Audit Report

OFFICE OF THE INSPECTOR GENERAL

FINANCIAL MANAGEMENT AT THE UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES

Report No. 97-141 May 9, 1997

Department of Defense

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Acronyms

AFB	Air Force Base
AFRRI	Armed Forces Radiobiology Research Institute
CUFS	College and University Financial System
DFAS	Defense Finance and Accounting Service
KAR	Key Accounting Requirement
OMB	Office of Management and Budget

INSPECTOR GENERAL
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May 9, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
PRESIDENT, UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES

SUBJECT: Audit Report on Financial Management at the Uniformed Services University of the Health Sciences (Report No. 97-141)

We are providing this report for review and comment. The audit was performed in response to Public Law 103-356, "Federal Financial Management Act of 1994," which requires DoD to provide the Office of Management and Budget with consolidated financial statements for FY 1996.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Because the Defense Finance and Accounting Service, and the Uniformed Services University of the Health Sciences did not comment on a draft of this report, we request that they provide comments by June 9, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson, Audit Program Director, at (703) 604-9582 (DSN 664-9582). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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for Auditing

Office of the Inspector General, DoD

Report No. 97-141 **May 9, 1997**
(Project No. 6LA-2035)

Financial Management at the Uniformed Services University of the Health Sciences

Executive Summary

Introduction. Public Law 103-356, "Federal Financial Management Act of 1994," requires DoD to provide the Office of Management and Budget with consolidated financial statements for FY 1996. The Uniformed Services University of the Health Sciences is one of the entities that will be included in the DoD FY 1996 consolidated financial statements. Funding for the Uniformed Services University of the Health Sciences, including direct and reimbursable funding, totaled $92.4 million and $97.2 million in FYs 1995 and 1996, respectively.

Audit Objectives. The audit objective was to assess management controls and compliance with laws and regulations. Specifically, we reviewed financial accounting procedures and related management controls to determine whether the Defense Finance and Accounting Service Denver Center Operating Location can produce reliable information necessary to prepare the Uniformed Services University of the Health Sciences' financial statements required by Public Law 101-576, "Chief Financial Officers Act of 1990."

Audit Results. The accounting procedures of the Uniformed Services University of the Health Sciences accounting system and Defense Finance and Accounting Service Denver Center Operating Location did not comply with prescribed DoD accounting standards. As a result, financial information for the Uniformed Services University of the Health Sciences produced and recorded by the Defense Finance and Accounting Service Denver Center Operating Location cannot be relied on to prepare accurate financial statements required by the Chief Financial Officers Act. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Denver Center Operating Location; and the Vice President of Resource Management, Uniformed Services University of the Health Sciences, implement management control procedures to accurately record financial activity in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," and include assets, liabilities, and equity that the Armed Forces Radiobiology Research Institute acquired before October 1, 1993, as part of the financial records of the Uniformed Services University of the Health Sciences.

Management Comments. The Defense Finance and Accounting Service and the Uniformed Services University of the Health Sciences did not respond to a draft of this report. Therefore, we request that the Director, Defense Finance and Accounting Service; and the President, Uniformed Services University of the Health Sciences, provide comments on this report by June 9, 1997.

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Part I - Audit Results

Audit Background

Financial Statement Requirements. Public Law 101-576, "Chief Financial Officers Act of 1990," established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget (OMB). 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 OMB. The University's 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," volume 1, chapter 7, "Department of Defense Standard General Ledger," May 1993, prescribes guidelines and policies for the DoD approved general ledger account structure. All DoD accounting systems must use the general ledger account structure for all appropriations and funds. The following table shows the general ledger account structure.

General Ledger Account Structure

Account Series	Account
1000 Series	Assets
2000 Series	Liabilities
3000 Series	Equity
4000 Series	Budgetary
5000 Series	Revenue
6000 Series	Expense
7000 Series	Gains, losses, miscellaneous

All series of the account structure 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 the other account series, primarily show the status and use of an organization's financial resources.

The Uniformed Services University of the Health Sciences. In 1972, Congress enacted the Uniformed Services Health Professions Revitalization Act, which established the Uniformed Services University of the Health Sciences (the University). The University was granted full accreditation as a 4-year medical school and had its first graduating class in 1980.

Mission of the University. The University's mission is to provide high-quality education and training in the health sciences to yield competent

medical personnel qualified to serve the needs of the Uniformed Services.[1] The University places high priority on meeting combat and peacetime medical needs of the Uniformed Services. The University combines the structure, policies, and procedures of a DoD agency with those of an accredited university. The Assistant Secretary of Defense (Health Affairs) is responsible for ensuring effective operations at the University.

Armed Forces Radiobiology Research Institute. The Armed Forces Radiobiology Research Institute (AFRRI) is a DoD Joint Service School. The AFRRI receives Research, Development, Test, and Evaluation funds to carry out its mission. Before FY 1994, the Defense Special Weapons Agency (formerly the Defense Nuclear Agency) was responsible for AFRRI management oversight, including financial and accounting responsibilities. Program Budget Decision 041, "Defense Health Program," December 13, 1992, transferred FY 1994 Research, Development, Test, and Evaluation funding for the AFRRI to the Washington Headquarters Services. In addition, Program Budget Decision 041 transferred AFRRI management oversight from the Defense Special Weapons Agency to the University.

Funding for the University. The Defense Health Program is an annual Operation and Maintenance appropriation used to fund the University and other health-related programs. DoD allocates Defense Health Program funds as either direct or reimbursable funds. The University receives direct funds for the obligations and expenditures of its administrative functions. Whereas, the University receives reimbursable funds for the obligations and expenditures of its research functions. The University also receives funds from the Research, Development, Test, and Evaluation appropriation. In FY 1996, funding for the University and AFRRI, including direct and reimbursable funding, totaled $97.2 million.

The College and University Financial System. The University uses the College and University Financial System (CUFS) for financial accounting and management purposes. However, CUFS does not use the DoD standard general ledger account structure and is not an approved DoD accounting system. The University procured CUFS in FY 1986 and implemented it in FY 1987. CUFS, which the University owns and maintains, is an on-line financial accounting system through which the University budgets, records, and accounts for goods and services. Besides the general financial management capability, CUFS offers a series of integrated subsystems. University and Operating Location personnel use the subsystems in grant management, inventory control, fixed asset management, and report distribution functions.

The Defense Finance and Accounting Service. The Defense Finance and Accounting Service (DFAS) Denver Center Operating Location, hereafter referred to as the Operating Location, provides accounting support for the

[1]The Uniformed Services are the Army, Navy, Air Force, Marine Corps, Coast Guard, Commissioned Corps of the U.S. Public Health Service, and the Commissioned Corps of the National Oceanic and Atmospheric Administration.

University and has a resident branch at the University. The Operating Location at the University complex, Bethesda, Maryland, has direct access to CUFS. Operating Location personnel will relocate to Denver in FY 1997.

Operating Location personnel are responsible for maintaining the University's general ledger accounting records and for preparing trial balances and other financial reports. Operating Location accounting personnel summarized the University's yearend accounting data for FYs 1995 and 1996 into a trial balance format and submitted the trial balances to the DFAS Indianapolis Center. The DFAS Indianapolis Center combined the University's trial balance data with the other Defense agencies' financial data to prepare the Defense agencies' consolidated trial balances for FYs 1995 and 1996.

Audit Objectives

The overall audit objective was to assess management controls and compliance with laws and regulations. Specifically, we reviewed University and Operating Location financial accounting procedures and related management controls to determine whether the Operating Location can produce reliable information necessary to prepare the University's 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. Appendix C discusses other matters of interest related to self-evaluations of CUFS and material accounting system limitations.

Compliance With Key Accounting Requirements

The University and Operating Location accounting procedures for recording and reporting University financial activity did not comply with DoD accounting standards for:

- general ledger controls and financial reporting;
- property and inventory accounting;
- accounting for receivables, including advances;
- accrual accounting;
- system controls and budgetary accounting; and
- cash procedures and accounts payable accounting.

The University and Operating Location accounting procedures did not comply because University and Operating Location management did not implement management controls and other procedural changes to mitigate accounting system deficiencies. In addition, Operating Location management made accounting policy decisions that did not comply with DoD accounting standards. As a result, the University's financial information produced and recorded by the Operating Location cannot be relied on to prepare accurate financial statements required by the Chief Financial Officers Act.

Guidance on Accounting for and Reporting Financial Activity

Statement of Federal Financial Accounting Standards. The Statement of Federal Financial Accounting Standards No. 1, "Accounting for Select Assets and Liabilities," March 30, 1993, prescribes accounting standards for selected assets and liabilities of the Federal Government and its entities. The guidance establishes specific accounting standards for cash and for Fund Balance With Treasury, Accounts Receivable, and Accounts Payable accounts.

DoD Regulation 7000.14-R. DoD Regulation, 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," May 1993, prescribes the procedures for determining whether accounting systems are designed, documented, and operated in accordance with DoD regulations. In addition, the Regulation establishes 13 key accounting requirements (KARs) with which all DoD accounting systems must reasonably comply to meet requirements

established by the General Accounting Office, OMB, Department of the Treasury, and DoD. See Appendix D for a detailed description of the 13 KARs.

DoD Manual 7220.9-M. DoD Manual 7220.9-M, "DoD Accounting Manual," chapter 24, "Installation-Level Budgetary Resources," October 1983, prescribes the standards for recording transactions in installation-level budgetary accounts. The Manual also specifies the budgetary general ledger accounts in which DoD budgetary data must be recorded and reported.

CUFS Compliance With the KARs

The CUFS did not comply with 8 of the 13 KARs. Specifically, University and Operating Location personnel determined that CUFS did not comply with 5 of the 13 KARs prescribed in DoD Regulation 7000.14-R. Those five KARs include:

- General Ledger Control and Financial Reporting, KAR 1;
- Property and Inventory Accounting, KAR 2;
- Accounting for Receivables Including Advances, KAR 3;
- Accrual Accounting, KAR 5; and
- Cash Procedures and Accounts Payable, KAR 9.

In addition, we determined that CUFS did not comply with the following KARs:

- System Controls (Fund and Internal), KAR 7;
- Audit Trails, KAR 8; and
- Budgetary Accounting, KAR 13.

See Appendix C for a discussion of the University and Operating Location self-evaluations of CUFS and the material accounting system departures relating to general ledger controls and budgetary accounting.

Corrective Actions Taken. Inspector General, DoD, Audit Report No. 95-301, "Major Deficiencies Preventing Auditors From Rendering Audit Opinions on DoD General Fund Financial Statements," August 29, 1995, states that the long-term DFAS solution to producing auditable financial statements is to develop new accounting systems with integrated subsidiary ledgers and general ledgers designed for accrual accounting. DFAS has initiated actions to

consolidate Defense agency accounting systems. The DFAS "Chief Financial Officer 5-Year Financial Management Plan, September 1995 Annual Report" states:

> Consolidation of defense agency systems is currently being studied by the Columbus Center. A work group was formed to study the systems and develop a systems migration and consolidation plan. To date no decisions have been made. At this time all the existing defense agency systems in the DFAS-Headquarters inventory are considered interim migratory accounting systems.[2]

Further, the DFAS Financial Management Plan states that by FY 1999, the migration and consolidation plan that the DFAS Columbus Center is developing will replace or consolidate three accounting systems, including CUFS.

We did not audit the accounting system migration and consolidation plans. Further, because DFAS initiated actions to consolidate systems, including CUFS, we are not making any recommendations to change the CUFS configuration.

Operating Location Accounting Practices and Procedures

The Operating Location accounting procedures did not comply with DoD accounting standards summarized in the KARs. Procedures did not comply because University and Operating Location management had not established management controls over financial accounting and reporting to produce reliable financial information and to ensure compliance with the KARs. Specific departures from the KARs are described below.

General Ledger Control and Financial Reporting. The Operating Location accounting procedures did not comply with KAR 1, "General Ledger Control and Financial Reporting," and KAR 8, "Audit Trails." Operating Location accounting personnel did not accurately record or report University accounting data in the prescribed general ledger accounts and did not fully disclose financial data.

Full Disclosure of Financial Activity. The Operating Location accounting personnel did not record or report in the University's FY 1995 financial records the assets, liabilities, and equity that AFRRI acquired before October 1, 1993. AFRRI acquired the assets, liabilities, and equity when the Defense Special Weapons Agency was responsible for AFRRI financial and accounting activities; however, the Operating Location was responsible for recording and reporting the accounting activity on the University's trial balances. Operating Location accounting personnel did not record or report the assets, liabilities, and equity because Operating Location management did not

[2]Existing or planned and approved automated information systems that have been designated to support accounting functions on a DoD-wide basis.

provide guidance for recording and reporting AFRRI financial activity for FY 1993. KAR 1 states that full financial disclosure and adequate financial information must be provided for management purposes and for necessary external reporting to OMB and the Department of the Treasury. The Operating Location needs to improve financial reporting controls so that University management has the financial information needed to make informed financial and operational decisions.

Documenting Crosswalking Procedures. The Operating Location accounting personnel did not record proprietary or budgetary accounting data using the DoD or Department of the Treasury general ledger charts of accounts. Therefore, Operating Location accounting personnel crosswalked[3] the accounting data from CUFS general ledger accounts and other financial data sources to the Department of the Treasury standard chart of accounts. When preparing the FY 1995 adjusted trial balance, Operating Location accounting personnel did not adequately document the procedures used in crosswalking the accounting data from CUFS general ledger accounts and other financial data sources to the Department of the Treasury standard chart of accounts. Accounting personnel stated that they were not given adequate time and resources to complete the crosswalk procedures. KAR 8 states that, "Audit trails should allow a transaction to be traced from initiation through processing to final reports." Audit trails ensure that accounting transactions are properly accumulated and correctly classified and recorded in appropriate general ledger accounts.

Property and Inventory Accounting. The Operating Location accounting procedures did not comply with KAR 2, "Property and Inventory Accounting." KAR 2 requires that acquired property, including computer software, that meets the DoD capitalization thresholds and that has an estimated useful life of more than 2 years, be capitalized[4] and recorded upon receipt. Further, the costs capitalized and recorded should include amounts paid to install the property in the proper form and place.

Although Operating Location accounting personnel used the approved DoD cost thresholds to capitalize property, accounting personnel did not include all costs associated with acquiring the property in the account. Operating Location accounting personnel recorded property at the purchase order amount, which did not include applicable costs, such as construction, transportation, installation, storage, and other related investment costs. Consequently, property costs may have been understated in CUFS because the full cost of ownership was not capitalized in the general ledger. Operating Location management had not

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[3]Crosswalking, as discussed in this report, is a procedure used to convert accounting data reported in a nonstandard general ledger so the data appear the same as if the Department of the Treasury standard chart of accounts had been used.

[4]Property is "capitalized" when it is recorded as an asset in financial accounting records. The cost of property not capitalized is recorded as a current operating expense.

implemented adequate management controls to ensure that property was recorded at its full value. According to the Abbreviated System Manager/User Review Guide for Operation Systems, Fiscal Year 1995, management decided not to record property at the full value because:

> . . . it is difficult to divide shipping and installation costs among several assets on one purchase order, and if Property Management waited until the invoice was received, instead of recording the asset when it is received by Logistics, an asset could potentially be overlooked or be utilized by a department for several months before being recorded in the property accountability records.

Accounting for Receivables, Including Advances. The Operating Location accounting procedures did not comply with KAR 3, "Accounting for Receivables Including Advances." Operating Location accounting personnel did not promptly record cash collections for accounts receivable.

The Cash Collections Process. The Operating Location accounting personnel are responsible for processing and recording cash collections for outstanding accounts receivable for reimbursable goods and services that the University provides to other agencies. The cash collections process includes automated and manual accounting procedures that allow University and Operating Location accounting personnel to:

- receive checks,
- process fund transfers,
- send checks to Bolling Air Force Base[5] (AFB) for deposit,
- receive deposit confirmations from Bolling AFB, and
- record cash collections in CUFS.

Accounting Practices for Cash Collections. The Operating Location accounting personnel did not record cash collections in CUFS until after the collections were deposited and the deposits were confirmed by Bolling AFB. Accounting personnel followed Operating Location accounts receivable standard operating procedures to post cash collections to the Funds Collected general ledger account (account 1020) and to the Accounts Receivable general ledger accounts (accounts 1220 and 1225) only after deposits were confirmed by Bolling AFB, instead of immediately upon receipt of checks. Based on our review of cash collection transactions processed at fiscal yearend, accounting personnel took an average of 3 weeks after receiving checks to process cash collections and to record the cash collections in CUFS.

The KAR 3 specifies that all cash collections should be under general ledger accounting control and that cash should be deposited as expeditiously as possible

[5]Bolling AFB is the University's service center for disbursements, cash collections, and payroll functions.

and be recorded immediately in the accounting records. KAR 3 also specifies that collections for accounts receivable should be recorded accurately and promptly to provide timely and reliable financial status on debts owed to the U.S. Government. The Operating Location should have recorded all cash collections in the general ledger immediately upon receipt, rather than after receiving deposit confirmation from Bolling AFB.

Accrual Accounting. Operating Location accounting procedures did not comply with KAR 5, "Accrual Accounting." Operating Location accounting personnel did not accurately or promptly record accrued unfunded annual leave in the Accrued Annual Leave-Civilian (Unfunded) DoD general ledger account (account 2221). In addition, Operating Location accounting personnel did not ensure that the ending balance of accrued annual leave for University employees was accurately carried forward as the beginning balance for the following fiscal year.

Processing Annual Leave Data. University personnel use the Air Force Time and Attendance System to process time and attendance data. The Air Force Time and Attendance System is an interactive computer software system that automates timekeeping procedures. First, University personnel electronically transfer time and attendance data to Bolling AFB for payroll computation and disbursement functions. Subsequently, Bolling AFB sends the University a report that summarizes the payroll activity for each pay period. Operating Location personnel are then responsible for updating the accounting records in CUFS using the payroll data reported by Bolling AFB.

Accounting Practices for Accruing Unfunded Annual Leave. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 10, "Accounting Policy and Procedures," May 1993, prescribes the accounting policy and related requirements for recording DoD liabilities for accrued payroll and benefits. The Regulation states that the accrual of annual leave within the DoD is material and should be recognized annually in DoD Component accounting records and financial statements. Further, the Accrued Annual Leave-Civilian (Unfunded) account should be used to record the estimated liability at the end of the current accounting period for earned but unpaid and unfunded civilian employee annual leave. The Operating Location summarized the University's financial and accounting activity on a monthly trial balance. However, Operating Location procedures did not require accounting personnel to record accrued, unfunded annual leave until fiscal yearend.

Although CUFS has an accrued payroll benefits account, Operating Location accounting personnel stated that they did not use it throughout FY 1995 to record the accrued, unfunded annual leave liability. Instead, at fiscal yearend, Operating Location accounting personnel made a manual adjustment on the trial balance to record the accrued, unfunded annual leave liability balance reported by Bolling AFB. However, accounting personnel did not record the manual adjustment in CUFS and did not carry the correct ending account balance for accrued, unfunded annual leave forward to FY 1996; therefore, the general ledger account balance was not accurate.

KAR 5 states that, "Unpaid personnel compensation and benefits which have been earned as of the end of the pay year must be accrued in full or in part, e.g., the accrual of annual leave is material and should be recognized annually in the financial statements." The University Abbreviated System Manager/User Review Guide for Operation Systems, Fiscal Year 1995, states, "It was management's decision that the benefits of recording funded and unfunded annual leave do not outweigh the time and personnel required to implement and maintain." Therefore, accounting personnel did not record or report the accrued, unfunded annual leave liability in the CUFS general ledger or on the monthly trial balances.

System Controls. The University and Operating Location accounting procedures did not comply with KAR 7, "System Controls (Fund and Internal)." KAR 7 requires that accounting systems provide controls over all the appropriations and funds an entity receives from the budget. The control procedures should ensure that the entity accurately records budget funding authorizations. Further, the procedures should prevent overobligations, unmatched expenditures, and undistributed disbursements. The control procedures, a joint responsibility of the University and the Operating Location, are essential to ensure that each entity executes its budget according to legal requirements.

The University did not implement adequate management controls to ensure that valid and reliable budgetary data were obtained and recorded in CUFS. As a result, the University could not rely on the CUFS general ledger accounts to execute its budget within legal requirements. The Operating Location accounting personnel did not have procedures to record the University's funding authorizations or the obligations and expenditures made against the authorizations in the general ledger. To find out the status of the funding authorization, accounting personnel manually calculated funds availability, obligations, and expenditures whenever necessary, by reviewing accounting reports generated by CUFS. In addition, Operating Location personnel stated that at yearend, they manually calculated the Fund Balance With Treasury by using funding authorization documents and cash collections and disbursements data.

Cash Procedures and Accounts Payable Accounting. The Operating Location accounting procedures did not comply with KAR 9, "Cash Procedures and Accounts Payable," because they did not require Operating Location accounting personnel to accurately and promptly record accounts payable or cash disbursements.

Recording Accounts Payable Liability. The Operating Location accounting procedures did not require personnel to enter the cost of goods and services into CUFS immediately upon receipt of goods and services. Accounting personnel were also not required to record accounts payable liabilities on a timely basis. However, KAR 9 requires that accounts payable liabilities be recognized immediately upon receipt of goods and services. CUFS was designed to generate an accounts payable liability after accounting personnel processed an invoice and initiated payment, rather than upon receipt of goods and services alone. Nonetheless, Operating Location management did

not establish alternative accounting procedures so that accounts payable liabilities could be recorded as goods and services were received. As a result, Operating Location accounting personnel may not have recorded accounts payable liabilities in the proper period and the financial records may not accurately reflect the Accounts Payable account balance in trial balance reports.

Recording Cash Disbursements. The Operating Location did not have procedures to accurately and promptly record cash disbursements for payment of accounts payable. In addition, the Operating Location procedures did not require consistent accounting practices when recording the accounts payable liability in the general ledger and in trial balance reports. The Statement of Federal Financial Accounting Standards No. 1, states that, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

The Operating Location accounts payable standard operating procedures require accounting personnel to pay accounts payable liabilities using automatic disbursement procedures. Operating Location disbursement procedures include CUFS computer software and manual accounting procedures that allow Bolling AFB to use computer-generated checks to pay preapproved vendor invoices. Automatic disbursement procedures in CUFS generate an accounting transaction for payment of accounts payable. That action increases the University's Pending Disbursements general ledger account (account 2090) balance while decreasing the Accounts Payable general ledger account (account 2020) balance.

The Pending Disbursements account is a cash "holding account" for accounts payable that have been paid through the automatic disbursement process. The cash disbursements remain in the Pending Disbursements account until Bolling AFB confirms that the disbursements were made. Upon receipt of confirmation, Operating Location accounting personnel record an accounting transaction in the general ledger to decrease the Pending Disbursements account balance and to increase the Cash Disbursements general ledger account (account 1031) balance. Under Operating Location accounting practices, the Cash Disbursements account balance is increased only when disbursement confirmation is received from Bolling AFB.

At fiscal yearend, when Operating Location accounting personnel have not received disbursement confirmation from Bolling AFB, Operating Location procedures require a manual adjustment to the trial balance, which deletes the amount recorded in the Pending Disbursements account. At the same time, the manual adjustment increases the Accounts Payable account balance by the amount recorded in the Pending Disbursements account. That adjustment reverses the original transaction for payment of accounts payable, resulting in unreported cash disbursements on the yearend trial balance.

Accounts Payable Controls. Accounts payable are set up to record an entity's liability for goods and services received. KAR 9 states that an accounts payable liability should be recorded when goods or services are received. That

KAR also states that liabilities and cash disbursements must be recorded in accounting records as they occur or be adjusted to the accrual basis at each month's end. Further, KAR 5 states that accrual accounting must recognize the accountable aspects of financial transactions or events as they occur. Therefore, the Operating Location should establish procedures to accrue liabilities and record payments in the appropriate period, especially cash disbursements.

Management Determined Accounting Practices

Operating Location management made accounting policy decisions and established accounting practices that did not follow approved DoD accounting standards. Those policy decisions established noncompliant practices for accounts payable and cash collections.

Accounting Practices. Operating Location management established the accounting practice to record the Pending Disbursements account balance as an unpaid accounts payable on the trial balance because the Operating Location first wanted assurance that Bolling AFB had actually paid the vendors. In addition, Operating Location officials established an accounting practice to record cash collections in the general ledger after receiving deposit confirmation from Bolling AFB, not immediately upon receipt, which contravenes the requirements in KAR 3.

Accounting System Limitations. The CUFS software limitations influenced management's decisions. Operating Location accounting staff cannot make adjustments to account balances within CUFS after the end of the fiscal year. The Operating Location accounting practice that requires Bolling AFB to provide confirmation for cash collections and disbursements prevented accounting personnel from making accounting adjustments when confirmation was received from Bolling AFB after the end of the fiscal year. Therefore, the Accounts Payable, Cash Disbursements, Accounts Receivable, and Cash Collections account balances were misstated at yearend.

Effects on Accounting Records and Financial Statements

As a result of University and Operating Location accounting procedures and policy decisions that did not follow DoD accounting standards, the following account balances were misstated throughout FYs 1995 and 1996.

Accounts Payable and Cash Disbursements. The Operating Location misstated the Pending Disbursements, Cash Disbursements, and Accounts Payable account balances throughout FY 1995. The Operating Location routinely recorded cash disbursement transactions after receiving disbursement confirmation from Bolling AFB, not immediately upon disbursement. That practice resulted in misstating cash disbursements and accounts payable by

$2.0 million at the end of FY 1995. Specifically, on the FY 1995 trial balance, the Accounts Payable balance was overstated and the Cash Disbursements balance was understated by $2.0 million each.

Accounts Receivable and Cash Collections. The Operating Location misstated cash collections throughout FY 1996. Operating Location accounting personnel did not record $1.5 million of cash collections, received before September 30, 1996, until FY 1997. During the final 3 weeks of FY 1996, the University received 15 checks, but the Operating Location did not record the collections in CUFS or report the collections on the trial balance until FY 1997. Because Operating Location management did not ensure that cash collections were recorded immediately upon receipt, the Funds Collected and Fund Balance with Treasury account balances were understated at yearend by $1.5 million each. In addition, accounting personnel did not reduce the Accounts Receivable account balance as cash was collected. Therefore, the delay in processing cash collections also caused the yearend Accounts Receivable account balance to be overstated by $1.5 million.

Summary

With the exception of accounts payable, cash disbursements, accounts receivable, and cash collections, we were unable to quantify the effects that management decisions, the weak management controls, and accounting system deficiencies had on FYs 1995 and 1996 financial activity, general ledger account balances, and resulting financial reports. However, the accounting system deficiencies:

- prohibit compliance with DoD accounting standards;
- continue to compromise management controls;
- result in a material misstatement of assets, liabilities, and equity; and
- may prohibit the audit community from rendering an opinion on the financial statements.

Recommendations for Corrective Action

We recommend that the Director, Defense Finance and Accounting Service Denver Center Operating Location; and the Vice President of Resource Management, Uniformed Services University of the Health Sciences, implement management control procedures to ensure that accounting procedures comply with the key accounting requirements. Specifically:

1. Document the methodology, procedures, and accounting guidance used to crosswalk accounting data from the College and University Financial System to the appropriate chart of accounts when preparing trial balances and other external accounting reports.

2. Record the assets, liabilities, and equity that the Armed Forces Radiobiology Research Institute acquired before October 1, 1993, as part of the Uniformed Services University of the Health Sciences' financial records.

3. Record the full costs of fixed assets, including construction, transportation, installation, storage, and other related investment costs.

4. Record and report accounts receivable, cash collections, accounts payable, and cash disbursements promptly and consistently and on an accrual basis.

5. Record accrued annual leave in the general ledger throughout the fiscal year.

6. Record original funding authority in the general ledger.

Management Comments

The Defense Finance and Accounting Service and the Uniformed Services University of the Health Sciences did not comment on a draft of this report. Therefore, we request that the Defense Finance and Accounting Service and the Uniformed Services University of the Health Sciences provide comments in response to the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the Operating Location process for recording and reporting FYs 1995 and 1996 financial information for the University, which received $92.4 million in funding for FY 1995 and $97.2 million for FY 1996. We also reviewed financial information produced by CUFS, which the University uses for financial accounting and management purposes. Additionally, we reviewed and evaluated management controls as they pertained to our audit objective.

Use of Computer-Processed Data. We relied on FYs 1995 and 1996 computer-processed general ledger data and financial reports generated by CUFS. We did not validate the reliability of CUFS, which generated the data, because we limited our use of the data to conduct tests of management controls, to perform analytical reviews, and to review the procedures used to process financial transactions. Not evaluating CUFS did not affect the results of the audit.

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

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

Methodology

To evaluate the Operating Location process for recording and reporting financial information for the University, we:

o selected four general ledger accounts to review by comparing each account's materiality to total University expenditures of $102 million for FY 1995 (including FY 1995 expenditures and all other open funding years);

o reviewed accounting procedures, records, and reports pertaining to FYs 1995 and 1996 financial accounts and statements;

o identified and documented transaction cycles;

o interviewed personnel to obtain information about transaction cycles and accounting controls;

o reviewed the management control programs for the University and Operating Location located at the University;

o performed analytical procedures on the University's FYs 1995 and 1996 trial balances; and

o assessed University management corrective actions taken or proposed regarding deficiencies identified in its self-evaluation.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the University and Operating Location management controls over financial management practices, accounting procedures, and accounting systems. Specifically, we reviewed the University controls over budgetary accounting and funds control. In addition, we reviewed the Operating Location controls over financial systems, accounts payable, accounts receivable, funds control, and payroll benefits. We also reviewed the results of the self-evaluations of CUFS, which the University and Operating Location performed.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Directive 5010.38, for the Operating Location. The Operating Location management controls over CUFS, accounts payable, funds control, accounts receivable, and payroll benefits were not adequate to ensure that accounting personnel recorded and reported transactions in accordance with DoD accounting standards. All recommendations, if implemented will improve the controls over CUFS and recording and reporting procedures for accounts payable, accounts receivable, payroll benefits, and Fund Balance With Treasury. A copy of this report will be provided to the senior officials responsible for management controls in the Office of the Assistant Secretary of Defense (Health Affairs) and DFAS.

Adequacy of Management's Self-Evaluation. University officials did not identify financial systems, accounts payable, funds control, accounts receivable, or payroll benefits as assessable units. Also, University management identified assessable units organizationally; therefore, the University did not identify the material weaknesses identified by the audit.

The Operating Location completed operational reviews of accounts receivable and reimbursements, accounts control, travel accounting, accounts payable, and management functions during FYs 1995 and 1996. In its operational reviews, the Operating Location did not identify material management control

weaknesses, except for those related to travel accounting. The operational reviews identified errors during the filing of changes to the travel regulations. The Operating Location initiated actions to correct the travel accounting errors.

University and Operating Location personnel completed the Abbreviated System Manager/User Review Guide on June 1, 1995. The Abbreviated System Manager/User Review Guide is a self-evaluation of CUFS. In the self-evaluation, University and Operating Location officials identified that CUFS did not conform to 5 of the 13 KARs. Although the University is responsible for CUFS, University officials did not report the departures from the accounting requirements in its FY 1995 Annual Statement of Assurance. The University did not report the departures because University officials stated that, ". . . USU [the University] has no accounting systems. The accounting system utilized by USU is under the cognizance of DFAS."

Appendix B. Prior Audits and Other Reviews

During the last 5 years, the Office of the Inspector General, DoD, issued two reports that specifically discussed the University accounting system.

Inspector General, DoD

Inspector General, DoD, Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996. The report states that 19 of 29 Defense organizations, including the University, used data from sources other than a general ledger accounting control system to prepare their FY 1995 adjusted trial balances. The report also states that the DFAS did not have complete information on all FY 1995 Department 97 funds received by Defense organizations. Further, the report states that $19 billion of Department 97 funding was not controlled through a general ledger accounting control system and that about $820 million of FY 1995 funding was omitted from the Defense organizations' FY 1995 adjusted trial balance submissions to the DFAS Indianapolis Center. The report recommended that the Director, Defense Finance and Accounting Service Indianapolis Center, establish procedures and management controls for ensuring compliance with the Federal Agencies' Centralized Trial-Balance System and the Federal Financial Management Act requirements. Management concurred with the recommendation and stated that DFAS expects to have direct reporting in place by the second quarter of FY 1997.

Inspector General, DoD, Report No. 97-008, "Summary Report on FY 1994 Financial Statement Audits of Defense Agencies," October 25, 1996. The report identifies accounting weaknesses at 18 Defense agencies, including the University. The majority of the Defense agencies' accounting weaknesses were related to general ledger control and financial reporting, property and inventory accounting, system controls, and audit trails. The report states that the University did not have a standard general ledger and that its financial reporting and system controls (fund and internal) were inadequate. The summary report did not make any recommendations and management comments were not required.

Appendix C. Adequacy of the College and University Financial System

Evaluations

The DFAS Richmond Detachment completed an evaluation of CUFS on February 20, 1992. The purpose of the evaluation was to determine whether CUFS was operating according to OMB guidelines, General Accounting Office accounting principles and standards, and DoD directives and regulations. The evaluation showed that CUFS was not in compliance with the prescribed accounting requirements. The evaluation report made seven administrative and accounting system improvement recommendations. To increase compliance with the DoD accounting standards, the report recommended that University officials establish a system of DoD general ledger accounts, establish separate subsidiary ledgers for undelivered orders and payables, record payables in accordance with DoD guidance, and develop a process to reconcile general ledger accounts to subsidiary ledgers.

The University and Operating Location personnel performed subsequent self-evaluations of CUFS in FYs 1993, 1994, and 1995. The Federal Managers' Financial Integrity Act requires those evaluations. CUFS managers were responsible for reviewing CUFS to identify any departures from DoD accounting standards and for ensuring that adequate corrective action was under way to correct the departures. The Operating Location documented the evaluations in the Abbreviated System Manager/User Review Guide for Operation Systems. University and Operating Location personnel reviewed the University accounting system to determine whether CUFS complied with the KARs. The self-evaluations determined that CUFS did not comply with 5 of the 13 KARs. As of November 29, 1996, the University had not implemented corrective actions for the KAR departures identified in the 1992 DFAS Richmond Detachment evaluation of CUFS and the Abbreviated System Manager/User Review Guide for Operation Systems.

System Limitations

The CUFS did not comply with DoD accounting standards summarized in the KARs. Material departures from the KARs are described below.

General Ledger Control and Financial Reporting. The CUFS did not comply with KAR 1, "General Ledger Control and Financial Reporting." Inspector General, DoD, Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996, states that CUFS did not have a complete general ledger accounting control system. In addition, the report states that CUFS did not use

the DoD chart of accounts to record proprietary and budgetary accounting data. Further, Operating Location accounting personnel did not use subsidiary ledgers to support accounts receivable, accounts payable, and other general ledger control accounts.

General Ledger Account Structure. The Operating Location accounting personnel did not record proprietary or budgetary accounting data using the DoD or Department of the Treasury general ledger chart of accounts. Instead, Operating Location accounting personnel recorded assets, liabilities, and equity in CUFS general ledger accounts. However, accounting personnel did not record budgetary data in CUFS general ledger accounts.

Operating Location accounting personnel tracked expenses and revenues within CUFS by object and subobject codes, which are used to requisition goods and services. In addition, University management used the codes to identify specific expenses and to prepare financial reports used to justify budget requests to DoD, OMB, and Congress.

KAR 1 states that an accounting system must have general ledger control and maintain an appropriate account structure, which includes assets, liabilities, expenses, and revenues. The general ledger account structure must also include budgetary accounts. DoD Manual 7220.9-M prescribes the standards for recording transactions in installation-level budgetary accounts. The Manual also outlines the budgetary general ledger accounts in which the University must record and report budgetary data. Those accounts include, but are not limited to:

- Customer Orders Accepted,
- Unfilled Customer Orders,
- Reimbursements Earned,
- Commitments,
- Undelivered Orders, and
- Accrued Expenditures.

Establishing and Maintaining Subsidiary Ledgers. The Operating Location accounting personnel did not establish and maintain adequate subsidiary accounts in the CUFS general ledger as required by DoD Regulation 7000.14-R. Operating Location accounting personnel did not utilize subsidiary ledgers to support the Accounts Receivable, Accounts Payable, Advances, and Unearned Revenue general ledger control accounts. Therefore, accounting personnel could not perform a monthly reconciliation without extensive manual work. KAR 1 specifies that accounting systems should maintain subsidiary general ledger accounts, which should be reconciled to the control accounts at least monthly.

Budgetary Accounting. The CUFS did not comply with KAR 13, "Budgetary Accounting." CUFS did not adequately track or record budgetary data from allotment through disbursement in the prescribed general ledger accounts. The University had not established budgetary accounts in the CUFS general ledger account structure; therefore, budgetary information was not recorded in the University general ledger or reported on the trial balance. CUFS did track allotments, reimbursable authority, commitments, obligations, and expenditures; however, it did not track customer orders, undelivered orders, or unpaid accrued expenditures.

University personnel stated that budgetary data in CUFS were tracked for each department within the University. However, because of CUFS' software limitations, the budgetary data could not be summarized for total budget authority. University budgetary officials used the Status of Funds Report as the primary accounting tool for controlling budget authority, obligations, and expenditures. Because the University did not have on-line access to total budget authority, budgetary officials relied on the Status of Funds Report generated daily by CUFS to ensure funds control.

The CUFS supports budget formulation and execution functions. In addition, CUFS contains other security features that help minimize the potential for overobligating budget resources for individual departments. However, the configuration of CUFS is a material departure from KAR 13 requirements.

KAR 13 states that the accounting system should record budget resources at the appropriate level and account for appropriations, customer orders, and other general ledger accounts prescribed by DoD. Without a full compliment of budgetary general ledger accounts, CUFS did not provide an adequate audit trail from the commitment of budgetary resources to final cash disbursements. Without an adequate audit trail, budgetary officials could not reconcile budget execution data with accounting activity. The ability to reconcile budgetary data and accounting activity is an important management control feature because the process provides an additional safeguard against Antideficiency Act violations.

Appendix D. Key Accounting Requirements

DoD Regulation 7000.14-R, volume 1, chapter 3, prescribes 13 KARs that accounting systems must reasonably comply with to meet General Accounting Office, OMB, Department of the Treasury, and DoD requirements. Brief descriptions of each KAR follow.

KAR 1, General Ledger Control and Financial Reporting. The accounting system must have general ledger control and maintain a DoD-approved general ledger account structure for assets, liabilities, equity, expenses, losses, gains, transfers in and out, and financing sources. In addition, full financial disclosure, accountability, adequate financial information, and reports must be provided for management purposes and for necessary external reporting to the OMB and the Department of the Treasury.

KAR 2, Property and Inventory Accounting. The system must account in quantitative and monetary terms for the procurement, receipt, issue, and control of plant, property, equipment, inventory, and material. The property management system must include accounting controls over inventory ledgers that identify the item, its location, quantity, acquisition date, cost, and other information. Subsidiary property records are reconciled periodically to general ledger accounts.

KAR 3, Accounting for Receivables Including Advances. The system must account for all accounts receivable (all debts to the U.S. Government) accurately and promptly to provide timely and reliable financial status.

KAR 4, Cost Accounting. Cost accounting must involve accounting analysis and reporting on costs of production of goods or services or operation of programs, activities, functions, or organizational units. Cost accounting shall be provided in the accounting system if it is required in such instances as pricing decisions, productivity improvement decisions, or measurement of performance.

KAR 5, Accrual Accounting. Accrual accounting must recognize the accountable aspects of financial transactions or events as they occur. Transactions may be recorded in accounting records as they occur or be adjusted to the accrual basis at each month's end. Unpaid personnel compensation and benefits that have been earned as of the end of the pay year must be accrued in full or in part. Accrued payroll for civilian and military salaries and wages; unfunded, annual leave; and annual leave must be recorded and reconciled with the actual payroll.

KAR 6, Military and Civilian Payroll Procedures. Payroll systems must incorporate controls of payroll amounts and payroll deductions to ensure smooth payroll processing action and to minimize incorrect payments. Unpaid personnel compensation and benefits, including annual leave, that have been earned by employees as of the end of the pay year must be accrued in full. Personnel compensation and all employee benefit expenses shall be reported and disclosed in the financial statements.

KAR 7, System Controls (Fund and Internal). The accounting system must ensure that obligations and expenditures do not exceed the amount appropriated. The system must provide a process and procedures for control over errors. The system must show the appropriations and funds to be accounted for and a description of the accounting entity's proposed fund distribution and control process. The system must have good fund control procedures to prevent untimely liquidation of obligations, unmatched expenditures, and undistributed disbursements. The system must also have adequate management controls to prevent, detect, and correct errors and irregularities that occur throughout the system.

KAR 8, Audit Trails. The financial transactions on accounting system processes must be adequately supported with pertinent source documents. Audit trails should allow a transaction to be traced from initiation through processing to final reports.

KAR 9, Cash Procedures and Accounts Payable. The accounting system shall be designed to verify timely payments based on properly approved disbursement documents. Payment procedures must comply with the Prompt Payment Act. Accounts payable should be recorded when goods or services are received.

KAR 10, System Documentation. The accounting system must have adequate system documentation, including documented interfaces between accounting system segments.

KAR 11, System Operations. Accounting system operations shall be adequately planned and organized to assure that financial management and accounting objectives are met in an economical and efficient manner. There should be detailed system operating and maintenance procedures. Also, there should be periodic system reviews to assure that the system is functioning as intended.

KAR 12, User Information Needs. The accounting system must satisfy users' needs of quality, accuracy, timeliness, and reliability to facilitate management's decisionmaking process.

KAR 13, Budgetary Accounting. The accounting system shall support budget formulation and budget requests and shall control budget execution. Programming, budgeting, accounting, reporting, classification, and coding structure should be uniform, mutually consistent, and synchronized with the organizational structure so that actual activity can be compared with enacted budgets to support future budget formulation for each activity.

Appendix E. 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 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 Finance and Accounting Service, Denver Center
Director, Defense Special Weapons Agency
Director, National Security Agency
  Inspector General National Security Agency
Inspector General, Defense Intelligence Agency
President, Uniformed Services University of the Health Sciences

Non-Defense Federal Organizations and Individuals

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

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

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