as system improvement efforts throughout DON. The IS Architecture process has been developed

to meet this goal and to ensure the necessary coordination between mission planners and information systems planners takes place. A relatively new tool, IS Architecture is a method for defining plans for development of, or changes to, information systems. It examines those plans in relation to meeting short, mid, and long-range management objectives, and when necessary it modifies the plans to meet those objectives. In addition, it monitors the progress of and establishes developmental efforts for adhering to the architecture.

A completed and maintained IS Architecture of the total accounting/financial management system must accompany any future developmental effort that exceeds ten million dollars [Ref. 4]. Within the DON financial management community, the FMFIA and GAO have formed logical areas to be considered for conducting information system architectures. These two sources have defined various financial segments for systematic reporting, review, and approval. To date, fourteen accounting systems (see Chapter III.B) have been identified that meet the monetary and segment definition requirements.

b. Development

A recommended approach to conducting this architecture process is to work within three phases. Phase I defines the boundaries (entire segment or segment portion) of the architecture by requiring a clear description of

the area to be considered as well as providing information on what functions are to be excluded. This phase involves identifying the current baseline architecture configuration by defining what financial functions are being performed at various management levels, who is performing them, how they are being performed, who is supporting them, and how the functions/support systems interrelate. "Yardsticks" for performance are then developed to measure the effectiveness of meeting known goals and the ability to address major issues and problems.

Phase II identifies ongoing or planned efforts having a direct impact on current financial systems' environments. This results in a modified baseline architecture that reflects these ongoing/planned efforts. The efforts are analyzed to determine the impact on the baseline and the ability to address the measures of effectiveness and issues/problems. This facilitates the identification of areas where the plans do not satisfy the effectiveness and issues/problems requirements.

Phase III recommends methods to fill the voids identified in the Phase II analysis.

c. Present Status

Currently, only information system architectures for Navy General Accounting and Navy Military Pay have been developed. Architecture efforts in Civilian Pay, Programming and Budgeting, and Navy Industrial Fund are planned. Common

objectives are: (1) to provide a process that will develop information systems which will consider cross-command interest and responsibility; (2) develop information systems that fulfill users' needs; (3) assure ongoing projects are coordinated; and (4) provide a clear achievable plan for satisfying the needs of DON financial managers.

For DON system managers, the Information System Architecture has proven to be a highly successful technique for understanding and documenting complex systems, interfaces, deficiencies, and requirements. The planning and controlling of future accounting and financial management systems will be greatly improved.

2. Operational Accounting Systems Inventory

The Operational Accounting Systems Inventory is a comprehensive listing of DON's fourteen operational accounting systems (see Figure 2). It covers all appropriations and funds (excluding non-appropriated funds) which meet the newly established GAO definition of an accounting system. GAO has also changed its approval process and only reviews operational accounting systems. Therefore, the maintenance of an accurate inventory is essential. These fourteen operating accounting systems are supported by 182 supporting systems which do not meet the GAO definition and consequently are not subject to the GAO approval process. This fact adds further importance to the maintenance of this inventory. The inventory consists of one overall departmental system (DON), two agency systems

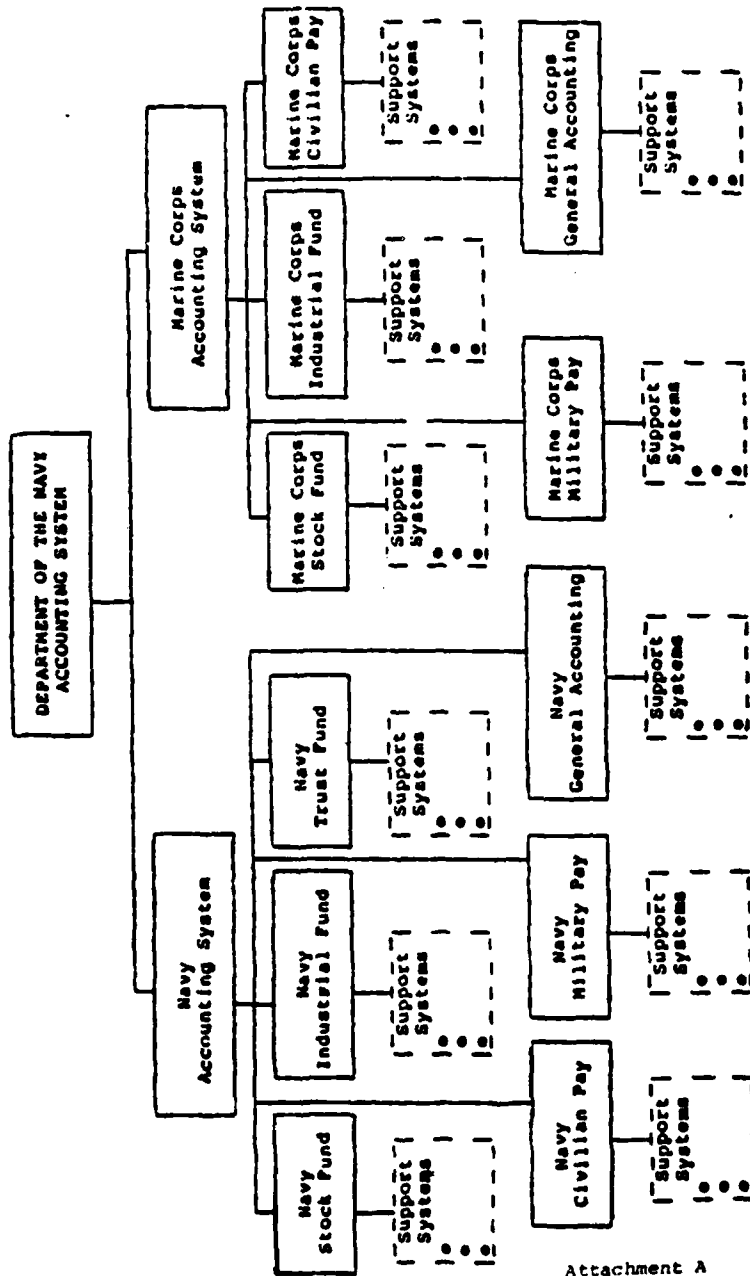


Figure 2. DON Operational Accounting Systems Inventory

(USN/USMC), and USN/USMC systems of Stock Fund, Industrial Fund, Trust Funds (USN only), Civilian Pay, Military Pay, and General Accounting. The SFMMP handles each segment separately and is organized to show: (1) the present environment (including deficiencies cited in the FMFIA report); (2) the objectives; (3) the strategy; and (4) the improvement efforts/corrective actions.

3. Compliance Review Process

a. System Manager/User Review (SM/UR) Guidelines

In addition to the continued development and operation of efficient and effective accounting and financial management systems, OMB Circular A-127 imposed important new responsibilities on the DON as well. It requires an annual review of each system and a report on the degree to which each system meets specific objectives (as cited in Chapter II.B). Continued funding of these systems might be jeopardized if these objectives are not fully complied with. New developmental efforts and enhancements to existing systems will receive maximum funding consideration only when they are identified as actions to correct A-127 deficiencies. Furthermore, a System Manager for each accounting and financial management system in the DON inventory must be designated as being responsible for conducting the required annual review. This review determines how well the system complies with the mandated OMB objectives stated in Chapter II.B. It also encompasses all aspects of the system and

represents the view of the actual users. The results of this review help form the basis of the DON SFMMP, which in turn supports the DON budget presentation and Section 4 of the FMFIA. The SM/UR Guidelines [Ref. 5] were developed to provide specific policies and procedures for conducting this annual review. These guidelines are intended to encompass all types of DON accounting and financial management systems. However, due to the number, variety, and complexity of DON systems, the development of a single set of guidelines uniformly applicable in all situations is impossible.

The Guidelines are used by the System Manager to review the entire system. All input, internal processing, and output processes and procedures for recording, classifying, and reporting accounting and financial management information, must be reviewed. In addition, actual system users must be included as members of the review team, and be directly involved in all phases of the review process (thus the name, System Manager/User Review).

The Guidelines consist of six review sections totalling 69 questions (64 required/5 optional). Each section addresses one of the overall OMB objectives (Use of Contemporary Technology, System Processes, Recording/Reporting Transactions, System Integrity, Efficiency/Economy of Operations, and Corrective Actions). Within each section, the specific OMB objective and related requirements are fully explained. The explanations are then

followed by a series of questions designed to indicate how well the OMB objective is complied with. Since not all requirements may be addressed with a specific question, the review team must fully consider every requirement before making the compliance decision. A certain amount of detailed support is required to substantiate the compliance/non-compliance decision. Where specific system deficiencies have been identified or cited, current or planned corrective actions must be provided. The review results are then incorporated in the DON SFMMP and used to support future budget requests.

(1) Contemporary Technology. The use of contemporary technology objective implies that accounting and financial management systems shall use the best acceptably priced, contemporary technology (i.e., data management, data base dictionaries, flexible report formats, controlled access, etc.) to achieve a number of closely related requirements. It recognizes that systems must be periodically reviewed and updated as necessary to take advantage of the latest state-of-the-art electronic and reporting techniques. This upgrading, however, must always be balanced with the need for economy in order to maximize productivity and service while minimizing cost. Therefore, current systems should be utilized when they satisfy the efficiency, economy, standardization, reliability, and usefulness requirements. Specialized and/or decentralized systems, economy of scale, and

commercially available software packages should all be considered to reduce cost.

(2) System Processes. System processes are the very heart of any accounting or financial management system and represent the way an entity can make the maximum use of modern processing techniques to improve cost effectiveness. The objective, therefore, is to have system processes that are clearly defined, well documented, periodically updated to reflect pertinent process changes, and readily reviewable. The normal vehicle to accomplish this objective is the detailed system flow chart usually prepared during the system design/development stages. The evaluation steps and criteria assist in the preparation of the necessary flow charts (if they do not exist), identification of the type of system each flow chart depicts, and determination of whether the system adheres to the appropriate criteria. These criteria are organized by type of system (i.e., collection systems, procurement systems, etc.) rather than by area of concern, and are provided for evaluating the system for measuring and reporting performance.

(3) Recording/Reporting Transactions. System outputs must conform to a number of specific qualitative criteria prescribed by Circular A-127. The review determines through a variety of evaluation techniques whether the supporting processes and individual system reports are in compliance with the recording/reporting transactions

objective. These evaluation techniques (i.e., reviewing actual reports, comparing reports with instructions for completion, interviewing preparers and users, and observing the preparation, distribution, and use of reports) ensure that the OMB objectives (i.e., usefulness, timeliness, reliability and completeness, comparability and consistency, support for management, full financial disclosure, and support for budgets) are met.

(4) System Integrity. System integrity must be a part of all accounting and financial management systems. These systems must feature controls that are designed, operated, and evaluated in accordance with OMB Circulars A-123, "Internal Control Systems," and A-71, "Responsibilities for the Administration and Management of Automatic Data Processing Facilities." The system controls are usually comprised of environmental elements (i.e., organizational structure, documentation of approved policies and procedures, etc.) that influence the performance of the system. The controls provide some degree of assurance that there is adherence to the objectives of: (1) faithful execution of the budget (Budget and Accounting Procedures Act of 1950); (2) compliance of obligations and costs with applicable laws; (3) safeguarding of funds, property, and other assets; (4) proper recording of revenues and expenditures; and (5) compliance with other legal requirements. Regardless of their specific missions, objectives, or operating environments,

each system must meet certain basic mandated internal control standards of reasonable assurance, supportive attitude, competent personnel control objectives, and control techniques. The critical standards of documentation, recording transactions/events, separation of duties, supervision, and access to/accountability for resources are used to meet these objectives.

(5) Efficiency and Economy of Operations. The efficiency and economy of operations objective is met when accounting and financial management systems are designed and operated with reasonable transaction and total costs. Excessively costly systems should be identified and phased out. This objective is accomplished through the installation of effective planning/evaluation systems, sharing of data, elimination of overlap and duplication, and use of the best contemporary technology.

(6) Corrective Actions. The review may result in negative responses to specific questions. Unless the supporting rationale for these responses indicates that the requirements are being met by alternative means, or that no action is planned because the system is being replaced by a new developmental effort, an A-127 deficiency exists. In some cases corrective actions such as system modifications or enhancements may be underway or planned. To receive maximum funding consideration, these corrective actions must

be identified as ones correcting specific A-127 deficiencies and they must be reported and included in the SFMMP.

Upon completion of this annual System Manager/User Review, a certification statement must be completed and signed by the designated manager.

b. Consolidated Systems Evaluation (CSE)

The economy and efficiency of accounting and financial management systems evaluations conducted by executive departments and agencies have been seriously questioned by Congress, DOD, the media, and the general public. These evaluations have been criticized as nothing more than a random collection of uncoordinated, informal reviews. Problems such as excessive systems operating costs and ineffective operating procedures, overobligated and misused funds, loss of control over cash and property, inadequate identification and collection of accounts receivable, loss of control over accounts payable, untimely generation of needed management reports, and missing or inadequate internal controls were often not corrected. The DON Consolidated Systems Evaluation (CSE) process, developed in response to legislative and regulatory initiatives, was implemented in an effort to correct these and other shortcomings.

(1) Process. The CSE Guidelines [Ref. 6] prescribes specific policies and procedures for evaluating operational systems within the DON. As with the SM/UR Guidelines, the number, variety, and complexity of DON

accounting and financial management systems make it impossible to have a single guide uniformly applicable in every situation impossible. But with prudent judgment and careful thought, it can be determined which section of the CSE can be applied to any system and therefore used for all types of DON accounting and financial management systems evaluations.

The concept of "reasonable assurance" is a crucial factor in the CSE process. There are a wide variety of regulatory requirements which could apply to any given system, but every requirement will not apply in every case. Of the requirements that do apply to a particular system, some are critical (absolutely must be met) while others are desired (not absolutely necessary). The CSE approach is designed to reasonably assure that all critical and desired requirements, and the best mix of the two, are met in the most efficient and cost effective manner possible.

Regardless of their specific design or purpose, all DON accounting and financial management systems must, to varying degrees, meet certain internal and mandatory external requirements (GAO accounting, internal control, cash management, DOT accounting, DOD accounting, ADP soundness, functional soundness, user information needs, and SFMMP compliance). The necessity for DON accounting systems to meet these internal (operational needs and management information) and external (laws and regulations) requirements leads to complex systems. In addition, the complex processing

environment of DON accounting systems (which includes multiple data bases, multiple data entry and updating methods, on-line or hardcopy inquiry, and multiple transaction types) makes the requirements compliance even more difficult.

The development of these complex systems requires a well-planned, structured approach to assure successful implementation and user satisfaction, as well as GAO approval. System complexities and linkages among the functions are often not recognized and therefore lead to developmental or initial system operational difficulties. Since these requirements will not apply to every system, sound requirements decisions can only be made through organized and comprehensive system evaluations performed throughout the life of the system.

Prior to CSE, the DON could not reasonably assure that its accounting and financial management systems met these requirements. The formal, organized, and systematic methods of CSE have replaced an informal, fragmented approach that led to: (1) "piece of the pie" evaluations generally limited to only specific processes and often in response to superior inquiries; (2) adversarial or "rubber stamp" endorsement without independence, objectivity, or integrity; and (3) the non-identification of real requirements deficiencies. The CSE was developed to meet the need for a more efficient and effective approach to systems evaluations.

(2) Definition. CSE is defined as a "comprehensive, structured, systematic, and objective method to provide responsible DON management with reasonable assurance that the accounting and financial management systems do or do not meet at least the critical internal and external requirements" [Ref. 6]. As previously mentioned, these requirements are broken into the following areas:

1. GAO accounting requirements (Title II and other GAO Titles).
2. Internal control requirements (OMB/GAO).
3. Cash management requirements (OMB/DOT).
4. DOT accounting requirements.
5. ADP soundness (adequacy of equipment/support to allow the system to function effectively and fit into overall environment with other systems).
6. Functional soundness (ability of the system to meet NAVCOMPT/DOD manuals requirements and other functional area/environmental demands).
7. User information needs (degree to which the system considers and satisfies valid user information needs).
8. SFMMP compliance (architecture decisions).

(3) Implementation. CSE has been implemented in two phases. Phase I involves all developmental and operational accounting systems. Phase II includes all developmental and operational financial management systems. By using a life-cycle oriented approach, CSE evaluates and monitors DON systems at critical points in their concept, design, initial operation, and continued operation stages. This in turn will identify real or potential deficiencies

early enough to commence corrective action to prevent waste of resources or loss of control.

The most efficient and effective method of conducting CSE is to perform this process using internal personnel. Sufficient and readily available resources of skill and detailed knowledge are primary considerations. An internal evaluation can be done at a substantially lower cost, as well as provide a more friendly and cooperative environment. However, certain measures must be followed: (1) the evaluations will be performed by a multi-disciplined team consisting of requirements, functional, technological, and user-oriented personnel (5-7 in total); (2) the team members must clearly understand their individual as well as collective responsibilities to ensure the identification of real problems and the best solutions to these problems; (3) team members must be objective and independent, and free from intimidation or reprisal; and (4) team members must be adequately and continuously supervised to ensure adherence to procedural, reporting, documentation, scheduling, and other requirements.

(4) Advantages. The CSE approach has a number of distinct advantages:

1. It provides an institutionalized, comprehensive, and systematic evaluation of all DON developmental and operational accounting and financial management systems on a regularly scheduled basis.
2. The evaluations are performed internally through prescribed procedures that are consistently applied to all DON systems.

3. It provides an independent, objective, and professional viewpoint that is well documented.
4. It demonstrates FMFIA commitment and compliance with regulatory guidance.
5. It provides ongoing and direct, active involvement by key functional, user, and responsible management personnel.
6. It provides more timely external approval of DON accounting and financial management systems.
7. It provides a more timely clarification/resolution of conflicting regulatory agency requirements.

(5) Procedure. Once a specific system has been selected for evaluation, a certain degree of preliminary preparation is required. A survey, intended to determine whether the system (including associated documentation) is at a point to allow an effective CSE, is the first step. The key evaluated factors in this early prognosis are the levels of the system's identification/documentation of transactions or processes, internal/external interfaces, and user information needs. The decision by the team leader to perform the evaluation will be based upon existing documentation. The CSE is not intended to create systems documentation.

If the decision to conduct a full CSE is made, the second step involves high level management. A small group of senior decisionmakers and experts, who possess intimate knowledge of and experience with the system, is identified and assembled to meet with the team leader to:

- (1) identify the system's specific mission, boundaries, and interfaces with other DON systems;
- (2) determine specific

aspects of the system that will be evaluated; (3) analyze the system's true operating environment, requirements deficiencies, and other problems; (4) identify planned or current system improvements, redesign, or replacement; (5) discuss/explain the specific evaluation criteria and standards that will be followed; (6) determine evaluation start and completion dates, as well as other critical milestones; (7) review evaluation team composition; and (8) clarify formal reporting/follow-up requirements and procedures.

The final step in the organization phase involves the team leader assembling the team members for a briefing and training session. Discussions of the preliminary survey, the high level management meeting results, specific documentation standards, individual/collective responsibilities, and changes in major internal/external requirements take place. This team training session determines the ultimate success of the evaluation, and therefore, must be allotted sufficient time for the system process and requirements to be fully understood.

Once the high level management and team briefings/training have been completed, the implementation phase of the CSE is ready to be conducted. The evaluation is divided into separate sections for each area to be evaluated. These requirements represent idealized performance objectives and will not be met by every system. Each requirements section should be performed in conjunction with

other appropriate sections to ensure that all critical requirements are met, and that all requirement disagreements are elevated to higher authority for resolution.

The issue of criticality applies throughout the various requirements sections of the CSE. The system will then be evaluated and well-documented in order to determine with reasonable assurance that these critical requirements are met.

The specific evaluation steps that are followed for each requirements section include: (1) the initial preparation of a brief mission/objectives statement fully describing the system under review (expanded as necessary to cover all applicable requirements of each system); (2) identification of requirements of each section that apply and those which do not, providing a narrative as to why particular requirements do/do not apply; (3) identification of related requirements within each overall requirement (step 2) that do/do not apply with specific reasons why these determinations are made; (4) the separation of overall and related requirements into critical and non-critical divisions along with documentation of the basis for such decisions; and (5) the determination as to the achievement of critical/non-critical requirements. If these steps are being met, a narrative as to how they are being met must be included. If they are not being met, the evaluation team will determine if the requirements are being met (through

interfacing systems, alternative methods, procedures, etc.) with full documentation of the final yes/no decision reached.

The results of the CSE process will clearly identify:

1. Critical/non-critical requirements which are being met.
2. Critical/non-critical requirements being met but inefficiently and ineffectively.
3. Critical requirements not being met for which recommendations will be made.
4. Non-critical requirements being met but could reasonably be eliminated with no adverse system impact.
5. Non-critical requirements that could be implemented with significant system enhancement.

4. Internal Control

OMB Circular A-123 and the FMFIA of 1982 have imposed important new responsibilities on the managers of executive departments and agencies. One is the requirement to report annually to the President and to Congress on how well the activity's internal control systems are doing. The DON's Internal Control Information System (ICIS) Manual [Ref. 7] prescribes specific policies and procedures that assist in meeting this annual review requirement. As is the case with the Compliance Review Process, the development of a single guide uniformly applicable in all situations is impossible. Therefore, reviewers must use prudent judgment in determining which sections of the ICIS Manual are relevant to a specific activity.

a. Background

Concern over the adequacy of internal controls began with the implementation of the Accounting and Auditing Act of 1950 and 31 U.S.C. 1514. To date, progress toward effective internal controls has been slower than expected resulting in numerous instances of fraud, waste, and abuse of government resources. Internal control weaknesses or breakdowns in compliance with established control procedures can be directly linked to poor internal control. As a result of these problems and a growing awareness by Congress and the public, OMB issued Circular A-123 [Ref. 8] in October 1981 (1983 revision). This requires the assignment of internal control responsibilities to specific officials, ongoing vulnerability assessments, ongoing internal control reviews, and follow-up actions. These requirements are designed to assure that the controls are effective, operating as intended, and that recommendations are considered and implemented as promptly as possible. The FMFIA of 1982 enhanced these objectives further by requiring an annual report to the President and Congress on whether or not the activity's internal control system was functioning effectively and in accordance with OMB guidelines and standards. The standards consist of general ones (reasonable assurance, supportive attitude, competent personnel, control objectives, and control techniques) and specific ones (documentation, recording transactions/events, execution of transactions/events,

separation of duties, supervision, and access to/accountability of resources) all of which are designed to achieve internal control.

b. Definition and Discussion

Broadly defined, internal control is a plan of methods and procedures adopted by management to provide reasonable assurance that: (1) assets are safeguarded against waste, loss, unauthorized use or misappropriation; (2) revenues and expenditures are properly recorded and accounted for to permit the timely, accurate, and reliable preparation of financial, statistical, and other records and reports; (3) obligations, costs, and other operations are in compliance with applicable laws, regulations, policies, and procedures; and (4) overall operational economy and efficiency of the activity is achieved. An internal control system is not, therefore, a separate system within an activity, but rather an integral part of the systems used by the activity. It is the responsibility of both management and employees to fully understand the internal control policy so that all OMB objectives are met.

All internal control systems are subject to certain inherent limitations. Interpersonal factors such as misunderstood instructions, carelessness, or judgmental mistakes may result in procedural errors. Collusion can circumvent separation of duties control. Irregularities by high level management personnel may not respond to prescribed

procedures for approval, execution, and recording of transactions. And as a result of the dynamic environment of internal controls, changing conditions may render current procedures inadequate and the projected results of reviews obsolete. Consequently, internal control systems can only provide reasonable, but not absolute, assurance that control objectives will met efficiently and effectively.

c. Methods

(1) Traditional Approach. The accounting profession recognizes administrative and accounting types of internal controls. The former deals with the organization's decisionmaking process of procedures and records concerned with management's authorization of transactions. Accounting controls, on the other hand, are confined to the safeguarding of assets and the reliability of financial records. Functions performed outside the organization's boundaries (external controls) are seldom fully considered. Traditional reviews are based upon this artificial distinction between administrative and accounting controls and largely ignore these external controls. As a result, the "big picture" is impossible to attain.

Exacerbating this problem is that the traditional approach is frequently limited to one or more segments of a system rather than the entire system. Consequently, recommendations to modify, add, or delete system controls fail to consider the impact on interacting internal and external controls.

Two other shortcomings of the traditional method need to be mentioned. First, the method has evolved into a "checklist" type procedure providing little more than yes/no answers. Quantitative measurements of specific threats facing a system and the resulting risk reductions achieved by internal controls have not been attained. Second, this conventional approach has not allowed for a ready, all-encompassing, cost benefit analysis of the merit of specific controls. Controls must be considered in terms of total risk reduction capacity and not for the particular system segment being reviewed. Incorrect conclusions and erroneous recommendations are often the result.

(2) Internal Control Information System (ICIS)
Approach. ICIS is a dynamic, performance-oriented approach to internal control review and improvements, and is the Navy's response to traditional internal control review shortcomings. ICIS addresses an entire system rather than individual segments and allows the organization to be fully cognizant of its maximum system exposure to internal control threats. It is not a yes/no method. Instead, specific threat listings (errors and irregularities) and associated dollar risks are developed. Additionally, expected threat occurrence rates (dollar exposure or risk) along with risk reduction achieved by the controls are determined. The result is a series of "threat paths" showing initial exposure, risk reductions achieved, and remaining unaddressed risk

after all controls have been incorporated. The threats are then grouped into clusters of associated type errors and irregularities. The review concludes with the development of a chart/matrix that shows the total threats treated and risk reduction achieved.

With this approach DON management can demonstrate: (1) maximum potential system exposure or risk; (2) reasonable assurance that the exposure/risk has or has not been efficiently and cost effectively reduced to acceptable levels; and (3) readily available, clearly documented evidence that the OMB general and specific internal control standards have/have not been met.

d. Procedure

(1) Preliminary Survey. Once a specific system has been selected for evaluation, a preliminary survey of the system will be performed by the ICIS team leader. Key factors evaluated to determine if the system could benefit from ICIS evaluation include the identification/documentation of: (1) specific system transactions or processes; (2) system internal and external interfaces; and (3) system user information needs and other requirements.

(2) High Level Management Involvement. The next step involves identifying and assembling a small group of high level management experts and decision-makers who individually/collectively possess intimate knowledge of and experience with the system. Conducted by the ICIS team

this group: (1) identifies the specific mission of the system, including boundaries and interfaces with other DON systems; (2) sets specific evaluation boundaries on what aspect of the system will be evaluated; (3) analyzes the system's operating environment, including any known/suspected requirements deficiencies; (4) identifies any known/proposed system improvement planned or in progress; (5) discusses the specific evaluation criteria and standards to be followed; (6) determines the estimated evaluation start, completion, and other critical milestone dates; (7) reviews planned evaluation team composition; and (8) clarifies formal reporting/follow-up requirements and procedures.

(3) Initial Team Briefing. Upon completion of the high level management review, the leader then assembles the entire team for a briefing and training session. The ultimate success of the evaluation will depend upon the team's understanding of the processes and requirements involved. Specific points covered at this meeting are discussions of: (1) the preliminary survey results; (2) the high level management meeting; (3) individual/team responsibilities; (4) evaluation areas including any recent changes to internal or external requirements; and (5) specific documentation standards to be followed.

(4) Evaluation. The first step of the actual internal control evaluation is to identify and group specific component operations (threat origination points). Basically,

it is nothing more than flowcharting the system to identify specific points or operations (i.e., data collection, preparation, approval, input, processing, correction, output, etc.) from which threats (errors or irregularities) could occur. A threat is defined as a probable event or occurrence which is a potential source of damage to the DON in one or more of the following areas: loss of assets/resources through accidental causes (errors) or illegal acts (irregularities); accidental/intentional errors in accounting entries, records, or reports; accidental/intentional failure to comply with applicable laws or directives; and accidental/intentional adverse impact on operating efficiency and effectiveness (adverse publicity).

After the threat origination points have been identified, they are grouped into specific clusters from which a comprehensive generic listing of all potential threats is developed. This listing contains threats that are possible (more than a remote possibility that the particular event could actually occur) as well as catastrophic (illegal acts of such a nature that seriously threaten the integrity of DON operations). Controls must always be adequate to guard against the latter no matter how remote the likelihood of occurrence.

This listing then provides the information for the most difficult, time consuming, and critical step of the evaluation--the identification of all relevant

internal/external threats conceivably arising from this list. A brainstorming session is usually the most effective method to achieve this detailed listing. Prior GAO, Naval Audit Service, or Navy Inspector General Reviews as well as prior internal/external management type reviews and interviews are used to arrive at this comprehensive generic listing.

Once this listing is developed, the high level management group is reassembled to determine the completeness, validity, and accuracy of the listing. Agreement is reached upon the identified threats.

The determination of specific annual risk (associated with each agreed-upon threat) follows. Annual risk is defined as the quantitative (in dollars) measurement of damages that could be inflicted on an activity by uncontrolled possible occurrences of specific threats over a one-year operating period. This risk assessment is developed for non-catastrophic threats, since catastrophic threats should be automatically controlled and are largely immeasurable.

Controls that reduce the risks of the threat are then identified. These controls generally exhibit capabilities of deterrence, detection, correction, or timeliness. A master listing of all potential controls in the order they would most likely occur within the overall network is prepared.

Once the master control listing is complete, it is necessary to identify which of the six GAO internal control standards are met by each control listed. This information is then utilized by the ICIS software package to provide individual cluster and summary matrices that demonstrate how well the system will meet these standards. The risk reduction achieved by each control is done simultaneously with the matching of standards. This maximizes the comprehensiveness of this list and assures documentation.

Prior to preparing the final detailed cluster/summary, cost/benefit matrices of the ICIS evaluation, the team leader once again meets with the high level management group to review individual threats and identify which are/are not being adequately controlled. Once this is completed, estimates for the total annual operating costs of all identified controls will be developed.

The resulting summary matrices provide graphic presentations of individual and total risks, individual and total risk reductions achieved, and individual and total control net benefits (risk reduction less control cost). This data is then used to: (1) identify overlapping controls for possible combination and/or elimination to reduce cost; (2) develop specific recommendations for new/additional controls; and (3) identify current/planned controls that could be modified to increase operating capabilities at reduced costs.

e. Transaction Testing

Reasonable assurance that at least the critical internal/external system requirements are/will be met is the goal of the ICIS approach. In some cases, especially internal controls, this is not quite so clear and, therefore, a certain amount of testing is required to assure that actual system policies, procedures, and techniques are adequate to achieve specific requirements objectives. The specific method used for this testing is approved by the team leader who ensures that it is uniformly applied by all team members.

(1) Test-Deck. This type of testing involves the introduction of hypothetical transactions into a computer system to check the completeness and accuracy of the system's control and processing procedures. The transactions contain an assortment of valid and invalid data. The correct system response is determined prior to submitting the test data and is compared to the actual system response. All discrepancies are thoroughly reviewed to identify the cause(s) and recommend corrective action. This approach is rather costly and time consuming, and care must be taken to avoid master file contamination with the faulty data.

(2) Mini-Company. An extension of the test-deck approach, this method involves introducing a small set of records representing a fictitious entity into the master files of the system under review. System operating personnel will not be aware that testing is being done which

was a disadvantage to the test-deck. In addition, master files will not be affected.

(3) Generalized Audit Software Packages. Although not an audit, the CSE process may benefit from and be assisted by prewritten computer programs. The most commonly found features are arithmetic and logical operations, data editing, statistical sampling operations, file manipulation, and report generation. These packages allow the computer to do the repetitive and detailed tasks, thus saving the review team a large amount of time.

(4) Statistical Sampling Implications. Where test-deck, mini-company, and software packages are either inappropriate or unavailable, a manual statistical or non-statistical sampling method can be used. Either method can provide sufficient evidence depending upon the particular results desired, the sampling experience level of the team members, cost involved and time needed.

f. Evaluation Workpapers

FMFIA requires that an annual report to the President and Congress be submitted that states whether the DON internal control systems are functioning effectively and in accordance with OMB/Comptroller General standards and guidelines. ICIS evaluation workpapers provide input to Section 4 of this report as well as information to others involved in the system approval/audit process. These papers should be accurate, legible, traceable to source documents,

properly indexed and cross-referenced, and standardized. A workpaper is defined as a single or group of papers prepared to clearly show the work actually performed, the specific methods and procedures used, the conclusions reached, and recommendations. A workpaper serves as a permanent record of the purpose and scope of the evaluation and contains supporting material for decisions where deficiencies existed. Also, it contains documentation for recommendations and demonstrates completed and remaining work.

g. Reporting

The last phase of ICIS evaluation involves finalizing recommendations, preparing/issuing a formal evaluation report, and discussing these results with the high level management group.

5. Strategic Financial Management Master Plan (SF MMP)

The DON is required to develop, maintain, and issue a directive that documents the present status and future direction of the Navy's financial management. The end result of the DON Evaluation and Control Process is the SF MMP [Ref. 9] which is promulgated to ensure that developmental efforts lead to a single integrated financial management system that is in compliance with applicable statutes and regulations. This plan represents the consolidation of DON mission derived goals, objectives, strategies, and action plans to implement new financial management projects and

ideas and the continuation of existing programs. The SFMMP includes: (1) system architecture effort decisions; (2) system review/evaluation efforts with related corrective actions; (3) information submitted in reports for updating and verifying the SFMMP; (4) results from the financial management research and development program; and (5) planning information obtained from financial managers.

The SFMMP informs DON components having responsibilities for or having an interest in financial management improvement of key issues which have an impact on accounting and financial management systems. It contains information that addresses ongoing and planned improvement efforts, results of NAVCOMPT oversight reviews and evaluations, and the impact of cross-cutting issues on accounting and financial management systems. This plan also documents the results of information system architectures and information submitted to NAVCOMPT as functional sponsor for the DON Financial Management System Evaluation and Control Program. In short, it identifies the path the Navy is taking in improving financial management systems and in reaching long term goals.

Updated and issued annually, the plan provides a road map for the future course and direction of DON's financial management. It shows overall DON major financial management goals and overall high level strategies for their attainment. The basic financial management structure is

broken into fourteen segments (primarily accounting) that correspond to the fourteen DON accounting systems identified by the Master Inventory. Within each segment, the four elements of present environment, objectives, strategies, and improvement are discussed. The present environment concerns the operational composition of the segment, including the identification of goals/objectives attainment roadblocks as well as FMFIA reportable deficiencies. The objectives, somewhat related to present environment, explain the specific goals/objectives established for each segment. The segment strategies are lower level in nature, in line with high level strategies, and designed specifically at correcting the previously identified deficiencies. Finally, improvement projects and action plans describe the efforts designed to carry out the strategies.

IV. FINDINGS AND CONCLUSIONS

A. SUMMARY

As the result of Congressional interest and public demand, improved financial management on the part of government financial managers is one of the top priorities of the current administration. Consequently, Reform 88 and its efforts to overhaul government management practices have focused on fiduciary control of ever-increasingly scarce resources. OMB implemented this initiative in Circular A-127 with the goal of improving financial management through the establishment of a single, integrated financial management system.

In complying with higher authority, the DON's efforts have generated responsive activity in the following areas of planning and design, implementation, and results/corrective actions.

1. DON Planning and Design

The Comptroller of the Navy was assigned ultimate responsibility for ensuring the DON's financial systems were in compliance with OMB requirements. After a series of high level financial management discussions and an in-depth review of current financial practices, it was determined that OMB's goal would be achieved by a coordinated approach for the review, evaluation, and control of financial

management through the DON Evaluation and Control Process for Financial Management Systems.

2. Implementation

Aimed at satisfying higher authority as well as internal organizational needs, the DON implemented SECNAVINST 7000.18D [Ref. 3] in August 1985. The resulting Evaluation and Control Process is a more comprehensive, integrated endeavor in that financial management review, evaluation, and planning is continuous and ongoing.

3. Results and Corrective Actions

As a result of the FY 1985 Evaluation and Control Process, only one (Marine Corps Civilian Pay Accounting System) of the 14 major accounting systems was found to be in substantial compliance with OMB objectives. The DON's plan to bring the remaining 13 systems into compliance is discussed in the Appendix which provides milestone dates of compliance, a general description, discrepancies, corrective actions, and anticipated results for each non-compliant system.

B. SPECIFIC DON COMPLIANCE EFFORTS

OMB Circular A-127 has prescribed specific requirements and objectives that financial systems must comply with. DON's response to each requirement is discussed below.

1. OMB Requirements

a. Implementing Directive

SECNAVINST 7000.18D [Ref. 3] has been promulgated and prescribes overall DON policy for the development

and control of financial management systems. It emphasizes Secretary of the Navy concern for the establishment of an integrated financial management system as an important method of improving DON financial management.

b. Inventory Documentation

The DON has identified 14 major accounting systems [Ref. 9] that meet the GAO definition and are, therefore, subject to GAO funding approval. This inventory is updated and reviewed annually and is forwarded along with the SFMMP during the budget cycle for funding justification.

c. Annual Review

This annual review is addressed by the System Manager/User Review Guidelines [Ref. 5]. The Guidelines provide the specific policies and procedures for conducting the annual review. During FY 1985 48 reviews of component systems were conducted.

d. Cyclical Reviews

Consolidated System Evaluation Guidelines [Ref. 6] were developed to assist financial managers in conducting cyclical reviews. The Guidelines prescribe specific policies and procedures for conducting independent evaluations. During FY 1985 three such evaluations were conducted.

e. Five-Year Plan

The DON has promulgated NAVCOMPTINST 7000.39B [Ref. 4]. Titled "The Strategic Financial Management Master

Plan," it projects for the next five years the course and direction the DON will be taking to improve its financial management. The Plan is updated annually.

f. System Manager Responsibility

Systems Managers for each financial system have been identified and assigned overall responsibility for the successful achievement of OMB requirements. Full compliance responsibility ultimately rests at the command flag officer's/SES level [Ref. 2].

g. Other Tools

The DON has developed the new Information System Architecture [Ref. 4] that encompasses the PPBS process. Major decisions on future budget improvements and interfaces are made as a result of this tool.

h. Certification

System managers must certify annually that their respective financial system has or will meet OMB objectives. This certification is included in the SFMMP and the annual FMFIA report [Refs. 3,9].

2. OMB Objectives

Efforts to reach substantial compliance with OMB objectives is an ongoing endeavor, and the DON Evaluation and Control Process addresses them all.

C. ASSESSMENT

The need for a control system to coordinate the achievement of planned objectives is obvious. As Earl P. Strong

and Robert D. Smith [Ref. 11] state:

There a number of conflicting viewpoints regarding the best manner in which to manage an organization. However, theorists as well as practicing executives agree that good management requires effective control. . . .

In other words, without an effective control process in which actual activities are assured of conforming to planned events, goals and objectives may not be achieved. The DON Evaluation and Control Process has been designed to measure progress toward these goals, to detect deviations from the standard, and to take corrective action when necessary.

Many experts have written and spoken about the steps and methods of an effective control system. It is useful, then, to compare the DON process to these opinions. Robert J. Mockler divides an effective control process into four steps: (1) establish standards and methods for measuring performance; (2) measure performance; (3) match performance to standards; and (4) take corrective action [Ref. 12]. Table 1, which summarizes the comparison, indicates that the DON response is in total agreement with the Mockler model of an effective control system.

Determining the method of control is another valuable factor that should not be overlooked. William H. Newman has grouped the methods of effective control in three basic types: (1) steering; (2) yes/no; and (3) post-action [Ref. 13]. Although a combination of all three, Table 2 indicates that the DON process places emphasis upon the

TABLE 1

COMPARISON OF THE DON RESPONSE TO MOCKLER'S MODEL

<u>Mockler</u>	<u>DON Response</u>
1. Establish standards and methods for measuring performance. The standards must be specified in meaningful terms and accepted by the individuals involved.	1. The standards have been established by higher authority. The method of measuring is the DON five step process.
2. Measure the performance with ongoing and repetitive procedures.	2. SM/URs, CSEs, and Internal Control.
3. Match the performance to the standard through comparison and evaluation.	3. Accomplished by steps number one and two.
4. Take corrective actions as required.	4. SFMMP.

TABLE 2

COMPARISON OF THE DON RESPONSE TO THE NEWMAN MODEL

<u>Newman</u>	<u>DON Response</u>
1. Steering controls: designed to detect deviations from the standard and allows corrections to be made before the sequence of actions is completed.	1. Internal Control but process is not designed to provide rapid information flow required by this method.
2. Yes/No: specific aspects of a procedure must be approved before operations may continue.	2. Inventory (to a small degree).
3. Post-Action: measures the results of completed action.	3. SM/URs, CSEs, Internal Control, and the SFMMP.

post-action method in that deviations are determined and then corrective action is prescribed.

As evidenced from the above discussion, the DON's Evaluation and Control Process compares favorably to accepted control system principles and concepts. It must be remembered, however, that the DON Process has been divided into five separate components each addressing a different aspect of financial management. Consequently, the entire process must be evaluated as a whole in order to accurately assess the efficiency of this process. There are apparent strengths and weaknesses, however, which are listed below.

1. Strengths

- a. It is very post-action oriented with a strong identification of discrepancies, and the subsequent corrective actions, thus providing a positive plan to eliminate any deviations.
- b. It is a heavy user involvement process that greatly assists in the accurate and responsive determination of discrepancies and respective corrective action.
- c. It identifies short as well as long term goals.
- d. It is highly integrated and coordinated. Each component combines with the others to give accurate and valid information.

2. Weaknesses

- a. Steering controls are not used adequately enough to detect deficiencies prior to becoming major ones.
- b. The timeliness of feedback is primarily based upon the annual SM/UR and cyclical CSE which does not allow speedy and urgent determination of deficiencies and respective corrections.
- c. There does not appear to be any follow-up or review (other than the SM/URs and CSEs) of corrective actions to evaluate the effectiveness of the corrections.

D. FINDINGS, RECOMMENDATIONS, AND CONCLUSION

1. Findings

The DON is in substantial administrative and organizational compliance with OMB requirements and objectives. However, significant operational compliance has not yet been achieved. Although 13 systems have some non-compliant features, the fund authorization and reporting features of these systems are adequately supporting DON fiduciary and financial management responsibilities.

FY 1984's evaluation and control process determined that five major accounting systems were in substantial compliance. When compared to FY 1985's compliance total of one, the difference appears to be significant and could possibly indicate material deficiency increases. On closer examination, however, the reason is clear. With the implementation of the DON's Evaluation and Control Process, the entire process of planning, developing, reviewing, updating, and controlling financial management systems has been improved. The use of new evaluation criteria and the increase of SM/URs and CSEs make the comparison invalid.

2. Recommendations

1. Since the SM/URs and CSEs are the primary tools of this process, the quantity of each must be substantially increased to ensure that all systems are reviewed and evaluated by these methods.
2. In order to be most effective, the SM/UR must ensure the continued participation and involvement by system users.

3. In order to improve the reliability of the CSEs, the independence of the evaluations must be maintained.
4. In order to avoid the natural tendency of paperwork overload, the danger that the evaluations and reviews might degenerate into a yes/no type of feedback must be continually guarded against.
5. Since GAO reviews operational accounting systems for funding approval, the operational inventory must be periodically reviewed and updated.
6. Emphasis should be placed on devising constructive ways to bring performance up to standard, rather than identifying past failures. Additionally, corrective actions need to be reviewed to ensure that they are effective in achieving desired results.
7. Currently, Information System Architectures exist only for the Navy General Accounting System and the Navy Military Pay System. Architectures for Civilian Pay, Programming and Budgeting, and the Navy Industrial Fund are in various stages of planning. Information System Architectures for all accounting systems need to be developed.
8. As a corollary to the first recommendation, the period of time between performance measurements should not be extensive. Increasing the quantity of the reviews and evaluations should prevent this problem from developing.
9. All financial managers should be made aware of the Evaluation and Control Process and of its importance to better financial management through discussions, briefings, and continued use of this process.
10. The use of steering controls should be increased to provide a more timely assessment of deviations from the standard.

3. Conclusion

In closing, the DON Evaluation and Control Process is an orderly series of interdependent but interactive steps combined into one system that has been designed to achieve specific OMB requirements and objectives. All

administrative and operational requirements have been met, and the process has identified areas where operational compliance with OMB objectives have fallen short with corrective actions having been implemented. The process as a whole is a significant achievement in the DON's efforts to comply with OMB objectives and to improve its financial management responsibilities.

APPENDIX

DON ANNUAL INVENTORY OF ACCOUNTING SYSTEMS

FISCAL YEAR 1985

- A. OPERATING ACCOUNTING SYSTEMS OR SEGMENTS SUBSTANTIALLY IN COMPLIANCE WITH GAO ACCOUNTING PRINCIPLES, STANDARDS AND RELATED REQUIREMENTS.

Marine Corps Civilian Pay Accounting System

- B. OPERATING ACCOUNTING SYSTEMS OR SEGMENTS NOT IN COMPLIANCE WITH GAO ACCOUNTING PRINCIPLES, STANDARDS AND RELATED REQUIREMENTS.

<u>System Name</u>	<u>Planned date to be brought into Compliance (FY)</u>	<u>Footnote</u>
Department of the Navy Accounting System	1987	1
Navy Accounting System	1990	2
Navy Stock Fund Accounting System	1994	3
Navy Industrial Fund Accounting System	1988	4
Navy Trust Fund Accounting System	1989	5
Navy Civilian Pay Accounting System	1991	6
Navy Military Pay Accounting System	1989	7
Navy General Accounting System	1989	8
Marine Corps Accounting System	1990	9
Marine Corps Stock Fund Accounting System	1989	10
Marine Corps Industrial Fund Accounting System	TBD	11

Marine Corps Military Pay
Accounting System

1990

12

Marine Corps General
Accounting System

1989

13

Footnote

1. DEPARTMENT OF THE NAVY ACCOUNTING SYSTEM

The Department of the Navy Accounting System provides overall accounting for both the Navy and Marine Corps Agencies as well as centralized budgeting, accounting, reporting, and other Department-wide financial management related activities. In most instances, the Department of the Navy Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: System does not meet all user accounting informational needs without manual intervention. Accounts are not under complete general ledger control. Budget execution data is not always provided in a timely manner for use as information for program control.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: Implement Uniform Chart of Accounts (UCA) in the new Department of the Navy Level Accounting System, Navy Headquarters Financial System (10/86).

This improvement would provide an effective and efficient system which will meet management informational needs, standardize general ledger structure and offer a more controlled environment.

2. NAVY ACCOUNTING SYSTEM

The Navy Agency Accounting System provides responsible office (RO) level accounting for the Chief of Naval Operations and the Office of Naval Research. In most instances, the Navy Agency Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB

Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: All accounts are not under complete general ledger control. Some of the automated processing systems are outdated, saturated, inefficient, and untimely. Improvement to the controls over accounts receivables is required. User information needs are not always being satisfied. There is not enough user participation in system design and upgrade.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Ongoing corrective actions involve numerous revisions and updates to the Standard Accounting and Reporting System (STARS); (b) User Advisory Groups (UAGs) are being utilized in system architectures and developmental systems; (c) GRASP implementation of UCA at Responsible Office (appropriation) level accounting system; (d) Improvements in reporting procedures for the Navy Facility Assets Data Base Support System.

Completion of corrective actions would enhance current state of operations through the use of modern techniques and technology and will bring system into substantial compliance.

3. NAVY STOCK FUND ACCOUNTING SYSTEM

The Navy Stock Fund Accounting System performs both the inventory and fund accounting functions for the Navy. In most instances, the Navy Stock Fund Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: Policy and procedures are generally adequate although minor deficiencies have been identified. Specifically, there is a need to update the Instructions for Reviewing and Processing Property Returns (NAVSO P-2060) and there is a lack of implementation procedures in the area of uncollectible accounts receivable due from the public. This second item had not previously been required by the DOD Stock Fund Regulations (DODI 7420.1) and has only been recently required under NAVCOMPTINST 7300.109C issued in 1984. There is inadequate automated data processing for the management and support of some Navy supply, disbursing, accounting, funds control or reporting functions because some of the ADP systems are out-of-date, inefficient, labor intensive and untimely. System standardization needs to be improved in some areas. (This system was reported last year as being substantially in compliance. Due to the expanded System Manager/User Review Program providing a broader base of knowledge of the operations of this system, we have determined it to be not in compliance.)

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Update policy and procedures document where required (9/86); (b) Automated Retail Merchandising System/Automated Commissary System Merge Project (3/87); (c) Uniform Automated Data Processing System for Inventory Control Points; Resolicitation/Resystemization Project (6/89); (d) Uniform Automated Data Processing System--Stock Points/Replacement Project (1994); (e) Naval Automated Medical Logistic System (11/89); (f) Shipboard Uniform Automated Data Processing System Real Time-SUADPS-RT (12/87).

These developmental efforts will enable the entire system to operate in a more efficient, effective and economical manner. Automated support will be provided, policies updated and the results being a standardized, substantially compliant system.

4. NAVY INDUSTRIAL FUND ACCOUNTING SYSTEM

The Navy Industrial Fund System performs the major accounting and related functions for the Navy Industrial

Fund below the Agency level. In most instances, the Navy Industrial Fund System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: Some segments of the system are inefficient, uneconomical and provide inaccurate, untimely information. Some support systems are outdated, slow, inefficient, inflexible and lack standardization. (This system was reported last year as being substantially in compliance. Due to the expanded System Manager/User Review Program providing a broader base of knowledge of the operations of this system, we have determined it to be not in compliance.)

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Standard Automated Financial System--STAFS (5/88); (b) NAVAIR Industrial Financial Management System--NIFMS (1/87); (c) Public Works Center Management Information System--PWC(MIS) (6/87); (d) Printing Resources Management Information System--PRMIS II (1/88).

Incorporation of these efforts will improve the efficiency and effectiveness of Navy Industrial Fund Operations and standardize component systems where feasible. These development efforts will bring this system toward a greater degree of compliancy.

The following are explanations for changes in implementation dates between 1984 and 1985.

STAFS--Design effort slipped due to requirement to expand the functional description and associated additional system development work.

NIFMS--Resource constraints forced extension of implementation schedule.

PWC(MIS)--Resource constraints and hardware/software developmental problems.

PRMIS II--Requirement to evaluate STAFS as potential replacement and revise PRMIS II functional description which resulted in extended milestones.

5. NAVY TRUST FUNDS ACCOUNTING SYSTEM

The Navy Trust Funds Accounting System performs accounting for all Navy Funds which fall into the category of trust funds, Foreign Military Sales or non-appropriated funds. In most instances, the Navy Trust Funds Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: The system does not completely satisfy user informational needs. It requires more flexibility, better accounting guidance and strengthening of internal controls that facilitate the detection and/or correction of errors. A policy and procedures guidance should be written to define accounting interfaces and requirements in the area of Trust Fund Accounting. System improvements are needed to meet accounting requirements of FMS.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Upgrade of hardware and redesign of software for the Management Information System International Logistics--MISIL (hardware by 3/86); (b) Foreign Military Sales Financial Management Improvement Program (FFMIP) in conjunction with OASD(C) (1988), (1) standardize FMS Accounting Reports and MILSTRIP/MISBILLS procedures (10/86), (2) update Reimbursable Implementing Agency (IA) Accounting (10/86), (3) provide disbursement equality and accounting month integrity (10/86), (4) provide realtime expenditure authority and disbursing activity control (10/87), (5) provide realtime obligation authority drawdown and related controls (10/86), (6) develop improved reconciliation procedures between Navy and the Security Assistance Accounting Center (SAAC) (5/88), (7) provide uniform delivery reporting procedures (5/88), and (8) provide a single system to interface with the SAAC (10/87); (c) Navy Material Transportation Office Automated Office Management Information System (3/89); (d) GRASP

implementation of UCA for field level systems;
(e) document the trust fund accounting system (including FMS) into a stand-alone chapter in the NAVCOMPT Manual (1989).

Completion of each project would direct this system toward being substantially compliant. More guidance will be provided which will clarify special trust fund requirements and define interface requirements. The improvement program will enhance the processing and reporting function to satisfy the needs of managers and provide more effective methods of operation.

6. NAVY CIVILIAN PAY ACCOUNTING SYSTEM

The Navy Civilian Pay Accounting System provides accounting record maintenance, and payment for Navy Civilian employees and provides savings bond services. In most instances, the Navy Civilian Pay Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: There are non-standard Navy payroll systems and bond accounting systems within the DON. Some of these systems provide inefficient, untimely and inaccurate accounting information. Some of these systems do not provide adequate internal accounting controls. Many of the systems lack adequate documentation, do not use modern technology and do not satisfy user reporting requirements.

Despite these instances of non-conformance, the system is functioning, providing payroll data for check distribution and has reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Phase 1--Replace the non-standard Navy civilian payroll system with a single, standard system, maintained by a single CDA, the Navy Standard Civilian Payroll System--NAVSCIPS (12/88)*;

* The NAVSCIPS change in implementation dates between 1984 and 1985 resulted because of the delayed receipt of contractor deliverables. Also, additional analysis and modifications to the functional description were required.

Sealift Command, the Marine Corps and civilian payroll offices overseas (12/90); (c) reevaluate the functional description of the Navy Standard Civilian Savings Bond Support System to determine if consolidation is feasible and practical (6/86).

These efforts would bring about standard systems providing more effective and efficient accounting for the payroll and savings bond functions. Increased automation will provide more effective and timely management information. Incorporation of these efforts will bring the system into compliance.

7. NAVY MILITARY PAY ACCOUNTING SYSTEM

The Navy Military Pay Accounting System performs all accounting and pay processing for active duty, reserve, and retired military employees and for related allotment processing. In most instances, the Navy Military Pay Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: The existing ADP, including hardware and telecommunications does not adequately support the necessary processes. System documentation is not adequate. There is a lack of system interface to effectively transition changes in status information. New accounts with insufficient, missing, or inaccurate data are established based on untimely receipt of personnel data. Payroll records are not always accurate, complete, reliable, or received in a timely manner. Proper and complete internal controls are not always provided, disbursements and accounts receivable processing is inadequate, and optimum integration of the Navy's payroll and accounting systems are not achieved. No central control is being applied to processing, data files, system edits, timing or reporting. Improvements could be made in system standardization.

Despite these instances of non-conformance, the system is functioning, providing check distribution data and has reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations,

allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Uniform Microcomputer Disbursing System--UMIDS (8/86); (b) Reserve Pay System Improvement--RPSI (1986); (c) Successor check processing (1986); (d) Direct Deposit System (DDS)/Electronic Funds Transfer (EFT) (1986); (e) Debt Collection System (1987); (f) Personnel and Pay Systems Consolidated Computer Center--PERSPAY (7/88); (g) Source Data System--SDS (1989)*; (h) Source Data System Afloat--SDSA (1989).

Incorporation of these development efforts will provide establishment of effective interfaces with personnel systems, maintenance of complete and current pay files, timely payment of members, and increased processing efficiency by modernization of ADPE. Substantial compliance of system will be achieved through the implementation of these efforts.

* The change in SDS implementation dates between 1984 and 1985 resulted from a lack of funding.

8. NAVY GENERAL ACCOUNTING SYSTEM

The Navy General Accounting System performs appropriations accounting and related functions at the major claimant and field levels for the Navy. In most instances, the Navy General Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: Some segments of the system are inefficient, uneconomical and do not consistently provide timely information. Some support systems are outdated, inflexible and lack standard operating procedures. These deficiencies at times cause data handling problems, backlogs, extensive manual intervention and training problems. Basic financial requirements are being met at the present time but corrective actions are needed to overcome the deficiencies. Inadequate general ledger account structure and related data gathering also exist in some systems.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and

reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) GRASP implementation of new Uniform Chart of Accounts (UCA) and financial reporting in Administering Office (AO) and field level systems; (b) Research and Development Management Information System--RADMIS (1986); (c) enhancements to the Microcomputer Claims Processing System--MCPS (1986); (d) Shipboard Uniform Automated Data Processing System--Real Time--SUADPS-RT (12/87); (e) Financial Reporting System Improvement Project (1987); (f) Amalgamated Data Management System--AMALGAMAN enhancements (1988); (g) Shipboard non-tactical ADP Program--SNAP (1989); (h) Integrated Disbursing and Accounting--IDA (6/89); Continue and expand coordinated architecture efforts (on-going); (i) develop financial guidance and conduct field level training (TBD); (j) enhancements to the Standard Accounting and Reporting System (STARS); (k) study to determine Chief of Naval Education and Training role in providing cost of training information and providing a system for this.

Implementation of these efforts will enhance the overall flow of data among system components. The corrective actions provide for system standardization, state-of-the-art automation, and process integration to ensure efficient, economical, and timely processing of data. The incorporation of all efforts will result in a substantially compliant system.

9. MARINE CORPS ACCOUNTING SYSTEM

The Marine Corps Accounting System serves as the agency level system for the Marine Corps within the Department of the Navy. It pulls together much accounting information at the summary level from the five Marine Corps accounting segments as required. In most instances this system is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more component systems.

Deficiencies: System does not meet all user information needs nor are all assets under general ledger control. System does not accrue liabilities in all instances and procedures for aging receivables could be improved.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Standard Accounting, Budgeting and Reporting System--SABRS (1/89); (b) Real Time Financial and Manpower Management Information System--REAL FAMMIS (7/90).

The implementation of SABRS and REAL FAMMIS will provide for improved system integration and standardization and furnish managers with timely, accurate and useful data.

10. MARINE CORPS STOCK FUND ACCOUNTING SYSTEM

The Marine Corps Stock Fund Accounting System integrates inventory and financial transactions to provide financial and cost accounting for the Marine Corps Stock Fund. In most instances, the Marine Corps Stock Fund Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: System does not meet user information needs, nor provide for adequate flexibility. Accounting procedures are not consolidated and there is insufficient interface of financial and supply actions.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Marine Corps Standard Supply System (4/87); (b) Standard Budgeting, Accounting, and Reporting System--SABRS (1/89).

These developmental systems will provide adequate user information and system flexibility that stems from modernization. Total interface of financial and supply actions will also be achieved. Completion of these efforts will bring system into compliance.

11. MARINE CORPS INDUSTRIAL FUND ACCOUNTING SYSTEM

The Marine Corps Industrial Fund Accounting System provides for automated accumulation, recording and reporting of man-hour costs and other data related to Marine Corps Industrial Fund operations. In most instances, the Marine Corps Industrial Fund Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: System documentation is inadequate in some areas. Hardware/software applications, particularly related to input applications, require improvement. Some inventory control deficiencies have been identified. (This system was reported last year as being substantially in compliance. Due to the expanded System Manager/User Review Program providing a broader base of knowledge of the operations of this system, we have determined it to be not in compliance.)

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: A review of the Marine Corps Industrial Fund System is currently underway to determine corrective actions to be taken.

12. MARINE CORPS MILITARY PAY ACCOUNTING SYSTEM

The Marine Corps Military Pay Accounting System performs all accounting and pay processing for active duty, retired and reserve military Marine Corps personnel. It administers military pay and allowances and maintains individual pay records. In most instances, the Marine Corps Military Pay Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: Systems' internal control process needs strengthening. The system is overly complex, old, costly and not fully responsive to user/manager information needs. The Systems' documentation needs improvement. Difficulty exists in the reconciliation of paid payrolls and posting to the master record. (This system was reported last year as being substantially in compliance. Due to the expanded System Manager/User Review Program providing a broader base of knowledge of the operations of this system, we have determined it to be not in compliance.)

Despite these instances of non-conformance, the system is functioning, providing payroll data for check distribution and has reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) System documentation shortfalls are being overcome as a continuous effort; (b) Real Time Financial and Manpower Management System--REAL FAMMIS (7/90).

REAL FAMMIS will provide a single centralized automated pay and manpower management system. It will satisfy the requirement for system modernization, and respond to user informational needs. Incorporation of both efforts would bring system into compliance.

13. MARINE CORPS GENERAL ACCOUNTING SYSTEM

The Marine Corps General Accounting System performs appropriation accounting, budgeting and disbursing

functions for the Marine Corps. In most instances, the Marine Corps General Accounting System is complying with the DOD Accounting Manual, the Comptroller General Principles and Standards, the OMB Objectives for Financial Management and Accounting, and other applicable directives. However, the following instances of non-conformance exist in varying degrees in one or more of the component systems.

Deficiencies: The system is untimely and does not totally satisfy management information needs. Supporting systems are not fully standardized, nor provide for asset depreciation or total general ledger control of all assets.

Despite these instances of non-conformance, the system is functioning, providing fund authorization and reporting features that are adequate to support DON fiduciary and management accounting responsibilities, and financial controls exist in this system to preclude the authorization of allocations, allotments, obligations or expenditures exceeding amounts available in appropriations and funds.

Corrective Actions: (a) Standard Budgeting, Accounting, and Reporting System--SABRS* (1/89); (b) GRASP implementation of new (UCA) and financial reporting in Administering Office and field level systems.

The improvement projects will provide for system integration, standardization and furnish managers with timely, accurate and useful data. Incorporation of both projects will bring about a substantially compliant system.

* The SABRS change in implementation dates between 1987 and 1989 reflects the incorporation of the completion of Phase II, whereas Phase I only was previously reported.

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