

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

FINANCIAL MANAGEMENT FOR THE OFFICE
OF THE CIVILIAN HEALTH AND MEDICAL
PROGRAM OF THE UNIFORMED SERVICES

Report No. 97-059

December 27, 1996

Department of Defense

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Acronyms

| | |
|----------|--|
| CHAMPUS | Civilian Health and Medical Program of the Uniformed Services |
| FI | Fiscal Intermediaries |
| KAR | Key Accounting Requirement |
| OCHAMPUS | Office of the Civilian Health and Medical Program of the Uniformed Services |
| RAMS | Resource Accounting Management System |

December 27, 1996

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH
AFFAIRS)
DIRECTOR, OFFICE OF THE CIVILIAN HEALTH AND
MEDICAL PROGRAM OF THE UNIFORMED
SERVICES

SUBJECT: Audit Report on the Financial Management for the Office of the Civilian
Health and Medical Program of the Uniformed Services
(Report No. 97-059)

We are providing this audit report for review and comment. This is one of two reports on the financial management at the Office of the Civilian Health and Medical Program of the Uniformed Services. We considered comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we deleted draft Recommendation 1.d. Management comments on Recommendations 1.c. and 2.f. were not responsive. We request that management provide additional comments in response to Recommendations 1.c. and 2.f. We request comments on the final report by February 27, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Judith I. Padgett, Audit Project Manager, at (703) 604-9514 (DSN 664-9514). Appendix C lists the distribution of this report. 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. 97-059

Project No. 6LA-2002

December 27, 1996

Financial Management for the Office of the Civilian Health and Medical Program of the Uniformed Services

Executive Summary

Introduction. The Federal Financial Management Act of 1994, Public Law 103-356, requires DoD to provide the Office of Management and Budget with consolidated financial statements for FY 1996. The Office of Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS), part of the FY 1995 \$12.3 billion Defense Health Program, is one of the entities that DoD will include in its FY 1996 consolidated financial statements. The OCHAMPUS managed and accounted for \$3.9 billion in reimbursable funds and \$79 million in administrative funds in FY 1995.

Audit Objectives. The primary audit objectives were to assess OCHAMPUS internal controls and compliance with laws and regulations. This report discusses the internal controls over transactions, systems, and financial-related reports and statements for the OCHAMPUS proprietary accounts. The report also discusses compliance with relevant laws and regulations.

Audit Results. The OCHAMPUS did not properly process accounting transactions, comply with the Prompt Payment Act, establish and use subsidiary ledgers, make closing entries, and prepare financial reports and statements according to financial regulations. As a result, the FY 1994 monthly trial balances understated the accounts payable and expense accounts by an average of \$72.2 million per month. In addition, the FY 1994 trial balance overstated appropriated capital account by \$329,894, and overstated automated data processing software and the associated accumulated depreciation accounts by \$47,625. Further, the monthly trial balances throughout FY 1995 understated the accounts payable and expense accounts by an average of \$67 million per month. In addition, the FY 1995 trial balance overstated the appropriated capital account by \$329,894, and overstated the automated data processing software and the associated accumulated depreciation accounts by \$358,664.

With improved internal controls and compliance with laws and regulations, OCHAMPUS will produce accurate and reliable financial data that decisionmakers can use.

Summary of Recommendations. We recommend that the Director, OCHAMPUS, clearly assign accounting responsibilities, separate accounting duties, supervise accounting staff, establish general ledger and financial statement training, and document accounting policies and procedures. We also recommend that the Director, Acquisitions and Administration Directorate, OCHAMPUS, initiate additional accounting and control procedures, adjust accounting records, and establish and maintain subsidiary ledgers.

Management Comments. The Office of the Assistant Secretary of Defense (Health Affairs) concurred with recommendations to assign accounting responsibilities, separate accounting duties, supervise accounting staff, initiate additional accounting and control procedures, and adjust accounting records. Health Affairs stated that the planned actions would be complete by the end of the second quarter, FY 1997. Health Affairs nonconcurred with the recommendation to establish a program to train staff in preparing reportable financial data, stating that it had an ongoing professional education program. In addition, Health Affairs nonconcurred with the recommendation to write off uncollectible recoupments because identifying uncollectible recoupments that had not reached the 10-year statutory limit would not be cost-effective. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. Most of the comments from Health Affairs were responsive. As a result of the comments, we deleted the draft report recommendation to assign qualified staff to develop financial reporting procedures. We request additional information regarding the professional education program described by Health Affairs. Health Affairs comments on the recommendation to write off uncollectible recoupments and on the material internal control weakness were also not responsive. We believe that the recoupments receivable reported for financial purposes should represent the recoupments that are likely to be collected, not the recoupments that must be tracked until a 10-year statutory period expires. We request that the Assistant Secretary of Defense (Health Affairs) reconsider its position and provide additional comments in response to the unresolved issues by February 27, 1997.

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Part I - Audit Results

Audit Background

Mission of the Civilian Health and Medical Program of the Uniformed Services. DoD Directive 5105.46, "Civilian Health and Medical Program of the Uniformed Services," December 4, 1974, established the Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS) to administer and manage the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). OCHAMPUS is a DoD field activity that operates under the direction of the Office of the Assistant Secretary of Defense (Health Affairs).

The CHAMPUS provides health and medical benefits for eligible active duty dependents, retired service members and their dependents, and surviving dependents of deceased active-duty personnel in the Military Departments. CHAMPUS also provides the same services to four non-DoD agencies (the National Oceanic and Atmospheric Administration, the Office of Health and Safety, the Public Health Administration, and the Veterans Administration).

The Director, OCHAMPUS, has responsibility for organizing and managing OCHAMPUS to include contract award and administration and financial accounting for CHAMPUS health and medical care. The Finance and Accounting Branch, under the Director, Acquisitions and Administration Directorate, has direct responsibility for the OCHAMPUS accounting function. In FY 1995, OCHAMPUS managed and accounted for \$4 billion of Defense Health Program funds.

Funding for OCHAMPUS. The Defense Health Program appropriation is an annual Operation and Maintenance appropriation used to fund OCHAMPUS and CHAMPUS requirements along with other programs. DoD allocates Defense Health Program funds as either direct or reimbursable programs. The OCHAMPUS receives direct funds for obligations and expenditures to carry out its administrative functions. In FY 1995, OCHAMPUS received \$79 million to fund administrative requirements. The CHAMPUS program requirements are reimbursable obligations. The Military Departments and non-DoD agencies reimburse OCHAMPUS for payments that OCHAMPUS makes on their behalf for health care costs. In FY 1995, OCHAMPUS obligated \$3.9 billion to support reimbursable requirements, \$3.8 billion for the Military Departments and \$120 million for the non-DoD agencies.

Financial Statement Requirements. Public Law 101-576, "The Chief Financial Officers Act of 1990," established requirements for Federal Government organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year for submission to the Office of Management and Budget. The OCHAMPUS financial statements will be included in the DoD consolidated financial statements for FY 1996.

General Ledger Requirements. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD Financial Regulation), volume 1, chapter 7, "Department of Defense Standard General Ledger," May 1993, prescribes guidelines and policies for the DoD approved general ledger account structure. The general ledger account structure is applicable to all DoD accounting systems, for all appropriations and funds, and includes both budgetary and proprietary accounts. Table 1 shows the general ledger account structure.

| Table 1. General Ledger Account Structure | |
|--|------------------------------|
| <u>Account Series</u> | <u>Account</u> |
| 1000 Series | Assets |
| 2000 Series | Liabilities |
| 3000 Series | Equity |
| 4000 Series | Budgetary |
| 5000 Series | Revenue |
| 6000 Series | Expense |
| 7000 Series | Gains, losses, miscellaneous |

All account series, except the 4000 series, are proprietary accounts. The DoD general ledger account structure consists of the accounts DoD Components use to prepare budgetary reports and general purpose financial statements. Budgetary reports, which are derived from the 4000 series accounts, primarily provide a status of appropriated funds, while general purpose financial statement reports, derived from all other account series, primarily show the status and use of an organization's financial resources.

Automated General Ledger System. The OCHAMPUS uses the Resource Accounting Management System (RAMS) to record and report financial information. Data are entered into RAMS manually, by uploading computer files, and by interfacing with related management systems. RAMS provides the general ledger for OCHAMPUS budgetary and proprietary accounts.

Audit Objectives

The overall audit objectives were to determine whether OCHAMPUS implemented effective internal controls and complied with laws and regulations. We reviewed the OCHAMPUS financial accounting system and related management controls to determine whether the OCHAMPUS financial accounting system can produce reliable information necessary to prepare financial statements required by the Chief Financial Officers Act. Appendix A discusses the audit scope and methodology and the review of the management control program. Appendix B provides details on related prior audits and other reviews.

Accounting for and Reporting Financial Activity

The OCHAMPUS did not properly:

- o identify, classify, and record accounting transactions;
- o comply with the Prompt Payment Act;
- o establish, maintain, and periodically reconcile subsidiary ledgers;
- o make closing entries; and
- o prepare reportable financial data in accordance with regulations.

Those conditions occurred because OCHAMPUS did not have internal controls in place to clearly define duties and responsibilities, separate duties and responsibilities, supervise staff, train staff, provide written procedures, and promptly correct processing and system irregularities.

As a result, the OCHAMPUS trial balances for FYs 1994 and 1995 were inaccurate and unreliable. For instance, the FY 1994 monthly trial balances understated the accounts payable and expense accounts by an average of \$72.2 million per month. In addition, the FY 1994 trial balance overstated the appropriated capital account by \$329,894, and overstated the automated data processing software and the associated accumulated depreciation accounts by \$47,625. Further, the FY 1995 monthly trial balances understated the accounts payable and expense accounts by an average of \$67 million per month. The FY 1995 trial balance overstated the appropriated capital account by \$329,894, and overstated automated data processing software and the associated accumulated depreciation accounts by \$358,664.

DoD Guidance on Accounting for and Reporting Financial Activity

The link between the Chief Financial Officers Act requirements and the general ledger account structure is evident in the following DoD guidance.

DoD Financial Regulation, volume 1, chapter 2, "Conceptual Framework," May 1993, states that general ledger accounts shall be the source of annual financial statements submitted to the Department of Treasury.

DoD Directive 7220.9-M, "DoD Accounting Manual," chapter 94, "General Purpose Financial Statements," October 1983, prescribes procedures for preparing annual financial statements for appropriated funds and provides guidance for preparing general purpose financial statements.

Identifying, Classifying, and Recording Accounting Transactions

The OCHAMPUS accounting staff of 10 personnel in the Acquisition and Administration Directorate did not properly identify, classify, and record accounting transactions.

Identifying Accounting Transactions. In FYs 1994 and 1995, the OCHAMPUS accounting staff did not identify an average per month of \$72.2 million and \$67 million, respectively, of liabilities (accounts payable) and expenses. The unrecorded liabilities and expenses, which were for the majority of the direct program and part of the reimbursable program, required manual entry for accrual in the accounting records. Although RAMS had transaction codes for accruals, the OCHAMPUS accounting staff recorded expenses when it made disbursements rather than when it incurred the liabilities and expenses. Thus, OCHAMPUS did not correctly record its liabilities and expenses in the general ledger accounts and understated liabilities and expenses in the trial balances at monthend and yearend.

Classifying and Recording Accounting Transactions. The OCHAMPUS accounting staff improperly recorded a number of negative entries into the RAMS general ledger accounts. The accounting staff also accounted for OCHAMPUS property improperly by incorrectly recording additions and deletions of property and misclassifying the property in the accounting records.

Negative Entries. The OCHAMPUS accounting staff did not record the proper accounting transaction for an undetermined amount paid to and due back from contractors. When OCHAMPUS issued a contract modification that decreased the amount to be paid to a contractor, the OCHAMPUS procedure was to record a negative Accounts Payable instead of establishing a Refunds Receivable for the funds a contractor owed. Using negative entries to offset Accounts Payable balances instead of debiting Refunds Receivable (account 1316) to record uncollected refunds did not comply with the DoD Financial Regulation, volume 4, chapter 3, "Receivables," January 1995. According to the DoD Financial Regulation, a receivable should be recorded when management determines that resources should be recovered from a Defense contractor and the contracting officer issues a demand for payment. By using the current method to record transactions, OCHAMPUS understated Refunds Receivable by an undetermined amount.

Accounting for Property. The OCHAMPUS accounting staff improperly accounted for property in several ways. They recorded additions of property, valued at \$329,894, by increasing the Property account and the

Appropriated Capital account (account 3100)¹. Additions of property normally should be recorded by increasing the Property account and either the Accounts Payable or Funds Disbursed accounts. Also, the Property and Accumulated Depreciation accounts included six fully depreciated items, acquisition value of \$358,664, that OCHAMPUS had sent to disposal.

In addition, the OCHAMPUS staff inappropriately classified its \$2.7 million in computer equipment, \$2.5 million in accumulated depreciation, and \$0.3 million in depreciation expenses. OCHAMPUS owns property that is primarily computer hardware with software that is incorporated into the hardware, and no longer individually identifiable. According to the DoD Financial Regulation, volume 4, chapter 6, "Fixed Assets," computer software that is integrated into hardware and loses its identity as software should be capitalized and recorded as Equipment in Use (account 1762). OCHAMPUS should have recorded its computer hardware and software in Equipment in Use (account 1762), accumulated the depreciation in Accumulated Depreciation on Military Equipment (account 1769), and recorded the depreciation expense in Depreciation of Equipment (account 6125). However, OCHAMPUS recorded its computer hardware and software, and the associated hardware and software depreciation in the Automated Data Processing Software account (account 1830), the Amortization of Leasehold Improvements and Other Intangible Assets account (account 6128), and the Accumulated Depreciation for Automated Data Processing Software account (account 1839).

Another property classification error that OCHAMPUS staff made was to account for computer equipment in the Operation and Maintenance records (limitation code² 1886) instead of the Procurement records (limitation code 1876), even though OCHAMPUS purchased the equipment with Procurement funds.

Complying With the Prompt Payment Act

The OCHAMPUS did not comply with the Prompt Payment Act. Specifically, OCHAMPUS did not always make timely payments nor recognize and make required interest payments.

¹Appropriated Capital is the proprietary equity account used to record the use of funds that Congress makes available. The amounts recorded in this account include appropriations and withdrawals. Operating expenses incurred and revenues earned are closed into the appropriated capital account at the end of each reporting period.

²A limitation code is a four-digit suffix to an appropriation number used to identify a subdivision of funds within an appropriation. The Office of the Assistant Secretary of Defense (Health Affairs) allocates funds using limitation codes.

Prompt Payment Act. The OCHAMPUS accounting staff did not comply with the Prompt Payment Act, which requires Government organizations to pay invoices on time. For example, in February 1995, OCHAMPUS paid \$70,591 in interest charges due to a late payment made 59 days after receipt of a \$10.9 million invoice.

The payment procedures in February 1995 had the accounting branch send the original DD Form 250, which served as both invoice and receiving report, to the contracting branch for review, then to the contracting office representative of the contractor for signature. That procedure did not allow tracking the forms because the original was out for signature. If routing the original DD Form 250 for review and signature and returning it to the accounting branch for payment took longer than 30 days, the payment period required by the Prompt Payment Act would expire and significant interest charges could accrue.

The OCHAMPUS personnel stated that after February 1995, they corrected the late payment problem by implementing new payment procedures. However, written procedures were not available from the accounting staff. In June 1995, OCHAMPUS paid another \$24,796 in interest charges when the accounting staff did not process 19 contract modifications timely.

Recognizing Interest Expenses. The OCHAMPUS accounting staff did not always make interest penalty payments to their contractors. According to the Prompt Payment Act, agencies must pay late payment interest penalties regardless of whether the contractor has requested payment of such a penalty. Out of a judgmental sample of 25 FY 1995 paid invoices from one contract, the accounting staff did not pay on time 4 invoices, valued at \$5.7 million. They also did not pay \$4,904 in interest charges on two of those invoices.

Establishing, Maintaining, and Reconciling Subsidiary Accounts or Ledgers

The OCHAMPUS did not establish and maintain adequate subsidiary accounts in the general ledger as required by the DoD Financial Regulation. The OCHAMPUS Finance and Accounting Branch staff, Acquisition and Accounting Directorate, and the Case Recoupment Branch staff, Office of General Counsel, established one subsidiary ledger and no subsidiary accounts to support one of multiple categories of Refunds Receivable. The subsidiary ledger that the Case Recoupment Branch established, Case Recoupments³ Due to OCHAMPUS, was not reconciled to the general ledger Refunds Receivable balance.

³Case recoupment. A refund due the U.S. Government that has arisen from an overpayment to a beneficiary or a health care provider (i.e., an account or refund receivable).

The DoD Financial Regulation, volume 1, chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," which is based on the General Accounting Office, Office of Management and Budget, and U.S. Treasury standards for accounting systems, establishes 13 key accounting requirements (KARs) that systems must meet. The first and third KAR apply to accounts receivable. The first KAR specifies that control and subsidiary accounts be listed and identified by name and account number. It further specifies that subsidiary accounts be reconciled to the control account monthly. The third KAR specifies that all accounts receivable (any public indebtedness to the U.S. Government) be recorded accurately and promptly.

Establishing and Maintaining Subsidiary Accounts or Ledgers. The Refunds Receivable account summarized case recoupments due to OCHAMPUS, case recoupments due to fiscal intermediaries (FIs)⁴, travel advances, and at least six other categories of Refunds Receivable.

Establishing Subsidiary Accounts or Ledgers. The OCHAMPUS established a subsidiary ledger on an independent system only for case recoupments due to OCHAMPUS. The general ledger system, RAMS, had no subsidiary accounts to record the other categories of data.

For example, the FIs reported to OCHAMPUS case recoupments that were due them. Those recoupment cases were not recorded in subsidiary accounts or ledgers that identified the sources of the Refunds Receivable. The Case Recoupment Branch, which was responsible for recoupments that were due OCHAMPUS and maintained a subsidiary ledger of those recoupments, was not informed regarding the number and dollar value of the cases the FIs were processing. The Case Recoupment Branch was aware of cases that the FIs processed only when the FIs forwarded the cases to OCHAMPUS for collection. Table 2 illustrates the number and dollar value of the recoupment cases that the FIs were processing for a 3-month period.

| <u>Month/Year</u> | <u>Number of Cases</u> | <u>Value</u> |
|-------------------|------------------------|--------------|
| January 1996 | 6,390 | \$7,543,905 |
| February 1996 | 6,202 | 6,286,458 |
| March 1996 | 6,373 | 7,740,232 |

⁴Fiscal intermediary. A contractor employed by OCHAMPUS to receive and pay beneficiary claims. The FI then summarizes the claims and submits them to OCHAMPUS for reimbursement plus a fee.

Maintaining Subsidiary Accounts or Ledgers. The OCHAMPUS did not maintain the Refunds Receivable account as a whole by aging (determining how long each account was unpaid) case recoupments owed to FIs, travel advances, and the other six categories of Refunds Receivable monthly and writing-off those receivables they were unlikely to collect. However, the OCHAMPUS did age the case recoupments owed to OCHAMPUS monthly. The case recoupments owed to OCHAMPUS aging included the number and dollar value of cases, categorized by age and debt collection status.

According to personnel in the Case Recoupment Branch, they concentrated collection efforts on newer case recoupments owed to OCHAMPUS because they were understaffed. As of February 26, 1996, the Case Recoupment Branch had opened 963 recoupment cases of the 1,931 recoupment cases over 3 years old that they had received.

Reconciling Subsidiary Ledgers to General Ledger. The OCHAMPUS accounting staff and the Case Recoupment Branch staff did not reconcile the subsidiary ledger, Case Recoupments Due to OCHAMPUS, to the general ledger control accounts. The Case Recoupment Branch tracked cases in the OCHAMPUS case recoupments database for up to 10 years, as required by United States Code, title 31, section 3716, "Administrative Offset." On March 31, 1996, the Case Recoupments Monthly Activity Report showed a balance of 2,541 open cases, valued at \$15.2 million. The RAMS database included case recoupments owed to OCHAMPUS in its Refunds Receivable general ledger control account. As of March 31, 1996, the RAMS report, "Case Recoupment Principle Report," showed that the general ledger balance in the Refunds Receivable account included \$8.7 million in case recoupments due to OCHAMPUS. Recoupment cases covering 4 years, valued at approximately \$6.5 million, could not be reconciled because the RAMS database contained data for only 6 years.

The OCHAMPUS Case Recoupment Branch staff had not physically reconciled the inventory of case recoupment files to the case recoupment database. The Case Recoupment Branch staff had no assurance that the case recoupments tracked in the database had documentary support in the case files. Each case recoupment file received an identification number; however, the staff did not have to sign out or use the files at a central control point. Without reconciliation of case recoupments and file controls, a file could be lost, misplaced, or otherwise disposed of without detection, thus jeopardizing collection of case recoupments.

Making Closing Entries

The OCHAMPUS accounting system did not perpetuate the balances of equipment and depreciation from the end of one fiscal year to the beginning of the next. RAMS maintained accounts by funding year within each limitation

code (31886, 41886, 51886). At the end of each fiscal year, OCHAMPUS closed out the equipment and depreciation accounts to Appropriated Capital and reopened them at the beginning of the next fiscal year under the new funding year limitation code.

The DoD Financial Regulation, volume 1, chapter 2, requires computer programs to provide for the perpetuation of closing balances at the end of a period as the opening balances of the next period. That requirement applies to asset, liability, and capital accounts. The regulation specifically states that the balances must not be reconstructed at the beginning of each fiscal year.

Preparing Reportable Financial Data

The OCHAMPUS did not correctly prepare reportable financial data. The OCHAMPUS accounting staff prepared the FY 1995 financial data to submit to the Defense Finance and Accounting Service-Indianapolis using budgetary accounts as the data source. OCHAMPUS personnel stated that RAMS was not programmed to produce information needed to develop accurate trial balances. For example, the RAMS general ledger at OCHAMPUS did not have Appropriated Capital Used (account 5700), which OCHAMPUS was required to report. To meet the Defense Finance and Accounting Service financial reporting requirements, OCHAMPUS accounting staff used the balances of budgetary accounts to manually compute the balance for the Appropriated Capital Used account and the Appropriated Capital (account 3100) account. The methodology used to manually compute account balances was not completely documented or supported.

Internal Controls Needed at OCHAMPUS

The OCHAMPUS management needed to initiate or improve internal controls over financial accounting and reporting.

Defining Duties and Responsibilities. The OCHAMPUS management had not clearly assigned responsibility for creating and maintaining all subsidiary accounts. In addition, the Case Recoupment Branch staff and the Finance and Accounting Branch staff each believed reconciliation of the OCHAMPUS case recoupments was the responsibility of the other. With the assignment of the subsidiary ledger and the general ledger to different branches, the reconciliation responsibilities must be explicitly assigned.

Separation of Duties. At OCHAMPUS the duties of the Chief, Finance and Accounting Branch, Acquisition and Administration Directorate, included:

- o authorizing payments as a certifying officer;
- o recording, reviewing, and adjusting accounting transactions;
- o making decisions regarding the trial balance preparation process; and
- o preparing end-of-year financial reports.

The Comptroller General publication, "Standards for Internal Controls in the Federal Government," (Standards for Internal Controls), June 1, 1983, stipulate that key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals. However, OCHAMPUS did not comply with the Comptroller General internal control requirement.

Supervision of Staff. No manager or supervisor reviewed the Report on Financial Position prepared by the Chief, Finance and Accounting Branch, at OCHAMPUS. The Standards for Internal Controls require that supervisors continuously review and approve the assigned work of their staffs as a means of controlling work assignments and ensuring quality results.

Training for Trial Balance Preparation. The OCHAMPUS did not have adequate internal controls to ensure its accounting records were reliable and its trial balances were prepared correctly because OCHAMPUS personnel had not been adequately trained in general ledger and trial balance preparation. The accounting staff stated that they had not received training on the relationships between the general ledger and the summary data in the trial balance and other financial reports. In some cases, they pieced together the data based on the account title.

Procedures for Preparing Reportable Financial Data. The OCHAMPUS did not have written procedures for preparing reportable financial data. The staff that prepared the financial data did not follow DoD guidance concerning the use of proprietary general ledger accounts as the source. The staff also did not document the procedures it used to derive financial information for reporting to the Defense Finance and Accounting Service-Indianapolis. Without written procedures for financial reporting, OCHAMPUS accounting staff could not ensure managers and outside decisionmakers that financial reports were prepared properly and consistently.

Correcting Process and System Irregularities. The OCHAMPUS accounting staff did not promptly correct irregularities that they identified in the accounting records, procedures, or system. OCHAMPUS accounting personnel did not correct the chart of accounts, the limitation code, accrual accounting procedures, and exception report procedures.

Accounting for and Reporting Financial Activity

Chart of Accounts. The OCHAMPUS accounting system did not have the complete DoD standard chart of accounts. The accounting staff stated that the U.S. Treasury had recently updated the governmental chart of accounts and believed that DoD would also update its chart of accounts. OCHAMPUS was therefore waiting for the new guidance from DoD before updating the OCHAMPUS chart of accounts.

Use of Limitation Code. The OCHAMPUS accounting staff recorded automated data processing equipment and its related depreciation in limitation code 1886, Operation and Maintenance, even though OCHAMPUS purchased the equipment with Procurement funds. The accounting staff stated that the equipment and depreciation accounts were mistakenly established in limitation code 1886 accounting records. At yearend, however, OCHAMPUS reported the balances for those accounts in the correct limitation code for Procurement, limitation code 1876. OCHAMPUS had not changed the accounting records as of May 1996.

Accrual Accounting. The OCHAMPUS did not correctly account for the accrual of direct and part of the reimbursable program expenses. The Chief, Finance and Accounting Branch, stated that OCHAMPUS did not have adequate resources of time and personnel to perform that function.

Exception Reports. The RAMS produces exception reports that identify out-of-balance accounts. OCHAMPUS accounting staff was not using those reports to identify and correct errors. The Chief, Finance and Accounting Branch, stated that the accounting staff did not consistently use the reports because of time constraints.

Accuracy and Reliability of FYs 1994 and 1995 Trial Balance Information

The OCHAMPUS FYs 1994 and 1995 trial balance information was inaccurate and unreliable as a result of the inadequate internal controls.

Accounts Payable and Expenses. A judgmental sample of transactions from Funds Disbursed (account 1012) for the last month of each quarter in FY 1994 and the first month of each quarter in FY 1995, showed that direct and reimbursable program expenses were not always accrued during FYs 1994 and 1995. Specifically, liabilities (accounts payable) and expense accounts were not accrued (see Table 3).

Table 3. Accrued Direct and Reimbursable Liabilities and Expenses

| <u>Fiscal Year</u> | <u>Expenses Paid and Not Previously Accrued (millions)</u> | <u>Total Expenses Paid (millions)</u> | <u>Percent of Liabilities Understated</u> |
|------------------------|--|---|---|
| FY 1994 Direct | \$ 12.6 | \$ 16.6 | 75.9 |
| FY 1994 Reimbursable | <u>276.1</u> | <u>1,200.0</u> | 23.0 |
| Total | \$288.7 | \$1,216.6 | |
| Monthly Average | \$ 72.2 | | |
| FY 1995 Direct | \$ 22.0 | \$ 24.8 | 88.7 |
| FY 1995 Reimbursable | <u>246.0</u> | <u>1,100.0</u> | 22.4 |
| Total | \$268.0 | \$1,124.8 | |
| Monthly Average | \$ 67.0 | | |

Whenever OCHAMPUS received goods or services, it should have recorded the liability (payment owed to the contractor) as an accounts payable and the cost of the goods or services as an expense. Because OCHAMPUS did not accrue direct and reimbursable program liabilities and expenses consistently, the related accounts payable and expense accounts for FYs 1994 and 1995 were understated by an average of \$72.2 million and \$67 million, respectively, per month.

Appropriated Capital. The OCHAMPUS FY 1994 trial balance overstated the Appropriated Capital account by \$329,894 because it recorded additions of property as increases to the Appropriated Capital and property accounts.

Property. At the end of FY 1994, the OCHAMPUS trial balance overstated Automated Data Processing Software and Accumulated Depreciation for Automated Data Processing Software accounts by \$47,625 because the accounting records included two fully depreciated and disposed of items. At the end of FY 1995, the OCHAMPUS trial balance and accounting records included four additional depreciated, disposed of assets for an overstatement of \$358,664.

Refunds Receivable. The Refunds Receivable account balance was understated by approximately \$6.5 million of case recoupments, based on the 4-year period between the RAMS records and the OCHAMPUS Case Recoupment System records. Further, on March 31, 1996, the combined amounts reported as case recoupments owed to OCHAMPUS (\$8.7 million) and case recoupments owed to FIs (\$7.7 million) exceeded the total shown in the Refunds Receivable account (\$10.8 million), where both should be recorded, by \$5.6 million, resulting in another understatement. An additional understatement, which could not be determined, was due to negative entries to the Accounts Payable account.

Materiality and Impact on Financial Statements

As a result of inadequate internal controls, OCHAMPUS could not produce accurate and reliable financial data for the FY 1996 financial statements. If OCHAMPUS cannot produce accurate financial data, Government decisionmakers could be misled.

Accounting Requirements. The DoD Financial Regulation, volume 1, chapter 3, provides 13 KARs that systems must reasonably comply with to meet standards established by the General Accounting Office, the Office of Management and Budget, the Department of the Treasury, and the DoD. OCHAMPUS did not comply with the following KARs.

KAR 1. KAR 1 states that an accounting system must have a general ledger control and maintain the DoD-approved account structure. It must list both control and subsidiary general ledger accounts and reconcile the two at least monthly.

KAR 2. KAR 2 states that an accounting system must show the procurement, receipt, control, and disposition of property and equipment in quantitative and monetary terms.

KAR 3. KAR 3 states that accounts receivable should be recorded accurately and promptly.

KAR 5. KAR 5 states that financial transactions and events must be recognized as they occur so accrual accounting must be used.

KAR 7. KAR 7 states that an accounting system must have adequate internal controls to prevent, detect, and correct errors and irregularities that may occur throughout the system.

KAR 9. KAR 9 states that an accounting system should ensure timely payments and that the procedures must comply with the Prompt Payment Act.

KAR 12. KAR 12 states that an accounting system should have the accuracy, quality, reliability and responsiveness to satisfy user reporting requirements.

Calculating Material Deficiency. The DoD Financial Regulation, volume 1, chapter 3, defines a material deficiency as:

- o loss of control of over 5 percent or more of measurable assets. For example, when 5 percent of disbursements are not distributed.

- o impairment of the DoD mission. For example, maintaining memorandum records because official records cannot be relied upon, or using excessive overrides and work arounds to make the system work.

At March 31, 1996, the OCHAMPUS Refunds Receivable account reported a total balance of \$10.8 million. Applying the materiality criteria of 5 percent to the Refunds Receivable account would mean a material deficiency would occur if an imbalance of \$0.5 million or more was identified.

Material Deficiency in General Ledger. The OCHAMPUS estimated understatement of Refunds Receivable in the general ledger as of March 31, 1996, was at least \$6.5 million. In addition, OCHAMPUS had a cumulative effect of noncompliance with the KARs and used work arounds to prepare the trial balances that it submitted for FY 1995. As a result of those factors, the internal control structure was materially deficient.

Both DoD and Congress require accurate and reliable financial information for use in decisionmaking. OCHAMPUS needed to improve its internal controls and produce reliable financial information to support reasonable financial and operational decisions.

Management Comments on the Finding and Audit Response

Management Comments. In addition to commenting on the recommendations, the Office of the Assistant Secretary of Defense (Health Affairs) provided a consolidated response for OCHAMPUS and Health Affairs. The following is a summary of Health Affairs' comments on the finding.

Health Affairs partially concurred with the finding. It stated that budgetary accounts were not used for all information submitted to the Defense Finance and Accounting Service-Indianapolis, only for the Appropriated Capital Used and the Appropriated Capital accounts. Health Affairs also stated that the accounting staff did not need training on the relationships between general ledger and the trial balance and other financial reports because the accounting staff included registered accountants who receive ongoing professional training. Also, Health Affairs stated that the Property and the Accumulated Depreciation accounts did not include six disposed of assets because the six assets were never recorded in the accounting system.

Health Affairs disagreed that the deficiencies reported were material because legislation and DoD financial management regulations dictate the different retention periods for tracking and accounting for Recoupments Receivable. Health Affairs added that DoD Financial Management directives allow management to determine the extent of subsidiary accounts necessary and that the Recoupments Receivable subsidiary ledger materially complies with the KARs, in particular KAR 12.

Audit Response. We agree that budgetary data were not the basis for all information submitted to the Defense Finance and Accounting Service-Indianapolis; however, Operating Expenses account (account 6100) and the Cost of Goods Sold account (account 6500) were also computed based on budgetary

data. OCHAMPUS computed the trial balance amounts because the transaction codes to record expenses in the RAMS could not distinguish between the direct and reimbursable program expenses, as necessary.

We agree that the accounting staff did not specifically state that it needed training on the relationships between the general ledger and the trial balance and other financial reports. We believe training would be beneficial because the accounting staff discussed its lack of training in financial accounting issues during interviews we held in March 1996.

The Property and the Accumulated Depreciation accounts did include six fully-depreciated, disposed of assets. We based that conclusion on a reconciliation of the property records to the balance maintained by RAMS and reported on the trial balance. Without the six assets, the RAMS and the trial balance will not reconcile to the property records.

We believe the cumulative effect of noncompliance with the KARs and misstatement of account balances in the trial balance and general ledger constitute a material deficiency. Our conclusion was not predicated on reconciling the 4-year difference between the recoupments receivable maintained for accounting purposes and legislative purposes nor was it limited to FY 1995 financial statements. See Appendix A for the periods and documents in the scope of the audit.

Setting aside the \$6.5 million attributable to the 4-year difference, the Refunds Receivable account, valued at \$10.8 million on March 31, 1996, did not reconcile to the total of case recoupments owed to OCHAMPUS per RAMS (\$8.7 million) plus case recoupments owed to FIs (\$7.7 million). Each of the reports from which those amounts were taken had "as of" dates of March 31, 1996, so timing differences should not be a factor.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of management comments, we deleted draft report Recommendation 1.d. and renumbered draft report Recommendation 1.e. In addition, we renumbered erroneously duplicated draft report Recommendations 2.e., 2.f., and 2.g.

1. We recommend that the Director, Office of Civilian Health and Medical Program of the Uniformed Services:

a. Assign the responsibilities for establishing, maintaining, and reconciling subsidiary ledgers to general ledger accounts.

b. Establish supervisory review procedures for significant financial reports.

Management Comments. The Office of Health Affairs concurred with the recommendations. It stated that the Finance and Accounting Officer will assign reconciliation duties for subsidiary ledgers and the Chief, Resource Management Division will review significant reports before they are submitted. Health Affairs will complete action, including a standard operating procedure, by the end of the second quarter, FY 1997.

c. Establish a continuing professional education program to train employees assigned to prepare reportable financial data in the proprietary general ledger account structure.

Management Comments. The Office of Health Affairs nonconcurred with the recommendation. It stated that the Resource Management Division already provides ongoing professional training, such as Appropriation Law and U.S. Government Standard General Ledgers.

Audit Response. Although the Office of Health Affairs nonconcurred, it listed courses that the staff had attended in the past months that appear to be a sound basis for ongoing professional training. Because OCHAMPUS staff commented about lack of training and asked the auditors about sources for Government financial statement training during interviews held in March 1996, we concluded that financial statement training would be beneficial. In response to the OCHAMPUS staff comments regarding training, the audit team sent financial statement standards, regulations on form and content, and a list of financial statement courses to OCHAMPUS staff. We request that management provide the names and dates of recent professional training in response to the final report.

d. Establish procedures to identify, document, and timely correct irregularities in the accounting records or processes.

Management Comments. Management concurred with the recommendation. It stated that the Resource Management Division will include correcting irregularities in the standard operating procedure to be completed by the end of the second quarter, FY 1997.

2. We recommend that the Director, Acquisitions and Administration Directorate, the Office of Civilian Health and Medical Program of the Uniformed Services:

a. Establish procedures to identify, classify, and record accruals of direct and reimbursable program liabilities and expenses as they occur, refunds owed by contractors as accounts receivable, and additions of property by increasing the Property account and either Accounts Payable or Funds Disbursed accounts and dispositions of property by decreasing the Property and Accumulated Depreciation accounts.

Accounting for and Reporting Financial Activity

Management Comments. Management concurred with the recommendation. It stated that the Resource Management Division will include identifying, classifying, and recording accruals in the standard operating procedure to be completed by the end of the second quarter, FY 1997.

b. Adjust and report the balances for automated data processing equipment and its related depreciation in the appropriate Procurement accounts instead of Operation and Maintenance accounts.

Management Comments. Management concurred with the recommendation. It stated that the FY 1996 yearend reports correctly reported automated data processing equipment in the appropriate procurement accounts. In addition, OCHAMPUS accounting staff made correcting entries to RAMS in September 1996.

c. Comply with the Prompt Payment Act to make timely payments and pay interest penalties when they occur.

Management Comments. Management concurred with the recommendation. Health Affairs stated that OCHAMPUS currently complies with the Prompt Payment Act. In addition, OCHAMPUS will include Prompt Payment procedures in standard operating procedures to be completed by the end of December 1996.

d. Establish, maintain, and reconcile subsidiary ledger accounts monthly as required by DoD Regulation 7000.14-R, volume 1.

Management Comments. Management partially concurred with the recommendation. Health Affairs stated that the OCHAMPUS Finance and Accounting Officer will establish and reconcile subsidiary ledgers and assign maintenance responsibilities for those ledgers by the end of the second quarter, FY 1997. However, management nonconcurred that subsidiary accounts in the general ledger were required or necessary. It stated that OCHAMPUS was reconciling miscellaneous receivables and travel advances. It also stated that, by the end of January 1997, OCHAMPUS would establish and maintain a manual system of subsidiary ledgers for miscellaneous receivables and travel advances.

Audit Response. Although Health Affairs partially concurred, its planned actions meet the intent of the recommendation. The planned actions are responsive and should result in monthly reconciliation of the total Refunds Receivable balance recorded in the general ledger.

e. Develop a procedure to reconcile case recoupments for the difference between the 6-year retention of the Resource Accounting Management System and the 10-year retention of the Case Recoupment System.

Management Comments. Management concurred with the recommendation. It stated that the Case Recoupment Branch began reconciling the 4-year difference on November 1, 1996.

f. Identify case recoupments that are inactive and unlikely to be collected and write them off.

Management Comments. Management partially concurred with the recommendation. Health Affairs stated that cases are written off based on age and that it is not economically feasible or necessary to write off accounts before the expiration of the 10-year statutory period.

Audit Response. Management comments were not responsive. The expiration date, or write-off date, is different for the subsidiary account and the general ledger. Write-offs for accounting purposes do not need to meet the 10-year statutory requirement and the 6-year carrying limitation of RAMS has no accounting regulatory basis. The Statement of Federal Financial Accounting Standards, number 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, specifies:

Losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase "more likely than not" means more than a 50 percent chance of loss occurrence.

According to the DoD Financial Regulation, volume 1, chapter 3, KAR 3, uncollectible amounts should be written off promptly and the accounts receivable reduced accordingly. We ask that management reconsider its position and provide additional comments in response to the final report.

g. Establish procedures to provide perpetuation of asset, liability, and capital accounts.

Management Comments. Management concurred with the recommendation. It stated that the RAMS provided for perpetuation of asset, liability, and capital accounts. Because of a programming error, the system did not generate closing entries automatically as intended. The error was corrected in October 1996 by a system change.

h. Establish general ledger accounts to support proprietary reporting and include prescribed accounts as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4.

Management Comments. Management concurred with the recommendation. It stated that OCHAMPUS corrected the RAMS Chart of Accounts to include proprietary and prescribed accounts in September 1996.

i. Assign accounting duties and responsibilities to separate individuals to achieve separation of duties.

Management Comments. Management concurred with the recommendation. It stated that effective November 1, 1996, the Finance and Accounting Officer will no longer certify or record transactions in the RAMS.

j. Use the exception reports produced by the Resource Accounting Management System to identify out-of-balance accounts and make necessary adjusting entries.

Management Comments. Management concurred with the recommendation. It stated that OCHAMPUS will address exception reports in standard operating procedures by the end of the second quarter, FY 1997.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the OCHAMPUS process for recording and reporting FY 1994 and FY 1995 financial information for CHAMPUS. We evaluated OCHAMPUS financial operations and internal controls. We limited our detailed analyses to the Operation and Maintenance funding, which represented 100 percent of FY 1994 and 97.5 percent of FY 1995 OCHAMPUS direct funding. Specifically, we:

- o reviewed DoD and OCHAMPUS policies and procedures;
- o interviewed OCHAMPUS accounting personnel to determine procedures used to obtain, record, and report financial information;
- o reviewed source documentation for 173 transactions from FY 1994, valued at \$12.4 billion, and 125 transactions from FY 1995, valued at \$344.2 million;
- o reviewed property records for OCHAMPUS computer equipment, valued at \$2.7 million;
- o reviewed 2,417 journal entries for 4 months of FY 1994, valued at \$288.7 million and 2,150 journal entries for 4 months of FY 1995, valued at \$268 million; and
- o reviewed case recoupments for 6 months of FY 1996, valued at \$10.8 million in the RAMS and \$15.2 million in the Case Recoupment System.

Computer-Processed Data. We analyzed the annual review of the OCHAMPUS accounting system that the OCHAMPUS Resource Management Division performed for FY 1995. The OCHAMPUS review was designed to determine whether the financial accounting system (computer-processed data) complied with the 13 KARs shown in the DoD Financial Regulation.

Trial balances, biweekly listings of open recoupment accounts, cost center reports, health care service records, FI claims vouchers, and general ledger account transaction reports were computer-processed data. We did not validate the reliability of the RAMS, the Contract Management System, the Care Information System, and the Case Recoupment System that generated the data because we limited our use of the data to performing tests of the internal controls, to performing analytical tests, and to reviewing the processes used to prepare financial statements. We used the Contract Management System and the Care Information System only as sources for transactions. Our review showed that the RAMS and the Case Recoupment System contained abnormal

balances or balances that could not be supported. The account balances in the RAMS and Case Recoupment System could not be relied on to produce accurate financial data.

Audit Period and Standards. We performed this financial-related audit from October 1995 through May 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of management controls as were considered necessary.

Methodology

To evaluate the OCHAMPUS process for recording and reporting financial information for CHAMPUS, we:

- o identified transaction cycles and prepared flowcharts for each cycle;
- o obtained reports from RAMS, the Contract Management System, and the Care Information System to evaluate transactions entered;
- o performed analytical procedures on FY 1989 through FY 1995 financial reports and records; and
- o reviewed the FY 1994 and FY 1995 post-closing trial balances.

Organizations and Individuals Visited or Contacted

We visited or contacted individuals and organizations within DoD and Computer Data Systems, Inc. Further details are available on request.

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. The

*DoD Directive 5010.38 has been revised as, "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the Directive.

Appendix A. Audit Process

Management Control Program is management's plans, objectives, and procedures to achieve operational management control and financial internal control.

Scope of Review of Management Control Program. We reviewed the adequacy of OCHAMPUS internal controls over financial management, accounting, and accounting systems. Specifically, we reviewed OCHAMPUS internal controls over recording transactions, maintaining the general ledger, and preparing financial reports. We also reviewed the results of OCHAMPUS self-evaluations of financial management, accounting, and accounting system internal controls.

Adequacy of Management Controls. We identified material internal control weaknesses for OCHAMPUS as defined by DoD Directive 5010.38. The OCHAMPUS internal controls over financial management, accounting, and accounting systems were not adequate to ensure that OCHAMPUS records supported financial decisions, that OCHAMPUS accounted for transactions properly and reported results reliably, and that OCHAMPUS systems recorded transactions consistently with DoD general ledger requirements. Recommendations 1. and 2., if implemented, will improve the OCHAMPUS financial management, accounting, and accounting systems. A copy of the report will be provided to the senior official responsible for management and internal controls in the Office of the Assistant Secretary of Defense (Health Affairs).

Adequacy of Management's Self-Evaluation. The OCHAMPUS identified OCHAMPUS financial management, accounting, and accounting systems as assessable units. It rated those assessable units as either low or medium risk. The OCHAMPUS Resource Management Division completed a self-evaluation of the RAMS on June 26, 1995. In its self-evaluation, OCHAMPUS management identified departures from accrual accounting and from recording accounts payable; however, OCHAMPUS management did not consider the departures material and had initiated system change requests to correct the departures. The OCHAMPUS did not identify all the weaknesses included in this report because it did not compare account balances with DoD guidance to identify irregular balances or to compare balances from year to year to identify significant changes. In addition, OCHAMPUS designated case recoupments as a separate assessable unit. They conducted a vulnerability assessment of the unit in 1993 and scheduled an internal management control review for 1996.

Appendix B. Prior Audits and Other Reviews

During the past 5 years, the Office of the Inspector General, DoD, has published two audit reports related to OCHAMPUS financial management.

Inspector General, DoD, Report No. 96-092, "Payments to the Civilian Health and Medical Program of the Uniformed Services Providers," April 3, 1996, stated that while payments made by OCHAMPUS for outpatient services in the southeastern region were generally valid, the amounts paid were not always justified. It also stated that the OCHAMPUS management control program needed improvement because the auditors identified material weaknesses in the management controls over reimbursement of provider claims for outpatient services. The report recommended that OCHAMPUS establish policies and procedures to validate services that CHAMPUS health care providers performed by making periodic on-site reviews of patient medical records on a random basis. The report also recommended that OCHAMPUS revise policy to prohibit using miscellaneous codes for outpatient services when current procedural codes are available, and limit reimbursing outpatient services to the technical portion of the allowable rates. Management concurred with the recommendations and stated that its primary vehicle for implementing the recommendations is the expansion of the DoD managed health care program.

Inspector General, DoD, Report No. 92-115, "Civilian Health and Medical Program of the Uniformed Services Claims Processed and Paid By Fiscal Intermediaries," June 30, 1992, stated that the performance of the FIs did not consistently meet the accuracy and timeliness standards for processing and paying CHAMPUS claims. The report also stated that OCHAMPUS did not adequately monitor the FIs performance on contract requirements for evaluation of duplicate payments, accounts receivable, and sanctioned providers. The report recommended that the Director, OCHAMPUS, revise criteria for incentives to match contract standards; develop and follow a comprehensive written surveillance plan to monitor the FIs performance; and require the contracting officer's representatives to verify and record, during site visits, corrected actions taken on identified deficiencies. The Assistant Secretary of Defense (Health Affairs) agreed to develop and implement a comprehensive written surveillance plan to monitor the performance of the FIs and to improve followup on correction of deficiencies.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Health Affairs)
Assistant to the Secretary of Defense (Public Affairs)
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 Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Director, Office of the Civilian Health and Medical Program of the Uniformed Services

Non-Defense Federal Organizations and Individuals

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

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 National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Assistant Secretary of Defense (Health Affairs) Comments

Final Report
Reference



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

NOV 19 1996

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTENTION: Mr. Robert J. Ryan, Audit Program Director

SUBJECT: Comments on Draft Audit Reports on the Financial Management for the Office of
the Civilian Health and Medical Program of the Uniform Services

Thank you for the opportunity to review and comment on two draft audit reports performed
by your office (Project numbers 6LA-2002 and 6LA-2002.01). Separate responses are attached for
each draft audit report.

The Health Affairs comments indicate concurrence or nonconcurrence with the finding and
each recommendation, comments on any material management control weakness, as well as a
description of all applicable corrective actions taken or planned.

The Health Affairs Point of Contact for this action is Colonel William A. Bozo, (703) 695-
3331.

Edward D. Martin
Edward D. Martin, M.D.
Principal Deputy Assistant Secretary

Attachments:
As Stated

Deleted
Comments to
Project No.
6LA-2002.01

RESPONSE TO THE DRAFT DoD(IG) REPORT ON FINANCIAL MANAGEMENT
FOR OFFICE OF CIVILIAN HEALTH AND
MEDICAL PROGRAM OF THE UNIFORMED SERVICES

PROJECT NO. 6LA-2002

19 NOV 1996

Part I - AUDIT RESULTS

ACCOUNTING FOR AND REPORTING FINANCIAL ACTIVITY

| FINDING: The OCHAMPUS did not properly: | RESPONSE |
|---|-----------------------|
| • identify, classify, and record accounting transactions; | Partial Concur |
| • comply with the Prompt Payment Act; | Concur |
| • establish, maintain, and periodically reconcile subsidiary ledgers; | Partial Concur |
| • make closing entries; and | Concur |
| • prepare reportable financial data in accordance with regulations | Partial Concur |

The following will address each separate issue raised by the DoD(IG):

A. Identifying, Classifying, and Recording Accounting Transactions.

The OCHAMPUS Resource Management Division (RM) consists of 15 people not the 16 indicated. However, the accounting staff within the RM Division, Finance and Accounting Office, consists of only 10 people. Based upon current National Performance Review (NPR) requirements mandating reductions in the civilian workforce, the OCHAMPUS Finance and Accounting Office is tasked to reduce its overall staffing level by two people. The Director of OCHAMPUS has no control over changing this NPR directive.

1. Identifying Accounting Transactions: Concur. OCHAMPUS did not process manual accrual transactions (liability and expense) for the majority of the direct program and part of the reimbursable program. We are in the process of implementing a new contracting system [Standard Automated Contracting System (SACONS)] which will automate the receipt and accrual process for the remaining portions of the OCHAMPUS direct and reimbursable programs. The anticipated SACONS/RAMS interface will be operational within 18 months. During the interim, we will pursue other means (i.e., additional personnel, overtime, etc.) to improve the recording of accrual entries in the RAMS.

2. Classifying and Recording Accounting Transactions

a. Negative Entries: Concur. Effective November 1, 1996, OCHAMPUS will no longer create a negative Undelivered Order in lieu of establishing a receivable.

b. Accounting for Property: Partial Concur. OCHAMPUS concurs that the automated RAMS system had not properly processed the transaction associated with the purchase of capital equipment at the time of purchase. However, prior to the DoD(IG) audit, we discovered this error and processed the appropriate correcting entries. Instead of recording the equipment as an asset at the time of purchase, it was fully charged-off as an expense. By the time this error was discovered, the expense account associated with the equipment purchase had already been closed to appropriated capital (GLA 3100) during year end closing entries. In order to correct this entry and record the 'net' remaining value of the equipment (Capital Equipment less Accumulated Depreciation) in the general ledger, the undepreciated balance was removed from appropriated capital (GLA 3100).

Original & Correcting entries

| ORIGINAL ENTRY | Debit | Credit |
|---|-----------|-----------|
| 61XX Expense Account | \$329,894 | |
| 1011.0 Funds Collected | | \$329,894 |
| YEAR-END CLOSING ENTRY | | |
| 3100 Appropriated Capital | \$329,984 | |
| 61XX Expense Account | | \$329,894 |
| CORRECTING ENTRIES | | |
| 1762 Military Equipment | \$329,894 | |
| 3100 Appropriated Capital | | \$312,190 |
| 1769 Accumulated Depreciation - Military Equip. | | \$17,704 |

Correcting entries approved by DFAS-Headquarters.

OCHAMPUS will develop Standard Operating Procedures between the RM Division and the Administration Branch by the end of the second quarter of FY 1997. The Administration Branch is responsible for maintaining the property book and the equipment inventory at OCHAMPUS.

Non-concur. OCHAMPUS does not agree with the draft report's statement that the Property and Accumulated Depreciation Account included six fully depreciated items. This is a factual error. The six items mentioned were never recorded in the accounting system

and, therefore, cannot be removed from the RAMS. At the time the property system was developed and the initial balances of Capital Equipment were recorded in the RAMS, these six items were excluded because of a misunderstanding in Administration Branch concerning the recording of fully depreciated assets in the accounting system. The exclusion of this property was in error because the Capital Property account should have carried the original value of this equipment and the Accumulated Depreciation account should have shown the full value of this equipment for a net balance of \$0.00. This error has been corrected. In addition, OCHAMPUS will develop Standard Operating Procedures between the RM Division and the Administration Branch by the end of the second quarter of FY 1997.

Concur. OCHAMPUS agrees with the draft report's observations concerning the use of incorrect General Ledger Accounts (GLA) 1830, 1839, and 6128. Corrective entries have been made to record property balances in GLAs 1762, 1769, and 6125. The original decision to use GLAs 1830, 1839, and 6128 was based on limited directions provided in the May 1993 Financial Management Regulation (FMR) DoD 7000.14-R, Vol. 1. When the January 1995 FMR Volume 4 expanded the guidance concerning these accounts, OCHAMPUS failed to correct the previously established account balances. These accounts were corrected in September 1996 and reflected in the FY 1996 month/year end reports.

Concur. OCHAMPUS agrees with the draft report's finding that trial balance records incorrectly recorded property balances in limitation code 1886 for end of reporting period September 30, 1995. However, the balances were accurately reported to the Defense Finance and Accounting Service-Indianapolis in limitation code 1876 as required. Corrective action has been taken in September 1996 to move property balances from 1886 to 1876 (see September 30, 1996 month/year end trial balances).

B. Complying With The Prompt Payment Act

1. Prompt Payment Act: Concur. OCHAMPUS did not always comply with the Prompt Payment Act. OCHAMPUS is currently in compliance with Prompt Payment Act procedures. All certifying officers and all but two accounting technicians have subsequently attended a two day seminar conducted by Management Concepts, Inc. entitled "Administer the Prompt Payment Act". This seminar covers, in depth, prompt payment procedures. The two remaining accounting technicians are scheduled to attend the seminar December, 1996.

2. Recognizing Interest Expenses: Concur. OCHAMPUS did not always recognize or make required interest payments. All certifying officers and all but two accounting technicians have subsequently attended a two day seminar conducted by Management Concepts, Inc. entitled "Administer the Prompt Payment Act". This seminar covers, in depth, prompt payment procedures. The two remaining accounting technicians are scheduled to attend the seminar December, 1996.

Under current practices, RM requests receiving reports from the individual responsible for certifying the receipt of goods or services. This request is "triggered" by an invoice received by RM. OCHAMPUS recognizes this current practice is not conducive to meeting prompt

payment requirements and is reissuing OCR 7200.1 "Commitment, Obligations and Disbursements Policy and Procedures of OCHAMPUS Appropriated Funds" which outlines procedures for receiving goods and services.

C. Establishing, Maintaining, and Reconciling Subsidiary Account and Ledgers

1. Establishing Subsidiary Accounts or Ledgers: Non-concur. It is the OCHAMPUS' position that subsidiary accounts in the general ledger are not required for Refunds Receivable. Per KAR 12, DoD 7000.14-R Vol. 1, the extent of subsidiary account use is a management decision and the OCHAMPUS management determined the current accounts are sufficient to meet mission requirements. OCHAMPUS based this decision on the volume and type of receivables due OCHAMPUS. The bulk of receivables due OCHAMPUS are from case recoupment and fiscal intermediaries. We developed an automated data base for tracking and reporting the receivables that OCHAMPUS is responsible for. We receive manual reports of all the fiscal intermediaries' receivables. All other receivables (Travel advances and Miscellaneous receivables) occur very infrequently and are tracked in a small manual subsidiary ledger. It is both unnecessary and uneconomical to create separate subsidiary accounts for these receivables.

A fiscal intermediaries accounts receivable report is provided to OCHAMPUS monthly and monitored by RM and the Case Recoupment Branch. Pursuant to the OCHAMPUS recoupment rules, the fiscal intermediary has initial responsibility for the collection of erroneous payments. (See DoD 6010.8-R, chapter 11, 32 C.F.R. 199.11.) If the fiscal intermediary's recoupment efforts are unsuccessful, the case is forwarded to the OCHAMPUS Recoupment Section. Only then is the case tracked on the OCHAMPUS case recoupment system. There is no requirement for the Recoupment Section to know the number and dollar value of recoupment cases processed by the fiscal intermediary.

2. Maintaining Subsidiary Accounts or Ledgers: Partial concur. OCHAMPUS does maintain subsidiary ledgers in Case Recoupments both for OCHAMPUS and Fiscal Intermediary Receivables. OCHAMPUS does not maintain subsidiary ledgers for travel advances and miscellaneous receivables. However, OCHAMPUS is now reconciling the miscellaneous receivables and travel advances. Once the reconciliation is completed, by the end of January 1997, a manual system of subsidiary ledgers will be established and maintained.

3. Reconciling Subsidiary Ledgers to General Ledgers: Partial concur. The subsidiary ledger, Case Recoupments Due OCHAMPUS, was not reconciled with the general ledger. In the FY 1996 year end reports, the subsidiary ledger, Case Recoupments Due OCHAMPUS, was reconciled to the general ledger for the six years contained in the RAMS. The Finance and Accounting Office will continue to reconcile the case recoupment system to the general ledger on a monthly basis. The Finance and Accounting Office will also reconcile the FY 1995 the case recoupment system to the general ledger in the RAMS by the end of the second quarter in FY 1997 for the six years contained in the RAMS. The Case

Recoupment Branch will be responsible for reconciling the additional four years of information contained in the Case Recoupment System that is not in the RAMS.

The case recoupment system database includes data for 10 years, as required by statute. The RAMS system includes data for 6 years, as required by DoD Financial Management Directives. The reconciliation for the six year period was completed in March, 1996 and was completed for month end September, 1996.

The out of balance situation that existed between subsidiary ledger, Case Recoupments Due OCHAMPUS, and the general ledger resulted from the following conditions:

First, the OCHAMPUS financial records are kept for six years while the case recoupment files are maintained for ten years. This results in four years of receivables unaccounted for in the RAMS. OCHAMPUS now has the codification of authority to record and collect all recoupment receipts into the current fiscal year. This authority is found in Section 733 of the National Defense Authorization Act for Fiscal Year 1997 dated September 23, 1996. A RAMS/Case Recoupment computer system work order that will correct this out of balance problem will be completed in the second quarter of FY 1997.

The second condition is the timing of when reports are generated. Case recoupment reports must be created at the exact end of each month to capture control balances. RAMS reports are generated on or after the fifth workday of each month to capture the fiscal intermediaries receivables and any manual refund receivables posted by the Finance and Accounting Office. A work order to correct the timing of these two reports will be completed during January 1997.

D. Making Closing Entries: Concur. The RAMS did not carry forward the balances of equipment and depreciation from the end of one fiscal year to the beginning of the next fiscal year. These entries were entered manually for FY 1994 and FY 1995, thus the OCHAMPUS financial reports were accurate for the periods reported. The RAMS was designed to generate these closing entries automatically but because of a program error, manual correcting entries had to be used to properly carry forward the correct balances for equipment only. This programming error was corrected in September/October 1996 with a systems change. All other asset, liability, and capital account balances were automatically carried forward from the end of one fiscal year to the beginning of the next.

E. Preparing Reportable Financial Data: Partial concur. OCHAMPUS concurs the accounting staff prepared the FY 1995 financial data submitted to the Defense Finance and Accounting Service-Indianapolis using budgetary accounts as the data source. The budgetary accounts were used in order to calculate the balance of the Appropriated Capital Used (GLA 5700) because this account was not in use by RAMS during FY 1995 and prior. A work order to incorporate processing the Appropriated Capital Used (GLA 5700) into the RAMS will be completed by the end of the second quarter of FY 1997.

Non-concur. OCHAMPUS does not agree that budgetary accounts were used for **all** information submitted to the Defense Finance and Accounting Service-Indianapolis. With the exception of Appropriated Capital Used (GLA 5700) and its offset account, Appropriated Capital (GLA 3100) all other account information submitted to the Defense Finance and Accounting Service-Indianapolis was based upon the appropriate accounts and contained in the RAMS trial balance. The RAMS was developed using the DoD Accounting Manual, DoD 7200.9-M, which was written prior to the creation of the Appropriated Capital Used (account 5700). In the DoD Financial Management Regulation, DoD 7000.14-R, Volume 1, the Appropriated Capital Used account (GLA 5700) appeared in the Uniform Chart of Accounts (UCA), but DoD guidance outlining the use of Appropriated Capital Used (GLA 5700) was not provided until January 1995 in Volume 4, DoD 7000.14-R. Appropriated Capital Use (GLA 5700) has been added to RAMS for the FY 1996 financial reports.

IN ADDITION TO THE FINDING, THE IG APPEARED TO MAKE THE FOLLOWING OBSERVATIONS:

A. Internal Controls Needed at OCHAMPUS

1. **Defining Duties and Responsibilities:** **Partial concur.** The draft report states there are no clearly assigned responsibilities for creating and maintaining all subsidiary accounts. Reconciliation of the Case Recoupment System with the source documents was clearly the responsibility of the Case Recoupment Branch, however, the reconciliation between the Case Recoupment System and RAMS was not. Responsibility for the reconciliation between Case Recoupment and RAMS was assigned to the Finance and Accounting Office as of September 1996. OCHAMPUS did not establish or maintain other subsidiary ledgers as previously discussed (reference section C of this response).
2. **Separation of Duties:** **Concur.** OCHAMPUS did not comply with the Comptroller General internal control requirements. Effective immediately, the Chief, Finance and Accounting Office, will no longer act as a Certifying Officer and no longer have the ability to record transactions in the RAMS. This change is effective November 1, 1996.
3. **Supervision of Staff:** **Concur.** No supervisor reviewed the Report of Financial Position. Effective October 1996, the Division Chief of Resource Management will review and **approve** financial reports.
4. **Training for Trial Balance Preparation:** **Non-concur.** It is the OCHAMPUS position that personnel are adequately trained in general ledger and trial balance preparation. The OCHAMPUS finance and accounting staff includes four professionally recognized accountants including a registered CPA whose position, as Systems Accountant, requires total oversight of the RAMS. OCHAMPUS personnel have developed and maintained the RAMS which is a general ledger driven accounting system. The RAMS was reviewed and certified by the Comptroller General in 1984 and recertified by the Defense Finance and Accounting Service-Headquarters Audit Team in 1994. In no instance was the potential for

unreliable or incorrectly prepared reports ever raised as an issue or finding. On-going professional training is provided throughout the year to ensure that the current high level of skills and knowledge are maintained. Examples of Government sponsored training courses attended by Finance and Accounting staff in the past months includes: Appropriations Law; US Government Standard General Ledgers; Accounting for Reimbursable Authority (Interagency Agreements); Chief Financial Officers Reporting (Presentation and Disclosure). Examples of College level courses attended by Finance and Accounting staff in the past months includes: Financial Accounting I, II, III; Accounting on the Computer; Managerial Accounting I, II; Project Management.

Additionally, as far as we can determine, no statement was made by any OCHAMPUS accounting staff personnel that they had not received adequate training on the relationships between the general ledger and the summary data in the trial balance and other financial reports. This appears to be a factual error. It is possible members of the audit team misinterpreted questions asked by staff concerning differences between Treasury and DoD regulations as a lack of understanding.

5. Procedures for Preparing Reportable Financial Data:

- a. **Non-concur.** Written procedures are in place for preparing reportable financial data. The OCHAMPUS uses the automated RAMS, a general ledger driven accounting system, for the preparation of financial reports. The RAMS Systems Manual and Users Guide clearly detail the procedures and processes for preparation of financial reports.
- b. **Partial concur.** Certain procedures for deriving financial information for reporting to the Defense Finance and Accounting Service-Indianapolis were not properly documented. In areas where directed changes to reporting or accounting procedures were required by DoD (i.e., Appropriated Capital Used, GLA 5700) but the RAMS financial reports were not yet been modified, manual calculations were required to record and reflect the correct amounts in the Trial Balance accounts. These calculations were not properly documented by the OCHAMPUS staff. With the exception of the Appropriated Capital Used (GLA 5700) and Appropriated Capital (GLA 3100), all other information submitted to the Defense Finance and Accounting Service-Indianapolis was based on the appropriate GLA account balance as reported by the RAMS. A work order to incorporate Appropriated Capital Used (GLA 5700) processing into the RAMS will be completed by the end of the second quarter of FY 1997. We will document any future manual calculations used to prepare significant reports.

6. Correcting Process and System Irregularities

a. Chart of Accounts

See Part I, E of this document.

Concur. With the exception of Appropriated Capital Used (GLA 5700) and its offset account, Appropriated Capital (GLA 3100) all other account information submitted to the Defense Finance and Accounting Service-Indianapolis was based upon the appropriate

accounts and contained in the RAMS trial balance. The RAMS was developed using the DoD Accounting Manual, DoD 7200.9-M, which was written prior to the creation of the Appropriated Capital Used (account 5700). In the DoD Financial Management Regulation, DoD 7000.14-R, Volume 1, the Appropriated Capital Used account (GLA 5700) appeared in the Uniform Chart of Accounts (UCA), but DoD guidance outlining the use of Appropriated Capital Used (GLA 5700) was not provided until January 1995 in Volume 4, DoD 7000.14-R. Appropriated Capital Use (GLA 5700) has been added to RAMS for the FY 1996 financial reports.

b. Use of Limitations

See Part I, A.2.b of this document

Concur. OCHAMPUS agrees with the draft report's finding that trial balance records incorrectly recorded property balances in limitation code 1886 for end of reporting period September 30, 1995. However, the balances were accurately reported to the Defense Finance and Accounting Service-Indianapolis in limitation code 1876 as required. Corrective action has been taken in September 1996 to move property balances from 1886 to 1876 (see September 30, 1996 month/year end trial balances).

c. Accrual Accounting

See Part I, A.1 of this document

Concur. OCHAMPUS did not process manual accrual transactions (liability and expense) for the majority of the direct program and part of the reimbursable program. We are in the process of implementing a new contracting system [Standard Automated Contracting System (SACONS)] which will automate the receipt and accrual process for the remaining portions of the OCHAMPUS direct and reimbursable programs. The anticipated SACONS/RAMS interface will be operational within 18 months. During the interim, we will pursue other means (i.e., additional personnel, overtime, etc.) to improve the recording of accrual entries in the RAMS.

d. Exception Reports

Concur. The Resource Management Division is writing intra-office standard operating procedures to ensure compliance with applicable accounting principles and proper use of exception reports. These procedures will be completed by the end of the second quarter of FY 1997.

B. Accuracy and Reliability of FYs 1994 and 1995 Trail Balance Information

1. Accounts Payable and Expenses: Concur. OCHAMPUS did not process manual accrual transactions (liability and expense) for the majority of the direct program and part of the reimbursable program. We are in the process of implementing a new contracting system [Standard Automated Contracting System (SACONS)] which will automate the receipt and

accrual process for the remaining portions of the OCHAMPUS direct and reimbursable programs. The anticipated SACONS/RAMS interface will be operational within 18 months. During the interim, we will pursue other means (i.e., additional personnel, overtime, etc.) to improve the recording of accrual entries in the RAMS.

2. Appropriated Capital

Accounting for Property: Partial Concur. OCHAMPUS concurs that the automated RAMS system had not properly processed the transaction associated with the purchase of capital equipment at the time of purchase. However, prior to the DoD(IG) audit, we discovered this error and processed the appropriate correcting entries. Instead of recording the equipment as an asset at the time of purchase, it was fully charged-off as an expense. By the time this error was discovered, the expense account associated with the equipment purchase had already been closed to appropriated capital (GLA 3100) during year end closing entries. In order to correct this entry and record the 'net' remaining value of the equipment (Capital Equipment less Accumulated Depreciation) in the general ledger, the undepreciated balance was removed from appropriated capital (GLA 3100).

Original & Correcting entries

| ORIGINAL ENTRY | Debit | Credit |
|---|-----------|-----------|
| 61XX Expense Account | \$329,894 | |
| 1011.0 Funds Collected | | \$329,894 |
| YEAR-END CLOSING ENTRY | | |
| 3100 Appropriated Capital | \$329,984 | |
| 61XX Expense Account | | \$329,894 |
| CORRECTING ENTRIES | | |
| 1762 Military Equipment | \$329,894 | |
| 3100 Appropriated Capital | | \$312,190 |
| 1769 Accumulated Depreciation - Military Equip. | | \$17,704 |

Correcting entries approved by DFAS-Headquarters.

3. Property: Non-concur. OCHAMPUS does not agree with the draft report's statement that the Property and Accumulated Depreciation Account included six fully depreciated items. This is a factual error. The six items mentioned were never recorded in the accounting system and, therefore, cannot be removed from the RAMS. At the time the property system was developed and the initial balances of Capital Equipment were recorded in the RAMS, these six items were excluded because of a misunderstanding in Administration Branch concerning the recording of fully depreciated assets in the accounting system. The

exclusion of this property was in error because the Capital Property account should have carried the original value of this equipment and the Accumulated Depreciation account should have shown the full value of this equipment for a net balance of \$0.00. This error has been corrected. In addition, OCHAMPUS will develop Standard Operating Procedures between the RM Division and the Administration Branch by the end of the second quarter of FY 1997.

4. Refunds Receivable

a. **Non-concur.** The case recoupment system database includes data for 10 years, as required by statute. The RAMS system includes data for six years, as required by DoD Financial Management Directives. The reconciliation for the six year period was completed in March, 1996 and has been completed for month end September, 1996. OCHAMPUS does not agree with the draft report's finding that the additional four years of data contained in the Case Recoupment System should be reflected in the RAMS reports. This difference results from legislative reporting requirements. Both the RAMS and the case recoupment system comply with applicable statutory and DoD directives.

b. **Concur.** The second condition is the timing of when reports are generated. Case recoupment reports must be created at the exact end of each month to capture control balances. RAMS reports are generated on or after the fifth workday of each month to capture the fiscal intermediaries receivables and any manual refund receivables posted by the finance and accounting office. A work order to correct the timing of these two reports will be completed during January 1997.

c. **Concur.**

C. Materiality and impact on Financial Statements

1. **FY 96 financial statements: Non-concur.** This draft report covers FY 1995 financial records, not FY 1996.

2. **Accounting Requirements: Concur.** This is a partial listing of the KARs.

3. **Calculating Material Deficiency: Concur.** The methodology outlined in the draft report is acceptable.

4. **Material Deficiency in General Ledger. Non-concur.** Based upon the different retention periods between the Recoupment Legislation which requires 10 year retention of debt records and DoD Financial Management directives which required financial accounts be maintained and reported for only six years. OCHAMPUS did comply with the KARs which, Per KAR 12, DoD 7000.14-R Vol. 1, allows management to determine the extent of subsidiary account application and the OCHAMPUS management feels the current accounts are sufficient to meet mission requirements.

Recommendations for Corrective Actions

Recommendation 1a. Assign the responsibilities for establishing, maintaining, and reconciling subsidiary ledgers to general ledger accounts.

Response. Concur. As of November 1, 1996, the Finance and Accounting Officer was assigned the responsibility for establishing and reconciling subsidiary ledgers to the general ledger. Maintenance of the subsidiary ledgers will be assigned to accounting technicians by the Finance and Accounting Officer by the end of the second quarter of FY 1997. Procedures will be addressed in the standard operating procedures also to be completed by the end of the second quarter 1997.

Recommendation 1b. Establish supervisory review procedures for significant financial reports.

Response. Concur. The Chief, Resource Management Division will review all significant reports prior to submission.

Recommendation 1c. Establish a continuing professional education program to train employees assigned to prepare reportable financial data in the proprietary general ledger account structure.

Response. Non-concur. The Resource Management Division currently provides for on-going professional training throughout the year to ensure that the current high level of skills and knowledge are maintained. Examples of Government sponsored training courses attended by Finance and Accounting staff in the past months includes: Appropriations Law; US Government Standard General Ledgers; Accounting for Reimbursable Authority (Interagency Agreements); Chief Financial Officers Reporting (Presentation and Disclosure). Examples of College level courses attended by Finance and Accounting staff in the past months includes: Financial Accounting I, II, III; Accounting on the Computer; Managerial Accounting I, II; Project Management.

Recommendation 1d. Assign personnel who have sufficient accounting experience and expertise to document policies and procedures for preparing financial data, to ensure compliance with applicable accounting principles.

Response. Non Concur. The Resource Management Division has already assigned personnel with sufficient accounting experience and the expertise to document policies and procedures for preparing financial data and ensure compliance with applicable accounting principles. This is evidenced by position descriptions and semi-annual and annual performance evaluations.

Recommendation 1e. Establish procedures to identify, document, and timely correct irregularities in the accounting records or processes.

Deleted

Renumbered
as Recommendation
1.d.

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Response. Concur. The Resource Management Division is in the process of writing intra-office standard operating procedures to ensure compliance with applicable accounting principles. These standard operating procedures will be completed by the end of the second quarter of FY 1997.

Recommendation 2a. Establish procedures to identify, classify, and record accruals of direct and reimbursable program liabilities and expenses as they occur, refunds owed by contractors as accounts receivable, and additions of property by increasing the Property account and either Accounts Payable or Funds Disbursed accounts and dispositions of property by decreasing the Property and Accumulated Depreciation accounts.

Response. Concur. OCHAMPUS will establish procedures to identify, classify, and record accruals of direct and reimbursable program liabilities and expenses as they occur. In addition, the Resource Management Division is currently recording refunds and property transactions in accordance with DoD 7000.14-R. These standard operating procedures will be completed by the end of the second quarter of FY 1997.

Recommendation 2b. Adjust and report the balances for automated data processing equipment and its related depreciation in the appropriate Procurement accounts instead of Operation and Maintenance accounts.

Response. Concur. The FY 1996 Year End Reports reflect the correct reporting of automated data processing equipment in the appropriate Procurement Accounts. Also, The FY 1995 Year End Reports sent to DFAS-Indianapolis reflect the correct reporting of automated data processing equipment in the appropriate Procurement Accounts. Correcting entries were put in the RAMS in September of 1996.

Recommendation 2c. Comply with the Prompt Payment Act to make timely payments and pay interest penalties when they occur.

Response. Concur. OCHAMPUS is currently in compliance with Prompt Payment Act procedures. In addition, Prompt Payment Act procedures will be addressed in the standard operating procedures currently being developed. The Prompt Payment portion of these standard operating procedures will be completed by the end of December 1996.

Recommendation 2d. Establish, maintain, and reconcile subsidiary ledger accounts monthly as required by DoD Regulation 7000.14-R, volume 1.

Response. Partial concur. The Finance and Accounting Officer will establish, reconcile and assign maintenance functions of subsidiary ledgers in accordance with DoD 7000.14-R. **Reference Part 1, C, 1 of this document.** OCHAMPUS non-concurs that subsidiary accounts in the general ledger are required for Refunds Receivable. Per KAR 12, DoD 7000.14-R Vol. 1, the extent of subsidiary account use is a management decision and the OCHAMPUS management determined the current accounts are sufficient to meet mission requirements. OCHAMPUS based this decision on the volume and type of receivables due

OCHAMPUS. The bulk of receivables due OCHAMPUS are from case recoupment and fiscal intermediaries. We developed an automated data base for tracking and reporting the receivables that OCHAMPUS is responsible for. We receive manual reports of all the fiscal intermediaries' receivables. All other receivables (Travel advances and Miscellaneous receivables) occur very infrequently and are tracked in a small manual subsidiary ledger

Partial concurs. OCHAMPUS does maintain subsidiary ledgers in Case Recoupments both for OCHAMPUS and Fiscal Intermediary Receivables. OCHAMPUS does not maintain subsidiary ledgers for travel advances and miscellaneous receivables. However, OCHAMPUS is now reconciling the miscellaneous receivables and travel advances. Once the reconciliation is completed, by the end of January 1997, a manual system of subsidiary ledgers will be established and maintained.

Recommendation 2e. Develop a procedure to reconcile case recoupments for the difference between the 6-year retention of the Resource Accounting Management System and the 10-year retention of the Case Recoupment System.

Response. Concur. Reconciliation of the four year difference will be done by the Case Recoupment Branch between the source documents and the Case Recoupment System. Effective November 1, 1996.

The DoD is currently implementing TRICARE, a managed healthcare plan. Because payments made by a TRICARE contractor are "at-risk" funds to the contractor, the contractor is responsible for any recoupment action. The Case Recoupment Branch is currently being phased out and only a residual recoupment function will be maintained once TRICARE managed care support contracts are fully implemented nationwide (i.e., fiscal year 1999). It would not be cost-effective to develop system changes which will not be needed in the future.

Recommendation 2f. Identify case recoupments that are inactive and unlikely to be collected and write them off.

Response. Partial Concur. Cases are identified by aging base date and are written off after the 10 year statute of limitations expired. It is not economically feasible or necessary to write off accounts prior to the expiration of the 10 year statute of limitation.

Recommendation 2g. Establish procedures to provide perpetuation of asset, liability, and capital accounts.

Response. Concur. The RAMS did not carry forward the balances of equipment and depreciation from the end of one fiscal year to the beginning of the next fiscal year. However, these entries were entered manually for FY 1994 and FY 1995, thus the OCHAMPUS financial reports were accurate for the periods reported. Other than this one exception, the RAMS has always provided for the perpetuation of asset, liability, and capital accounts. The RAMS was designed to generate these closing entries automatically but because of a program error,

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Comments

Final Report
Reference

Renumbered
as Recommendation
2.h.

Renumbered
as Recommendation
2.i.

Renumbered
as Recommendation
2.j.

manual correcting entries had to be used to properly carry forward the correct balances for equipment only. This programming error was corrected in September/October 1996 with a systems change. All other asset, liability, and capital account balances were automatically carried forward from the end of one fiscal year to the beginning of the next.

Recommendation 2e. (sic) Establish general ledger accounts to support proprietary reporting and include prescribed accounts as required by DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4.

Response. Concur. The RAMS Chart of Accounts has been corrected to include proprietary accounts (equipment) and prescribed accounts (account 5700, Appropriated Capital Used) as required by DoD Regulation 7000.14-R. Entries done in September of 1996.

Recommendation 2f. (sic) Assign accounting duties and responsibilities to separate individuals to achieve separation of duties.

Response. Concur. The Finance and Accounting Officer will no longer certify or have the ability to record transactions in the RAMS. Effective November 1, 1996.

Recommendation 2g. (sic) Use the exception reports produced by the Resource Accounting Management System to identify out-of-balance accounts and make necessary adjusting entries.

Response. Concur. Use of exception reports will be addressed in the standard operating procedures currently under development. These standard operating procedures will be completed by the end of the second quarter of FY 1997.

MATERIAL WEAKNESS

Adequacy of Management Controls. We identified material internal control weaknesses for OCHAMPUS as defined by DoD Directive 5010.38. The OCHAMPUS internal controls regarding financial management accounting, and accounting systems were not adequate to ensure that OCHAMPUS records supported financial decisions, that OCHAMPUS accounted for transactions properly and reported results reliably, and that OCHAMPUS systems recorded transactions consistently with DoD general ledger requirements. Recommendations 1. and 2., if implemented, will improve the OCHAMPUS financial management, accounting, and accounting systems. A copy of the report will be provided to the senior official responsible for management and internal controls in the Office of the Assistant Secretary of Defense (Health Affairs).

It is the understanding of OCHAMPUS in the above conclusion that material internal control weaknesses exist as stated above and are based on the following paragraph from page sevenccn.

Material Deficiency in General Ledger. The OCHAMPUS estimated understatement of Refunds Receivable in the general ledger as of March 31, 1996, was at least \$6.5 million. In addition, OCHAMPUS had a cumulative effect of noncompliance with the KARs and used work arounds to prepare the trial balances that is submitted for FYs 1994 and 1995. As a result of those factors, the internal control structure was materially deficient.

OCHAMPUS Response. Non-concur. Based upon the different retention periods between the Recoupment Legislation which requires 10 year retention of debt records and DoD Financial Management directives which require financial accounts be maintained and reported for only six years. OCHAMPUS did comply with the KARs which, Per KAR 12, DoD 7000.14-R Vol. 1, allows management to determine the extent of subsidiary account application and the OCHAMPUS management feels the current accounts are sufficient to meet mission requirements. OCHAMPUS management recognizes that the concept of reasonable assurance includes the consideration that the cost of internal control should not exceed the benefits expected to be derived. The expected benefits and related costs of added control procedures was considered in limiting the number of subsidiary accounts.

During each of the last three years reporting requirements for both the DoD and Treasury have changed late in the fiscal year. Modification of the OCHAMPUS automated accounting system cannot be accomplished with enough speed to meet all of the new reporting requirements. It becomes necessary to use a combination of manual and automated records to meet reporting deadlines. The use of manual and automated records to complete the trial balance as well other significant financial report does not violate the KARs and should not be considered a "work around".

OCHAMPUS, with the minor exceptions noted above, does intend to implement recommendations 1. and 2. to improve the financial management and accounting systems. Future changes in reporting requirements, if they occur too late in the fiscal year for necessary reprogramming in the automated accounting system to take place and meet reporting deadlines, may require that a combination of automated and manual systems be utilized to provide complete, accurate, and reliable reports.

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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