

Audit



Report

IMPLEMENTATION OF THE DEFENSE PROPERTY
ACCOUNTABILITY SYSTEM

Report No. 98-135

May 18, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DPAS	Defense Property Accountability System
JFMIP	Joint Financial Management Improvement Program
PP&E	Property, Plant, and Equipment

May 18, 1998

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND TECHNOLOGY
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on the Implementation of the Defense Property
Accountability System (Report No. 98-135)**

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

Management comments on Recommendation 1 were not responsive. We revised a portion of that recommendation to clarify the intent of the recommendation. We request that the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) provide revised comments to this final report by June 15, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, at (703) 604-9175 (DSN 664-9175), e-mail: rbird@DODIG.OSD.MIL, or to Ms. Linda A. Pierce, at (216) 522-6091, (DSN 580-6091), extension 234 e-mail lap@DODIG.OSD.MIL. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

**Robert J. Lieberman
Assistant Inspector General
for Auditing**

Office of the Inspector General, DoD

Report No. 98-135
(Project No. 7FI-5023)

May 18, 1998

Implementation of the Defense Property Accountability System

Executive Summary

Introduction. We conducted the audit in response to a request by the Under Secretary of Defense (Comptroller). Our audit focused on the Defense Property Accountability System, which was selected as the DoD migratory system to remedy the systemic weakness identified in the FY 1997 DoD Annual Statement of Assurance on the unreliable financial reporting of personal and real property. The Defense Property Accountability System was intended to be an integrated accounting and logistics system that provides general ledger control and depreciation schedule information to financial systems, thus establishing financial control over personal and real property. The Defense Reform Initiative, "The Business Strategy for Defense in the 21st Century," November 1997, transferred the Defense Property Accountability System from the Under Secretary of Defense (Comptroller) to the Defense Logistics Agency.

Audit Objectives. The overall audit objective was to evaluate the capabilities of the Defense Property Accountability System to provide custodial and financial accountability for personal and real property. We were unable to review the capabilities of the Defense Property Accountability System to support auditable financial statements in compliance with the Chief Financial Officers Act and the Government Management Reform Act of 1994. We also reviewed the adequacy of the management control program as applicable to the overall audit objective.

Audit Results. The DoD implementation of the Defense Property Accountability System does not remedy the systemic weakness, "Unreliable Financial Reporting of Personal and Real Property," reported in the DoD Annual Statement of Assurance. As a result, the Defense Property Accountability System will only capture \$182 billion of the \$773 billion of personal and real property reported in the FY 1996 DoD Consolidated Financial Statements. In addition, DoD may spend at least \$92 million implementing a system that does not completely address the systemic weakness it was intended to correct. For details of the audit results, see Part I. For a discussion of management controls over the implementation of the Defense Property Accountability System, see Appendix A.

Summary of Recommendations. We recommend that the Under Secretary of Defense for Acquisition and Technology in coordination with the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) develop an implementation strategy for the Defense Property Accountability System and refer the system to the Major Automated Information System Review Council (or Defense Acquisition Board) as a special interest program. In addition, we recommend that the Under Secretary of

Defense for Acquisition and Technology establish an Integrated Product Team consisting of the Under Secretary of Defense (Comptroller), Military Departments, Defense Finance and Accounting Service, and the Defense Logistics Agency for continued program management. We also recommend that the Under Secretary of Defense (Comptroller) continue to report the unreliable financial reporting of personal and real property as a systemic weakness.

Management Comments. The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), and the Under Secretary of Defense (Comptroller), agree to revise the implementation strategy. The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), and the Under Secretary of Defense (Comptroller), also agree to continue to report deficiencies in the DoD Annual Statement of Assurance.

The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), and the Under Secretary of Defense (Comptroller), disagree with the recommendation to refer the Defense Property Accountability System to the Major Automated Information System Review Council, stating that there would be no benefit because of the amount of implementation already accomplished. The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), and the Under Secretary of Defense (Comptroller), also disagree that an Integrated Product Team is needed, stating that the Defense Property Accountability System has been transferred to the Defense Logistics Agency and other perceived problems will be resolved with the development of a concept of operations. See Part I of this report for the complete discussion of management comments, and Part III for the complete text of management comments.

Audit Response. Comments from the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) are only partially responsive to the recommendation to revise the implementation strategy. We revised Recommendation 1.a. to clarify the intent of one recommendation.

Comments from the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) are nonresponsive to the recommendation that is intended to ensure closer Office of the Secretary of Defense oversight and full participation by all stakeholders in the development and fielding of this critical system. In view of the significant and growing concern in the Executive Branch and Congress over the impact of DoD inability to establish an acceptable degree of financial control over property, we stand by our view that more needs to be done to ensure that user requirements are fully identified and the processing logic required to interface the Defense Property Accountability System to the general ledger, procurement, and supply systems is developed.

We request the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) reconsider their comments and submit comments by June 15, 1998.

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Part I - Audit Results

Audit Background

We conducted the audit in response to an Under Secretary of Defense (Comptroller) request. DoD designated the Defense Property Accountability System (DPAS) as the DoD migratory system to remedy the systemic weakness identified in the FY 1997 DoD Annual Statement of Assurance on the unreliable financial reporting of personal and real property. The Statement of Assurance reported that:

- DoD was not in compliance with statutory, Comptroller General, and interdepartmental requirements for accounting for personal and real property; and
- existing accounting systems were not designed to satisfy the asset, liability, and equity accounting data required for financial reporting purposes.

The Accounting and Logistics Systems Integration Office was established to coordinate logistics and accounting requirements and select a DoD migratory system for the accountability and financial reporting of personal and real property. According to the selection criteria, the system must:

- be Government owned;
- be written in a modern computer language;
- be operational at multiple facilities;
- have integrated logistics and financial information;
- have a single point of data entry with automated information distribution;
- be the complete property record;
- capture total asset cost;
- be able to post capital improvements; and
- be able to post data to the general ledger accounts.

Designation of the Migratory System. The Army Material Command Installation Equipment Management System was selected as the DoD migratory system because it met most of the system selection criteria and could be implemented quickly at numerous organizations. A December 1994 Under Secretary of Defense (Comptroller) memorandum designated this system, which had been renamed DPAS, as the migratory system for the accountability and financial reporting of all DoD personal and real property. In May 1995, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) approved the selection of DPAS as the DoD migratory system.

The DPAS was intended to be an integrated accounting and logistics system that provides general ledger control and depreciation schedule information to financial systems, thus establishing financial control over personal and real property. The Defense Finance and Accounting Service (DFAS) Chief Financial Officer's 5-Year Management Plan stated that DPAS would increase management control over assets, provide for better control over asset distribution, and provide a mechanism for improved theft detection. In addition, having a single property system would save funds by eliminating the need for numerous organizations to continuously maintain and improve their own unique property systems. DoD planned to fully implement DPAS DoD-wide by FY 2000.

Integrated Financial Management Systems. An integrated financial management system is a unified set of financial systems, non-financial systems, and mixed systems that are planned for and managed together, operated in an integrated fashion, and linked together electronically to provide agency-wide financial system support. According to DPAS program management, DPAS was to be an integrated accounting system with general ledger control. The Joint Financial Management Improvement Program (JFMIP) "Framework for Federal Financial Management Systems," January 1995, and "Core Financial Systems Requirements," September 1995, describe the elements of integrated financial management systems and the systems architecture that each Federal agency should strive for to support management decision making and external reporting requirements.

Transfer of DPAS to Defense Logistics Agency. The Defense Reform Initiative, "The Business Strategy for Defense in the 21st Century," November 1997, transferred the Defense Property Accountability System from the Under Secretary of Defense (Comptroller) to the Defense Logistics Agency. The Deputy Secretary of Defense issued "Department of Defense Reform Initiative Directive #19 - Transfer of the Defense Property Accountability System to the Defense Logistics Agency," January 14, 1998, effecting the transfer. Referencing the General Accounting Office recommendation that DoD establish a single property accountability concept of operations document, Directive #19 assigned the responsibility for drafting a concept of operations jointly to the Office of the Under Secretary of Defense (Comptroller) and the Defense Logistics Agency. The document is to be completed no later than May 29, 1998.

Audit Objectives

The overall audit objective was to evaluate the capabilities of the DPAS to provide custodial and financial accountability for personal and real property. We were unable to review the capabilities of DPAS to support the Chief Financial Officers Act and the Government Management Reform Act of 1994 because DoD had not clarified the scope of the system or addressed the integration to related financial systems. We also assessed the DPAS management control program as applicable to the overall audit objective. Appendix A discusses the audit scope, methodology, and management control program. Appendix B summarizes prior coverage related to the audit objectives.

Adequacy of the Implementation of the Defense Property Accountability System

The DoD implementation of DPAS does not remedy the systemic weakness, "Unreliable Financial Reporting of Personal and Real Property," reported in the DoD Annual Statement of Assurance. This occurred because the DoD implementation of DPAS has not:

- captured all personal and real property,
- provided standard property reporting requirements, or
- developed a coordinated DoD-wide implementation strategy.

As a result, even if fully implemented as planned, DPAS will only capture \$182 billion of the \$773 billion of personal and real property reported in the FY 1996 DoD Consolidated Financial Statements. In addition, DoD may spend at least \$92 million implementing a system that does not completely address the systemic weakness it was intended to correct.

Financial Reporting of Personal and Real Property

As implemented, DPAS does not remedy the systemic weakness identified in the DoD Annual Statement of Assurance. General Accounting Office Report No. AIMD 97-150, "DoD's Approach To Financial Control Over Property Needs Structure," September 30, 1997, states that DPAS can provide financial control over general property, plant, and equipment (PP&E). However, DPAS integration to the various accounting systems must be addressed to ensure reliable financial data.

DoD Annual Statement of Assurance. The FY 1997 DoD Annual Statement of Assurance identified eight systemic management control weaknesses. One weakness, "Unreliable Financial Reporting of Personal and Real Property," states that existing systems were not designed to satisfy the asset, liability, and equity accounting data required for financial reporting purposes. The DoD implementation of DPAS was supposed to remedy this weakness; however, DPAS does not include all DoD personal and real property and does not correct the asset, liability, and equity data. To ensure an efficient and effective DoD-wide implementation of DPAS, DoD must clarify the scope of the system and address the integration to the various financial systems.

Guidance for Reporting Property. The Under Secretary of Defense (Comptroller) selected DPAS as a system to provide financial control over all DoD personal and real property. However, uncertainty exists because DPAS guidance is unclear regarding what type of property should be included as personal and real property. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4, "Accounting Policy and Procedures," January 1995, defines personal property as weapons systems and other military equipment, and real property as land, buildings, and related structures. Personal property, as defined by the DPAS Program Management Office, does not include weapon systems. The Statement of

Federal Financial Accounting Standards Number 6, "Accounting for Property, Plant, and Equipment," November 1995, further defines weapons systems and space exploration equipment as Federal mission PP&E when they are used to meet a Federal Government mission.

The FY 1996 DoD Consolidated Financial Statements show about \$773 billion in PP&E. Approximately \$591 billion of the \$773 billion of PP&E reported in the FY 1996 DoD Consolidated Financial Statements are Federal mission PP&E. The remaining \$182 billion in the consolidated FY 1996 DoD financial statements are general PP&E. DPAS does not provide financial control over the \$591 billion of Federal mission PP&E. As a result, DPAS will not correct the systemic weakness over the financial reporting of all DoD personal and real property. DPAS program office officials stated that supplemental guidance will not be provided to users to clarify the scope of the system and that each of the implementing organizations will determine what property will be included in DPAS.

Financial Control Over General Property, Plant, and Equipment. General Accounting Office Report No. AIMD 97-150 (OSD Case No. 1444), "DoD's Approach to Financial Control Over Property Needs Structure," September 30, 1997, states that DPAS, as functionally designed, can provide financial control and generate information to account for most general PP&E. However, the report states that DoD has not defined the roles, responsibilities, and relationships among the various DoD entities involved, including the identification of needed manual and automated interfaces and related controls. For example, DPAS did not ensure financial control and accurate reporting as implemented at the Defense Information Systems Agency because DPAS was incorrectly interfaced with the accounting system. Without coordinating implementation and developing standard requirements, similar problems will occur throughout DoD.

Standardization of Property Reporting

DoD did not standardize DPAS data and has not provided guidance to users on the DPAS integration to the general ledger systems, to include the debit and credit posting to the various general ledger accounts. The DFAS Chief Financial Officer's 5-Year Plan states that the standardization of financial and other data continues to receive significant emphasis. The DFAS Plan further states that a data administration program is in place, long-term accounting requirements have been documented, and data and process models have been developed. In addition, according to guidance issued by DoD and the JFMIP, systems must have standard data and processes for processing similar transactions. Standardization will help ensure consistent, accurate, and reliable financial information.

Standardization of Data. DoD has not developed a standard DoD catalog of assets for organizations implementing DPAS. Each asset on the property book must have an associated catalog record. DoD Directive 8000.1, "Defense Information Management Program," October 27, 1992, requires DoD-wide systems to have consistent data and processes. In addition, the JFMIP, "Framework for Federal Financial Management Systems," states that integrated financial management systems must have standard definitions and formats established for recording financial events. Because of the inconsistent implementation of DPAS, organizations within the Military Departments are

developing individual catalogs. For example, the Naval Fleet Industrial Supply Centers in San Diego and Norfolk each developed its own catalog during implementation. As a result, neither the Fleet Industrial Supply Centers nor the Department of the Navy will have a standard catalog. Each organization that creates a catalog when implementing DPAS could identify a different catalog identification record for a catalog item. Without a standard catalog, DPAS will not be able to achieve two of its performance targets and measures to:

- provide asset redistribution potential to 100 percent of DoD locations and
- reduce procurement of excess items for DoD installations to zero percent.

Standardization of Financial Management Processes. DoD has not planned or developed a standard DPAS implementation strategy to ensure that consistent data and processes are used in and integrated with the financial management system. The Clinger/Cohen Act, formerly the Information Technology Management Act of 1996, requires the head of each executive agency, in consultation with the Chief Information Officer and the Chief Financial Officer to establish policies and procedures. These policies and procedures should ensure that the accounting, financial, asset management, and information systems of the executive agency are designed, developed, maintained, and used effectively to provide financial or program performance data for an agency's financial statements.

The DoD Annual Statement of Assurance identified the inadequate financial accounting process and systems as a systemic weakness. Financial information in DoD:

- is not adequately maintained within accounting systems;
- is not fully compliant with requirements; and
- cannot be processed into financial statements that can withstand the rigors of a financial audit.

The weakness includes the lack of financial systems integration. An integrated financial management system involves having a unified set of financial and mixed systems encompassing the software, hardware, personnel, processes, procedures, controls, and data necessary to carry out financial management functions. The JFMIP states that common processes must be used for processing similar kinds of transactions and that the system design should eliminate unnecessary duplication of transaction entry. In addition, internal controls over data entry, transaction processing, and reporting must be applied consistently. The DPAS program officials stated that a standard process of providing general ledger control would not be developed, but would be the responsibility of the individual implementing organizations. As a result, DoD did not ensure the integration of DPAS into the DoD financial management process.

General Ledger Control. DoD Regulation 7000.14-R, Volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, states that DFAS shall operate and maintain a central double-entry general ledger. When recording an event under the double-entry method, every debit entry has a

Adequacy of the Implementation of the Defense Property Accountability System

corresponding credit entry. Data should be entered only once and transferred to the appropriate accounts and systems. Accounting systems and subsystems should be fully integrated with the central general ledger.

DoD plans to use DPAS to post data to the general ledger, but DoD has not issued guidance for the integration of DPAS into the general ledger systems. As a result, each organization is developing individual general ledger interface requirements and integrating DPAS to the general ledger systems. General Accounting Office Report No. AIMD 97-150 identified an error in the integration of DPAS to the Defense Information Systems Agency accounting system that caused about an \$118 million inconsistency. That error is a direct result of the lack of guidance provided by DoD on the integration of DPAS to the various financial systems. Without standard processes, DoD will not have reliable financial reporting of property.

Coordination of Program Implementation at Military Departments and Defense Organizations

DoD did not adequately coordinate the DPAS program implementation. Military Departments and Defense organizations were not assured that all their requirements were considered before DPAS was implemented. As a result, the Military Departments and Defense organizations have delayed their implementation until additional requirements are incorporated into DPAS and a concept of operations has been developed for the system.

DPAS Implementation. DoD began implementing the migratory system at DoD sites in FY 1995. However, the DPAS Program Management Office never established a DoD-wide implementation schedule. Because of the lack of a coordinated implementation strategy, DPAS has only captured \$25 billion of the \$773 billion of PP&E reported in the FY 1996 DoD Consolidated Financial Statements.

In addition, DFAS Headquarters has not provided guidance on the DoD implementation of DPAS and the required integration to the financial management systems. The FY 1998 DFAS Descriptive Summary of DPAS describes DPAS as 60 percent finance and 40 percent logistics. However, according to DFAS Headquarters officials, DPAS is not an accounting system and is not within DFAS purview. DFAS Centers will individually have to integrate DPAS to the various financial management systems. As a result, DoD will not have standard financial management systems or processes. To effectively manage and implement the DoD-wide property accountability system, an Integrated Product Team including the Military Departments and DFAS should be established.

Adequacy of the Implementation of the Defense Property Accountability System

The following table depicts the \$25 billion of property reported in DPAS DoD-wide as of October 1997.

Status of DPAS Site Implementation

<u>Implementing Organization</u>	<u>Property Value</u>
Army	\$ 5,637,121,886
Navy	84,114,451
Air Force	9,382,756,000
Marine Corps	8,045,656
American Forces Information Service	48,825,123
Defense Contract Administration Agency	26,181,415
Defense Commissary Agency	326,198,983
Defense Finance and Accounting Service	1,046,439,345
Defense Information Systems Agency	1,133,125,042
Defense Investigative Service	70,717,214
Defense Logistics Agency	2,207,737,137
Office of the Inspector General, DoD	4,097,483
National Imagery and Mapping Agency	<u>5,111,681,545</u>
Total	\$25,087,041,280

Army. The Army has endorsed the implementation of DPAS for its installations. The predecessor to DPAS, the Installation Equipment Management System, was developed for the Army depot environment within the Army Material Command. However, installations have different logistical functions from depots. Consequently, in June 1996, the Army Office of the Deputy Chief of Staff for Logistics identified eight logistics requirements that must be incorporated into DPAS before the system can be implemented at its installations. The Army plans to perform validation testing of DPAS to verify that the eight logistics requirements have been incorporated into DPAS. Upon successful testing, the Army will develop a plan to implement DPAS at its installations and nondeployable units. The Army does not plan to implement DPAS for its deployable units, the Tables of Organization and Equipment units.

The Army has established a working group that includes DFAS Indianapolis Center personnel to jointly conduct a detailed review of the financial reporting process for Army PP&E and assess the capabilities of current and future systems to meet reporting requirements. Specifically, the Army working group will determine:

- how to meet accounting standards for reporting of personal and real property and
- how to integrate property data into the Defense Joint Accounting System.

Adequacy of the Implementation of the Defense Property Accountability System

Navy. The Navy fully supports the consolidation and standardization efforts to improve the integrity of reporting its assets but has identified numerous concerns with the implementation of DPAS. The transition to DPAS significantly changes the way the Navy and DFAS Cleveland perform property accountability and financial reporting of Navy personal and real property. As a result, in May 1997, the Assistant Secretary of the Navy (Financial Management and Comptroller) issued a memorandum requesting that Navy activities stop work on current initiatives to implement DPAS. Currently, the Navy is developing a concept of operations for PP&E, excluding weapon systems, and milestones to implement DPAS within the Navy.

In October 1997, the Assistant Secretary of the Navy (Financial Management and Comptroller) issued a memorandum to the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) outlining concerns with DPAS meeting various financial and logistics requirements. The concerns included standardization, duplication, integration, and the ability of DPAS to record total cost of multiple appropriated assets. In addition, the Navy and DFAS Cleveland Center have dedicated a significant effort to identify the financial reporting process of PP&E. Specifically, the DFAS Cleveland Center obtained a contract to define interface requirements and develop the processes and data flows for DPAS between the DFAS Cleveland Center and the Department of the Navy financial management systems. The contractor reported that DPAS will require modifications to record and report Navy PP&E.

Air Force. The Air Force has agreed to implement DPAS for its satellites and the Air Force depot maintenance activities. The Air Force completed its implementation of DPAS for its satellites but identified several problems for financial reporting. The DFAS Denver Center has identified temporary solutions, but stated more time, effort, and funds will be needed to correct the deficiencies.

The Air Force logistics community has started a major effort to reengineer the Supply Management business area under the Global Combat Support System program. Property management functions, including accountability, constitute a major module within the Global Combat Support System design. The Air Force stated in memorandums to the Deputy Under Secretary of Defense (Logistics) and the Assistant Secretary of the Air Force (Financial Systems Reporting) that DPAS would result in a significant loss of logistics functionality at the Air Force operational level. In addition, the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) issued a letter to the Air Force Deputy Chief of Staff, Installations and Logistics, to ensure that the Global Combat Support System:

- complies with Chief Financial Officer standards and
- has a design that includes and meets the criteria for planned interface with financial management systems.

As part of the system design, the contractor will review all existing organic systems, including DPAS, to determine what can be integrated into the Global Combat Support System program and whether DPAS is the best solution to fulfill the required Chief Financial Officer standards.

Defense Organizations. The DPAS system has been implemented at 8 of the 24 Defense organizations. Without an implementation schedule, we were unable to determine the status of the remaining 16 Defense organizations. We discussed DPAS with DFAS, the Defense Logistics Agency, and the American Forces Information Service. The General Accounting Office reviewed DPAS at the Defense Information Systems Agency. DFAS has successfully implemented DPAS for its property accountability and financial reporting. The Defense Logistics Agency has begun implementing DPAS, but Inspector General, DoD, Report No. 97-148, "Defense Logistics Agency Actions to Improve Property, Plant, and Equipment Financial Reporting," May 29, 1997, states that the Defense Logistics Agency had not established the necessary procedures to ensure that accurate and reliable financial information was entered into DPAS. The American Forces Information Service has implemented DPAS but does not know how to incorporate the information into its financial reporting process. Officials at the American Forces Information Service are currently working to determine how this information will be reported in future financial statements.

The Military Departments and Defense organizations have delayed or questioned the implementation of DPAS because of logistics and financial concerns. Those concerns about DPAS and its implementation support delaying further DPAS implementation until the concerns are adequately addressed.

Guidance for Acquisition Programs. DoD Directive 5000.1, "Defense Acquisition," March 15, 1996, provides policies for all DoD acquisition programs. The Directive states that the Defense acquisition community will maintain continuous and effective communications with the user to gain a sound understanding of user needs and to work with the user to achieve a proper balance among cost, schedule, and performance considerations. The Major Automated Information Systems Review Council is the principal formal DoD management oversight mechanism for high cost or special interest automated information systems. A Major Automated Information Systems Review Council review provides the type of control over capital investments in information systems that is mandated by the Clinger/Cohen Act, Public Law 104-106. The review determines whether the acquisition or development of an automated information system should be continued, redirected, or terminated.

Over the past few years, the DoD has turned increasingly to the use of integrated product teams to identify and resolve problems in development of major systems. We believe that this technique has particular merit when, as in the case of DPAS, there are a wide range of stakeholders and system users.

DoD Migratory Property System Implementation Cost

The total projected cost to implement DPAS DoD-wide is \$92 million. The Military Departments, Defense organizations, and DFAS Centers have incurred cost not included in the projected cost to implement DPAS. In addition, the DPAS program office was unable to document the systems eliminated and the associated cost savings.

DPAS Implementation Cost. Although only a small percentage of the Military Departments and Defense organizations have implemented DPAS, DoD has already spent about \$26 million. The total projected cost of \$92 million does not include the costs incurred by the Military Departments and DFAS Centers to develop a concept of operations, train personnel, travel, and develop requirements for system integration. For example, the cost does not include the DFAS Cleveland Center contract obtained to define interface requirements and develop the processes and data flows of DPAS with the Navy financial management systems.

Elimination of Existing Property Systems. The DPAS Mission Needs Statement stated the system would eliminate 150 unique property management systems within the Department of Defense and would decrease the funding required for their current system operations and maintenance. The DPAS Program Management Office was unable to provide a listing of the 150 systems that have already been eliminated or to quantify actual cost savings associated with the eliminated systems. The Military Departments indicated that property management systems entail additional functions that DPAS, as a property accountability system, would not perform. As a result, additional DPAS interfaces with logistics and financial systems will be required.

Conclusion

Unreliable financial reporting of personal and real property continues to be identified as a DoD systemic control weakness. The implementation of DPAS was intended to correct the deficiencies that were stated in the DoD Annual Statement of Assurance. The implementation of DPAS does not include all DoD personal and real property and does not address the asset, liability, and equity data required for financial reporting. Until DoD ensures the development of standard data and processes for implementation of the DoD migratory property system, unreliable financial reporting will continue to be a systemic weakness.

Recommendations, Management Comments, and Audit Response

We revised Recommendation 1.a. to clarify the intent of the recommendation. Management comments are presented in their entirety in Part III of this report.

1. We recommend that the Under Secretary of Defense for Acquisition and Technology, in coordination with the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence):

a. Develop an implementation strategy for the Defense Property Accountability System and refer the system to the Major Automated Information System Review Council (or Defense Acquisition Board) as a special interest program.

b. Establish an Integrated Product Team consisting of representatives from, as a minimum, the Under Secretary of Defense (Comptroller), Assistant

Secretary of Defense (Command, Control, Communications and Intelligence), Military Departments, Defense Finance and Accounting Service, and Defense Logistics Agency for continued program management. The Integrated Product Team should:

- (1) provide guidance to clarify the scope of the system,**
 - (2) standardize data requirements,**
 - (3) standardize the integration to the financial management systems,**
- and**
- (4) develop a coordinated DoD-wide implementation strategy to ensure user needs are met.**

Management Comments. The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), and the Under Secretary of Defense (Comptroller) concur with the portion of Recommendation 1.a. to develop an implementation strategy for DPAS, stating that the implementation strategy is being revised. The comments reference the Under Secretary of Defense (Comptroller) comments to GAO report, AIMD-97-150, "Financial Management: DoD's Approach to Financial Control over Property Needs Structure," September 30, 1997. A copy of the Comptroller comments to the GAO report are included as an attachment to the Under Secretary of Defense for Acquisition and Technology comments to the draft of this report. DoD partially concurred with GAO Recommendations 1. and 2. stating that a concept of operations would be developed and that the DPAS Program Management Office will issue a memorandum requesting DoD components to provide an implementation schedule that will ensure completion within the targeted timeframe. The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), nonconcur with the portion of Recommendation 1.a. to refer DPAS to the Major Automated Information System Review Council as a special interest program, stating that there would be no benefit to DoD to put DPAS under the Major Automated Information System Review Council.

The Under Secretary of Defense for Acquisition and Technology, Acting Deputy Under Secretary of Defense (Logistics), and the Under Secretary of Defense (Comptroller), nonconcur with Recommendation 1.b. stating that DPAS has been transferred to the Defense Logistics Agency, and that other perceived problems will be resolved with the development of a concept of operations.

Audit Response. The management comments to Recommendation 1.a. are only partially responsive to the draft report recommendation. We revised Recommendation 1.a. in this final report to clarify the intent of the recommendation to request that DoD develop an implementation strategy. At the time of our audit field work, no implementation strategy existed. Passing the task of preparing the implementation schedule on to the DoD Components merely perpetuates the problems we discussed in our report. If DPAS is a DoD-wide standard system, DoD should establish the implementation plan after fully determining user requirements and designing a system to meet user needs.

The management comments to the second part of Recommendation 1.a. are not responsive to the recommendation. DPAS was fielded before user requirements

were fully identified and before standard processes and designs were developed that would meet the needs of all Military Departments and Defense organizations. Although 100 sites may be implemented, the amount and value of property at those sites is a small percentage of the property DoD must account for and report on financial statements. The Major Automated Information System Review Council (or Defense Acquisition Board) would be more likely to ensure that user requirements were fully identified and that the processing logic required to interface DPAS to the general ledger, procurement, and supply systems were developed.

The management comments to Recommendation 1.b. are not responsive to the recommendation. The fact that the DPAS program management office has been transferred to the Defense Logistics Agency does not address the need for a coordinated effort through an Integrated Product Team. We believe that establishing an Integrated Product Team is critical to accomplishing the financial management objectives assigned to DPAS. The Military Departments and Defense organizations are struggling with how to implement a DoD system that was designed without considering all user requirements, including financial systems requirements. Although DoD states that the Department is working toward standardization, specific actions and milestones were not provided. In view of the compelling need for the DoD to achieve an acceptable degree of financial control over property, we stand by our conclusion that more intensive management oversight at the Office of the Secretary of Defense level and greater efforts to involve all stakeholders are warranted.

We request that the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) reconsider their position and provide comments to Recommendation 1. of this final report by June 15, 1998.

2. We recommend that the Under Secretary of Defense (Comptroller) continue to report the unreliable financial reporting of personal and real property as a systemic weakness in the DoD Annual Statement of Assurance.

Management Comments. The Under Secretary of Defense (Comptroller) and the Under Secretary of Defense for Acquisition and Technology concur with Recommendation 2. stating that the Department will continue to report deficiencies in the DoD Annual Statement of Assurance.

Other Management Comments. We received unsolicited comments from the Defense Logistics Agency. Those comments agree with the comments submitted by the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller). The Defense Logistics Agency included an appendix with their comments. We generally disagree with the Defense Logistics Agency comments in the appendix; however, we considered the comments in preparing this final report.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We limited our review to the implementation of the DoD migratory system for the accountability and financial reporting of personal and real property. We visited the DPAS Program Management Office to determine the program's implementation strategy and the procedures established for the standardization of the financial reporting of all personal and real property. We also visited or contacted the Military Departments and four Defense organizations logistics and financial offices. We did not use any computer-processed data during our review. However, the General Accounting Office had performed limited testing of DPAS and identified an error in the integration of DPAS to the Defense Information Systems Agency accounting system.

Audit Type, Dates, and Standards. We performed this financial-related audit from February 1997 through December 1997 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

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

Management Control Program

DoD Directive 5010.38, "Management Control (MC) 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 annual Statement of Assurance for the Department of Defense. Specifically, we reviewed the controls over the implementation of DPAS and the controls over the standardization of the financial management processes. We also reviewed management's self-evaluation program as applicable to those controls.

Adequacy of Management Controls. We identified a DoD-wide material management control weakness as defined by DoD Directive 5010.38. DoD had not established effective controls to ensure that DPAS had corrected the systemic weakness of unreliable financial reporting of personal and real property. DoD did not develop a standard implementation strategy to ensure that consistent data and processes were used in and integrated with the financial management system. Recommendation 2., if implemented, will assist in clarifying the scope of the system and standardize the integration to the financial management systems. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Secretary of Defense.

Adequacy of Management's Self-Evaluation. DoD had identified the financial reporting of personal and real property as a material weakness. The DoD solution to the deficiencies identified was the selection and deployment of the Defense Property Accountability System as a DoD-wide integrated property system. However, DPAS does not include all DoD personal and real property and does not address the asset, liability, and equity data. The designated system will only address \$182 billion of the \$773 billion PP&E identified in the FY 1996 DoD Consolidated Financial Statements. In addition, without standard policy for the integration of DPAS into general ledger systems, DoD will not have accurate or reliable financial reporting.

Appendix B. Summary of Prior Coverage

The financial reporting of personal and real property has been a long-standing problem throughout DoD. In the past 5 years, a number of audit reports related to the property accountability and financial reporting of DoD property, plant, and equipment have been issued. We limited our review to relevant reports published in the last year.

General Accounting Office

Report No. AIMD 97-150 (OSD Case No. 1444), "DoD's Approach To Financial Control Over Property Needs Structure," September 30, 1997, addresses whether DPAS was designed to meet functional accounting requirements for general PP&E. The report states that DPAS can provide financial control and generate information to account for most general PP&E. However, the report states that DoD did not define the roles, responsibilities, and relationships among the various DoD entities involved, including the identification of needed manual and automated interfaces and related controls. As a result, the implementation of DPAS did not ensure financial control and accurate reporting of general PP&E because DPAS was incorrectly interfacing with the accounting system. The report recommended the development of a concept of operations and a detailed DPAS implementation. In addition, the report recommended that the transactions produced by DPAS for updating the general ledger should reflect the posting logic for both debit and credit and the expansion of DPAS functionality to ensure transactions meet all current and pending requirements related to property found in Federal accounting standards and DoD financial management regulations. The Acting Under Secretary of Defense (Comptroller) generally concurred with the report findings and recommendations and agreed to provide comments on each recommendation later.

Inspector General, DoD

Report No. 97-148, "Defense Logistics Agency Actions to Improve Property, Plant, and Equipment Financial Reporting," May 29, 1997, discusses the significant progress the Defense Logistics Agency (DLA) has made toward correcting problems identified in prior audit reports. The report states that DLA required its organizations to perform inventories of all assets and to capitalize and record the inventories in financial records. This effort resulted in a \$1.3 billion increase in the PP&E reported on the financial statements for FY 1995. However, additional actions are required because the audit found not all organizations and locations had reported assets, which resulted in at least a \$422.3 million understatement of FY 1995 financial statements. The report recommended that the Director, DLA, require organizations that did not comply with DLA guidance and DoD policy to allocate sufficient resources to identify all PP&E and record the results of the

inventory in financial records. In addition, the reports recommended that DLA establish procedures to ensure that all assets are entered into the DPAS. The DLA generally concurred with the recommendations.

Report No. 96-180, "The General Fund Interim Migratory Accounting Strategy," June 26, 1996, addresses the lack of a centralized management office within DoD to coordinate the interim migratory accounting system strategy. The reports states that confusion existed among the project offices regarding the interface to the DPAS to meet the property accounting requirement and noted that the Services had not accepted full use of DPAS. The report also states that the interim migratory accounting system managers could only speculate which interfaces would need to be developed if DPAS could not provide the necessary data. The report recommended that the Under Secretary of Defense (Comptroller) establish a centralized program management structure to provide direction and control over the selection and implementation of a DoD-wide system for general fund accounting. The Deputy Chief Financial Officer partially concurred and stated that DFAS was initiating action to create the necessary program management. The DFAS issued a memorandum on April 17, 1996, announcing the establishment of the program management office.

Army Audit Agency

Report No. AA 97-133, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995," February 21, 1997, states that the Army continues to experience major financial reporting problems, which precluded the Army Audit Agency from rendering an opinion on the Army's financial statements. A major financial reporting problem was PP&E. The Army Audit Agency was unable to attest to the \$124.9 billion of PP&E because the prices used to value this equipment were not current and some units' equipment reports were inaccurate. Also, Army and DoD reporting guidance was unclear and inconsistently implemented, causing a unknown misstatement of real property. In addition, construction in progress was misstated by an unknown amount because the portion pertaining to Government-furnished materiel was based on inaccurate contractor reports and the amount reported for Army National Guard included an unknown amount for completed projects. The report discussed some of Army PP&E initiatives, including the establishment of a real property integrated process team and actions taken by the Army's logisticians to rectify military equipment reporting problems. The report contained no recommendations.

Naval Audit Service

Report No. 022-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion," March 1, 1997, concludes that the Department of the Navy had inadequate financial systems and incomplete and unauditible supporting records, which prevented the Naval Audit Service from rendering an opinion on the Statement of Financial Position. A major financial reporting problem was PP&E. The Department of the Navy Fiscal Year 1996 Statement of Financial Position reported \$341 billion in

Appendix B. Summary of Prior Coverage

PP&E. The Naval Audit Service had noted numerous understatements and overstatements in the individual PP&E categories. The Naval Audit Service said the overstatements and understatements occurred because of the absence of an integrated accounting system, an inadequate data call, incomplete support data, and values used to report capital assets. The Navy did make some corrections before issuing the statements, but errors still remained in the final version. The report contained no recommendations.

Air Force Audit Agency

Report No. 96053001, "Opinion on Fiscal Year 1996 Air Force Consolidated Financial Statements," March 1, 1997, states that material uncertainties exist regarding the reasonableness of amounts reported in the FY 1996 Air Force consolidated financial statements. The report states that the \$246 billion in PP&E was assembled from a variety of separate information systems of uncertain reliability and were unable to verify the account balance. The Air Force Audit Agency was unable to express an opinion on the consolidated statements because of the unverifiable account balances, including PP&E. In response to this and prior audits, the Air Force, DoD, and DFAS have initiated actions to address the problems discussed in the report. Air Force Audit Agency believes that once management corrects the reported problems, the Air Force should achieve more effective financial control over assets and provide reliable financial information. The report contained no recommendations.

Appendix C. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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

Other Defense Organizations

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

Non-Defense Federal Organizations

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

Under Secretary of Defense for Acquisition and Technology and Under Secretary of Defense (Comptroller) Comments



ACQUISITION AND TECHNOLOGY

(L/MDM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

23 MAR 1998

MEMORANDUM FOR THE DIRECTOR, FINANCE AND ACCOUNTING
DOD INSPECTOR GENERAL

THROUGH: DEPUTY DIRECTOR, API, FOR CONGRESSIONAL ACTIONS
AND REPORTS *WR 3/23/98*

SUBJECT: Draft Audit Report on the Implementation of the Defense Property Accountability System (Project No. 7FI-5023)

This responds to your memorandum of January 21, 1998, on the subject draft audit report. There are three recommendations addressed to this office and one addressed to the Under Secretary of Defense (Comptroller). We are responding to each of these in the attachment. The Comptroller concurs below in this response.

This office appreciates the work of the auditors in performing this review, which the Comptroller requested. We are interested in the successful implementation of the Defense Property Accountability System (DPAS). Thank you for the opportunity to comment on your draft audit report.

James B. Willis
Roy R. Willis
Acting Deputy Under Secretary
of Defense (Logistics)

Attachment

Concur: Under Secretary of Defense (Comptroller) *CONCURRENCE*
Attached, Date *3/23/98*
Next sheet



Under Secretary of Defense for Acquisition and Technology and
Under Secretary of Defense (Comptroller) Comments



ACQUISITION AND
TECHNOLOGY

(LADM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

23 MAR 1998

MEMORANDUM FOR THE DIRECTOR, FINANCE AND ACCOUNTING
DOD INSPECTOR GENERAL

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AND REPORTS

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ORIGINAL
SIGNED

Roy R. Willis
Acting Deputy Under Secretary
of Defense (Logistics)

Attachment

Concur: Under Secretary of Defense (Comptroller) *RM*, Date 3/23/98



**Under Secretary of Defense for Acquisition and Technology and
Under Secretary of Defense (Comptroller) Comments**

Final Report
Reference

Revised
See Page 13

**Department Comments on the Recommendations in the Draft Audit Report on the
Implementation of the Defense Property Accountability System (Project No. 7FI-5023)**

"We recommend that the Under Secretary of Defense (Acquisition and Technology) in coordination with the Assistant Secretary of Defense (Command, Control, Communications and Intelligence):

"1. Revise the implementation strategy for the Defense Property Accountability System."

Concur. The implementation strategy is being revised as cited in the Department's comments on Recommendation 1, signed by the USD Comptroller on January 7, 1998, in response to the GAO audit AIMD-97-150, "FINANCIAL MANAGEMENT: DoD's Approach to Financial Control over Property Needs Structure." September 30, 1997 (copy attached).

"2. Refer the system to the Major Automated Information System Review Council as a special interest program."

Nonconcur. With over 100 sites implemented to date, DPAS would be at milestone V or VI, and there would be no benefit to the DoD.

"3. The Under Secretary of Defense (Acquisition and Technology) establish an Integrated Product Team consisting of the Under Secretary of Defense (Comptroller), Military Departments, Defense Finance and Accounting Service, and Defense Logistics Agency for continued program management."

Nonconcur. Under Defense Reform Initiative #19 (DRID), program management for DPAS has been transferred to the Defense Logistics Agency. DRID #19 requires a concept of operations for property to be developed and any perceived definition problems will be resolved at that time. Implementation of DPAS, from a standard data perspective, significantly improves that effort in DoD by virtue of using a standard system. Implementation gives DoD-wide asset visibility while not imposing a standard category requirement. Regarding standardizing "the integration to financial management systems," the Department agrees and is working towards this end in consonance with financial management systems' modernization efforts. Regarding ensuring user needs are met, the Department's intention is to bring the system into compliance with the requirements of the "Addendum I: DoD Financial Management System Principles" as stated in the Financial Management Regulation, Volume 1, Chapter 2. The Department will also continue its current Configuration Control Board process and periodic user conferences to help ensure program success.

"4. The Under Secretary of Defense (Comptroller) continue to report the unreliable financial reporting of personal and real property as a systemic weakness."

Concur. As required, the Department will continue to report deficiencies in the DoD Annual Statement of Assurance.

Attachment

Under Secretary of Defense for Acquisition and Technology and
Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



JAN 17 1993

Ms. Lisa G. Jacobson
Director, Defense Audits
Accounting and Information
Management Division
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Jacobson:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) final report GAO/AIMD-97-150, "FINANCIAL MANAGEMENT: DoD's Approach to Financial Control Over Property Needs Structure." (GAO Code 918883/OSD Case 1444).

The Department reviewed the final report and notes that the DoD response to the draft is included as an appendix. The Department's position on the report has not changed. Enclosed are the Department's detailed comments on the recommendations.

Sincerely,

William J. Lynn

Enclosure

APD-00023
304.02.23
ATTACHMENT

**Under Secretary of Defense for Acquisition and Technology and
Under Secretary of Defense (Comptroller) Comments**

GAO FINAL REPORT, GAO/AIMD-97-150, DATED SEPTEMBER 30, 1997
OSD CASE 1444, GAO CODE 918883

"FINANCIAL MANAGEMENT: DOD'S APPROACH TO FINANCIAL CONTROL OVER
PROPERTY NEEDS STRUCTURE"

DEPARTMENT OF DEFENSE COMMENTS ON
THE GAO RECOMMENDATIONS

RECOMMENDATION 1: To ensure that the Defense Property Accountability System (DPAS) meets the Department of Defense (DoD) Comptroller's stated goal of achieving financial control and accountability over general Property, Plant, and Equipment (PP&E) by the year 2000, the General Accounting Office (GAO) recommended that the Deputy Secretary of Defense (DepSecDef) develop, in consultation with the appropriate Assistant Secretaries, a concept of operations that (1) lays out how the property function is to be accomplished, including identification of needed manual and automated interfaces and related controls, (2) defines for both the current and future operating environments the roles, responsibilities, and relationships among the various DoD entities involved, such as the Comptroller's office, the Defense Finance and Accounting Service (DFAS), DoD Component agencies, and the Military Services.
(p. 15/GAO Final Report)

DoD RESPONSE: Partially Concur. The Office of the Under Secretary of Defense (Comptroller) (USD(C)) will direct the DPAS Program Management Office (PMO) to resolve the GAO recommendations. In this regard, the DPAS PMO will be directed to develop a concept of operations document for property. The concept should detail: (1) how the function will be accomplished, (2) the interfaces and expected controls (automated and manual), and (3) organizational responsibilities.

RECOMMENDATION 2: Also to ensure that the DPAS meets the DoD Comptroller's stated goal of achieving financial control and accountability over general PP&E by the year 2000, the GAO recommended that the DepSecDef develop a detailed DPAS implementation plan that includes a schedule that identifies at what sites and when the system will be implemented.
(p. 15/GAO Final Report)

DoD RESPONSE: Partially Concur. The Office of the USD(C) will direct the DPAS PMO to resolve the GAO recommendations. In this regard, the DPAS PMO will be directed to issue a memorandum to the DoD Components requesting them to provide an implementation schedule that will ensure that the project will be completed within the targeted timeframe.

Enclosure to Memorandum - GAO
Final Report - OSD Case 1444
Page 1 of 3

**Under Secretary of Defense for Acquisition and Technology and
Under Secretary of Defense (Comptroller) Comments**

The memorandum also will request the organizations to designate a single DPAS liaison officer and to list sites with specific schedule conversion dates.

RECOMMENDATION 3: Also to ensure that the DPAS meets the DoD Comptroller's stated goal of achieving financial control and accountability over general PP&E by the year 2000, the GAO recommended that the Deputy Secretary of Defense revise the DPAS Implementation Handbook to: (1) specify the complete financial transactions for posting DPAS data to the general ledger, (2) include specific guidance on how and when to perform reconciliations, and who should be performing them, including automated matching of DPAS records to the general ledger, where appropriate, and (3) require that all financial transactions generated by DPAS, such as equipment in-transit, be used. (p. 15/GAO Final Report)

DoD RESPONSE: Partially concur. The Office of the USD(C) will direct the DPAS PMO to resolve the GAO recommendations. In this regard, the DPAS PMO will be directed to revise the DPAS Users Manual, not the Implementation Handbook. The DPAS PMO will be asked to issue an appendix to the manual which would provide a crosswalk of the DPAS Transaction Types to the general ledger. It is proposed that the appendix also include a listing of those standard DPAS automated financial and transaction reports that should be used to balance against the general ledger. Each DoD entry will be requested to designate which of the subunits could be responsible for performing reconciliations.

RECOMMENDATION 4: Also to ensure that the DPAS meets the DoD Comptroller's stated goal of achieving financial control and accountability over general PP&E by the year 2000, the GAO recommended that the DepSecDef expand DPAS functionally to ensure it includes transactions to meet all current and pending requirements related to property found in federal accounting standards and DoD financial management regulations. Transactions produced by DPAS for updating the general ledger should reflect the posting logic for both the debit and credit in accordance with the U.S. Government Standard General Ledger. (pp. 15-16/GAO Final Report)

DoD RESPONSE: Partially concur. The Office of the USD(C) will direct the DPAS PMO to resolve the GAO recommendations. The DPAS PMO will be directed to ensure that the DPAS is programmed to meet current financial requirements. Functionality required to support future federal accounting standards should be programmed into DPAS as those standards are promulgated.

Enclosure to Memorandum – GAO
Final Report – OSD Case 1444
Page 2 of 3

**Under Secretary of Defense for Acquisition and Technology and
Under Secretary of Defense (Comptroller) Comments**

RECOMMENDATION 5: To resolve the implementation problems specific to the Defense Information Systems Agency (DISA), the GAO recommended that the Director, DISA: (1) submit a request to the DPAS project office to include appropriate additional transaction edits required by DISA for general ledger processing, (2) correct the interface program, and (3) finalize procedures for reconciliation of DISA's general ledger accounts for property to DPAS property records, including provisions to ensure timely reconciliations are accomplished and general ledger control is maintained over general PP&E. (p. 16/GAO Final Report)

DoD RESPONSE: Partially Concur. The Office of the USD(C) will direct the DPAS PMO to resolve the GAO recommendations. In this regard, the DPAS PMO will be directed to work with the DISA Comptroller to determine the best approach to achieve the desired goal of reconciling the two databases. A request may not be required if it is determined that the capabilities already exist, and that they only need to be implemented within the DISA. The DISA Comptroller, in coordination with the DISA Procurement and Logistics Directorate, currently is working on establishing general ledger controls for all DISA PP&E. The DISA Comptroller currently is assessing the feasibility on interfacing DPAS with DISA's official accounting system.

Enclosure to Memorandum – GAO
Final Report – OSD Case 1444
Page 3 of 3

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060 6221

FO

APR 2 1998

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Defense Logistics Agency Response to the Inspector General of the Department of
Defense Audit Report

This is the Defense Logistics Agency (DLA) response to the Office of the Inspector General of the Department of Defense (DoDIG) draft report, "Implementation of the Defense Property Accountability System," dated January 21, 1998 (OIG Project No. 7F1-5023).

The following responses are keyed to page 12 of the draft audit report.

DoDIG Recommendation 1.a.

"Revise the implementation strategy for the Defense Property Accountability System and refer the system to the Major Automated Information System Review Council (MAISRC) as a special interest program."

DLA Response:

Concur with revising the implementation strategy. DoD previously responded to this recommendation in GAO/AIMD-97-150 audit report titled "DoD's Approach to Financial Control Over Property Needs Structure," dated September 1997.

Nonconcur in referring the system to MAISRC. With over 100 sites implemented to date, DPAS would be at milestone V or VI. There would be no benefit to DoD to go through the MAISRC process at this time.

DoDIG Recommendation 1.b.

"Establish an Integrated Product Team consisting of representatives from, as a minimum, the Under Secretary of Defense (Comptroller), Assistant Secretary of Defense (Command, Control, Communications and Intelligence), Military Departments, Defense Finance and Accounting Service, and Defense Logistics Agency for continued program management."

DLA Response:

Nonconcur. Under Defense Reform Initiative Directive (DRID) #19, Program Management has been transferred to DLA. It is intended that the project will be brought before the Defense Management Council. DRID #19 requires a concept of operations for property to be developed, and any perceived definitional problems will be resolved at that time. Implementation of DPAS from a standard data perspective significantly improves that effort in

DoD by use of a standard system. Implementation of DPAS gives DoD wide asset visibility while not imposing a standard category requirement. Regarding standardization of "the integration to financial management systems," we agree, and are working toward this end state in consonance with financial management systems modernization efforts.

Regarding ensuring user needs are met, we will bring the system to the Defense Management Council for review. We will continue our current Configuration Control Board process and periodic user conferences to help ensure program success.

DoDIG Recommendation 2.

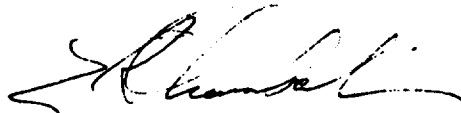
"We recommend that the Under Secretary of Defense (Comptroller) continue to report the unreliable financial reporting of personal and real property as a systemic weakness in the DoD Annual Statement of Assurance."

DLA Response:

Concur. DoD will report material weaknesses as required by the Federal Managers Financial Integrity Act. When DPAS is more fully implemented, DoD will review progress towards correcting the material weakness.

Attached are specific comments on the audit report text.

We appreciate the opportunity to comment on this draft audit report. If you have any questions regarding this response, please contact my action officer, Mr. Joseph Malacavage, CPA, via e-mail at joseph_malacavage@hq.dla.mil or by telephone at (703) 767-6287.



JOSEPH MALACAVAGE
CPA
ACTION OFFICER

Attachment

APPENDIX

Issue # 1

Comments in the audit objectives section differ from comments in the audit results section. The audit objectives section (page 3) of the draft report states that "We were unable to review the capabilities of DPAS to support the Chief Financial Officers Act and the Government Management Reform Act of 1994 because DoD had not clarified the scope of the system or addressed the integration to related financial systems."

However, the Executive Summary's Audit Results section states that "The DoD implementation of Defense Property Accountability System does not properly remedy the systemic weakness, 'Unreliable Financial Reporting of Personal and Real Property,' reported in the DoD Annual Statement of Assurance."

Recommendation

Recommend that the audit report be changed to read -- we were unable to review the capabilities of DPAS to support the Chief Financial Officers Act & Government Managers Reform Act of 1994; therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the capabilities of the Defense Property Accountability System's capabilities.

Issue # 2

The draft audit report's Standardization of Property Accounting (page 5) section states that "DoD did not standardize DPAS data *** to include the debit and credit posting of the various general ledger accounts. *** In addition, *** systems must have standard data and processes for processing similar transactions. Standardization will help ensure consistent, accurate, and reliable financial information."

Comment

Standard financial data is provided to the accounting systems through the following processes. The Defense Property Accountability System Users Manual DFAS 7900.5-M contains processing logic incorporated within a coding structure used in DPAS. The codes provide the financial transactions data for property book gains, losses, or changes in status for capital assets. The data is generated and stored in a standard DPAS system table until it is forwarded to the designated financial system. The financial output is formatted in accordance with requirements established by the financial system receiving the data. The discrete set of functional codes identifies the applicable general ledger accounts contained in DoD 7000.14-R, Financial Management Regulation, Volume 4, Accounting Policy and Procedures. In addition, the accompanying maintenance codes designate whether the amount is a positive (increase) or a negative (decrease) transaction. The DPAS users manual provides sufficient guidance to integrate financial data to the general ledger accounts.

Issue # 3

The draft audit report's Standardization of Data section (page 6) states that "DoD has not developed a standard DoD catalog of assets for organizations implementing DPAS. *** In addition, the JFMIP, 'Framework for Federal Financial Management Systems,' states that integrated financial management systems must have standard definitions and formats established for recording financial events. Because of the inconsistent implementation of DPAS, organizations within the Military Departments are developing individual catalogs."

The draft audit report statement does not recognize the types and sources of property purchased and maintained by the various Military Departments and Defense Agencies. DoD entities procure the vast majority of their personal property items directly from commercial vendors. These commercially procured items are not in FEDLOG with National Stock Numbers; therefore, the Military Departments and Defense Agencies developed individual catalogs to reflect the manner in which they conduct business with commercial vendors. The increased labor costs and funding that would be required by the Defense Logistics Agency (DLA) to create a standard DoD catalog, for which there is no DoD requirement, would be both costly and of questionable benefit.

Issue # 4

"Without a standard catalog, DPAS will not be able to achieve two of its performance targets and measures to:

provide asset redistribution potential to 100 percent of DoD locations."

Comment:

The DPAS Asset Redistribution Module (ARD) provides for asset redistribution. ARD's configuration facilitates automated asset redistribution and transfer of property book items. Each organization utilizing DPAS has the ability to view excess assets available from other DoD organizations. The ARD is a major process improvement with the potential to generate significant savings among user organizations. Inquiries can be made against the DoD excess database by nomenclature, such as desk. This approach searches across manufactures, models and a multiplicity of unique stock numbers

Issue # 5

General Accounting Office Report No. AIMD 97-150 identified an error in the integration of DPAS to the Defense Information Systems Agency accounting system that caused about an \$118 million inconsistency. That error is a direct result of the lack of guidance provided by DoD on the integration of DPAS to the various financial systems. Without standard processes, DoD will not have reliable financial reporting of property."

The Defense Property Accountability System Users Manual DFAS 7900.5-M contains processing logic incorporated within a coding structure used in DPAS. The codes provide the financial transactions data for property book gains, losses, or changes in status for capital assets. Financial output data is formatted in accordance with

requirements established by the financial system receiving the data. Furthermore, the discrete set of functional codes identifies the applicable general ledger accounts contained in DoD 7000.14-R, Financial Management Regulation, Volume 4, Accounting Policy and Procedures. The error, cited by the GAO, is not the direct result of a lack of guidance provided by DoD on the integration of DPAS to the various financial systems; rather, the Defense Information System Agency accounting system inconsistency is due to a minor error in the processing of rejected transactions a problem that had been fixed. The error has nothing to do with a "lack of guidance."

Issue # 6

The draft audit report section addressing coordination of DPAS Implementation (page 7) erroneously states that "DoD did not adequately coordinate the DPAS program implementation. Military Departments and Defense Organizations were not assured that all their requirements were considered before DPAS was implemented. As a result, the Military Departments and Defense Organizations have delayed their implementation until additional requirements are incorporated into DPAS and a concept of operations has been developed for the system."

Comment

The DPAS Program Management Office has coordinated all implementations at installation, intermediate command and headquarters levels. The concept of operations will be completed by May 28, 1998.

Issue # 7

The draft audit report states that "DoD began implementing the migratory system at DoD sites in FY 1995. However, DPAS program management office never established a DoD-wide implementation schedule. Because of the lack of a coordinated implementation strategy, DPAS has only captured \$25 billion of the \$773 billion of PP&E reported in the FY 1996 Consolidated Financial Statements."

In accordance with the DoDIG January 21, 1998, draft audit report titled Implementation of the Defense Property Accountability System, the total amount of general property plant and equipment to be accounted for in DPAS is \$182 billion. It is noted that the difference between \$773 billion and \$182 billion is applicable to weapon system costs of \$591 billion. Properly accounting for \$182 billion equates to significant improvement for DoD in the area of property accountability.

Issue # 8

The draft audit report also states that "DFAS Headquarters has not provided guidance on the DoD implementation of DPAS and the required integration to the financial management systems. The FY 1998 DFAS Descriptive Summary of DPAS describes DPAS as 60 percent finance and 40 percent logistics. However, according to DFAS Headquarters officials, DPAS is not an accounting system and is not within DFAS purview. DFAS Centers will individually have to integrate DPAS to the various financial

management systems. As a result, DoD will not have standard financial management systems or processes.”

Comment:

In 1995, DFAS-HQ provided the DPAS PMO with specific data elements and a standard record layout to be transmitted to all DFAS accounting systems. In addition, several formal System Interface Agreements have been signed with respect to the current interim migratory accounting system and future migratory accounting systems.

Audit Team Members

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