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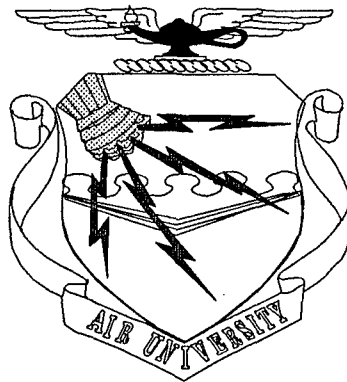
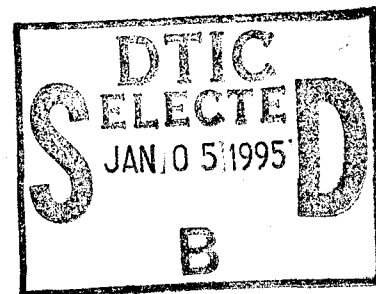
DEFINING RESPONSIBILITY IN MAINTAINING
FINANCIAL ACCOUNTING SYSTEMS

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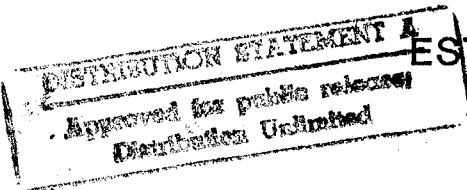


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PMCS IDEA PAPER

TITLE: Defining Responsibility in Maintaining Financial
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EXECUTIVE SUMMARY

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Numerous financial accounting systems have been developed to support the finance and accounting operations of the Department of Defense and the Departments of the Air Force, Army, and Navy. In early 1990, the decision was made to capitalize and consolidate various financial systems under one umbrella and have all participants abide by the same internal control, system conformance, evaluation, and reporting requirements. Operating under these requirements with a new corporate structure has been a challenge.

Despite the Federal Managers' Financial Integrity Act (FMFIA) and the Chief Financial Officers Act (CFOA) requirements, some managers tend to overlook obvious functional problems, especially those identifiable only through analysis and system deficiencies, such as the lack of a standard general ledger and data elements. Although tremendous improvements have been made by several managers, numerous die-hard problems remain. To prevent these problems and make the system more efficient, managers must be held accountable for system compliance. In addition, they must report any known systemic and functional problems as well as establish and implement a milestone plan for corrective action.

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Chapter 1

INTRODUCTION

As a team member of the Customer Service and Performance Assessment Deputate, Internal Control and Audit Directorate, DFAS/HQ-Richmond Detachment, I have reviewed numerous financial accounting management systems, ensuring they are in compliance with the Federal Managers' Financial Integrity Act (FMFIA).

In addition to the yearly self-appraisal of systems, the Department of Defense requires independent evaluations to ensure managers are complying with General Accounting Office (GAO), Office of Management and Budget (OMB), and Department of Defense guidance.

The evaluations our team conducts are essential to ensure controls have been implemented and systems are performing their designed functions. Since implementation of FMFIA, approximately one third of the accounting systems have been reported as noncompliant or in a qualified compliance status. A vast majority of these systems have been identified and reported by the Richmond Detachment. Others have been reported by GAO and the Department of Defense Inspector General (DoDIG).

The Richmond Detachment Team, GAO, and DoDIG are concerned that numerous deficiencies are not being identified and reported by personnel who have an in-depth knowledge of these systems and their actual performance. No doubt, significant financial problems exist and will never be corrected unless everyone involved plays an active role, from the managers to the technicians.

When Defense Finance and Accounting Service (DFAS) was chartered, one of its primary goals was to bring increased efficiency and accuracy to accounting systems within the Department of Defense. This has not been easy to do. Some managers are reluctant to change old habits. In the past, there were no incentives for a manager to place a system in noncompliance because doing so caused additional reporting requirements without any benefits. Placing a system in noncompliance status did not necessarily mean the needed system and functional changes would be given higher priority or additional funding would be available to correct the problem.

Some of the problems have been: how these systems are controlled and maintained; who is responsible for providing the financial management and accounting system structure; who is responsible for what action; understanding all legal requirements ensuring all players fulfill their responsibilities; what tools and aids support managers in accomplishing their responsibilities; understanding the methodologies used in determining compliance of accounting systems; and what agencies exist to support the managers and ensure their systems are in compliance. Within this paper, a detailed analysis of each area will be examined, thereby providing a clear understanding of what is expected from all agencies.

Chapter 2

HOW SYSTEMS ARE CONTROLLED AND MAINTAINED

The Federal Managers' Financial Integrity Act places the burden of developing and maintaining accounting systems on each agency manager. Agency managers are required to report annually to Congress whether systems comply with Comptroller General standards. This act also holds managers responsible for correcting any deficiency whether identified by internal or external sources. To help the managers, the Department of Defense established the Accounting Systems Review and Evaluation Program. This program consists of the System Manager/User Review Guide process which provides guidance to the manager on how the annual review and the detailed, cyclical, independent Consolidated Systems Evaluation (CSE) process are to be performed. The results of these reviews and evaluations become input in preparing Section 4 of the annual FMFIA report, and for reporting accounting system status in the DoD Five Year Financial Management Plan. From the numerous reviews I have conducted, it is evident which managers are accomplishing their assigned mission, attempting to learn more about the requirements, or not accomplishing the requirement and are reluctant to change old habits.

Chapter 3

WHO IS RESPONSIBLE FOR PROVIDING THE FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM STRUCTURE

The Department of Defense is responsible for developing and maintaining an integrated financial management system structure. Specifically, the financial management system structure is a collection or combination of all manual and automated systems utilized in the planning, budget formulation, and execution of accounting processes. The accounting system structure consists of systems that provide full general ledger control for financial transactions and resource balances, and subsidiary and accounting support systems which generate data to be utilized in the primary system. Subsidiary accounting systems generate functional transactional data required to support budget execution, payroll, travel, procurement, and real property. Accounting support systems have general ledger control and provide financial data to the primary accounting system.

The accounting system structure is supported by feeder systems which provide nonfinancial data. Examples of these systems are logistics and inventory systems that provide acquisition cost, as well as location and quantity information, personnel systems providing grade and entitlement information, and timekeeping systems providing attendance and leave information.

Chapter 4

WHO IS RESPONSIBLE FOR WHAT ACTION

As you know, each agency head is responsible for numerous duties but for purposes of keeping it brief, I will only address the major responsibilities for establishing, executing, and implementing policies and for managing financial accounting systems.

The Comptroller of the Department of Defense is the senior official for policy guidance, direction, and coordination with other DoD Components and other federal agencies on accounting system requirements. This individual prescribes the principles, standards, and related requirements applicable to DoD accounting systems.

The Defense Finance and Accounting Service prescribes the procedures for conducting the annual evaluation of accounting systems as required by the Federal Managers' Financial Integrity Act. This organization also develops and maintains a Chief Financial Officers Plan for integrating financial management systems within the structure.

The managers of accounting systems ensure that accounting systems are developed, maintained, reviewed, improved, and reported per defined requirements. It is my opinion that the managers play the most important role.

It is imperative that these individuals conduct annual reviews of assigned systems per the DoD Systems Managers and Users Guide and monitor the progress of development, enhancement, or improvement initiatives to accounting systems under their control.

The users of DoD accounting systems work with system managers in conducting annual reviews of systems and produce documented management assessments of the systems. If used properly, the users of the system can be a tremendous asset to the manager. It is very important that the manager and user work together in order to improve efficiency, and to produce quality financial and accounting data.

Chapter 5

LEGAL REQUIREMENTS ENSURING ALL PLAYERS ARE FULFILLING THEIR RESPONSIBILITIES

There are several regulatory guidelines that all agencies must abide by, to include the Budget and Accounting Act, Federal Managers' Financial Integrity Act, Chief Financial Officers Act, OMB Circular No. A-34, OMB Circular No. A-127, and the Treasury Fiscal Manual. A brief explanation of each is provided in the following paragraphs.

The Budget and Accounting Act of 1950 requires that the head of each executive agency establish and maintain systems of accounting and internal controls.

The Federal Managers' Financial Integrity Act was passed by Congress in September 1982 to enhance the Budget and Accounting Act, and provide management accountability by requiring ongoing evaluations and reports. "For the first time, agency heads were required to report annually to the President and Congress as to whether accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General."
(2:23)

The Chief Financial Officers Act requires that the "annual audit of an agency's financial statements contain a report on the Agency's implementation of the Federal Managers' Financial Integrity Act. Auditors are required to review and report on management's process for evaluating and reporting on accounting systems and internal controls and compare the most recent Federal Managers' Financial Integrity Act reports with the results of their audit." (2:23)

OMB Circular No. A-34 "provides instructions on budget execution, financial plans, apportionments, reapportionments, deferrals, proposed and enacted rescissions, systems for administrative control of funds, allotments, operating budgets, reports on budget execution, and reports on violations of the Antideficiency Act." (2:23)

OMB Circular No. A-127 "prescribes policies and procedures to be followed in developing, operating, evaluating, and reporting on financial management systems." (2:23)

The Treasury Fiscal Manual provides instructions for the guidance of departments and agencies of the Federal Government in the areas of "central accounting and reporting, payrolls, deductions and withholdings, disbursing, deposit regulations, and other fiscal matters. DoD accounting systems must be capable of producing the reports required by applicable sections of the Treasury Fiscal Manual." (2:23)

Chapter 6

WHAT TOOLS AND AIDS SUPPORT MANAGERS IN ACCOMPLISHING THEIR RESPONSIBILITIES

Section 4 of the FMFIA requires an annual self-appraisal of operating accounting systems by systems managers and users, and independent detailed evaluations performed on a cyclical basis. These self-appraisals and independent detailed evaluations form the basis for determining the compliancy of accounting systems. To accomplish these evaluations, the system managers and users use the SM/URs guide. This guide consolidates all accounting policies and requirements as reported in Section 4 of the FMFIA, and provides direction for completing the annual review and determining accounting systems compliancy.

It has been my experience, from previous reviews, that accounting systems operate in compliance with prescribed accounting principles, standards, and related requirements, but under the concept of recorded identified deficiencies. Major improvements have been made in this area by several system managers, but the number that require additional training outnumber the ones that are totally proficient.

Chapter 7

METHODOLOGIES USED TO DETERMINE COMPLIANCE OF ACCOUNTING SYSTEMS

Prior to addressing the methodologies used in determining if a system is in compliance, we must recognize one important fact; the system managers are responsible for operating under the same guidelines that they will be audited.

Accounting requirements made up of GAO, OMB, Treasury, and DoD requirements, which an accounting system must reasonably comply with, are most difficult for managers. Granted, the thirteen Key Accounting Requirements (KARs) within the SM/URs Guide are broad in subject matter and require extensive knowledge in the accounting profession to be fully comprehended, but in due time, the manager should learn the requirements. The compliance process identifies system departures and determines whether the departures are of such materiality as to prevent the system from being in reasonable compliance with accounting principles, standards, and related requirements. All departures from a key accounting requirement which are determined to be material are material deficiencies and require corrective action with a reasonable implementation date.

DoD uses the concept of materiality to determine compliance and identify where appropriate corrective action is required. A departure from a key accounting requirement is considered a material deficiency if it could result in loss of control of over 5% or more of the measurable resources for which the accounting system is responsible. Examples include: if more than 5% of the disbursements were undistributed, "KAR 7 (System Control Fund and Internal); excessive overrides and work arounds to make the system work, KAR 11 (System Operations); acquisition and issuance of materials, original cost, location, etc., KAR 2 (Property and Inventory Accounting)." (3:10)

The final methodology used in determining compliance is the Consolidated Systems Evaluation (CSE), which is an independent, comprehensive, systematic, and objective evaluation conducted by my office. It is used to provide reasonable assurance that accounting systems comply with statutory and regulatory requirements. The CSE determines if the finance and accounting system adequately captures, records, processes, and reports financial transactions in conformance with these same standards. This evaluation covers the full life cycle of the transaction from initiation of the accounting transaction, through system processing, and on to the ultimate posting to the accounts for inclusion in output reports. This life cycle transaction flow approach will often involve both manual and automated procedures and controls.

Chapter 8

WHAT AGENCIES EXIST TO SUPPORT THE MANAGERS AND ENSURE THEIR SYSTEMS ARE IN COMPLIANCE

Frequently, personnel within my office receive calls from managers requesting assistance or clarification on a certain Key Accounting Requirement. Other assistance calls may be in reference to a review conducted or clarification on a certain noted deficiency. Besides our office, selected DFAS Headquarters personnel have been identified to service the manager. Additional offices that can provide assistance are other DFAS-Center experienced managers, the DoD Inspector General, and Department of Defense key personnel. Points of contact for each of these agencies have been provided to the managers.

Chapter 9

CONCLUSION

The DFAS Richmond Detachment performs about 20 FMFIA evaluations a year. Historically, 70 percent of the evaluation findings and recommendations relate to functional or procedural problems, 25 percent to system deficiencies, and 5 percent to inadequate documentation. Congressional concerns and DFAS's efforts to transition to a DoD-wide single suite of systems for each business area have prompted greater interest by DoD managers to support compliance, and the selection process for the interim migratory systems has improved the reliability of FMFIA reporting. Managers are now doing a fundamentally better job at addressing, reporting, and correcting the problems in their systems, and they will do even better because the Richmond Detachment is a proactive part in the DFAS quest to eliminate deficiencies, to improve accounting and finance reporting within DoD, and to expand and improve service to our customers.

Chapter 10

RECOMMENDATION

It is very important that commanders and directors put greater emphasis on system compliance. Managers who allow the same occurrence of deficiencies or who fail to correct noted system deficiencies must be held accountable through their performance appraisals.

Much more needs to be done at all senior management levels to drive home the idea that more management involvement is needed to improve coordination and planning for performing more reviews of systems and processes. Frankly, disclosing known system deficiencies and then developing, establishing, and implementing a realistic milestone plan for corrective action would be the best policy.

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