

January 16, 2004



Financial Management

Subsidiary Ledgers at the U.S.
Army Corps of Engineers
(D-2004-044)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

Additional Copies

To obtain additional copies of this report, visit the Web site of the Inspector General of the Department of Defense at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General of the Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

CEFMS	Corps of Engineers Financial Management System
KAR	Key Accounting Requirement
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

January 16, 2004

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

**SUBJECT: Report on Subsidiary Ledgers at the U.S. Army Corps of Engineers
(Report No. D-2004-044)**

We are providing this report for review and comment. This audit was performed in support of the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994 (Public Law 103-356), and the Federal Financial Management Improvement Act of 1996 (Public Law 104-208). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all issues be resolved promptly. The U.S. Army Corps of Engineers comments to Recommendation 1. are nonresponsive. Management nonconcurred with programming the Corps of Engineers Financial Management System to compile complete transaction registers for all U.S. Army Corps of Engineers activities into a single subsidiary ledger. The U.S. Army Corps of Engineers stated that the system was not designed to contain a single database. We request that management reconsider their response and provide additional comments on Recommendation 1. by February 17, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Barbara A. Sauls at (703) 604-9129 (DSN 664-9129). See Appendix C for the report distribution. The team members are listed inside the back cover.

Paul J. Granetto
Director
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2004-044

January 16, 2004

(Project No. D2003FH-0042.001)

Subsidiary Ledgers at the U.S. Army Corps of Engineers

Executive Summary

Who Should Read This Report and Why? Civil service and uniformed officers who perform financial management at the U.S. Army Corps of Engineers should read this report. This report addresses the need for subsidiary accounting ledgers in the Corps of Engineers Financial Management System.

Background. This report is one of a series to be issued on accounting and financial statements at the U.S. Army Corps of Engineers, Civil Works. The Chief Financial Officers Act of 1990 (Public Law 101-576) as amended by the Government Management Reform Act of 1994 (Public Law 103-356) requires annual financial statement audits of the Department of Defense. As part of the strategy to implement these laws, the Office of Management and Budget further requires certain DoD entities, including the U.S. Army Corps of Engineers, Civil Works to prepare audited financial statements. Prior financial statement audits of the U.S. Army Corps of Engineers, Civil Works have resulted in disclaimers of opinion because of material deficiencies in the statements and supporting information.

The Corps of Engineers Financial Management System is the financial management and accounting system used by the U.S. Army Corps of Engineers, Civil Works. The Corps of Engineers Financial Management System was fully deployed in FY 1998 and maintains the accounting data for an entity that employs about 36,000 civilian employees and owns about \$43.2 billion in assets worldwide.

Results. The Corps of Engineers Financial Management System does not include subsidiary ledgers that support U.S. Army Corps of Engineers, Civil Works financial statements. The supporting records for the various accounts are decentralized at 61 activities and are not automatically compiled into one subsidiary ledger that supports the general ledger account. As a result, sums of subsidiary records differed with selected Defense Departmental Reporting System trial balances for FY 2002 by an absolute value of \$2.8 billion. General ledger and subsidiary records are difficult to accurately reconcile at the top level, audit trails are weakened, and reliable financial data are not readily available either to Corps of Engineers financial managers or for audit, as required by DoD guidance. The U.S. Army Corps of Engineers should program the Corps of Engineers Financial Management System to automatically compile its decentralized records, reconcile general ledger and supporting records, maintain complete audit trails, and make error corrections at the transaction level. See the Finding section of the report for the detailed recommendations.

Management Comments and Audit Response. The U.S. Army Corps of Engineers concurred with generating and reconciling general ledger control accounts to their supporting subsidiary data, but nonconcurred with programming the Corps of Engineers Financial Management System to compile complete transaction registers for all U.S.

Army Corps of Engineers activities into a single subsidiary ledger. We believe that to generate and reconcile the general ledger control accounts to their subsidiary data, a single subsidiary ledger for each general ledger control account is necessary. We request that the Commander, U.S. Army Corps of Engineers comment on the final report by February 17, 2004. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	2
Finding	
Subsidiary Ledgers at the U.S. Army Corps of Engineers	3
Appendixes	
A. Scope and Methodology	9
B. Prior Coverage	10
C. Report Distribution	11
Management Comments	
U.S. Army Corps of Engineers	13

Background

This audit was performed in support of the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994 (Public Law 103-356). As part of the strategy to implement these laws, the Office of Management and Budget further requires certain DoD entities, including the U.S. Army Corps of Engineers, Civil Works to prepare audited financial statements. This report is one of a series resulting from our audits of the U.S. Army Corps of Engineers (USACE), Civil Works financial statements for FY 2002. This report discusses the need for subsidiary ledgers in the Corps of Engineers Financial Management System (CEFMS).

The USACE is a complex organization with civil works and military missions, and it has a civilian workforce of about 36,000 employees. The Corps also contracts with commercial architecture, engineering, and construction firms for most of their design work and for all of their construction work.

To better manage its mission, the USACE has invested approximately \$76 million in the development and deployment of CEFMS. CEFMS is a financial management system, which integrates accounting and project management processes.

Accounting transactions for the USACE, Civil Works are posted to the CEFMS at the activity level. USACE has 61 activities, including the districts and designated revolving funds. To accumulate data to support the preparation of financial statements, the account balances for the 61 activities must be compiled and adjusted to generate overall account balances.

Financial statement audits in prior years have uniformly resulted in disclaimers of opinion because of material internal control weaknesses and specifically identified financial statement errors. For example, the U. S. Army Audit Agency issued disclaimers of opinion on selected USACE, Civil Works financial statements for FY 1994 and the Statements of Operations and Changes in Net Position for FY 1996, and selected financial statements for FYs 1997 through 2000. The Office of the Inspector General DoD issued disclaimers of opinion on the Balance Sheet for FYs 2001 and 2002. Table 1 shows the results of the financial statement audits of USACE, Civil Works from FY 1994 through FY 2002. See Appendix B for additional information on the prior audits.

Table 1. Financial Statement Audits of the USACE

Activity	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
U. S. Army Audit Agency	D ¹ FS ⁴	No opinion	D ¹ OPS and SCNP ²	D ¹ FS ³	D ¹ FS ³	D ¹ FS ³	D ¹ FS ³		
OIG DoD ⁶								D ¹ BS ⁵	D ¹ BS ⁵
¹ Disclaimer of opinion ² Statement of Operations and Statement of Changes in Net Position ³ Financial Statements: BS, SCNP, Statement of Net Cost, Statement of Budgetary Resources, and Statement of Financing ⁴ Financial Statements - other ⁵ Balance Sheet ⁶ Office of the Inspector General of the Department of Defense									

Objectives

Our overall audit objective was to evaluate the adequacy of subsidiary records in CEFMS, specifically whether those records constitute subsidiary ledgers that support the USACE, Civil Works general ledger account balances and, in turn, the financial statements. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objective.

Subsidiary Ledgers at the U. S. Army Corps of Engineers

CEFMS does not contain subsidiary ledgers that support the general ledger account balances. Although the 61 USACE activities have the subsidiary records needed to develop a subsidiary ledger, CEFMS, as currently designed, does not ensure reliability of data required by USACE financial managers. CEFMS does not have the functional requirements needed to accomplish the periodic reconciliations required by DoD 7000.14-R, "DoD Financial Management Regulation." Specifically, CEFMS does not provide for:

- complete transaction registers for all USACE accounts in single files or ledgers that are readily retrievable and that provide an audit trail of adjustments or corrections made to subsidiary records and
- the proper reconciliation between the subsidiary ledger and the general ledger.

As a result, sums of subsidiary records differed with selected Defense Departmental Reporting System trial balances for FY 2002 by an absolute value of \$2.8 billion. In addition, the general ledger account balances are not properly supported, and the information is not readily verifiable for financial and budgetary decision making or for audit as required by DoD 7000.14-R, "DoD Financial Management Regulation."

Attributes of a Subsidiary Ledger

A subsidiary ledger will itemize the supporting transactions and will provide all of the significant data elements for each transaction making up a general ledger account balance (for example, for receivables, the transaction date, aging, amount due, department originating the transaction, nature of the receivable, and identity of the debtor). This supports management oversight and facilitates audits such as those mandated by the Chief Financial Officers Act of 1990 and subsequent statutes.

Implicit in the support for a general ledger account balance is that the subsidiary ledger will accumulate the data in one ledger or file, regardless of how many subdivisions an entity has (for example, 61 activities for the USACE). A subsidiary ledger must be periodically reconciled so it becomes a key part of the audit trail, from source document to financial reports, by virtue of the accumulation of all supporting data into one ledger that supports the general ledger account balance.

Criteria

DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 2, "Conceptual Framework," addendum 2, May 1993, requires that an accounting system include a report writer that allows for user-defined reports without intervention of a programmer. These reports include aging of accounts receivable and other accounts as appropriate.

DoD 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 3 addendum, "Key Accounting Requirements," May 1993, identifies 13 key accounting requirements (KAR) for accounting systems. KAR No. 1, "General Ledger Control and Financial Reporting," requires that an accounting system list both control and subsidiary general ledger accounts. KAR No. 8, "Audit Trails," requires audit trails that allow a transaction to be traced from initiation to the processing to final reports. KAR No. 12, "User Information Needs," states that a system must be able to meet user needs in a reliable and responsive manner.

DoD 7000.14-R, volume 1, chapter 2, "Conceptual Framework," May 1993, states that an accounting system encompasses the procedures and processes from when a transaction is initiated to the financial reports, and reports the data in detail or summary form. Chapter 2 also specifies that the general ledger and its subsidiary ledgers shall serve as the source database for financial reporting requirements. Additionally, subsidiary records are to be periodically verified to the general ledger balances.

CEFMS Transactions and Supporting Data

The CEFMS does not contain subsidiary ledgers that support the general ledger account balances. Although the 61 USACE activities have the subsidiary records in CEFMS tables, the CEFMS tables do not provide the information required or allow for the functions required by DoD. In addition, CEFMS adjustments may be in the form of a top-level journal entry rather than individual changes to transactions that affect the audit trail.

CEFMS Tables. The transaction data in CEFMS is posted to the system at the activity level and maintained at that level in individual tables within the database for a given account or sub-account. CEFMS has a large variety of pre-programmed reports that can be generated. Depending on the data desired, a report that could include a detailed listing of all transactions in a given general ledger account can be selected and run at the activity level. For example, the asset cost reconciliation (RECONAST) report shows the reconciliation of the Asset Cost Table to the general ledger. The data provided from 61 activities must be updated using batch processing in order to update the general ledger account balance for the entire USACE, Civil Works. CEFMS does not yet have a program to prepare one updated and compiled report for all 61 activities.

The CEFMS tables are part of a relational database, and as such are linked together by key data fields common to multiple tables. A high number of reports

can be generated on demand, but only for a single activity. A separate query must be generated to compile data from each of the 61 activities if a user wants the USACE-wide total for a given account. On the other hand, CEFMS could be programmed to compile all the 61 activities' data to generate a subsidiary ledger at any time.

Accounting Entries. The USACE had made accounting entries in past years to adjust and reconcile its general ledger balances. Some of the entries were not properly documented, and others were made in response to audit recommendations and made as one top-level entry to correct an account balance without adjusting individual transactions. As a result, future reports generated from a subsidiary ledger based on individual transaction amounts remaining in these accounts still would not reconcile to the general ledger balance. Accordingly, correcting entries should be made at the level of the affected transactions. A subsidiary ledger adjusted at the level of the affected transactions to correct errors should therefore reconcile to, and support, an accurate general ledger account balance.

Audit Trail. As stated in KAR No. 8, a good audit trail will allow transactions to be traced through a system from initiation to final reporting (for example, financial statements). The individual transactions are frequently quite numerous and need to be accumulated into an itemized list (a subsidiary ledger) that will support the balance for a given general ledger account. USACE, Civil Works, has 61 reporting activities, each one with numerous transactions in multiple USACE, Civil Works general ledger accounts. The itemized list of all entity transactions, which is the basis for a subsidiary ledger, is the logical pathway from a mass of individual transactions to the general ledger account balance.

Reconciliation of CEFMS to Material Trial Balance Accounts

To ensure accuracy and reliability, all data in subsidiary ledgers should be fully reconciled monthly. The data in CEFMS do not reconcile to material account balances in the U.S. Army Corps of Engineers, Civil Works trial balance for FY 2002. For seven audit samples from the FY 2002 trial balance; the Construction-in-Progress Account, Equipment Account, Accounts Receivable-Public, Accounts Receivable-Government, Accounts Payable-Public, Accounts Payable-Government, and the Land Account; the dollar amounts for the population files from which they were selected did not equal the dollar amounts of their respective reported values on the trial balance. Table 2 shows the differences between the sums of the subsidiary records and the Defense Departmental Reporting System trial balances as the absolute value of \$2,769,520,401 as of November 26, 2002. These differences highlight the necessity for a subsidiary ledger.

An official from the U.S. Army Corps of Engineers Finance Center stated that the FY 1998 Buildings and Structures Account was reconciled to the general ledger, from which the trial balance was prepared, by reversing FY 1999 journal vouchers and transactions. These procedures were necessary to obtain reconciliation because CEFMS does not contain subsidiary ledgers. However, the

reconciliation procedures performed for FY 1999 would also become necessary for subsequent years, unless the underlying weaknesses were corrected by implementation of subsidiary ledgers. The creation of journal vouchers and transactions would not be necessary to reconcile CEFMS to material control accounts in the general ledger if subsidiary ledgers were in place.

As a result of not having subsidiary ledgers, CEFMS does not provide an adequate audit trail for tracing a specific transaction from its source to the resulting record in the subsidiary ledger and from the resulting record in the subsidiary ledger back to the source. An adequate audit trail would allow for the verification of the amount recorded.

Table 2. Comparison of Population Dollar Totals for Selected Material Balance Sheet Amounts as of November 26, 2002

Account	Dollar Total Populations	Net Dollar Amount from DDRS ¹ FY 2002 Balance Sheet	Difference ²
CIP ³	\$10,155,063,144	\$10,042,529,840	\$ 112,533,304
Equipment	601,530,690	650,783,394	49,252,704
AR ⁴ -Public	1,177,082,642	922,931,000	254,151,642
AR-Government	249,573,657	528,149,000	278,575,343
AP ⁵ -Public	584,627,450	595,951,682	11,324,232
AP-Government	84,305,992	83,814,682	491,310
Land	<u>5,982,607,539</u>	<u>8,045,799,405</u>	<u>2,063,191,866</u>
Totals	\$18,834,791,114	\$20,869,959,003	\$2,769,520,401

¹Defense Departmental Reporting System
²Absolute value
³Construction-in-Progress
⁴Accounts Receivable
⁵Accounts Payable

Conclusion

The absence of true subsidiary ledgers in CEFMS will, if not corrected, continue to impair the accumulation of data needed for preparing accurate financial statements. The quarterly and year-end reconciliation of general ledger accounts to the supporting data will continue to be excessively difficult if not performed monthly, and the audit trails that are required by the DoD Financial Management Regulation will remain weak. However, a programming change in CEFMS could facilitate the creation of a subsidiary ledger that would include the data from all 61 activities and would support the general ledger account balance at any time. The subsidiary ledger should be in the form of a report that would be available on demand. The result would be easier accumulation of data needed to prepare financial statements, easier reconciliation, and a stronger audit trail.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander, U.S. Army Corps of Engineers, Civil Works:

1. Program the Corps of Engineers Financial Management System to compile complete transaction registers for all U.S. Army Corps of Engineers activities into a single subsidiary ledger for each general ledger account included in a financial statement line item. The subsidiary ledger should also reflect any error corrections at the level of the affected transactions instead of a single, top-level adjustment.

Management Comments. The Commander, USACE nonconcurred with the recommendation, stating that the Corps of Engineers Financial Management System was not designed to, and does not, contain a single enterprise database. The Commander, USACE disagrees that the DoD Financial Management Regulation requires a single, subsidiary ledger for all activities, but agrees that for audit purposes, a single, corporate-level subsidiary ledger would be more useful for the auditors. Currently, subsidiary ledgers are maintained at each of the 61 databases and query capability exists to obtain the needed subsidiary information. USACE also stated that additional reports could be made available that would reflect activities at the enterprise level.

Audit Response. The U.S. Army Corps of Engineers comments are not responsive. Although the DoD Financial Management Regulation does not specifically state that a single subsidiary ledger is required, volume 1, chapter 2, 020204, "General Ledger," does state, "Accounting systems and subsystems or modules shall be fully integrated with the central general ledger." The Corps of Engineers does not have a system that is fully integrated with the central general ledger. Financial information flows from the 61 activities into the general ledger control accounts. The information in the control accounts is then copied to the Corps of Engineers Enterprise Management Information System, which is then uploaded and transferred into the Defense Departmental Reporting System. To ensure the accuracy and integrity of financial statements, or to search for errors, auditors and Corps of Engineers financial managers, must sort through three layers of summarized data to analyze the accounts. Further, we are uncertain how adjustments made at the business unit level will be timely reflected in the financial statements.

The Corps of Engineers comments agree that a single subsidiary ledger would facilitate auditing, and the DoD Financial Management Regulation requires that financial data be readily auditable. Key Accounting Requirement Number 8 states that an audit trail should allow auditors or evaluators to ensure transactions are properly accumulated and correctly classified, coded, and recorded in all affected accounts. This section also states that a compliant accounting system requires that the financial transactions be adequately supported with pertinent documents and source records. Every transaction must be traceable to individual source records.

Our recommendation to program the Corps of Engineers Financial Management System to compile complete transaction registers into a single subsidiary ledger would, if implemented, afford auditors and Corps of Engineers management access to transaction data without delving through layers of summaries. We have not suggested that the Corps of Engineers do away with the individual business unit records. We simply recommend that all of the data be summarized in one location. The Corps of Engineers comments recognize that additional reports to reflect the activities at the enterprise level, in support of the Defense Departmental Reporting System, would be useful. Therefore, we do not understand the Corps of Engineers reluctance to prepare and reconcile subsidiary ledger reports at the enterprise level for the Corps of Engineers Financial Management System. Instead of requiring queries to be written when needed, the Corps of Engineers Financial Management System could have a standard query executed at the close of each accounting period to reflect the general ledger control account balances. This would serve as the subsidiary ledger for each account. Once this is done, the information could be archived for future use. We request that the Corps of Engineers reconsider its position and provide additional comments on the final report.

2. Generate and reconcile the general ledger control accounts to their supporting subsidiary data at the close of each accounting period and maintain a record of the subsidiary ledgers as an audit trail.

Management Comments. The Corps of Engineers concurred and stated that the Corps of Engineers Financial Management System automatically generates 14 reconciliation reports each night. The Corps of Engineers also recognizes the need for additional reconciliations and is currently modifying the Corps of Engineers Financial Management System program to ensure that all accounts payable and all appropriations are reconciled each night.

Audit Response. The Corps of Engineers comments are responsive, however, further clarification is requested. We wish to emphasize the importance of maintaining the reconciliation reports at the end of each accounting period as an audit trail. If the data are not archived to provide an audit trail, then the purpose of Recommendation 2. could be circumvented. We request that the Corps of Engineers provide assurance of its intention to archive the reconciliation reports in comments on this final report.

Appendix A. Scope and Methodology

As part of our effort to determine whether the USACE used subsidiary ledgers as part of its accounting system, we observed a live demonstration of CEFMS processing a transaction from the point of initiation through to the general ledger. We received and reviewed the, “CEFMS Users Manual Asset Management, Section 12, Appendix B,” dated June 6, 2001. We received and reviewed an outline of the live demonstration dated February 13, 2002. We received and reviewed a listing of all the tables in CEFMS as of February 13, 2003, as well as status reports and reconciliation reports dated February 13, 2003. We interviewed officials from the USACE Financial Center, Directorate of Financial Systems Development and Maintenance who were directly involved in the development of CEFMS.

We performed this audit from February 2003 through August 2003 in accordance with generally accepted government auditing standards. We did not review the management control program because the agreed-upon procedures, which were the basis of the audit, did not specify the management control program.

Use of Computer-Processed Data. We used computer-processed data to perform this audit. The information system from which we used computer-processed data is CEFMS. The data from CEFMS was secondary evidence and was used in conjunction with other evidence gathered, which served as a basis for the results, findings, and recommendations of this audit. Prior audit reports concluded that CEFMS general and application controls could not be relied on for transactions affecting the financial statements, and the data were unreliable. However, the lack of reliability of the data did not affect the results of our audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office (GAO) and the Inspector General of the Department of Defense (IG DoD) have each issued two reports related to the U.S. Army Corps of Engineers financial statements. The Army Audit Agency has issued three reports related to the U.S. Army Corps of Engineers financial statements. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov/>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

GAO

GAO Report No. GAO-02-589, "Information Security; Corps of Engineers Making Improvements, But Weaknesses Continue," June 2002

GAO Report No. GAO-01-89, "Financial Management; Significant Weakness in Corps of Engineers Computer Controls," October 2000

IG DoD

IG DoD Report (unnumbered), "U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements," February 20, 2002

IG DoD Report No. D-2001-067, "Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 2000 U.S. Army Corps of Engineers, Civil Works Programs, Financial Statements," February 28, 2001

U.S. Army Audit Agency (AAA)

Audit Report No. AA 01-319, "Corps of Engineers Financial Management System General and Application Controls," June 26, 2001

Audit Report No. AA 01-187, "FY 2000 Financial Statements U.S. Army Corps of Engineers, Civil Works," February 14, 2001

Audit Report No. AA 00-186, "FY 1999 Financial Statements U.S. Army Corps of Engineers, Civil Works," February 18, 2000

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army
Commander, U.S. Army Corps of Engineers

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Unified Commands

Inspector General, U.S. Joint Forces Command

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CEIR (36-2b)

4 November 2003

MEMORANDUM FOR Director, Defense Auditing Service, Inspector General
Department of Defense, 400 Army Navy Drive, Arlington VA 22202.

SUBJECT: Draft Report on the Subsidiary Ledgers at the U.S. Army Corps of Engineers
(USACE)

1. The USACE Command Response to the two draft report recommendations follows:

Recommendation #1: Program the Corps of Engineers Financial Management System to compile complete transaction registers for all U.S. Army Corps of Engineers activities into a single subsidiary ledger for each general ledger account included in a financial statement line item. The subsidiary ledger should also reflect any error corrections at the level of the affected transactions instead of a single, top-level adjustment.

USACE Response: Non-Concur. The Corps of Engineers Financial Management System (CEFMS) is an enterprise system in that it is used throughout the U.S. Army Corps of Engineers (USACE). However, it was not designed to and does not contain a single enterprise database. CEFMS is used for financial management at the USACE basic business unit---a district. We do not believe the DoD FMR requires subsidiary ledgers to be maintained in a single location or on a single database.

We agree that for audit purposes a single corporate level subsidiary ledger that supports the general ledger may make it easier for auditors to review the accounts. A single subsidiary ledger could also facilitate the accumulation of trading partner elimination data. But, we have determined that it is neither necessary nor cost effective to maintain the subsidiary records at that level. Subsidiary ledgers are maintained on each of the USACE sixty-one databases. Query capability exists to "drill down" to the business unit; i.e., district level, subsidiary records to obtain needed information.

CEIR (36-2b)

SUBJECT: DoDIG Draft Report on Subsidiary Ledgers at USACE

Standard queries are maintained and specific queries are written when needed.

Transactions are posted and general ledgers are updated for each business unit daily. CEFMS performs a reconciliation nightly to ensure accountability between the general ledger control accounts and the subsidiary ledgers.

The general ledger control accounts are copied monthly, to the Corps of Engineers Enterprise Management Information System (CEEMIS) for each business unit. The CEEMIS is the repository of compiled financial data that is used to prepare and submit corporate level reports. At the close of each accounting period, the CEFMS Trial Balance is copied into the CEEMIS. For Chief Financial Officer (CFO) reporting, a file is created from the CEEMIS Trial Balance and loaded to a Department of Defense Reporting System (DDRS) import sheet and uploaded to the DDRS. Although CEEMIS has an audit trail for any adjustments to corporate-level data, beginning with the 2nd quarter of FY03, no changes are made to the general ledger trial balance in CEEMIS; any required adjustments are made in DDRS.

Not all adjustments made to the financial statement line items are applicable to a specific business unit. However, if the DDRS adjustments are applicable to a specific business unit or district, we ensure that appropriate transactions are entered in the applicable business unit's CEFMS database. We also believe that additional reports could be made available to be executed on demand from within the CEEMIS that would reflect the activities at the enterprise level in support of the DDRS submission. USACE will identify these types of enhancements for our future design and development of the regional financial management system.

Recommendation #2: Generate and reconcile general ledger control accounts to their supporting subsidiary data at the close of each accounting period and maintain a record of the subsidiary ledgers as an audit trail.

CEIR (36-2b)

SUBJECT: DoDIG Draft Report on Subsidiary Ledgers at USACE

USACE Response: Concur. The CEFMS automatically generates 14 reconciliation reports each night. The reports include numerous formulas and verifications between the subsidiary ledgers and the corresponding General Ledger Accounting Codes for each of the 61 CEFMS databases. We monitor the reconciliations daily and take corrective action to ensure that the database records are corrected or that the software is modified if needed. We maintain the subsidiary to general ledger reconciliations on each CEFMS database to be used as an audit trail. We have identified a need for additional reconciliations. We are currently modifying the CEFMS programs to ensure that all accounts payable and all appropriations are reconciled each night

However, we do not believe corporate level subsidiary ledgers are needed and to maintain ledgers at that level would not be cost effective.

FOR THE COMMANDER


JOHN E. TEMPLETON
Chief Audit Executive

Team Members

The Defense Financial Auditing Service Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul J. Granetto
Richard B. Bird
David F. Vincent
Barbara A. Sauls
Jonathan M. Rabben
Woodrow W. Mack
Ann Thompson