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FINANCIAL MANAGEMENT PRACTICES IN THE  
MILITARY SEALIFT COMMAND

Report Number 98-205

September 25, 1998

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Department of Defense

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### **Acronyms**

CEFMS	Corps of Engineers Financial Management System
DFAS	Defense Finance and Accounting Service
DJAS	Defense Joint Accounting System
FMIS	Financial Management Information System
MSC	Military Sealift Command
STAS	Standard Transportation Accounting System
USD(C)	Under Secretary of Defense (Comptroller)
USTRANSCOM	U.S. Transportation Command
WCF	Working Capital Fund



INSPECTOR GENERAL  
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September 25, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
COMMANDER IN CHIEF, U.S. TRANSPORTATION  
COMMAND  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
COMMANDER, MILITARY SEALIFT COMMAND

SUBJECT: Audit Report on Financial Management Practices in the Military Sealift  
Command (Report No. 98-205)

We are providing this audit report for review and comment. This audit was performed in response to a request by the Under Secretary of Defense (Comptroller). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the U.S. Transportation Command and Defense Finance and Accounting Service, were not fully responsive. We request that they provide additional comments on Recommendations B.1. and B.2. by November 24, 1998.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David F. Vincent, at (703) 604-9110 (DSN 664-9110), e-mail <DVincent@DODIG.OSD.MIL>; or Ms. Barbara A. Sauls, at (703) 604-9129 (DSN 664-9129), e-mail <BSauls@DODIG.OSD.MIL>. See Appendix D for the report distribution. A list of audit team members is on the inside back cover.

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# Office of the Inspector General, DoD

Report No. 98-205

(Project No. 7FH-5046)

September 25, 1998

## Financial Management Practices in the Military Sealift Command

### Executive Summary

**Introduction.** This audit of the financial management practices at the Military Sealift Command was performed at the request of the Under Secretary of Defense (Comptroller). As part of the audit of financial management practices, the Under Secretary of Defense (Comptroller) requested an assessment of financial reporting, standard operating procedures, and the financial accounting and management systems at the Military Sealift Command.

On December 11, 1996, the Under Secretary of Defense (Comptroller) separated the Defense Business Operations Fund into four Defense Working Capital Funds, which are Army, Navy, Air Force, and Defense-Wide. On October 1, 1997, the Under Secretary of Defense (Comptroller) transferred the U.S. Transportation Command from the Defense-Wide Working Capital Fund to the Air Force Working Capital Fund for cash management purposes. Those realignments do not affect the matters discussed in this report. In FY 1997, the U.S. Transportation Command reported revenues of \$4.4 billion, operating expenses of \$4.5 billion, and a positive net position of \$1.2 billion.

**Audit Objectives.** The primary audit objective was to assess the financial management practices of the Military Sealift Command, including the financial accounting systems and procedures. We also reviewed the management control program as it applied to the audit objective. We performed a limited review of the Financial Management Information System that the Military Sealift Command used. Prior audit reports identified the deficiencies noted in this report and remain relevant. As a result of the continuing deficiencies, we concentrated our efforts on the DoD Interim Migratory Accounting Strategy for selecting an accounting system for the transportation business area. We assessed the DoD Interim Migratory Accounting Strategy's ability to correct the financial management and reporting problems at the Military Sealift Command.

**Audit Results.** Since FY 1992, the Military Sealift Command has taken major steps to improve financial accounting and reporting systems. For example, the Military Sealift Command established a plan to bring overall financial management systems into compliance with DoD regulations. In addition, the Military Sealift Command established standard operating procedures for the Accounting Division. The Military Sealift Command also made a system change that improved the calculation of accrued cargo expenses. Despite those steps, the Military Sealift Command continues to have significant financial reporting problems. As a result, the Financial Management Information System will continue to provide inaccurate financial reports to the U.S. Transportation Command and the Navy (Finding A).

The U.S. Transportation Command will not have a standard transportation accounting system to properly manage the transportation business area. In January 1998, the U.S. Transportation Command abandoned its attempt to develop a single standard accounting system and decided to develop or upgrade its own accounting and financial management

system at an undeterminable cost. The transportation business area's current approach will no longer reduce four disparate existing systems to a single standard accounting system (Finding B).

**Summary of Recommendations.** We recommend that the Commander in Chief, U.S. Transportation Command, and the Director, Defense Finance and Accounting Service (DFAS), perform an accelerated feasibility study to determine whether the transportation business area can cost-effectively migrate to a single standard accounting system. The Command should also adhere to DoD regulations for replacing systems and prepare a strategy that includes feeder systems. The feeder system plan should comply with the requirements of the National Defense Authorization Act for Fiscal Year 1998. The plan should determine the number of feeder systems, provide milestones for implementing corrections, and estimate the cost to modernize the feeder systems.

**Management Comments.** The U.S. Transportation Command and the Director, DFAS, nonconcur with the recommendation to determine whether the transportation business area can migrate to a single standard accounting and financial management system and to determine the cost to migrate to a single system instead of developing or upgrading four disparate systems. The Command stated that to move to a single system would be cost prohibitive, would take too long, and would provide greater risk. The Director, DFAS, agreed. The Director, DFAS, stated that it is best to have a suite of compliant migratory accounting systems. In addition, the Command stated that the DoD delay in selecting a transportation migration system forced it to rely on a non-compliant system for over 3 years. Consequently, the Command is in the process of implementing a commercial off-the-shelf system. The Command is trying to achieve the FY 1999 goal of financial statements with unqualified opinions. The Command agreed to comply with regulatory requirements for future replacement of financial management systems. See Part I for a discussion of management comments and Part III for the complete text of management comments.

**Audit Response.** The comments from the U.S. Transportation Command, were partly responsive. We agree that scarce resources should be directed toward developing and implementing integrated financial management systems. We are not certain that the Command is correct on the DoD position on migrating to a single system. The comments from the Director, DFAS, were not responsive. The approach used by the Command may not prove the "best fit" migratory strategy. The Command, in conjunction with DFAS, should assess the benefits and problems associated with migrating to a single system. Without a study, the Command and DFAS can not support the position that migrating to a single system would be costly, take too long, and increase risk. The delays have made it difficult, but not conducting a feasibility study could exacerbate the problem. We are concerned that in a 4-month period, the Command abandoned a plan of 5 years and purchased an information technology system without any study that shows it is the best approach. The Command response did not answer the recommendation on improving feeder systems. We request the U.S. Transportation Command and the Director, DFAS, reconsider their position and provide additional comments on the recommendations by November 24, 1998.

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## **Part I - Audit Results**

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## Introduction

This audit of the financial management practices at the Military Sealift Command (MSC) was performed at the request of the Under Secretary of Defense (Comptroller) (USD[C]). As part of the financial management practices, the USD(C) requested an assessment of financial reporting, standard operating procedures, and the financial accounting and management systems at MSC.

## Audit Background

On April 18, 1987, the Secretary of Defense established the U.S. Transportation Command (USTRANSCOM) as a unified command to integrate global air, land, and sea transportation during wartime. In 1992, the role of USTRANSCOM expanded to include a peacetime mission. Headquartered at Scott Air Force Base, Illinois, USTRANSCOM executes its mission through the following three Component Commands: the Military Traffic Management Command, Falls Church, Virginia; the Military Sealift Command, Washington, D.C.; and the Air Mobility Command, Scott Air Force Base, Illinois.

In FY 1997, USTRANSCOM reported revenues of \$4.4 billion, operating expenses of \$4.5 billion, and a positive net position of \$1.2 billion. USTRANSCOM, as manager of the Working Capital Fund (WCF) transportation business area, provides management oversight of its Component Commands' budget, mission operations, and financial systems. USTRANSCOM participates in all accounting and financial issues concerning its Component Commands.

MSC, a Component Command, provides sea transportation of equipment, supplies, and ammunition to sustain U.S. forces worldwide. During FY 1997, MSC provided 25 percent, or \$1 billion, of the revenue and expenses of USTRANSCOM.

**USTRANSCOM and MSC Financial Reporting.** USTRANSCOM and MSC are responsible for the accuracy of information entered into financial systems and reported on the financial statements. The Defense Finance and Accounting Service (DFAS) Denver Center consolidates the financial data for USTRANSCOM and its Component Commands and prepares the financial statements required by the Chief Financial Officers Act. The transportation accounting functions for the three Component Commands were relocated to the Omaha Operating Location in Nebraska.

On December 11, 1996, the USD(C) separated the Defense Business Operations Fund into four Defense WCFs, which are Army, Navy, Air Force, and Defense-Wide. In addition, on October 1, 1997, the USD(C) transferred the USTRANSCOM from the Defense-Wide WCF to the Air Force WCF for cash management purposes. Those realignments do not affect the matters discussed in this report.

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## Audit Objectives

The primary objective of our audit was to assess the financial management practices of the MSC, including the financial accounting systems and procedures. We assessed whether the modernization of transportation data feeder systems<sup>1</sup> was included in the transportation business area's interim accounting system development effort. We also reviewed the management control program as it applied to the audit objective.

We performed a limited review of the Financial Management Information System (FMIS) that MSC used. Prior audit reports discussed the deficiencies noted in this report and remain relevant. As a result of the continuing deficiencies in FMIS, we concentrated our efforts on the DoD Interim Migratory Accounting Strategy (the Strategy) for selecting an accounting system for the transportation business area and the Strategy's ability to correct the financial management and financial reporting problems of MSC. See Appendix A for a complete discussion of the audit scope, methodology, and management control program. Appendix B discusses prior coverage related to the audit objectives.

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<sup>1</sup>A data feeder system is an automated or manual system from which information is derived for a financial management system or accounting system. Source: The National Defense Authorization Act for FY 1998.

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## **Finding A. Financial Reporting at the Military Sealift Command**

Since FY 1992, MSC has taken significant steps to improve financial accounting and reporting systems; however, problems remain. MSC continues to experience financial reporting problems because of existing weaknesses in FMIS. The weaknesses include several accounting deficiencies that cause FMIS to be noncompliant with Volume 1, DoD Regulation 7000.14-R, "DoD Financial Management," May 1993, for accounting principles, standards, and policies. Further, MSC has a fragmented financial reporting process. The DoD moratorium of October 13, 1993, on funding system changes, prevented MSC from bringing FMIS into compliance with the DoD and Office of Management and Budget requirements. As a result, FMIS will continue to provide inaccurate financial reports to USTRANSCOM and the Navy.

### **The Financial Management Information System**

**History of FMIS.** FMIS is an accounting and financial management system that supports the WCF Transportation and Navy business areas at headquarters, MSC. FMIS was developed in 1989 and implemented in 1993. FMIS is a commercial off-the-shelf system that contains various modules such as a general ledger and accounts payable.

During the initial DoD evaluation of migratory accounting and financial management systems, both FMIS and the Corps of Engineers Financial Management System were considered to be adequate for MSC. After further analyses, DFAS did not recommend FMIS as a migratory system for the overall transportation business area. Some of the reasons for rejecting FMIS were concerns with numerous problems identified in prior Inspector General, DoD, and Naval Audit Service reports. Specifically, the reports note that FMIS did not use the DoD standard general ledger; did not make the most efficient use of data processing and accounting methodology; and did not fully comply with accounting principles, standards, and policies as required in DoD Regulation 7000.14-R. In addition, noted FMIS deficiencies include inaccurate general ledger control, untimely recording of property and equipment, and incomplete supporting documentation. Accordingly, FMIS was designated as a legacy system. A legacy system is defined as an existing automated information system not selected for long-term use.

**Improvements to Financial Accounting and Reporting.** Despite the problems identified with FMIS, MSC did take major steps to improve financial accounting and reporting. For example, as recommended by the Naval Audit Service, MSC established a plan to bring overall financial management systems into compliance

## Finding A. Financial Reporting at the Military Sealift Command

with DoD regulations. In addition, MSC established standard operating procedures for the Accounting Division. MSC also made a system change that improved the calculation of accrued cargo expenses.

**Financial Reporting Process.** Because of past decisions regarding FMIS, the current financial reporting process for the MSC WCF-Transportation and WCF-Navy is fragmented. For example, one of the primary financial reporting requirements is the need for budgetary data in the financial reports. However, as with all WCF-Navy activities, FMIS only captures proprietary information; therefore, the billions of dollars in budgetary data needed for financial reporting purposes have to be manually prepared at the MSC from the proprietary data generated by FMIS. Another example of the fragmented accounting process is that accounts receivable data must be manually entered into FMIS before it can automatically generate an aging schedule. Also, MSC has two different DFAS centers preparing the financial reports.

**DFAS Cleveland Center.** For the WCF-Navy, MSC forwards data to the DFAS Cleveland Center in the Department of the Navy Industrial Business Information System chart of accounts. The DFAS Cleveland Center later converts and crosswalks the data from the Department of the Navy Industrial Business Information System chart of accounts to the Central Database chart of accounts. The DFAS Cleveland Center then prepares the financial reports for WCF-Navy.

**DFAS Denver Center.** The Omaha Operating Location sends the MSC data for the WCF-Transportation to the DFAS Denver Center. The DFAS Denver Center makes several adjustments to the MSC data, consolidates MSC with the other Component Commands, and prepares the financial reports for USTRANSCOM. To complete the MSC financial reports with both WCF-Navy and WCF-Transportation data, the DFAS Denver Center sends the WCF-Transportation data back to the DFAS Cleveland Center for MSC consolidation. Deficiencies in the MSC FMIS cause the incomplete capture of financial data that affect financial reports and the ability to reconcile reports with general ledger data. The MSC financial reporting process is just one example of the many inconsistencies within USTRANSCOM with regard to its Component Commands.

**MSC Transportation Accounting Function.** USTRANSCOM is working to reduce or eliminate the many procedural and systemic deficiencies existing in accounting and financial management systems and processes supporting WCF-Transportation. USTRANSCOM and DFAS jointly developed the Concept of Operations to improve the process for all the Component Commands. In FY 1997, USTRANSCOM and DFAS developed the "Transfer of Command and Control of MSC's Transportation Accounting to DFAS." The objective was to consolidate MSC accounting support at the DFAS Omaha Operating Location. Specifically, the participants decided that nine existing DFAS Cleveland Center billets at MSC headquarters and 27 billets from MSC would transfer to the DFAS Omaha Operating Location. The transfer of the MSC transportation accounting function was completed in March 1998. The transfer of personnel may correct the problems with duties and responsibilities and aid

## **Finding A. Financial Reporting at the Military Sealift Command**

USTRANSCOM in its management oversight role. However, the transfer of personnel will not correct the MSC accounting system and its financial reporting deficiencies. The overall conclusion that MSC is in need of a new accounting and financial management system to correct financial reporting problems remains valid.

### **Moratorium on Funding for Legacy Systems**

A moratorium on funding for enhancements or upgrades to legacy systems has impacted the ability of MSC to develop or significantly improve its FMIS accounting system. On October 13, 1993, the Deputy Secretary of Defense issued a memorandum on "Accelerated Implementation of Migration Systems, Data Standards, and Process Improvements." The memorandum directed DoD organizations to stop funding for the development, modernization, or enhancement of legacy systems that were not selected to be migration systems. The DoD Senior Information Management Official must approve exceptions as absolutely essential to support DoD missions or to comply with the law. Essentially, the memorandum imposed a moratorium on funding for legacy system enhancements or upgrades throughout DoD.

MSC recognized the need to modernize and upgrade FMIS to make it compliant with the Chief Financial Officer Act and to improve financial reporting. In compliance with the Deputy Secretary of Defense's memorandum, MSC was precluded from modernizing FMIS and, therefore, could not correct financial reporting problems that various audits identified. Until MSC can replace FMIS, the financial reports will continue to be in error and will not provide accurate financial information for the USTRANSCOM and the Department of the Navy. MSC expected an accounting and financial management system for the transportation business area to result from the Strategy. However, numerous changes to the anticipated Strategy have taken place. The impact of the changes is discussed in Finding B.

### **Summary**

Financial reporting problems continue for MSC. Previously identified problems remain uncorrected because MSC abided by the moratorium on funding legacy systems enhancements, recognizing that it was not prudent to make significant upgrades or enhancements to the FMIS, a system scheduled for replacement. Accordingly, until MSC can replace FMIS, the financial reports from MSC will continue to be in error and will not provide accurate financial information for USTRANSCOM and the Navy. This report does not make recommendations to correct the FMIS because recommendations from prior audits are still outstanding.

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## **Finding B. The Migration System Strategy for Transportation**

USTRANSCOM will not have a standard transportation accounting system (STAS) to properly manage the transportation business area because DFAS and USTRANSCOM did not execute the Interim Migratory Accounting Strategy (the Strategy) for the transportation business area as planned. Specifically, the Strategy shifted its original approach for the transportation business area and merged the requirements of two major General Fund customers with the transportation business area. With that shift in the Strategy, DFAS and USTRANSCOM did not accomplish the changes needed to fully implement the STAS. As a result, in January 1998, USTRANSCOM and the Component Commands abandoned the proposed STAS nominated in the Strategy and plan to develop or upgrade their own Service-unique accounting and financial management systems. The transportation business area's current approach will no longer reduce four disparate existing systems to a single standard accounting system.

### **Shift in the Migration Accounting Strategy for Transportation**

Understanding the impact of a shift in the Strategy for the transportation business area of the WCF requires an understanding of the history of the Strategy. The Strategy included substrategies for the General Fund and the WCF customers. Customers of both funds had separate working groups responsible for developing and implementing their planned strategies. For the WCF customers, the Defense Business Operations Fund Corporate Board (the Corporate Board) was established. The Corporate Board became responsible for system selection for all WCF business areas, to include transportation. However, because of the uniqueness and complexity associated with the transportation business area, the Corporate Board needed to take care when selecting a STAS for USD(C) approval.

**The Working Capital Fund Business Areas.** On February 24, 1994, DFAS established and the Corporate Board approved a two-phase accounting system strategy for the Defense Business Operations Fund. As noted in Inspector General, DoD, Report No. 98-014, "The Working Capital Funds Interim Migratory Accounting Strategy," October 24, 1997, the first phase, the Strategy, focused on migrating to a separate accounting system for each WCF component in each business area. The Strategy did not establish a formal completion date. The second phase was to transition from the interim migratory accounting systems to a selected number of migratory accounting systems by evaluating opportunities to use the best interim migratory accounting systems.

## Finding B. The Migration System Strategy for Transportation

However, the Strategy excluded the modernization of feeder systems for each WCF component in each business area to include the transportation business area.

**The Transportation Business Area.** The objective of the Strategy was to select an interim migratory accounting system that would support the WCF, the General Fund, and the transportation-unique requirements of the transportation business area. According to the Corporate Board, the Strategy would include a system that would cross Service boundaries and support DoD requirements. The need for a single system was critical because the transportation business area was supported by four disparate Service-unique accounting systems. Those disparate systems were inadequate and could not support the Defense Business Operations Fund policies and procedures, did not provide accurate and timely financial data, and did not provide adequate tools for managing costs.

In 1994, recognizing the uniqueness of the transportation business area, the Corporate Board recommended and the USD(C) directed that an economic analysis of recommended systems be done focusing on reducing the number of legacy systems to achieve a single standard accounting system. That economic analysis supported the selection of the Corps of Engineers Financial Management System (CEFMS) to support the transportation business area. The CEFMS Technical Analysis dated March 21, 1996, summarized the pros and cons of selecting CEFMS as the STAS. The analysis specifically noted that CEFMS, as is, would not meet DFAS requirements for the STAS. CEFMS needed to be modified to work. The required modifications included adding functionality to incorporate transportation business area requirements, adding software to replace legacy system interfaces, and converting legacy data to the STAS. The estimated cost for DFAS to make those modifications to CEFMS was \$19.3 million, and the timeframe was 2 years. DFAS recommended CEFMS for the transportation business area, and on May 17, 1996, the USD(C) approved the selection. Within 2 weeks after CEFMS was recommended and approved, the Strategy shifted. The USD(C) merged the transportation business area and the Army and Air Force General Fund accounting system requirements into a single accounting system acquisition and development project. The revised Strategy focused on the Army and Air Force General Fund requirements first.

**Single System Designated for Three Major Customers.** On May 28, 1996, and July 25, 1996, the USD(C) directed DFAS to combine the system requirements of the Army and Air Force General Funds and the transportation business area into the development of CEFMS. On April 23, 1997, CEFMS was renamed the Defense Joint Accounting System (DJAS) because of its application to more than one DoD organization.

The USD(C) merged the three customer requirements into the DJAS life-cycle management process. According to DFAS, the merging of General Fund system requirements with WCF and transportation-unique system requirements was not a major problem in the DJAS development. However, working with three Service-unique transportation system requirements made system development more difficult. As a result of the DFAS recommendations and USD(C) approvals, the DJAS implementation would consist of a single system modified to meet Service-unique General Funds requirements. In addition, DJAS would be modified to

## **Finding B. The Migration System Strategy for Transportation**

meet the transportation business area's General Funds, WCFs, and transportation-unique requirements. The merging of the three major customer requirements forced DFAS to prioritize implementation of DJAS. This prioritization greatly affected the timelines for the STAS.

**Priority for DJAS General Fund Customers.** DFAS focused its efforts on developing and deploying DJAS for its large General Fund customers first. DFAS proposed using a tailored incremental approach strategy for the DJAS implementation, consisting of two increments. Increment 1 would address DFAS Indianapolis Center customers, primarily the Army, and increment 2 would address DFAS Denver Center, primarily the Air Force, and transportation business area customers. Under the DFAS approach, DJAS for the WCF-Transportation prototype sites would not have been initially deployed until January 2000 at the earliest and would not have been completed until September 2003. USTRANSCOM and its Component Commands considered the proposed DJAS deployment schedule for transportation unacceptable. By that time, USTRANSCOM and its Component Commands had invested nearly 5 years in the transportation business area's accounting and financial management systems acquisition. The merger relegated transportation's urgent system needs to a lower priority in the overall DJAS implementation process. If the merger had not taken place, USTRANSCOM and its Component Commands could have been farther along in deploying a STAS. The shift delayed the implementation timeframe for a STAS, and virtually halted the modifications needed to make DJAS work as a STAS for the transportation business area.

## **The Migration Accounting Strategy Implementation**

The shift in the priorities to the General Fund customers instead of the transportation business area halted the Strategy for the STAS. As noted in the Technical Analysis for CEFMS, USTRANSCOM had to modify three areas to make DJAS work for transportation. USTRANSCOM needed to define the requirements, replace the legacy systems, and standardize the data elements. Ensuring that all those requirements were met would become part of the feasibility study needed to determine whether the transportation business area could migrate to a single standard accounting and financial management system.

**Defining Transportation Business Area Requirements.** The major transportation requirement that was not available in DJAS was the Cargo/Passenger Revenue Tracking and Billing Subsystem. The system provides support for the majority of the costs acquired in the transportation area. DJAS did not contain the accounts needed for the WCF, so it could not perform unit cost calculations or provide the details needed to support the WCF budget authority. USTRANSCOM would need to implement the Cargo/Passenger Revenue Tracking and Billing Subsystem to correct that deficiency.

**Replacing Legacy Systems.** DJAS, as the STAS, was to replace the three legacy systems of the Component Commands and the General Fund system that the Air Mobility Command used. To replace those systems, USTRANSCOM and DFAS

## Finding B. The Migration System Strategy for Transportation

would need to develop 9 interface modules and 34 interface routines. Those are major changes that take time and effort. Without those changes, no system can be used as the STAS.

**Standardizing Data Elements.** Once USTRANSCOM defines the requirements and eliminates the legacy systems, USTRANSCOM must convert the databases used in the legacy systems for use in DJAS. Consequently, USTRANSCOM would have to convert the current Air Mobility Command and MSC billing systems database to the Cargo/Passenger Revenue Tracking and Billing Subsystem database. In addition, DFAS would need to convert the general ledger account structure, the current fiscal year data, and the historical data used in the old legacy systems to meet the requirements of DJAS. The minimum timeframe needed to complete the changes was 2 years, and the estimated cost for DFAS was \$19.3 million. With the shift of priorities to the General Fund customers, USTRANSCOM and DFAS did not define or implement the transportation requirements. As such, we could not determine the timeframe for actually implementing a STAS.

### **USTRANSCOM Reaction to the Strategy Changes**

As discussed in Inspector General, DoD, Audit Report No. 98-014, the Strategy has undergone numerous changes. The Strategy changes caused USTRANSCOM to shift its system acquisition approach. The current approach of USTRANSCOM will no longer reduce four disparate existing systems to a single standard accounting system. Retaining the legacy systems will affect the site consolidation of accounting support.

**The Standard Accounting System Approach.** The transportation business area's current approach will no longer reduce four disparate existing systems to a single standard accounting system. After nearly 5 years of anticipating a standard accounting system, USTRANSCOM has not developed its systems requirements, eliminated Service-unique legacy systems, or standardized accounting data and procedures. Because of delays, shifts in priorities, and the time required to properly implement the Strategy, USTRANSCOM and its Component Commands abandoned the STAS and decided to develop their own strategy for acquiring an accounting and financial management system. Although USTRANSCOM stated in its overview to the FY 1997 USTRANSCOM financial statements that it began working with DFAS to identify alternatives to implement a single system, its current approach does not support that statement and is in direct conflict with the Deputy Secretary of Defense's October 13, 1993, memorandum. The memorandum requires DoD to focus on accelerating the pace for defining standard baseline process and data requirements, selecting and deploying migration systems, and implementing data standardization. USTRANSCOM does not plan to define data requirements, select and deploy a migration system, or standardize data. The transportation business area currently consists of a DFAS General Accounting and Finance System, three legacy accounting and financial management systems, and no system at Headquarters, USTRANSCOM. USTRANSCOM and its Component Commands intend to proceed as follows:

## Finding B. The Migration System Strategy for Transportation

- The Military Traffic Management Command will use DJAS for accounting and financial management needs. The WCF prototype for the Component Command is scheduled for March 2000. The full-scale system deployment is scheduled to be completed by September 2003, at an estimated cost of \$28.1 million.

- MSC plans to implement a commercial off-the-shelf alternative, possibly the Oracle Government Financial Applications, for accounting and financial management system needs. USTRANSCOM will monitor and evaluate the deployment progress of the Oracle Government Financial Applications upgrade, if selected, before considering the use of the software application for Headquarters, USTRANSCOM. USTRANSCOM could select a fifth system for operations.

- The Air Mobility Command plans to use the recently designated General Fund interim migratory accounting system for the Air Force DFAS General Accounting and Finance System and plans to upgrade the Airlift Services Industrial Fund Integrated Computer System. The Component Command has not yet projected cost estimates or timeframes for the system implementation.

The transportation business area's current approach will no longer reduce four disparate existing systems to a single standard accounting system. In addition, the transportation business area is not including the modernization of feeder systems in conjunction with the current system development approach as required by the National Defense Authorization Act for FY 1998.

To minimize the effect of the changes, USTRANSCOM should not abandon the concept of a STAS without studying the alternatives. USTRANSCOM and its Component Commands need to perform an accelerated feasibility study to determine whether the transportation business area can migrate effectively to a single standard accounting and financial management system. The study should also take into consideration the transportation business area feeder systems that have been omitted from the transportation system development process. USTRANSCOM and its Component Commands should comply with the appropriate Office of Management and Budget circulars; DoD regulations to include DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs"; and the Clinger-Cohen Act of 1996.<sup>2</sup> By complying with the DoD life-cycle management criteria and the Clinger-Cohen Act of 1996, the transportation business area components will reduce the risk involved with information technology investments.

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<sup>2</sup>The Clinger-Cohen Act of 1996 requires agencies to establish a planning process for capital investments in information technology, encourages interagency and Government-wide acquisitions of systems, and when advantageous, encourages the use of commercial off-the-shelf software. It also authorizes chief information officers at the agencies and stresses integrated information systems.

## Finding B. The Migration System Strategy for Transportation

**Elimination of Legacy Systems and Consolidation of Sites Approach.** The transportation business area's decision not to implement DJAS as the STAS and to revert back to the existing systems is indicative of the overall DoD problem with implementing the Strategy. Inspector General, DoD, Audit Report No. 98-014 noted the numerous changes in the DoD WCF system acquisition strategy. For example, of the original 17 accounting systems selected as interim migratory systems, 3 systems were redesignated legacy systems, 5 were reconsidered for inclusion in the Strategy, 2 were being studied for possible merger, and 3 had to change their original approach to system enhancements. As of January 1998, DFAS and other organizations decided not to follow through on the Strategy that selected DJAS as the DoD Standard Accounting System and the STAS. The history of USTRANSCOM and its search for an accounting and financial management system is summarized in Appendix C. Consequently, legacy systems will not be eliminated, and site consolidations may not prove cost-effective or efficient.

**Elimination of Legacy Systems.** Because of the changes in the Strategy, the transportation business area abandoned DJAS, the system that could have eliminated the three legacy systems and absorbed a general fund system. The transportation business area's current approach will maintain the four existing systems. If the current approach is maintained, the CEFMS Technical Analysis will not realize its anticipated 33-percent reduction in technical personnel and will not lower hardware operating costs.

**Component Command's Site Consolidation.** The existing USTRANSCOM accounting and reporting process does not benefit from standardized policies, procedures, and accounting systems. The Component Commands all operate under separate accounting systems, policies, and procedures, which are inconsistent with desired future DoD accounting and finance operations. DFAS Headquarters selected the DFAS Denver Center to provide overall WCF-Transportation accounting support. DFAS Denver Center chose the DFAS Omaha Operating Location for the WCF-Transportation accounting functions.

The continued consolidation of systems and transition of users to a standard suite of systems is critical to the success of the DFAS Omaha Operating Location site-consolidation effort. The elimination of legacy or Service-unique systems is needed for DFAS to reduce system operating costs and minimize the funds required to correct accounting system deficiencies. The feasibility study for the migration system should define the needed elimination. According to the "DFAS Accounting Systems Strategic Plan for the Department of Defense," approved on February 13, 1997, supporting all of the USTRANSCOM Service-unique systems at the Omaha Operating Location and the other regional locations is not feasible or economical with the resources (personnel and funding) available. The former DJAS Program Manager concluded that without consolidated Service requirements, an extensive conversion and translation of Component Commands' data would be necessary and expensive. According to DFAS, to the extent that Service-unique systems are not replaced, DFAS must retain a dedicated staff using non-standard processes.

## **Finding B. The Migration System Strategy for Transportation**

During FY 1996, the Air Mobility Command's Defense Accounting Office moved to Omaha, Nebraska. In May 1997, the Military Traffic Management Command's accounting support moved from Bayonne, New Jersey, to Omaha, and the transportation accounting function of MSC moved to Omaha in March 1998. Because implementing DJAS as the STAS was halted, the Omaha Operating Location apparently will now function with Service-unique accounting and financial management systems.

### **Summary**

The proposed STAS for the transportation business area will not materialize because of shifts in the Strategy. USTRANSCOM and its Component Commands have initiated steps to develop or upgrade existing Service-unique accounting and financial management systems for the transportation business area and could add an additional system for Headquarters, USTRANSCOM. That action is in direct conflict with the Deputy Secretary of Defense's memorandum and the Corporate Board's vision for transportation. USTRANSCOM and its Component Commands need to perform an accelerated feasibility study to determine whether the transportation business area can migrate effectively to a single standard accounting and financial management system. The study should also take into consideration the approximately 16 critical data feeder systems of the transportation business area that have been omitted from the system development process. USTRANSCOM should also comply with the DoD life-cycle management criteria and the Clinger-Cohen Act of 1996, which should reduce the risk involved with information technology investments.

## Finding B. The Migration System Strategy for Transportation

### **Recommendations, Management Comments, and Audit Response**

**B.1. We recommend that the Commander in Chief, U.S. Transportation Command, and the Director, Defense Finance and Accounting Service:**

**a. Perform an accelerated feasibility study to determine whether the transportation business area can migrate to a single standard accounting and financial management system.**

**b. Determine the cost to migrate to a single system instead of developing or upgrading four disparate systems.**

**U.S. Transportation Command Comments.** The U.S. Transportation Command, nonconcurrent. The Command stated that migrating to a single system would be cost prohibitive, would take too long to complete, and would provide greater risk. In addition, scarce resources should instead be directed toward developing and implementing integrated financial management systems for the Command to achieve the DoD goal of an unqualified opinion on the FY 1999 financial statements. The Command stated that the DoD moratorium on funding new systems and the delays in selecting and implementing a migratory accounting system forced the Military Sealift Command to rely on a non-compliant system. Those delays prompted the Command to seek and get authority to explore other solutions in February 1998. In May 1998, the Command received approval and funding to implement a commercial off-the-shelf system that will meet all requirements.

**Audit Response.** We agree that scarce resources should be directed toward developing and implementing integrated financial management systems. The actions taken by the Command, however, did not comply with the Office of Management and Budget Circular No. A-127-Revised, "Financial Management Systems," July 23, 1993, the Deputy Secretary of Defense's memorandum of October 13, 1993, the 1994 Corporate Board's vision for transportation, or the DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs." There was no feasibility study to show that migrating to a single system would be cost prohibitive, would take too long to complete, and would provide greater risk. The latest guidance issued such as the Clinger-Cohen Act of 1996 and the Secretary of Defense's memorandum of May 15, 1998, contradicts the Command's statement on the DoD position on migrating to a single system.

The Office of Management and Budget Circular No. A-127 states that each agency shall establish and maintain a single, integrated financial management system. The Deputy Secretary of Defense's memorandum requires DoD to focus on accelerating the pace for defining standard baseline process and data requirements, selecting and deploying migration systems, and implementing data standardization. These requirements could be accomplished through the

## Finding B. The Migration System Strategy for Transportation

feasibility study. In addition, in 1994, the Corporate Board's vision for transportation was to focus on reducing the number of legacy systems to achieve a single standard accounting system. DoD Regulation 5000.2-R recommends that system acquisitions that may not meet the dollar requirements for a formal acquisition review should still follow the process for more efficiency and less risk. The Clinger-Cohen Act requires that agencies implement a process for maximizing the value and assess and manage the risks associated with the acquisition of information technology. The Secretary of Defense's memorandum instructs the DoD to modify systems and retool processes in order to adequately capture and report financial information.

We understand that the delays in acquiring a DoD-wide financial management system made it difficult for the Command. The Command states that the ORACLE Government Financial Management system will meet all requirements. However, the Command has not demonstrated that fact. Before the Command decided to implement this system, the Command, in conjunction with DFAS, should have assessed the benefits and problems associated with migrating to a single system. Without the study, the Command can not support the position that migrating to a single system would be costly, take too long, and increase risk. A feasibility study would reduce risk of future problems. We request the Command reconsider its position and provide additional comments to the final report.

**Defense Finance and Accounting Service Comments.** The Defense Finance and Accounting Service nonconcurred. The Director stated that the individual components of the U.S. Transportation Command are supported by their respective Services' financial management architecture. As a result, it would be quicker and more cost effective to allow the components to use the migratory systems selected by their Services. This approach is consistent with the "best fit" migratory strategy that allows for a suite of compliant migratory systems.

**Audit Response.** The Defense Finance and Accounting Service comments were not responsive. We understand that the Transportation components are currently supported by their respective Services' financial management architecture. However, the purpose of a feasibility study is to determine whether the transportation business area can migrate to a single system or whether it is better to remain with the respective Services' financial management systems. The "best fit" migratory strategy should be used only if the feasibility study demonstrates that multiple systems are best for the transportation business area. Accordingly, we request that the Defense Finance and Accounting Service reconsider its position and provide additional comments to the final report.

### **B.2. We recommend that the Commander in Chief, U.S. Transportation Command:**

**a. In coordination with the transportation Component Commands, prepare a strategy to include detailed plans to modernize all data feeder systems that support the transportation business area. The plan should provide details concerning the number of transportation feeder systems that provide information for financial statements, milestones for implementing corrections, and an estimate for the cost to modernize the transportation**

## **Finding B. The Migration System Strategy for Transportation**

feeder systems as required by the National Defense Authorization Act for FY 1998.

**b. Implement the requirements of DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," for the replacement transportation business area accounting and financial management system effort.**

**c. Implement the requirements of the Clinger-Cohen Act of 1996, for the replacement transportation business area accounting and financial management system effort. Specifically, implement the requirement to design and implement a process for maximizing the value and assessing and managing the risks associated with the acquisition of information technology.**

**Management Comments.** The U.S. Transportation Command, concurred and will comply with regulatory requirements for future replacement of financial management systems.

**Audit Response.** The U.S. Transportation Command comments do not address the recommendation. The Command should provide a specific plan to modernize feeder systems and milestones for executing the plan and complying with the regulatory requirements. We request that the Command provide additional comments to the final report.

## **Part II - Additional Information**

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# Appendix A. Audit Process

## Scope and Methodology

**Audit Work Performed.** We limited our review to the issue areas in the USD(C) request. We assessed the financial management practices at MSC to include financial reporting and standard operating procedures. In addition, we reviewed the potential transfer of MSC transportation accounting personnel to DFAS and evaluated the planned financial accounting and management system for MSC and USTRANSCOM. Also, we assessed whether the modernization of transportation data feeder systems was included in the transportation business area's interim accounting system development effort. We relied on previous audit work that the Inspector General, DoD, and the Naval Audit Service performed concerning the operational status of the MSC FMIS. We performed our work at Headquarters, MSC; Headquarters, USTRANSCOM; Headquarters, DFAS, and the DFAS Cleveland and Denver Centers. As of September 30, 1997, MSC provided 25 percent, or \$1 billion, of the revenues and expenses of USTRANSCOM. At the end of FY 1997, MSC employed approximately 7,100 people.

**DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals.** In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals.

- **Objective:** Fundamentally reengineer the Department and achieve a 21<sup>st</sup> century infrastructure.

- **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

**DoD Functional Area Reform Goals.** Most major DoD functional areas have established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Objective:** Consolidate finance and accounting operations.

- **Goal:** Consolidate and standardize financial systems. (FM-2.1)

- **Goal:** Reduce and improve accounting systems. (FM-2.2)

- **Objective:** Reengineer DoD business practices.

- **Goal:** Improve data standardization of finance and accounting data items. (FM-4.4)

- **Objective:** Improve management incentives.

## Appendix A. Audit Process

- **Goal:** Use the Project Management Office for Accounting Systems to provide centralized management control and oversight for all migratory and interim migratory accounting systems. (FM-7.5)
- **Objective:** Become a mission partner.
- **Goal:** Facilitate process improvement. (ITM-1.3)
- **Objective:** Provide services that satisfy customer information needs.
- **Goal:** Modernize and integrate Defense information infrastructure. (ITM-2.2)

**General Accounting Office High Risk Area.** The General Accounting Office (GAO) has identified several high risk areas in the DoD. This report provides coverage of the Defense Financial Management and Information Management and Technology High risk areas.

**Use of Computer-Processed Data.** To achieve our audit objective, we relied on computer-processed data without testing the general and application controls. Although the data were not significant for our audit work, we compared the data on the monthly disbursement vouchers to the voucher system without any discrepancies noted. As a result of the tests and assessments, we concluded that the computer-processed data were sufficiently reliable to meet the audit objectives.

**Audit Period and Standards.** We performed this performance audit from July 1997 through February 1998 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of management controls as were considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## **Management Control Program**

DoD Directive 5010.38, "Management Control Program," and DoD Instruction 5010.40, "Management Control Program Procedures" dated August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of MSC management controls over financial management practices. Specifically, we reviewed management controls over documenting overhead distribution procedures between WCF-Transportation and WCF-Navy;

## Appendix A. Audit Process

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transferring MSC transportation accounting personnel to DFAS; implementing recommendations from prior Inspector General, DoD, Audit Report No. 95-259; and correcting FMIS deficiencies. Because we did not identify a material weakness, we did not assess management's self-evaluation.

**Adequacy of Management Controls.** Management controls over financial management practices were adequate as they applied to the audit objectives.

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## **Appendix B. Prior Audit Coverage**

### **General Accounting Office**

Report No. AIMD-98-5 (OSD Case No. 1427), "DIRM [Defense Information Resource Management]: Poor Implementation of Management Controls Has Put Migration Strategy at Risk," October 20, 1997.

Report No. AIMD-96-99 (OSD Case No. 1210), "DoD Accounting Systems: Efforts to Improve System for Navy Need Overall Structure," September 30, 1996.

Report No. AIMD-96-7 (OSD Case No. 1050), "CFO [Chief Financial Officer] Act Financial Statements: Increased Attention Must Be Given to Preparing Navy's Financial Reports," March 27, 1996.

Report No. NSIAD-96-60 (OSD Case No. 1023), "Defense Transportation: Streamlining of the U.S. Transportation Command Is Needed," February 22, 1996.

Report No. NSIAD-96-41 (OSD Case No. 1014), "Military Sealift Command: Weak Controls and Management of Contractor-Operated Ships," December 12, 1995.

### **Inspector General, DoD**

Report No. 98-050, "Defense Business Operations Fund Adjustments at the Defense Finance and Accounting Service Denver Center," January 20, 1998.

Report No. 98-014, "The Working Capital Funds Interim Migratory Accounting Strategy," October 24, 1997.

Report No. 97-206, "Defense Finance and Accounting Service Acquisition Strategy for a Joint Accounting System Initiative," August 22, 1997. Report No. 96-180, "The General Fund Interim Migratory Accounting Strategy," June 26, 1996. Report No. 95-259, "Internal Controls for the Military Sealift Command Portion of the Transportation Business Area of the FY 1994 Defense Business Operations Fund Financial Statements," June 28, 1995.

### **Naval Audit Service**

Report No. 040-97, "Fiscal Year 1996 Consolidating Financial Statements of the Department of the Navy Defense Base Operations Fund," June 16, 1997.

## Appendix C. Chronology of the Transportation Migration Strategy

<u>Dates</u>	<u>Action Taken</u>
August 1992	DBMS Designated as Migratory System
August 1992	CEFMS Recommended as Migratory System
FY 1993	DBMS Selected as DoD Migratory System
June 1993	Transportation CIM Initiative Began
September 1993	Selection of DBMS Revisited
October 1993	DBMS Selection Withdrawn
September 1994	FMIS Recommended for Transportation
September 1994 - November 1994	Discussions Held on FMIS
December 1994	EA for CEFMS and FMIS
November 1995	FMIS Eliminated and EA on CEFMS Continued
February 1996	CONOPS for DoD Transportation Completed
April 1996	Economic Analysis Completed, CEFMS Recommended
May 1996	CEFMS Approved for Transportation
May 1996 - July 1996	General Fund and Transportation Requirements Combined
March 1997	CEFMS MNS Completed
April 1997	USTRANSCOM Concurred with MNS
April 1997	CEFMS Changed to DJAS
May 1997 - December 1997	Discussions with USTRANSCOM and DFAS on CEFMS
December 1997	CEFMS Approved for Further Study
February 1998	Migration Strategy Changed

DBMS - Defense Business Management System

CIM - Corporate Information Management

EA - Economic Analysis

CONOPS - Concepts of Operations

MNS - Mission Needs Statement

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Logistics)  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)  
Assistant Secretary of Defense (Public Affairs)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Commander, Military Sealift Command  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Unified Command**

Commander in Chief, U.S. Transportation Command

### **Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Director, Defense Information System Agency  
Inspector General, Defense Intelligence Agency

## Appendix D. Report Distribution

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### **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal Justice,  
Committee on Government Reform and Oversight  
House Committee on National Security

## **Part III- Management Comments**

# U.S. Transportation Command Comments



UNITED STATES TRANSPORTATION COMMAND  
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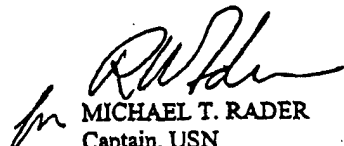
5 August 1998

MEMORANDUM FOR DOD IG (ATTN: Ms. Barbara Sauls)

FROM: TCJ8

SUBJECT: DOD IG Draft Audit Report on "Financial Management Practices in the Military Sealift Command" (Project 7FH-5046)

We have reviewed the DOD IG draft audit report on "Financial Management Practices in the Military Sealift Command" and provide comments at Attachment 1. If you have any questions or need additional information, please contact our audit focal point, Mrs. Nancy Brown, TCJ8-B, 618-256-8795 (DSN 576-8795).

  
MICHAEL T. RADER  
Captain, USN  
Director, Program Analysis and  
Financial Management

Attachment:  
USTRANSCOM Response

Cc:  
USTRANSCOM/TCDC/TCJ6  
MSC/N85 (Audit Focal Point)

**USTRANSCOM Comments on DOD IG Draft Audit Report on  
"Financial Management Practices in the Military Sealift Command"  
(Project 7FH-5046)**

**Finding A:** Concur. Financial Management Information System (FMIS) should be replaced for DFAS to provide accurate financial information for USTRANSCOM/MSC. As a result, there is no need for the audit to address corrective actions for FMIS.

**Finding B.** Partially concur.

**Recommendation B.1.** We recommend that the Commander in Chief, U.S. Transportation Command, and the Director, Defense Finance and Accounting Service:

- a. Perform an accelerated feasibility study to determine whether the transportation business area can migrate to a single standard accounting and financial management system.
- b. Determine the cost to migrate to a single system instead of developing or upgrading four disparate systems.

**USTRANSCOM Response:**

Nonconcur. USTRANSCOM, along with the rest of DOD, has participated in several studies for systems' migration in recent years. USTRANSCOM agrees with the DOD position that migrating to a single system (in lieu of Services' systems) would be cost prohibitive, would take too long to complete, and would provide greater risk. Scarce resources, both dollars and personnel, should instead be directed toward developing and implementing integrated financial management systems for USTRANSCOM to achieve the DOD FY99 goal—financial statements with unqualified opinions. CLOSED.

**Recommendation B.2:** We recommend that the Commander in Chief, U.S. Transportation Command:

- a. In coordination with the transportation Component Commands, prepare a strategy to include detailed plans to modernize all data feeder systems that support the transportation business area. The plan should provide details concerning the number of transportation feeder systems that provide information for financial statements, milestones for implementing corrections, and an estimate for the cost to modernize the transportation feeder systems as required by the National Defense Authorization Act for FY 1998.
- b. Implement the requirements of DOD Regulation 5000.2R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," for the replacement transportation business area accounting and financial management system effort.

## U.S. Transportation Command Comments

c. Implement the requirements of the Clinger-Cohen Act of 1996, for the replacement transportation business area accounting and financial management system effort. Specifically, implement the requirement to design and implement a process for maximizing the value and assessing and managing the risks associated with the acquisition of information technology.

### **USTRANSCOM Response:**

Concur. USTRANSCOM will comply with regulatory requirements for future replacement of USTRANSCOM financial management systems. CLOSED.

### **GENERAL COMMENTS:**

The following is provided for clarification and additional history on the decisions made on commercial off-the-shelf (COTS) systems for MSC and addresses the DOD IG's observations on pages 11-14 of the draft report:

MSC has long been aware of the deficiencies in the FMIS, e.g. that FMIS is not fully compliant with all DOD/CFO regulations. Given the moratorium that directed DOD organizations to stop funding for the development, modernization, or enhancement of legacy systems that were not selected to be migration systems; however, no corrective action was taken. Rather, MSC was forced to work with a system that required improvements yet could not take action to make those changes.

As you know, the Army Corps of Engineers Financial Management System (CEFMS) was selected as the transportation migration system and was renamed Defense Joint Accounting System (DJAS). COMSC consistently expressed concerns that DJAS would not solve MSC's financial management deficiencies.

Because of the delays in implementing DJAS as the DOD Transportation Financial System, USTRANSCOM was given authority in Feb 98 to explore other solutions. MSC subsequently initiated discussions with DFAS and USTRANSCOM, and received approval and funding (in May 98) to proceed with a COTS system that would meet all requirements. MSC is now in the process of implementing the ORACLE Government Financial System by 1 Oct 99.

By necessity, MSC continued to rely on FMIS for over 3 years while waiting for the implementation of DJAS, and each year the Naval Audit Service cited FMIS as being non-compliant with CFO requirements and for other inadequacies. While MSC is now proceeding with the implementation of ORACLE, time constraints have caused a severe drain on MSC financial and manpower resources.

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

SEP - 1 1998

MEMORANDUM FOR DIRECTOR FOR FINANCE AND ACCOUNTING, OFFICE OF THE  
ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE  
OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report of Financial Management Practices in the Military Sealift Command  
(Project No 7FH-5046)

We have reviewed the subject draft audit report and provide the following comments.

Recommendation B.1. Nonconcur. The individual Transportation Commands are supported by their respective Services' financial management architecture and employ different practices and coding structures to capture financial management information. In order to achieve compliance with the requirements of the Chief Financial Officer's Act as quickly as possible, reduce development, interface and conversion costs, and mitigate risk, migratory systems have been selected to best accommodate the respective requirements of these Commands. This approach is consistent with the "best fit" migratory strategy to replace legacy systems as quickly as possible with a suite of compliant migratory accounting systems

Questions regarding this memorandum may be addressed to the Director for Systems Integration, Ms Lydia Moschkin, at (703) 607-2657

  
Gary W. Amlin  
Director

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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