

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

DEFENSE FINANCE AND ACCOUNTING SERVICE
ACQUISITION STRATEGY FOR A JOINT ACCOUNTING
SYSTEM INITIATIVE

Report No. 97-206

August 22, 1997

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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
GAO	General Accounting Office



INSPECTOR GENERAL
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August 22, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Review of the Defense Finance and Accounting Service Acquisition Strategy
for a Joint Accounting System Initiative (Report No. 97-206)

We are providing this audit report for information and use. We conducted the review in response to a request by the Under Secretary of Defense (Comptroller).

Because this report contains no recommendations, written comments were not required and none were received.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Christian Hendricks, Audit Program Director, at (703) 604-9140 (DSN 664-9140), or Mr. Dennis Conway, Audit Project Manager, at (703) 604-9158 (DSN 664-9158). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-206
(Project No. 7FG-5018)

August 22, 1997

Defense Finance and Accounting Service Acquisition Strategy for a Joint Accounting System Initiative

Executive Summary

Introduction. This review was performed in response to a request by the Under Secretary of Defense (Comptroller). The review evaluated the strategy used by the Defense Finance and Accounting Service (DFAS) to acquire a standardized accounting system. As part of its mission, DFAS is responsible for standardizing finance and accounting systems within DoD.

To fulfill the standardization mission, DFAS had established a strategic plan for reconfiguring the DoD financial processes and systems. The plan includes DFAS efforts to reduce general fund accounting systems from 41 to 3 systems by FY 2003. (General fund accounting systems support appropriated fund accounting for the Military Departments and Defense agencies). One of the three general fund accounting systems is the Corps of Engineers Financial Management System (CEFMS).

DFAS had tested CEFMS from April 1995 to March 1996 and verified that it could be modified to satisfy Army customers and that it had the potential for supporting Defense Business Operations Fund customers. (DFAS estimated costs of \$814 million as of May 1997 to implement an accounting system such as CEFMS within DoD). On May 28, 1996, the Under Secretary of Defense (Comptroller) directed DFAS to proceed with the development of CEFMS and to use DoD and General Accounting Office auditors to review the program development process.

The DoD program management process requires a system to progress through a series of decision points (or milestones) to verify the system's usefulness and cost-effectiveness. At the first milestone--"Milestone 0"--an organization must describe and evaluate the feasibility of using alternative systems. The organization must prepare a mission needs statement (a document containing a description of the need for an automated information system) and an analysis of alternatives for review and approval at "Milestone 0."

This audit report is the first in a series of reports on the DoD acquisition strategy for accounting systems and provides results of our review on the DFAS mission needs statement. Future reports will provide audit results on the DFAS analysis of alternatives and the program management process leading to the Milestone 0 decision point.

Audit Objective. The overall audit objective was to assess the development and implementation of an accounting system by DFAS. Specifically, we reviewed the accuracy and completeness of the mission needs statement. We also reviewed management controls as they related to the objective.

Audit Results. DFAS developed an accurate and complete mission needs statement that demonstrated the need for an accounting system. Specifically, the mission needs statement described the deficiencies in DoD current accounting systems; presented the effect of those deficiencies on completing accounting requirements; expressed the need for evaluating and improving business practices; and projected the benefits to be achieved from implementing a new accounting system.

The mission needs statement was revised into a more accurate and complete document during our review partially because DFAS acted effectively on guidance provided by a team of DoD representatives involved in the acquisition process. Also, DFAS attempted to resolve concerns expressed by customers from the Military Departments and the Defense Security Assistance Agency. Continued efforts to resolve customer concerns will help to ensure that requirements will be addressed.

DFAS must complete a mission needs statement and an analysis of alternatives for the Milestone 0 decision point. For details of the audit results, see Part I.

Management Comments. We provided a draft of this report on July 10, 1997. Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Part I - Audit Results

Audit Background

This review was performed in response to a request from the Under Secretary of Defense (Comptroller) to evaluate the Defense Finance and Accounting Service (DFAS) acquisition strategy for developing an accounting system. The review is the first in a series that will be made on that acquisition strategy.

As part of its mission, DFAS is responsible for standardizing finance and accounting systems that provide complete, reliable, consistent, and timely information. DFAS is under the authority, direction, and control of the Under Secretary of Defense (Comptroller).

The Under Secretary of Defense (Comptroller) has developed a blueprint for financial management reform within DoD. The blueprint's goals are to consolidate finance and accounting systems and to modify methods for performing finance and accounting services (this modification process is commonly referred to as reengineering of business practices).

To accomplish the blueprint, DFAS developed a strategic plan for reconfiguring the DoD financial processes and systems. The goal of the strategic plan was to develop a single, integrated financial management process that produces both reliable and auditable financial statements.

The plan includes DFAS efforts to reduce the number of DoD accounting systems and to improve the quality of the remaining systems. A Project Management Office was established at DFAS in April 1996 to provide centralized management control and oversight for migrating to the reduced number of accounting systems and improving the quality of the remaining systems.

Also, the DFAS plan includes a migratory accounting system strategy that will reduce general fund accounting systems from 41 to 3 systems by FY 2003. (General fund accounting systems support appropriated fund accounting for the Military Departments and Defense agencies). The Corps of Engineers Financial Management System (CEFMS) is one of the three systems.

DFAS tested CEFMS from April 1995 to March 1996 and verified that it could be modified to satisfy Army customers and that it had the potential for supporting Defense Business Operations Fund customers. Subsequently, DFAS determined that CEFMS may satisfy Air Force and DoD transportation and security assistance accounting requirements. (DFAS estimated costs of \$814 million as of May 1997 to implement an accounting system like CEFMS within DoD). On May 28, 1996, the Under Secretary of Defense (Comptroller) directed DFAS to proceed with the development of CEFMS and to use DoD and General Accounting Office auditors to review the program development process.

In accordance with DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," March 15, 1996, the process for developing and implementing an accounting system requires progressing through a series of decision points (or milestones). DoD management will verify the system's usefulness and cost-effectiveness at these milestones.

At the first milestone--"Milestone 0"--an organization must describe and evaluate the feasibility of using alternative systems. The organization must prepare a mission needs statement (a document containing a description of the need for an automated information system) and an analysis of alternatives for review and approval at "Milestone 0." Future reports will provide audit results on the DFAS analysis of alternatives and the program management process leading to the Milestone 0 decision point.

Audit Objective

The overall audit objective was to assess the development and implementation of an accounting system by the Defense Finance and Accounting Service. Specifically, we reviewed the accuracy and completeness of the mission needs statement. We also reviewed management controls as they related to the objective.

See Appendix A for a discussion of the audit scope and methodology and Appendix B for a summary of prior coverage related to the audit objectives.

Development of a Mission Needs Statement

The Defense Finance and Accounting Service (DFAS) demonstrated the need for an accounting system during its development of a mission needs statement. Specifically, DFAS developed a mission needs statement that described the deficiencies in DoD current accounting systems; presented the effect of the deficiencies on completing accounting requirements; projected the benefits to be achieved from implementing a new accounting system; and expressed the need for evaluating and improving business practices.

The mission needs statement was revised into a more accurate and complete document because DFAS acted effectively on guidance provided by a team of DoD acquisition representatives. As a result, decision makers will have more complete information for assessing the need for a new accounting system.

Major Automated Information System Acquisition Programs

DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," March 15, 1996, states that all acquisition programs are based on identified, documented, and validated needs to accomplish a mission.

Mission needs result from ongoing assessments of current and projected capabilities. Mission needs may seek to establish a new operational capability, to improve an existing capability, or to take advantage of an opportunity to reduce costs or enhance performance.

Also, the DoD Regulation 5000.2-R states that the mission needs statement shall identify and describe the deficiency in the mission; present the results of an analysis on the mission; describe why nonmateriel changes such as changes in doctrine or tactics are not adequate to correct the deficiency; and identify potential materiel alternatives.

The DoD 5000.2-R requires the Principal Staff Assistant of the Office of the Secretary of Defense to review the description of the need for a new accounting system; assess the validity of the need for a new system; evaluate the ability of the system to satisfy DoD-wide accounting requirements; and confirm that principles of the DoD Information Management Program have been followed. The Principal Staff Assistant for accounting systems is the Under Secretary of Defense (Comptroller).

In addition, the DoD 5000.2-R requires the development of an integrated product team. An integrated product team is composed of representatives from organizations involved in the acquisition process working together to build successful and cost-effective programs, identify and resolve issues, and make sound and timely recommendations to facilitate decision making.

An integrated product team consisting of representatives from the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), the Office of the Under Secretary of Defense (Comptroller), and the Inspector General, DoD, was formed to provide advice on the DoD program for designing, developing, and implementing a new accounting system.

Need for an Accounting System

DFAS clearly demonstrated the need for an accounting system. Specifically, DFAS developed a mission needs statement that described the deficiencies in the current DoD accounting systems; presented the effect of the deficiencies on completing accounting requirements; projected the benefits to be achieved from implementing a new accounting system; and expressed the need for evaluating and improving business practices.

DFAS developed an initial mission needs statement dated September 3, 1996, that addressed its strategic plan for reconfiguring the DoD accounting processes and systems. Subsequent revisions made to the mission needs statement resulted in a more accurate and complete document.

Specifically, DFAS revisions more fully described its customers' uses of a new accounting system; outlined the effects of systems providing data to a new accounting system on the new system's planned benefits; and presented the need for evaluating and improving business practices.

The mission needs statement was revised partially because DFAS acted on guidance provided by the integrated product team. However, DFAS customers expressed concerns with the new accounting system.

During this review, we found that only one customer--the U.S. Transportation Command--fully agreed with the need for the accounting system and the mission needs statement. The Army, Navy, Air Force, and the Defense Security Assistance Agency expressed concern over the mission needs statement.

Army and Air Force financial managers agreed with the need for an accounting system but were concerned about how the new system would affect their current systems. Navy and Defense Security Assistance Agency financial managers disagreed with the method of integrating their systems with the new accounting system.

Development of a Mission Needs Statement

DFAS had coordinated with customers on these concerns and planned to integrate the customers into the team of senior DoD representatives. These actions will assist DFAS in identifying and resolving issues, making valid recommendations to decisionmakers, and building a successful and cost-effective accounting system.

As a result of the revisions already made to the mission needs statement and by ongoing actions to resolve customer concerns and integrate customers into the acquisition process, the Under Secretary of Defense (Comptroller) will be able to review a more complete description of the need for a new accounting system; assess the validity of the need for a new system; evaluate the ability of the system to satisfy DoD-wide accounting requirements; and confirm that principles of the DoD Information Management Program have been followed.

Actions Taken by the DFAS Project Management Office

Actions taken by the DFAS Project Management Office satisfactorily addressed our concerns. Specifically, we requested that DFAS revise the mission needs statement to better present nonmateriel alternatives to the current systems; clarify the effects of data from other systems on the projected benefits of a new accounting system; explain more fully the customers' uses of the system; outline the use of the new system throughout DoD; and recognize the need for evaluating and improving business practices.

Also, the DFAS Project Management Office made changes to the mission needs statement to show more clearly that the system will achieve the financial tasks outlined in the Joint Financial Management Improvement Program; accomplish the functional and technical benefits expected from a new system; and process transactions successfully in calendar year 2000.

As of April 2, 1997, DFAS had included its customers in the process of obtaining a new accounting system by coordinating with those customers to resolve concerns. Further, the DFAS Project Management Office agreed, in its memorandum dated April 21, 1997, to revise the mission needs statement to identify materiel alternatives. We will review this revision during the audit followup process.

Management Comments

Because this report contains no recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Scope and Methodology of Review. The scope and methodology of our review included analyses and interviews concerning the mission needs statement. Specifically, we:

- o reviewed descriptions of the current systems' deficiencies; examined presentations of nonmateriel and materiel alternatives; and evaluated statements of the planned benefits;
- o coordinated with and interviewed Project Management Office personnel; and
- o consulted with integrated product team members assigned to the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Office of the Under Secretary of Defense (Comptroller).

We issued two memorandums during the review advising the DFAS Project Management Office of areas needing improvement. We did not evaluate the validity of the DFAS strategic plan for reconfiguring the Department's accounting processes and systems.

Use of Computer-Processed Data. Use of computer-processed data was not required in the course of the review.

Review Period and Standards. We performed this program review from November 1996 through June 1997 and reviewed information dated from June 1991 through June 1997. The review was made in accordance with the auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Technical Assistance. The action officer responsible for monitoring major finance and accounting systems for the Major Automated Information System Review Council assisted us in the analysis and evaluation of the mission needs statement.

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," 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 DFAS controls for managing pre-"Milestone 0" actions within the acquisition management process. Specifically, we reviewed annual statements of assurance prepared by DFAS Headquarters and its Indianapolis Center.

We also reviewed an assessment made by DFAS system managers on their system of internal controls. The managers evaluated the internal controls for accounting systems using the System Manager's Users Review guide. We did not assess the adequacy of management's self evaluation of those controls.

Adequacy of Management Controls. DFAS management controls were adequate in that we identified no material management control weaknesses relating to our objective.

Appendix B. Summary of Prior Coverage

During the last 5 years, the General Accounting Office (GAO) issued one report that discusses business practices reengineering. The Office of the Inspector General, DoD, issued three reports that discuss the auditability of financial statements and the test of the Corps of Engineers Financial Management System.

General Accounting Office

General Accounting Office Report No. NSIAD-95-34, OSD Case No. 9831, "Reengineering Organizations, Results of a GAO Symposium," December 13, 1994, states that five principles can be used to effectively reengineer an organization. These principles are not intended to be all inclusive, but provide a framework for reengineering an organization. The five principles are that:

- Top management must be supportive of and engaged in reengineering efforts to remove barriers and drive success.
- An organization's culture must be receptive to reengineering goals and principles.
- Major improvements and savings are realized by focusing on the business from a process rather than a functional perspective.
- Processes should be selected for reengineering based on a clear notion of customer needs, anticipated benefits, and potential for success.
- Process owners should manage reengineering projects with teams that are cross-functional, maintain a proper scope, focus on customer metrics, and enforce implementation timelines."

No recommendations were made in this report.

Inspector General, DoD

Inspector General, DoD, Report No. 97-051, "Corps of Engineers Financial Management System," December 18, 1996, states that DFAS took aggressive action to test CEFMS and to demonstrate its ability to provide financial management service for an Army post, camp, or station. However, DFAS did not establish fully effective management controls over the process to validate the results.

The report recommended that the Under Secretary of Defense (Comptroller) notify the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence of the need to classify the system as a special interest program for Major Automated Information Systems Review Council oversight. The Under Secretary of Defense (Comptroller) concurred with the recommendation and notified the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) of the need to classify the system as a special interest program for oversight.

Inspector General, DoD, Report No. 96-180, "The General Fund Interim Migratory Accounting Strategy," June 26, 1996, states that the initial DoD interim migratory general fund accounting strategy would have resulted in duplication of effort through migration of multiple, Service-unique accounting systems. The report concluded that a standard general fund accounting system could be selected for DoD-wide use and implemented within the same approximate time frames that the multiple, Service-unique approaches could eventually take.

The report recommended that the interim migratory general fund accounting strategy be cancelled. Although, management nonconcurred with the recommendation, management actions were responsive. Management designated the Corps of Engineers Financial Management System for Army general fund accounting and sought approval to designate the same system for the Air Force. Also, DFAS established a Project Management Office for Accounting Systems in April 1996 to provide centralized management control and oversight for all migratory and interim migratory accounting systems.

Inspector General, DoD, Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995, states that major deficiencies inhibit the ability of DoD to produce auditable general fund financial statements. The report states that auditors will be unable to render an opinion on DoD financial statements until March 2000. This conclusion was based, in part, on the two-phased accounting system improvement plan established by DFAS. The report did not contain any recommendations for corrective actions.

Appendix C. Report Distribution

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Audit Team Members

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

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