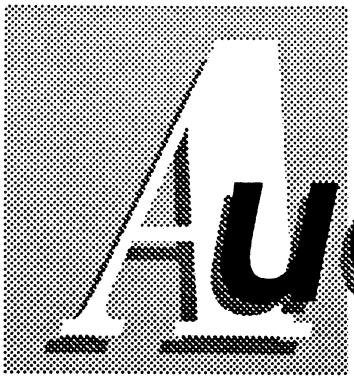

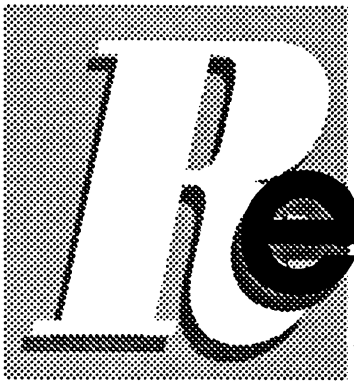

OFFICE OF THE INSPECTOR GENERAL

CORPORATE INFORMATION MANAGEMENT FINANCIAL STATEMENTS

Report No. 96-042 December 11, 1995

Department of Defense

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Acronyms

ASD(C^3I)	Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
CIM	Corporate Information Management
OASD(C^3I)	Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

Report No. 96-042 December 11, 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE)
DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: Audit of Corporate Information Management Financial Statements (Project No. 5RF-6010.08)

Introduction

We are providing this report for information and use. Public Law 103-356, "The Federal Financial Management Act of 1994," title IV, requires Government-wide audited financial statements for FY 1996. In a memorandum, dated June 6, 1995, the DoD Deputy Chief Financial Officer advised DoD Components of the FY 1996 financial statement reporting requirements. The June 6, 1995, memorandum identifies the reporting of Corporate Information Management (CIM) funds as a responsibility of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (ASD[C^3I]). The Washington Headquarters Services provides accounting services for CIM funds to the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (OASD[C^3I]) and is responsible for preparing consolidated financial reports for submission to the Under Secretary of Defense (Comptroller). Enclosure 1 explains the financial responsibilities of the organizations that manage and account for allocated CIM funds.

Audit Results

The FY 1994 CIM Trial Balance,[1] prepared by the Washington Headquarters Services and submitted to the Under Secretary of Defense (Comptroller), omitted CIM funds that the OASD(C^3I) suballocated to the Defense Information Systems Agency and to the Military Departments. However, during the audit, management control procedures were implemented that will assist in producing a complete CIM Trial Balance and auditable CIM financial statements. Specifically, the OASD(C^3I) implemented procedures that will result in all CIM fund suballocations being reported in the CIM Trial Balance. We believe the OASD(C^3I) now has adequate controls to assist the Washington Headquarters Services in preparing complete and auditable FY 1996 financial statements.

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[1]The CIM Trial Balance is a document of the financial transactions from the CIM Central Fund and is used as the basis for preparing the Report on Financial Position (Form 220), a required financial statement.

Audit Objectives

The audit objective was to determine whether the OASD(C^3I) methods for preparing FY 1996 CIM, general-purpose financial statements will result in auditable and complete general-purpose financial statements. We also evaluated the CIM management control program pertaining to preparation of general-purpose financial statements.

Scope and Methodology

Scope and Methodology. We evaluated the OASD(C^3I) ability to produce auditable, general-purpose CIM financial statements for FY 1996 by analyzing the methods the Washington Headquarters Services used for producing the FY 1994 CIM financial statements and the planned methods for producing the FY 1995 CIM financial statements.

To evaluate the Washington Headquarters Services process for preparing FY 1994 CIM general-purpose financial statements, we:

o interviewed responsible OASD(C^3I) officials to identify accounting and reporting responsibilities for CIM funds;

o interviewed responsible Washington Headquarters Services officials to determine specific techniques used to obtain, consolidate, and report financial information; and

o interviewed responsible personnel at the Defense Accounting Office-Pentagon, Defense Information Systems Agency, and Military Departments to determine specific techniques used to report CIM financial information.

To evaluate the planned methods for producing the FY 1995 CIM financial statements, we:

o interviewed responsible OASD(C^3I) officials to determine accounting and reporting responsibilities for CIM funds; and

o interviewed responsible Washington Headquarters Services officials to determine specific techniques used to suballocate CIM funds and planned methods to obtain, consolidate, and report financial information.

Audit Period, Standards, and Locations. This financial-related audit was performed from September through October 1995 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. We did not use computer-processed data or statistical sampling procedures for this audit. Enclosure 2 lists the organizations visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987 requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of OASD(C^3I) management controls related to FYs 1994 and 1995 CIM financial reporting. We did not assess the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. Management controls applicable to FY 1995 CIM financial reporting were deemed to be adequate in that we did not identify a material management control weakness.

Prior Audits and Other Reviews

During the last 5 years, the General Accounting Office issued two audit reports that discuss CIM financial management issues.

General Accounting Office Report No. GAO/AIMD/NSIAD-94-101 (OSD Case No. 9652), "Stronger Support Needed for Corporate Information Management Initiative to Succeed," April 12, 1994. The report states that DoD does not know how much it has spent on CIM efforts. Although DoD reported spending more than $9 billion annually on automated data processing, the portion attributable to CIM is difficult to identify because most CIM efforts have not been centrally funded or tracked. Instead, CIM funds are spent through widely diverse organizations and budgets. The report recommends that the Secretary of Defense require that migration systems[2] be supported by sound economic and technical analyses before implementation, that the costs and benefits of major process and systems improvements be assessed before making investment decisions, and that audits be performed to assess benefits and verify cost benefits obtained. The report further recommends that Principal Staff Assistants establish performance plans with measures that can be used to assess current operations and reengineered processes and to identify costs and cost benefits derived from functional improvements and new systems. All recommended actions have been completed.

General Accounting Office Report No. GAO/IMTEC-92-77 (OSD Case No. 9235), "Defense ADP: Corporate Information Management Must Overcome Major Problems," September 14, 1992. The report states that DoD had not established effective funding controls to implement the CIM initiative. The report states that the Secretary of Defense tasked the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) to work with the Under Secretary of Defense (Comptroller) in developing

[2]An existing information system that has been designated as the single system to support standard processes for a functional activity.

funding procedures that met CIM objectives. Specifically, the procedures should ensure that funds are not obligated to automate business processes before the processes are reengineered and have been approved by the appropriate senior functional official. DoD responded that controls were in place to enable senior functional officials to implement DoD policies. The controls are synopsized in DoD Directive 8000.1, "Defense Information Management Program," October 1992, which tasks the Principal Staff Assistants and the Chairman of the Joint Chiefs of Staff to review funding requirements for information management and information technology programs during planning, programming, and budgeting system activities. Recommended action was completed as of May 26, 1993.

Audit Background

CIM is a DoD management initiative designed to capture the benefits of the information revolution. The four main elements of the CIM initiative follow.

o Functional process improvement focuses on using information technology to redefine functional processes to be more directly aligned with desired results.

o Migration systems are those automated information systems designated for interim use for functional processes on a DoD-wide basis during the transition from numerous existing and nonstandard automated information systems.

o Data administration involves the development and DoD-wide use of standard data definitions and the ultimate establishment of DoD "corporate" data bases.

o The Defense Information Infrastructure encompasses information transfer and processing resources and is envisioned to connect DoD automated information systems for mission support, command and control, and intelligence through voice, data, imagery, video, and multimedia services.

The ASD(C^3I) is responsible for establishing and implementing CIM policy. Individuals within the OASD(C^3I) have specific CIM management responsibilities, but there is no central office designated as responsible for CIM management. Enclosure 1 explains the financial responsibilities of the organizations that manage and account for allocated CIM funds.

Discussion

FY 1994 CIM Financial Statements. The Washington Headquarters Services did not include the FY 1994 CIM suballocations to the Defense Information Systems Agency and the Military Departments in the FY 1994 CIM Trial Balance submitted to the Under Secretary of Defense (Comptroller). In FY 1994, the Defense Information Systems Agency and the Military

Departments represented about 20 percent of the total FY 1994 CIM allocation. The FY 1994 CIM Trial Balance included only the financial transactions from the CIM Central Fund, a suballocation of CIM funds managed directly by the ASD(C^3I).

Allocating CIM Funds. The Under Secretary of Defense (Comptroller) allocates CIM funds by providing the Washington Headquarters Services an Obligation Authority Memorandum, which lists the amounts, by appropriation, that the ASD(C^3I) is authorized to obligate for CIM projects.

Suballocating FY 1994 CIM Funds. In FY 1994, the OASD(C^3I) requested that Washington Headquarters Services suballocate CIM funds to the organizations shown in the following table.

FY 1994 CIM Suballocations

Suffix/Limit Code*	Organization	FY 1994 Funds (millions)
2901	Army	$ 9.8
2902	Air Force	7.7
2904	Navy	1.0
2920	CIM Central Fund	87.8
2943	Defense Information Systems Agency	2.2
Total		**$108.5**

*CIM funds are identified by an allocation suffix/limit code of 29xx.

Management Control of FY 1994 CIM Funds. In FY 1994, the OASD(C^3I) did not have oversight of CIM funds suballocated to the Defense Information Systems Agency and the Military Departments because each suballocation was accounted for in a separate accounting system. Although the ASD(C^3I) received timely budgetary status information on the CIM Central Fund suballocation, the only status reports on the other suballocations came through informal agreements made with the Defense Information Systems Agency and the Military Departments. The Military Departments did not provide timely budgetary status of the funds.

FY 1995 and Subsequent Year CIM Financial Statements. In FY 1995, the OASD(C^3I) implemented procedures to provide complete oversight of CIM funds. Specifically, the OASD(C^3I) established only one suballocation of the FY 1995 CIM allocation--the CIM Central Fund. Because the OASD(C^3I) manages the CIM Central Fund, the OASD(C^3I) has access to complete financial information for all FY 1995 CIM funds, thereby correcting the lack of oversight that existed in FY 1994 for CIM suballocations.

Distributing FY 1995 CIM Funds. In FY 1995, the ASD(C^3I) decided to distribute CIM funds to the Defense Information Systems Agency and the Military Departments as reimbursable work orders from the CIM Central Fund suballocation. The ASD(C^3I) made the decision because the Military Departments were not providing timely suballocation fund status, causing a lack of management control over CIM funds. Distributing CIM funds on reimbursable funding documents rather than suballocating CIM funds results in the entire CIM allocation remaining in a single accounting system, because all transactions are accounted for at the installation level as described in Enclosure 1.

Management Control of FY 1995 CIM Funds. The entire FY 1995 CIM allocation is accounted for as the CIM Central Fund; therefore, the ASD(C^3I) now receives timely status of all CIM fund transactions. As a second control measure, the OASD(C^3I) established a requirement in the reimbursable funding documents that organizations receiving CIM funds send a copy of all obligation documents to the OASD(C^3I) so that specific obligations of CIM funds can be monitored.

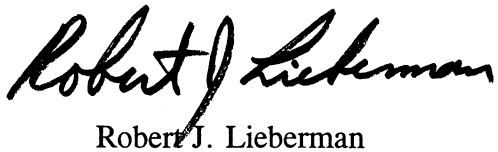
Strengthened Controls to Manage CIM Funds. The OASD(C^3I) revised the method of distributing CIM funds to strengthen management controls. By using reimbursable funding documents, the OASD(C^3I) retains all CIM financial transactions on one accounting system, the Washington Headquarters Services Allotment Accounting System. The system can produce general ledger-based trial balances that can be used to create required financial statements. Also, by receiving copies of obligation documents, the ASD(C^3I) can oversee specific CIM fund obligations.

The actions taken by the OASD(C^3I) to gain improved oversight of CIM fund outlays result in more complete financial statements. The OASD(C^3I) actions provide an excellent example of how good management controls assist in ensuring that financial statements are accurate and complete.

Management Comments

We provided a draft of this report to you on October 27, 1995. Because this report contains no findings or recommendations, comments were not required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9529 (DSN 664-9529) or Mr. Timothy Moore, Auditor, at (703) 604-9544 (DSN 664-9544). Enclosure 3 lists the planned distribution of this report. The audit team members are listed inside the back cover.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Organizations that Manage and Account for CIM Funds

Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). The ASD(C^3I) is responsible for establishing and implementing CIM policy.

Within the OASD(C^3I), the Deputy Assistant Secretary of Defense (Information Management) has overall program responsibilities for CIM, including CIM accomplishments and performance measures. The Deputy Assistant Secretary of Defense (Information Management) is responsible for planning, programming, and budgeting CIM funds.

Also, within the OASD(C^3I), the Deputy Assistant Secretary of Defense (Planning and Resources) is responsible for program review and execution support. The Deputy Assistant Secretary of Defense (Planning and Resources) provides advice on appropriate funding mechanisms and monitors the status of CIM funds.

The Washington Headquarters Services. The Washington Headquarters Services provides intermediate-level budgetary accounting services for the CIM allocation. Intermediate-level budgetary accounts are used to record the receipt of allocations from higher authority and the subsequent issuance of allotments to installation-level activities. The Washington Headquarters Services suballocates the CIM allocation and prepares consolidated, general-purpose financial statements and budget execution reports of the CIM allocation at the end of the fiscal year.

The Defense Accounting Office-Pentagon. The Defense Accounting Office-Pentagon provides installation-level accounting services for the CIM Central Fund. Installation-level budgetary accounts are used to record the majority of day-to-day DoD budget execution transactions, such as:

- o receipt of allotments,
- o commitments,
- o obligations, and
- o reimbursements.

When requested to do so by the ASD(C^3I), the Defense Accounting Office-Pentagon sends out reimbursable funding documents that specify CIM Central Funds.

Other Organizations. The Defense Information Systems Agency and each Military Department provide installation-level accounting services such as recording commitments and obligations for the CIM funds they receive as suballocations.

Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense (Comptroller)
Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Defense Agencies

Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Finance and Accounting Service Center, Cleveland, OH
Defense Finance and Accounting Service Center, Denver, CO
Defense Accounting Office-Pentagon, Washington, DC
Defense Information Systems Agency, Arlington, VA
Washington Headquarters Services, Washington, DC

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