Audit Report

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE ARMY AUDIT AGENCY AUDIT OF THE FY 1998 FINANCIAL STATEMENTS OF THE U.S. ARMY CORPS OF ENGINEERS, CIVIL WORKS PROGRAM

Report Number 99-094 March 1, 1999

Office of the Inspector General
Department of Defense

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Acronyms

AAA	Army Audit Agency
GAO	General Accounting Office

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

March 1, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program (Report No. 99-094)

We are providing this audit report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Army Audit Agency (AAA) disclaimer of opinion on the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program, along with the AAA report, "FY 98 Financial Statements: U.S. Army Corps of Engineers, Civil Works." An audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program is required by the "Chief Financial Officers Act of 1990," as amended by the "Federal Financial Management Act of 1994." Since this report contains no findings or recommendations, written comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 664-9175) (rbird@dodig.osd.mil) or Mr. John J. Vietor, Audit Project Manager, at (317) 510-3855 (DSN 699-3855) (jvietor@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-094 **March 1, 1999**
(Project No. 8FI-2026)

Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program

Executive Summary

Introduction. An audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program is required by Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We delegated the audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program to the Army Audit Agency. This report provides our endorsement of the Army Audit Agency disclaimer of opinion on the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program, along with the Army Audit Agency report, "FY 1998 Financial Statements: U.S. Army Corps of Engineers, Civil Works."

Audit Objective. Our objective was to determine the accuracy and completeness of the Army Audit Agency audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program. See Appendix A for a discussion of the audit process.

Audit Results. The Army Audit Agency Report, "FY 98 Financial Statements: U.S. Army Corps of Engineers, Civil Works," February 8, 1999, stated that the Army Audit Agency was unable to express an opinion on the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program. We concur with the Army Audit Agency disclaimer of opinion; our endorsement of that disclaimer is at Exhibit 1. The Army Audit Agency report is at Exhibit 2.

Table of Contents

Executive Summary i

Appendixes

A. Audit Process
Scope and Methodology 1
Summary of Prior Coverage 2
B. Report Distribution 3

Exhibits

Exhibit 1. Inspector General, DoD, Endorsement Memorandum
Exhibit 2. AAA Report "FY 98 Financial Statements: U.S. Army Corps of Engineers, Civil Works"

Appendix A. Audit Process

Scope and Methodology

Audit Work Performed. To fulfill our responsibilities under Public Law 101-576, the "Chief Financial Officers Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," we performed oversight of the independent audit conducted by the Army Audit Agency (AAA) of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program. Our purpose was to determine whether we could rely on the AAA audit. We reviewed the AAA audit approach and planning and monitored audit progress at the key points.

Reviewing the AAA Audit Approach. We used the "Federal Financial Statement Audit Manual," January 1993, issued by the President's Council on Integrity and Efficiency, and the "Financial Audit Manual," December 12, 1997, issued by the General Accounting Office (GAO), as the criteria for reviewing the AAA audit approach. Specifically, we reviewed the engagement letter, attended the entrance conference, assisted in formulating the audit strategy, and commented on audit plans and programs. We also participated in audit planning and audit working group meetings of the GAO, Inspector General, DoD, and the AAA.

Monitoring Audit Progress. Through the DoD Financial Statement Audit Executive Steering Committee, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD Consolidated Financial Statements, including the supporting financial statements of major DoD Components. We participated in audit working groups on significant topics in financial reporting relating to the Corps of Engineers, Civil Works Program. For example, we participated in audit Working Groups for DoD-wide Real Property, Statement of Budgetary Resources, Fund Balance With Treasury, and Eliminating Entries. We also reviewed and commented on the AAA draft audit opinion report and the report on internal controls and compliance with laws and regulations.

In addition to the oversight procedures, we performed other procedures necessary to determine the fairness and accuracy of the AAA audit approach and conclusions. For example, we co-performed audit work with the AAA to verify the existence and completeness of real property assets.

Audit Period and Standards. We performed this financial statement audit from March 19, 1998, to March 1, 1999, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD audit and accounting community. Further details are available upon request.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to the achievement of the following objectives and goals.

- **Objective:** Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established objectives and goals for performance improvement reform. This report pertains to achievement of the following functional area objectives and goals.

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

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

Summary of Prior Audit Coverage

The GAO and the Inspector General, DoD, have conducted multiple reviews related to the oversight of financial statement audits. GAO reports can be accessed on the Internet at http://www.gao.gov. Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil.

Appendix B. Report Distribution

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  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Commander, U.S. Army Corps of Engineers

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 Indianapolis Center

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

Exhibit 1. Inspector General, DoD, Endorsement Memorandum

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

March 1, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program (Project No 8FI-2026)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Army Audit Agency (AAA) the audit of the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program. Summarized below are the AAA opinion letter on the FY 1998 financial statements and the results of our review of the AAA audit. We endorse the disclaimer of opinion expressed by the AAA (Enclosure).

Disclaimer of Opinion. The AAA disclaimer of opinion on the FY 1998 Financial Statements of the U.S Army Corps of Engineers, Civil Works Program, February 8, 1999, stated that AAA was unable to express an opinion on the financial statements. We concur with the AAA disclaimer of opinion. The information provided contains AAA reasons for disclaimer and is based on previous versions of these financial statements. Some numbers may have changed; however, the concerns expressed also relate to the version of the financial statements contained herein. The AAA could not express an opinion on the financial statements for the reasons summarized below.

- Disbursing stations had material variances in Fund Balance with Treasury accounts.
- Accounts receivable were materially incomplete and did not have an allowance for estimated uncollectible amounts. Accounts receivable was materially understated because of partial reporting of long-term receivables from water storage contracts. In addition, accounts receivable were not reduced by an allowance for estimated uncollectibles.
- Real property general and subsidiary ledgers were not in agreement.
- Support for beginning balances in the Statement of Budgetary Resources was inadequate. The Corps Finance Center made undocumented adjustments to the beginning balances of the FY 1998 Statement of Budgetary Resources.
- The format and substance of the Statement of Net Cost were not in compliance with Federal accounting standards. Because of system problems, the Corps could not prepare the Statement of Net Cost by business programs.

Internal Controls. The AAA performed limited tests of controls, not enough to provide assurance that the internal controls over financial reporting contained no material errors. Consequently, the AAA did not provide an opinion on internal controls. However, AAA identified significant problems associated with financial reporting of fund balance with Treasury, accounts receivable, real property, the Statement of Net Cost, and the Statement of Budgetary Resources. Details on this matter are discussed in the significant matters section of the AAA audit report.

Compliance With Laws and Regulations. The AAA also identified areas of noncompliance with laws and regulations, which are discussed in more detail in the laws and regulations section of the AAA audit report. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Systems," August 24, 1998, as amended January 25, 1999, the AAA work disclosed that the financial management system did not comply with applicable Federal accounting standards related to accounting for selected assets, liabilities, revenue, and other financing sources. For example, the Corps needed to make changes to its financial management system to record long-term accounts receivable and long-term accounts payable and to estimate and record allowance for loss on accounts receivable and the corresponding bad-debt expense. Also, the real property values in the Corps financial management system general and subsidiary ledgers did not agree. In addition, there were about 29,000 real property assets in the financial management system with no recorded book value.

Review of Army Audit Agency Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit conducted by the AAA, we reviewed the audit approach and planning and monitored the progress at key points. We also performed other procedures to determine the fairness and accuracy of the audit approach and conclusions.

We reviewed the AAA work on the FY 1998 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program, from March 19, 1998, to March 1, 1999, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the AAA disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosure *

* The Enclosure is included in Exhibit 2, pages 13–14.

Exhibit 2. AAA Audit Report, "FY 98 Financial Statements: U.S. Army Corps of Engineers, Civil Works"

FY 98 Financial Statements

U.S. Army Corps of Engineers, Civil Works

8 February 1999
Audit Report: AA 99-157

U.S. Army Audit Agency

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VA 22302-1596

8 February 1999

Secretary of the Army
Commander, U.S. Army Corps of Engineers

This is the auditor's report which summarizes the results of our efforts to audit the U.S. Army Corps of Engineers, Civil Works Financial Statements for the fiscal year 1998. The Commander, Army Corps of Engineers and the Auditor General signed an engagement letter in July 1998 defining this audit. We performed our work pursuant to the Chief Financial Officers Act of 1990 as expanded by the Government Management Reform Act of 1994.

We were unable to express an opinion on the financial statements primarily because:

- Disbursing stations had material variances with Treasury.
- Accounts receivable were materially incomplete and did not have an allowance for estimated uncollectible amounts.
- Real property general and subsidiary ledgers were not in agreement.
- The format and substance of the Statement of Net Costs was not in compliance with Federal Accounting Standards requirements.
- Statement of Budgetary Resources' beginning balances were not supported.

We were not able to apply other auditing procedures to satisfy ourselves as to the fairness of the data presented.

We made a limited review of internal controls and compliance with laws and regulations. We do not provide an opinion on internal controls. However, management needed to improve accounting procedures and records used to support general ledgers to better comply with regulations.

Brief discussions of our results and conclusions are in the main part of this report. We presented detailed discussions in several supporting audit reports (see Annex B). In a separate report, we discuss each of the major areas in a finding format that includes recommendations and command comments.

I appreciate the cooperation and courtesies extended to us during the audit.

Francis E. Reardon

FRANCIS E. REARDON, CPA
The Auditor General

CONTENTS

Page

Background 5

Auditor's Report 13

Significant Matters 17

Report on Internal Controls 25

Report on Compliance with Laws and Regulations 31

Overview Information 37

Audit Scope and Methodology 41

Annexes

A - FY 98 Financial Statements 45

B - Supporting Audit Reports 88

C - Others Receiving Copies of this Report 89

D - Audit Team 90

BACKGROUND

Mission and Organization

The U.S. Army Corps of Engineers is a complex organization with civil works and military missions. As the largest public engineering, design, and construction management agency, it employs a workforce of about 37,000 civilians and 600 military personnel. The Corps also contracts with commercial architectural, engineering, and construction firms for most design work and for all construction work.

Within the civil works program, the Corps develops, maintains, and manages many of the nation's water and related environmental resources. This mission includes designing, constructing, and operating projects for:

- Commercial navigation of rivers, harbors, and channels.
- Flood control.
- Hydroelectric power development.
- Restoration of fish and wildlife.
- Recreation areas.

Under its military program, the Corps manages and administers contracts for engineering services for the Army. When requested, the Corps provides these services to the Air Force, other DOD and government agencies, and foreign governments. The Corps also does research and development in engineer support (specialized equipment and procedures) of combat operations.

The Corps had appropriations totaling about $4 billion for its FY 98 Civil Works Program. It operates a revolving fund for common services that apply to multiple projects.

The Corps uses a decentralized management structure consisting of 64 major operations located worldwide that include a headquarters, divisions, districts, laboratories, and several field operating activities.

Federal Accounting Standards

The Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General are the co-principles of the Joint Financial Management Improvement Program. They are responsible for setting Federal Government accounting standards and are accomplishing this task through the Federal Accounting Standards Advisory Board (FASAB). The board prepared a core set of basic accounting standards. Although not all of these standards were in effect for FY 98, they constitute generally accepted accounting principles for the Federal Government. Federal agencies are to use the following hierarchy to prepare financial statements:

1. Individual standards (Statements of Federal Financial Accounting Standards) agreed to by the Director of the Office of Management and Budget, the Comptroller General, and the Secretary of the Treasury and published by the Office of Management and Budget and the General Accounting Office.

2. Interpretations related to the Statements of Federal Financial Accounting Standards issued by the Office of Management and Budget in accordance with the procedures outlined in its Circular A-134, "Financial Accounting Principles and Standards."

3. Requirements contained in the Office of Management and Budget Form and Content Bulletin in effect for the period covered by the financial statements.

4. Accounting principles published by other authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

5. United States Government Standard General Ledger published by the Department of the Treasury, Financial Management Service, through its Treasury Financial Manual.

6. Policies and guidance published in the DoD Financial Management Regulation.

7. Interim policies and guidance issued by the Office of the Under Secretary of Defense (Comptroller) through various memoranda.

The Federal Accounting Standards Advisory Board required significant changes in the presentation of financial data for the FY98 financial statements.

Financial Statements

Federal Agencies are required to submit a set of financial statements, overview and notes that were standardized by the Federal Accounting Standards Advisory Board. The statements include the following:

- Balance Sheet.
- Statement of Net Cost.
- Statement of Budgetary Resources.
- Statement of Financing.
- Statement of Changes in Net Position.

According to Office of Management and Budget Bulletin 97-01, comparative financial statements are permitted but not required until reporting periods beginning after 30 September 1999 (FY 00). Further guidance on comparative reporting will be provided in a future form and content bulletin.

Balance Sheet

The balance sheet presents, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity exclusive of items subject to stewardship reporting (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position). The balance sheet presents assets available for use by the reporting entity (entity assets) separately from those managed by the reporting entity but not available for use in its operations (non-entity assets). The balance sheet also separately presents liabilities covered by budgetary resources and liabilities not covered by budgetary resources.

Statement of Net Cost

The Statement of Net Cost is designed to show separately the components of the net cost of the reporting entity's operations for the period. Net cost of operations is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. The gross cost of a program consists of the full cost of the outputs produced by that program plus any non-production costs that can be assigned to the program (non-production costs are costs linked to events other than the production of goods and services). The net cost of a program consists of gross cost less related exchange revenues. By disclosing the gross and net cost of the entity's programs, the Statement of Net Cost provides

information that can be related to the outputs and outcomes of the programs and activities.

Preparers of the Statement of Net Cost should decide the exact classification of major programs. This decision should be based on the missions and outputs described in its Government Performance and Results Act strategic and annual plans, the entity's budget structure, and the guidance for defining and structuring responsibility segments presented in accounting standards.

Statement of Budgetary Resources

The Statement of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. This statement should be prepared by reporting entities whose financing comes wholly or partially from budgetary resources. Monitoring of budget execution is at the individual account level. Accordingly, budgetary information aggregated for the Statement of Budgetary Resources should be disaggregated for each of the reporting entity's major budget accounts and presented as supplementary information. Small budget accounts may be aggregated.

Recognition and measurement of budgetary information reported on this statement should be based on budget terminology, definitions, and guidance in Office of Management and Budget Circular A-34, "Instructions on Budget Execution," dated 26 December 1995.

A consolidating statement of budgetary resources is preferred but not required for FYs 98 and 99. Instead, reporting entities may prepare a combining statement. Reporting entities that prepare a combining statement must disclose in a note that the statement is combining and, as such, intra-entity transactions have not been eliminated. Also, the statement must be properly titled "consolidating" or "combining," as appropriate.

Statement of Financing

Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. In order to understand these differences, information is needed to reconcile financial (proprietary) net cost of operations with obligations of budget authority. This reconciliation also makes sure there is a proper relationship between proprietary and budgetary accounts in the reporting entity's financial management system. The Statement of Financing is designed to report those differences and facilitate the reconciliation. Preparers of financial statements have flexibility as to the level of detail presented.

Statement of Changes in Net Position

The Statement of Changes in Net Position reports the beginning net position, the items which caused net position to change during the reporting period, and the ending net position. The entity should display information on the Statement of Changes in Net Position organized in the same manner as was done for the Statement of Net Cost.

AUDITOR'S REPORT

AUDITOR'S REPORT

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
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Secretary of the Army
Commander, U.S. Army Corps of Engineers

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the U.S. Army Corps of Engineers prepared the accompanying financial statements for fiscal year 1998. The Corps engaged us to audit its Balance Sheet as of 30 September 1998, and the Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position for the fiscal year ended 30 September 1998. The financial statements are the responsibility of Corps management. Our responsibility is to express an opinion on these financial statements based on our audit.

We were unable to express an opinion on these financial statements because:

- Disbursing stations had material variances in their fund balance with Treasury.
- Accounts receivable were materially incomplete and did not have an allowance for estimated uncollectible amounts.
- Real property general and subsidiary ledgers were not in agreement.
- The format and substance of the Statement of Net Costs was not in compliance with Federal accounting standards requirements.
- Statement of Budgetary Resources' beginning balances were not adequately supported.

Therefore, we caution users that the information presented in the financial statements may not be reliable.

We performed limited tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Budgetary Resources and selected lines on other financial statements, not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

However, our review of those controls showed that once corrections are made to the longstanding problems identified above, the controls would be effective to ensure that there are no material misstatements in the financial statements for those accounts.

We found instances of noncompliance with laws and regulations. The Corps needed to make changes in accounting procedures as they relate to fund balance with Treasury, accounts receivable, and accounts associated with the Statement of Net Cost.

As a result, the risk of material misstatement in the financial statements is high. We will present details of these matters in this report.

We also reviewed the information presented in the Corps overview section accompanying its financial statements. We found some weaknesses in the performance measures. The Corps didn't discuss the financial statement limitations or address Year 2000 issues as required by DOD guidance.

We performed our work in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 98-08 (Audit Requirements for Federal Financial Statements).

FRANCIS E. REARDON, CPA
The Auditor General

8 February 1999

SIGNIFICANT MATTERS

SUMMARY

The U.S. Army Corps of Engineers is a leader among the major DOD commands in striving to meet the goals of the Chief Financial Officers Act. In FY 93, the Corps was among the first to prepare and submit a separate set of financial statements. In FY 94, the Corps volunteered as a pilot project under the Government Performance and Results Act. Since FY 94, the Corps fielded its new financial management system and made changes in business practices to strengthen internal controls and meet the requirements of both Acts.

We tested the strength of the financial management system during an audit of the FY 97 financial statements of the Southwestern Division. The division passed our test and received an unqualified opinion. But, during that audit we discovered a number of significant problems that would require correction Corps-wide before we could attempt an audit of the entire Corps. The areas that remained problems for the Corps in FY 98 were:

- Fund Balance with Treasury.
- Accounts Receivable.
- Real Property.

Additional problems surfaced when the Corps implemented the Federal Accounting Standards Advisory Board (FASAB) requirements that were new for FY 98. The areas that became problems for the Corps in FY 98 were:

- Statement of Net Cost.
- Statement of Budgetary Resources.

Once the Corps makes system changes to accumulate costs according to the performance areas, it could easily track performance measures based on actual expenditures throughout the year. Because the Corps hadn't changed the performance measures, we addressed this area of their overview section as a continued problem within the Corps.

DISCUSSION

We discuss in detail the problems we found, our recommendations for the Corps financial statements, and the Corps comments concerning those recommendations in a separate report.

In this section we discuss five areas:

- Fund balance with Treasury.
- Accounts receivable.
- Real property.
- Statement of Net Cost.
- Statement of Budgetary Resources.

Fund Balance with Treasury

The Corps Fund Balance with Treasury account balance in its financial management system didn't agree with the account balance reported by the U.S. Treasury. Because of this disagreement, the Corps reported the Treasury balance on its FY 98 financial statements. In addition, the Corps didn't meet its 30 September 1998 deadline for reconciling aged discrepancies in its accounts with Treasury.

On 30 September 1998, the difference between the Corps and Treasury's account balances was about $500 million. The Corps accounting records, prior to adjustments, had a balance of about $3 billion and $2.7 billion after adjustments. The Treasury reported a balance of about $2.5 billion. The Corps used the Treasury's figure in its financial statements.

The Corps procedure was to record funds it had with other organizations rather than only those with Treasury. It also included funds it had with other organizations like the Bonneville Power Administration. Adjustments to the Treasury were made after the end of the fiscal year while they were doing yearend closing.

In addition, 28 active and inactive Corps disbursing sites had the following amounts of unreconciled aged differences (net amounts):

Unreconciled Differences in Fund Balance with Treasury (Amounts in Thousands)				
Deposit Clearing Account	Deposit Differences	Disbursement Clearing Account	Disbursement Differences	Check Issue Differences
$10,001	($46,097)	$8,233	($2,023)	$214,122

These are net amounts. Absolute amounts of differences weren't known. Disbursing sites were researching records to identify transactions causing the difference. Our past reviews have shown that the absolute differences were much larger than the net amounts.

These differences existed because Corps disbursing sites didn't reconcile differences between its reported disbursements and collections with Treasury records. The cause of discrepancies wasn't immediately apparent. Failure to perform the reconciliations prevents the Corps from detecting losses or theft of funds, and it could have a material effect on the Corps' financial statements.

During FY 98, the Corps implemented policies and procedures to reconcile current monthly discrepancies and the aged discrepancies. It also established a new deadline of 31 March 1999 for completing the reconciliations of the old discrepancies.

Accounts Receivable

The Corps needed to make changes to its financial management system to help it consistently apply generally accepted accounting principles for accounts receivable. Specifically, districts and other activities needed to:

- Record long-term accounts receivable and long-term accounts payable.

- Estimate and record allowance for loss on accounts receivable and the corresponding bad debt expense.

In addition, to strengthen internal controls, the finance center, districts, and other activities needed to confirm delinquent accounts receivable. Often the number of individual accounts outstanding affects the ability of personnel to effectively monitor the accounts receivable. Also, while confirming the accounts receivable from other Corps activities, the districts and other activities needed to make sure there was a corresponding accounts payable—and confirm accounts payable to accounts receivable—to lessen the impact at year-end when making

eliminating entries. Our review of the trial balance for the Corps as of 30 September 1998 showed that there were more intra-Corps accounts payable then there were intra-Corps accounts receivable.

Accurately reporting the accounts receivable was an issue of compliance with generally accepted accounting standards. Monitoring and confirming accounts receivable and accounts payable were internal control issues.

Real Property

The real property values in the Corps financial management system general and subsidiary ledgers don't agree. On 30 September 1998, the net difference between the general and subsidiary ledger for real property assets was about $4 billion, however, the absolute difference was over $6 billion. In addition, there were about 29,000 real property assets in the financial management system with no recorded book value.

Generally, differences between the general and subsidiary ledgers were caused by problems that occurred during the conversion to the current financial management system. Activities didn't load the system's subsidiary ledger (asset cost table) with individual asset information (from the Corps Real Estate Management Information System) before the conversion process loaded the current financial management system's general ledger with the general ledger data from the old financial management system.

Our real property sample, conducted during September and October 1998, showed that Corps activities still hadn't loaded the financial management system with all their real property assets. The sample showed that real property records weren't complete for 18 of 34 Corps Civil Works projects included in the sample.

Real property assets were recorded with no book value because real estate personnel:

- Assigned purchase amounts to one of the tracts in a multitract purchase.

- Hadn't assigned a separate value for land rights (such as easements).

Variances between the subsidiary and general ledgers, and the assets with no recorded book value complicate management's ability to assert that its assets are valued correctly in accordance with accounting

principles. Therefore, the value reported on the Corps financial statements isn't reliable.

The Corps is in the process of reconciling its subsidiary and general ledgers and ensuring that all real property assets are valued. The Corps plans to complete these actions by 31 March 1999.

Statement of Net Cost

The Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board for its FY 98 Statement of Net Cost. The Federal Accounting Standards require the Corps to present the statement by business programs, but the Corps presented the statement by appropriation. However, the Corps did comply with the requirements of the FY 98 DOD Financial Management Regulation. This guidance delayed presentation by business program until FY 99.

The Statement of Net Cost explains and analyzes the net cost of operations of an entity. The total net cost of operations is the gross cost of the outputs of an entity less any exchange revenue from its activities. The statement displays revenue and expense information by business program or sub-organization. The reporting entity must determine its different business programs based on the missions and outputs described in it's Government Performance and Results Act strategic and annual plans.

The Corps didn't separate the statement by business programs in FY 98 because it hadn't completed system programming. The Corps was programming its financial management system to identify the appropriate business program for revenue and expense transactions. The system will automatically link transactions to business programs. The Corps plans to complete programming and have the ability to produce the statement by June 1999.

Statement of Budgetary Resources

The Corps generally implemented the Federal Accounting Standards Advisory Board's requirements for the Statement of Budgetary Resources. But, the Corps needs to improve how it reports revolving fund transactions when it produces the Statement of Budgetary Resources.

Specifically, the Corps:

- Reported $2.3 billion on line 1 (Budget Authority), instead of line 4 (Spending Authority from Offsetting Collections) of the statement.
- Made adjustments totaling about $388.8 million on the 133 report that were improperly recorded on the Statement of Budgetary Resources.
- Prepared the 133 report annually instead of quarterly.

The improper adjustments were material to the FY 98 statement. If not corrected, the reporting discrepancies would have a material effect on the FY 99 financial statements.

Additionally, the Corps hasn't presented the supplementary information on individual budget accounts related to the Corps Statement of Budgetary Resources that the Office of Management and Budget has determined is necessary to supplement, although not required to be a part of, the basic financial statements. Related required supplementary information wasn't prepared. Federal accounting standards require related required supplementary information by individual budget accounts. Though not material, this departure was caused by improper implementation by DOD of Federal accounting standards. As a result, we categorize it as a departure from Federal accounting standards.

REPORT ON INTERNAL CONTROLS

For financial reporting purposes, the Corps internal control objectives are to ensure that:

- Transactions properly record and maintain accountability for assets and permit the preparation of accurate and reliable financial statements.
- Funds, property, and other assets are safe from loss, unauthorized use, or misappropriation.
- Transactions are in accordance with applicable laws and regulations.

Numerous factors, both individually and collectively, comprise the overall control environment. For example:

- Management's perceptions and integrity concerning the importance of controls will reflect in the entity's overall attitude.
- Policies designed to establish some measure of control must be strictly enforced.

Procedures implemented by management should adhere to fundamental control techniques such as segregating key duties, providing for tests and reconciliations, and limiting access. A comprehensive internal control structure consisting of checks and balances ensures that the control objectives will be met.

FY 98 Review

During FY 98, we made a limited review of internal controls as they related to real property and budgetary resources. In planning and performing our audit, we:

- Considered the Corps internal controls over financial reporting by obtaining an understanding of its internal controls.
- Determined whether these internal controls had been placed in operation.
- Assessed control risk.

- Performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Budgetary Resources and selected lines on other financial statements, and not to provide assurance on the internal control over financial reporting.

Consequently, we do not provide an opinion on internal controls.

Our review of internal controls showed that once corrections are made to eliminate the longstanding problems addressed in the Significant Matters section of this report, the controls should be effective to ensure that there are no material misstatements in the financial statements for those accounts.

Follow-up Reviews

In addition, we conducted limited follow-up reviews on previously reported material control problems related to:

- Standard general ledger accounting.
- Labor cost transfers.
- Fund balance with Treasury.

During FY 98 the Corps took the necessary actions to correct these weaknesses. The Corps completed implementation of its new financial management system that is based on the standard general ledger. The Corps also changed system programming and implemented procedures to ensure that improper time charges are reported on the labor dispute report and are properly corrected. In addition, the Corps has implemented procedures to reconcile monthly differences reported by Treasury.

Limitations

Our consideration of the internal control over financial reporting wouldn't necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants:

- Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Corps

ability to record, process, summarize, and report financial data consistent with the financial statements.

- Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce—to a relatively low level—the risk that misstatements in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Therefore, losses, noncompliance, or misstatements may occur and not be detected because of the inherent limitations in any system of internal controls. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate due to changes in conditions or the degree of compliance with controls may deteriorate.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

COMPLIANCE WITH LAWS AND REGULATIONS

We evaluated the Corps compliance with the provisions of the laws and regulations listed in the Audit Scope and Methodology section of this report. The audit identified instances of material noncompliance with selected laws and regulations. An instance of material noncompliance is reportable if it could result in a material misstatement to the financial statements, or if the sensitivity of the matter would cause others to perceive it as significant.

The noncompliance problems we found were directly or indirectly tied to generally accepted accounting standards discussed in the Significant Matters section of this report. Instances of noncompliance will be addressed in a separate report discussing each significant matter in detail. That report will be issued at a later date.

Chief Financial Officers Act of 1990

We evaluated Corps compliance with the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, and various implementing regulations issued by the Office of Management and Budget and DOD, as they relate to financial statement presentation. The Corps has made a concerted effort to meet the act's requirements. We identified areas in which the Corps can achieve financial reporting improvements over the short term. We discuss these areas and the necessary corrective actions in summary in the Significant Matters section of this report. We will issue a separate report that will discuss the matters in detail.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 requires the Corps to report annually to the Secretary of the Army about whether its management controls comply with the act's requirements. In its FY 98 annual assurance statements, the Corps reported several management control weaknesses involving noncompliance with prescribed accounting principles, standards and related requirements. The following specific weaknesses were most directly related to the financial statements:

- Discrepancies in official accounts with Treasury.
- Year 2000 computer problem with Corps automated information systems and devices.

We didn't identify any material control weaknesses during our audit that the Corps didn't include in its annual assurance statement.

Federal Financial Management Improvement Act of 1996

Under the Federal Financial Management Improvement Act of 1996, we are required to report whether the Corps financial management system substantially complied with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we performed some tests of compliance and reviewed prior audit work performed during the system's development.

The results of our tests disclosed the Corps financial management system substantially complied with the first and third requirements:

- **Federal Financial Management System Requirements**. Federal financial management system requirements have been well-established in Office of Management and Budget Circular A–127, "Financial Management Systems," 23 July 1993, that requires financial management systems to provide complete, reliable, consistent, timely, and useful information. To achieve this goal, the Corps established and maintained a single, integrated financial management system

- **U.S. Standard General Ledger at the Transaction Level**. The U.S. Standard General Ledger must be implemented at the transaction level. Federal agencies are permitted to supplement their application of the U.S. Standard General Ledger to meet agency-specific information requirements. However, agency standard general ledgers must maintain consistency with the U.S. Standard General Ledger. The Office of Management and Budget requires Federal agencies to implement the U.S. Standard General Ledger in their financial systems. For FY 98, the Corps financial management system had a standard, transaction-driven general ledger.

However, the Corps financial management system didn't substantially comply with the second requirement:

- **Federal Accounting Standards**. Federal agencies reporting under the Government Management Reform Act of 1994 are to follow eight Statements of Federal Financial Accounting

Standards agreed to by the Director of the Office of Management and Budget, the Comptroller General, and the Secretary of the Treasury. Currently, there are eight Statements of Federal Financial Accounting Standards and two Statements of Federal Financial Accounting Concepts. For FY 98 the financial management system didn't substantially comply with the Federal Accounting Standards related to accounting for selected assets and liabilities and revenue and other financing sources. These instances of noncompliance are discussed in the Significant Matters section of this report.

The Corps acknowledged in prior fiscal years that its financial management system had significant procedural and systemic deficiencies, and included a discussion of those deficiencies in previous Annual Statements of Assurance and management representation letters for FY 97 and before. However, the Corps FY 98 statement and letter did not report substantial deficiencies with its financial management system because the Corps completed fielding of its new financial management system during the fiscal year.

OVERVIEW

OVERVIEW INFORMATION

The Corps overview information is incorporated into the Army's financial statements overview. We reviewed the following information presented in the Corps overview:

- Mission and organization.
- Performance goals and results.

We don't express an overall opinion on this information. However, we compared this information for consistency with the financial statements. Based on this limited work, we found no material inconsistencies between the mission and organization information presented in the overview and the information presented in the financial statements.

We did, however, find some weaknesses in the adequacy of the performance measures the Corps used. In addition, the Corps didn't discuss the financial statement limitations or address Year 2000 issues as required by Office of Management and Budget and DOD guidance on the form and content of the financial statements.

We address recommendations to correct problems with the overview section in our separate report on significant matters.

AUDIT SCOPE AND METHODOLOGY

Corps management is responsible for:

- Preparing the annual financial statements in conformity with applicable accounting principles.
- Establishing and maintaining internal controls and systems to provide reasonable assurance that the control objectives of the Federal Managers' Financial Integrity Act are met.
- Complying with applicable laws and regulations.

We were responsible for auditing the financial statements and evaluating related internal controls and compliance with laws and regulations. In carrying out these responsibilities we:

- Evaluated and, as necessary, tested relevant internal controls encompassing:
  - Receipts and disbursements.
  - Revenues and expenses.
  - Fund balance with Treasury.
  - Real property.
  - Financial statement compilation.
- Conducted limited follow-up reviews on previously reported problems related to:
  - Legacy Financial Management Systems.
  - Fund balance with Treasury.
  - Labor cost transfers.
- Evaluated compliance with selected provisions of the following laws and regulations:
  - Chief Financial Officers Act of 1990 (Public Law 101-576).

- Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255).

- Budget and Accounting Procedures Act of 1950 (31 U.S.C.; Ch. 946; 64 Stat. 832).

- Anti-Deficiency Act (31 U.S.C. 1341,1342, 1351, 1517).

- Federal Financial Management Improvement Act of 1996 (in Public Law 104-208, Omnibus Consolidated Appropriations Act).

- Office of Management and Budget Bulletin 97-01, Form and Content of Agency Financial Statements.

- Office of Management and Budget Circular A-127, Financial Management Systems.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget Bulletin 98-08 (Audit Requirements for Federal Financial Statements).

ANNEXES

FY 98 FINANCIAL STATEMENTS

U.S. ARMY CORPS OF ENGINEERS
CIVIL WORKS

Table of Contents

Overview 47

Principal Statements 61

Footnotes to the Principal Statements 68

Required Supplementary Stewardship Reporting 87

U. S. ARMY CORPS OF ENGINEERS

CIVIL WORKS

OVERVIEW

U. S. ARMY CORPS OF ENGINEERS
MISSION AND PROGRAM PERFORMANCE

CIVIL WORKS MISSION STATEMENT

The mission of the Civil Works Program of the Army Corps of Engineers is to promote prosperity and democracy and to strengthen national security through the development, management, protection, and enhancement of the Nation's water and related land resources for flood damage reduction, commercial navigation, environmental restoration, and allied purposes. This program is accomplished by applying the Corps planning, engineering, scientific, and management skills, in cooperation with non-Federal sponsors, Federal, state, and local agencies, and other interested stakeholders, to achieve productive, efficient, responsible solutions to water resources problems. The program provides for responsible stewardship of its water resources infrastructure including the associated natural resources and provides emergency services to the Nation for disaster relief. The Civil Works Program also provides planning, engineering, environmental, recreation, research and real estate services to other Federal agencies and non-Federal customers, provides support to the Army in both peacetime pursuits and during national emergencies, and stands ready to adapt to evolving national needs and priorities. The Corps, moreover, plays a major role in the protection of waters of the United States, including wetlands, by regulating the discharge of dredge and fill material into the Nation's waters.

STRATEGIC GOALS AND OBJECTIVES

We will shape the accomplishment of our Strategic Goals through deliberate strategies for success that take our key business drivers into account.

Goal 1: - Water Resources (WR)

>Within available resources, provide the water resources infrastructure to enhance the Nation's economic well being.

- WR1: Anticipate, identify, and address the water resource infrastructure problems and development opportunities of the Nations and its major river basins (e.g. Navigation, flood and coastal storm damage reduction, hydropower, recreation facilities, water supply, etc.).
- WR1a: Continue to satisfy the Nation's water resources infrastructure needs currently provided by existing projects.
- WR2: Provide justified levels of project services within available funds
- WR3: Implement a communications plan to update stakeholders on project progress, costs, and needs.

Goal 2: - Environmental Leadership (EL)

>Lead in the management, protection, and restoration of the Nation's land and

water resources.

- EL1: Reallocate resources from flood damage reduction and navigation to environmental missions.
- EL2: Increase the public's awareness of the Corp's environmental performance.
- EL3: Be recognized as the Nation's leader in environmental restoration.
- EL4: Continue to aggressively implement plans to ensure compliance with environmental laws on existing Corps projects.
- EL5: Improve the stewardship of 12 million acres of land and water managed by the Corps.
- EL6: Increase the overall performance and effectiveness of the Department of the Army regulatory program.

Goal 3: Disaster Response (DR)

>Provide timely, effective, and efficient disaster mitigation, response, and recovery.

- DS1: Fully implement the Readiness 2000 program to reduce costs and increase responsiveness
- DS2: Aggressively address and utilize innovative methods to improve flood plain management practices

Goal 4: Engineering and Technical Expertise (ET)

>Leverage state-of-the-art expertise to improve the delivery of program results for current and future customers, and to maintain these capabilities for surge or related national security purposes.

- ET1: Identify, market, and capitalize on growth opportunities
- ET2: Assess Civil Works mission requirements in 2004 and translate these to technology and technical expertise needs.
- ET3: Incorporate state-of-the-art technology and business practices in the field, labs, and center of expertise

Goal 5: Workforce (W)

>Develop, motivate, and retain an empowered, world-class workforce

- W1: Develop and implement a plan to improve employee satisfaction.
- W2: Establish a process to identify, acquire and apply required skills to satisfy customer needs and improve customer satisfaction.
- W3: Increase professional development (certificates and advanced degrees).
- W4: Review and improve methods of internal communication.

Goal 6: Resource Stewardship (RS)

>Be recognized as the leading Army program in effectively and efficiently applying its resources to achieve its mission.

- RS1: Prioritize and reengineer product delivery processes to optimize use of the single team/multiple location concept and increased technology use.
- RS2: Optimize outsourcing and privatization partnerships with the private sector to decrease costs, reduce cycle time, and increase productivity.
- RS3: Implement a leading-edge technology plan to exceed requirements for mission execution (customer and employee needs).

Meeting these goals and objectives will enhance the Nation's prosperity through capital investments in new economic and environmental infrastructure and operation and maintenance of its existing infrastructure. It will also provide a trained workforce, which can promote democracy and respond to natural and national emergencies, thereby enhancing security.

FUNDING

The Civil Works Program receives Federal funding through the annual Energy and Water Development Appropriations Act. Program funding also comes from non-Federal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Support for Others Program, which is conducted under reimbursable agreements with Federal agencies. The tables on the following page show the amount of FY 1998 funding by source and business program.

Army Corps of Engineers
FY 98 Civil Works and Support For Others Program Funding

Funding Source	$ (000)
General Investigations[1]	156,804
Construction General[1]	1,473,373
Operation & Maintenance[1,3]	1,845,213
Mississippi River & Tributaries[1]	296,212
Regulatory[1]	106,000
General Expense[1]	148,000
Flood Control & Coastal Emergencies[1]	4,000
Other Civil Works[4] (Coastal Wetlands Restoration)	49,000
Formerly Used Sites Restoration Program	140,000
Support for Others[2]	801,500[2]
Total	5,020,102

1 Energy and Water Development Appropriation Act. Includes Trust Fund contributions.
2 Reimbursable work for other agencies. (Preliminary; final figure available in February 1999)
3 Includes supplemental appropriations.
4 Other reports on Coastal Wetlands Restoration Trust Fund work.

FY 98 Funding By Business Program

Funding by Business Program	$ Millions
Navigation	1,507
Flood & Coastal Storm Damage Reduction	1,404
Support for Others[1]	826[1]
Environment	603
Regulatory	109
Hydropower	362
Emergency Management	6
Recreation	197
Water Supply	6
Total	5,020

*1 Reimbursable Work for Other Agencies (Preliminary, final figure available February 1999).

BUSINESS PROGRAMS

The Civil Works Program will accomplish these strategic goals by providing important services in nine business programs: flood and coastal storm damage reduction, navigation, environment, hydropower, recreation, regulatory, emergency preparedness and disaster response, water supply and support for others. Program performance goals are being established for each of the nine programs to demonstrate progress in achieving the strategic goals. Program performance measures being used in Fiscal Year 1998 to measure performance in achieving program goals are described below. Other measures, which will be used in Fiscal Year 1999 are being developed.

Flood and Coastal Storm Damage Reduction

Description. There are two general approaches to reducing flood damages. The first approach consists of constructing large scale engineering projects which operate to prevent flood waters from inundating property. The second approach consists of modifying property susceptible to flood damage to minimize the risk of flood damage. Frequently, a combination of approaches is used in Corps projects to prevent flood damages. Most of the Corps flood and coastal storm damage reduction projects are constructed as joint ventures between the Federal government and non-Federal sponsors. New projects, once built, are owned, operated and maintained by the non-Federal sponsor. The Corps, however, has older projects, mostly reservoirs, which it operates and maintains. The Nation has invested $33 billion in flood damage reduction projects through FY 96 and has prevented $319 billion in flood damages. The time stream of investment dollars and damages prevented can be compared when adjusted for different price levels. The program has yield a return of six dollars in flood damage reduction for every dollar invested.

Strategy. Two program strategies have been established to respond to the strategic goals.

1. New investments will be undertaken which meet criteria for Federal participation and have benefits in excess of costs.
2. Existing Federal infrastructure will be operated and managed to provide justified levels of service.

Performance Measures and Annual Performance Targets.

Performance Measure Number 1: Actual performance of Corps facilities in providing flood damage reduction where flooding would have otherwise been experienced.

Performance Target Number 1: Maintain Corps facilities to provide the design level of flood damage reduction.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
Flood Damages Prevented	$26.8B	$22.6B	$45.5B	*
10 year Rolling Average	$14.6B	$16.2B	$15.7B	*

* Data available 31 January 1999.

ANNEX A

Navigation

Description: The navigation program includes improvement and maintenance of harbors handling all of the Nation's seaborne commerce. The Corps combines direct appropriations with funds appropriated from the Harbor Maintenance Trust Fund to maintain navigability in 114 major deep draft harbors and over 800 smaller harbors. The Corps also has stewardship responsibilities for approximately 25,000 miles of commercially navigable waterways. That total includes 12,000 miles of intracoastal and inland commercially navigable channels and involves 237 lock chambers actively maintained by the Corps at 192 sites on the inland waterways. Major improvements to inland waterway facilities are financed in part by the Inland Waterway Trust Fund. 2.3 billion tons of commerce moved through these ports, harbors and navigable channels in 1996. The total includes 1.2 billion tons of foreign trade valued at $627.4 billion and 1.1 billion tons of domestic traffic. Maintaining the navigation system, ports and inland waterways involves removing more than 230 million cubic yards of dredged material each year.

Strategy. Two program strategies have been established to respond to the strategic goals.

1. New investments will be undertaken which meet criteria for Federal participation and have benefits in excess of costs.
2. Existing navigation infrastructure will be operated and managed to maximize the value of the services provided within available funds.

Performance Measures and Annual Performance Targets.

Performance Measure Number 1: Actual performance of Corps facilities in providing low cost transportation of commerce. This measure looks at the volume of commerce and the cost to operate the fuel taxed waterways component of the navigation system.

Performance Target Number 1: Maintain Corps facilities to provide low cost transportation of bulk commodities to world markets.

Performance Achieved:

	FY 95	FY 96	FY 97	*FY 98*
Ton Miles of Commerce carried (billions)*	265.5	266.0	264.3	[a]
Cost per Ton Mile*	$0.0018	$0.0018	$0.0018	[a]

* Ton-mile data is reported on a calendar year basis; costs are on a fiscal year basis.
[a] FY98 data is forecasted to be available by February 1999.

Performance Measure Number 2: Percent of time inland navigation infrastructure (waterways, harbors, channels, and structures) were available for acceptable level of service.

Performance Target Number 2: Maintain Corps facilities to be available 95% of the time they are scheduled to be available.

Performance Achieved:	FY 95	FY 96	FY 97	FY 98
Actual Availability	99%	98%	95.6%	[a]

Performance Measure Number 3: Minimize costs of dredging while assuring safe and reliable harbor and channel availability.

Performance Target Number 3: The volume of material dredged are largely dependent upon acts of nature and factors beyond the control of man; so no performance target is established. Depth of material to be dredged and placement of dredged material influence cost of material dredged.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
Cubic Yards Removed (M)*	217	234	253	[a]
Cost Per Cubic Yard	$1.88	$1.81	$1.96	[a]

*Volume of material dredged reflects maintenance dredging; it does not include dredging done for new construction projects.

[a] FY98 data is forecast to be available by February 1999.

Environment

Description: The environment program is similar to the preceding two programs in having a new investment component and an operation and maintenance component for existing projects. Capital investment is directed into environmental restoration and mitigation features at existing and new projects. The Corps has authority to incorporate ecosystem restoration in plans for new projects, as a modification of existing projects, and in determining placement of dredged material from authorized navigation projects. It also has some authority to restore ecosystems where a Corps project contributed to degradation of the environment. At existing Corps operated projects, the Corps uses the Environmental Review Guide for Operations to locate and plan corrective action for environmental compliance deficiencies. District elements, regulatory agencies and private contractors offer support to facility managers who identify environmental compliance strengths and weaknesses in their own operations.

Strategy: Three program strategies have been established to respond to the strategic goals. They are as follows:

1. Investments in Corps mitigation and restoration projects or features make positive contributions to the environment resource base of the nation.
2. Investments in Corps mitigation and restoration projects and the operation of Corps facilities should assist in the recovery of Federally listed threatened and endangered species.
3. Assure that the operation of all Civil Works facilities and management of associated lands (including out granted areas) comply with environmental requirements contained in relevant Federal, state and local laws and regulations.

ANNEX A

Performance Measures and Annual Performance Targets.

Performance Measure Number 1: Percent of Corps administered mitigation land (acres) meeting the requirements in the authorizing legislation or relevant Corps of Engineers decision document. This measure is the number of designated Corps administered mitigation land (acres) meeting mitigation requirements divided by the total number of designated Corps administered mitigation lands (acres).

Performance Target Number 1: Target is 70% of Corps administered mitigation lands (acres) achieving Corps mitigation requirements.

Performance Achieved:	FY 96	FY 97	FY 98
-Total acres designated as Corps and administered mitigation acres	1,100,836	1,105,637	1,109,063
-Mitigation acres meeting requirements	576,068	591,446	618,535
-Percent of Corps administered mitigation lands (acres) achieving Corps mitigation requirements.	52%	53%	56%

New Performance Measure Number 2: Percent of Corps projects with potential to participate in the recovery of Federally listed species (with final Fish and Wildlife Service (FWS)/ National Marine Fisheries Service (NMFS) Recovery Plans in which the Corps is designated as an action agency) which are accomplishing the ascribed FWS/NMFS Recovery Plan requirements. This measure is the total number of opportunities to participate in recovery of Federally listed species with final Recovery plans divided by the total number of opportunities seized as described, or in accordance with, the Final Recovery Plan for that species.

Performance Target: Undertake or accomplish Recovery Plan requirements on 30% of the total Corps projects with potential to participate in those Recovery Plans for Federally listed species.

Performance Achieved:	**FY 96**	**FY 97**	**FY 98**
-Number of opportunities to participate in recovery of Federally listed species with final Recovery plans.	N/A	NA	465
-Number of opportunities seized as described, or in accordance with, the Final Recovery Plan species	N/A	NA	418
-Percent of project opportunities seized to assist in the recovery of Federally listed species.	N/A	NA	90%

Performance Measure Number 3(Compliance): Percent of all significant findings corrected annually and percent of major findings corrected annually.

Performance Target Number 3: Target for FY 98 was to correct 100% of all significant findings and correct 65% of all major findings.

Performance Achieved:

	FY 97	FY 98
Number of Significant Findings	11	N/A
% Corrected	100%	N/A
Number of Major Finding	798	N/A
% Corrected	49%	N/A

Regulatory

Description: The Corps operates a comprehensive regulatory program which, through extensive public interest review, protects navigation and regulates the deposit of dredged and fill materials into the Nation=s waters.

Strategies: The following program strategies have been established to respond to the strategic goals.

1. Administer the Regulatory Program in a manner that renders fair and reasonable decisions for applicants.
2. Administer the Regulatory Program in a manner that provides for efficient decision making.

Performance Measures and Annual Targets.

Performance Measure Number 1: Percent of decisions completed within 60 days on requests to do work in U. S. waters. Number of all actions (individual permits, general permits, letters of permission, and denials) completed in 60 days divided by the total number of requests.

Performance Target Number 1: Target is to complete 85% of all actions in 60 days.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
No. of Permit Actions < 60 days	73,515	71,870	80,613	84,598
% Completed within 60 days	93%	94%	94%	94%

Program Performance Measure Number 2: Percent of decisions completed within 120 days on requests to do work in the U.S. waters if the proposal needs a standard permit; that is, the project is a larger one requiring more extensive review.

Performance Target Number 2: Target is to complete 70% of Individual Permits in 120 days.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
Number of Permit Actions < 120 days	4,603	4,247	3,875	4,066
% Completed within 120 days	78%	80%	79%	80%

Performance Measure Number 3: Percent of pending permit applications over two years old.

Performance Target Number 3: Target is to have no more than 0.8% of pending individual permit applications over two years old.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
Number of individual permits pending over two years at end of FY	39	22	25	24
% of individual permits pending over two years at end of FY	0.8%	0.4%	0.5%	0.4%

Hydropower

Description: The Corps operates 75 hydroelectric power generating units at many of its multipurpose reservoirs. The generation of electricity from these units is done from a renewable energy source and results in a significant supply of electricity to the nation. The electricity is made available to Federal power marketing agencies which market the power.

Strategy: One program strategy has been established to respond to the strategic goals. It is to maintain hydroelectric power production with a high degree of generating unit availability at competitive cost.

Performance Measures and Annual Targets. Two program performance measures have been developed.

Performance Measure Number 1: Actual performance of hydroelectric generating units at multi-purpose reservoir projects in providing power at competitive cost.

Performance Target Number 1: Historical performance has been recorded without an explicit performance target.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
Kilowatt Hours Generated	77.4B	98.9	[a]	[a]
Cost Per Kilowatt Hour	$0.0024	[a]	[a]	[a]

[a] Data not available at time report went to press.

Performance Measure Number 2: Maintain a high degree of hydroelectric generating unit availability at multiple purpose projects.

Performance Target Number 2: Maintain generating unit availability at 90% of scheduled availability.

Performance Achieved:	FY 95	FY 96	FY 97	FY 98
Performance Target	90%	90%	[a]	[a]
Actual Availability	87.9%	88.4%	[a]	[a]

[a] Data not available at time report went to press.

Recreation

Description. There are 4,338 recreation areas at multipurpose reservoirs built by the Corps of Engineers. Of these 2,518 are operated and maintained by the Corps and the others are operated and maintained by non-Federal entities. These areas provide opportunities for camping, swimming, boating, picnicking and related activities. The operation and maintenance of the recreation areas must be compatible with and not in conflict with the underlying primary purposes for which the reservoirs were authorized; i.e., flood protection and/or navigation.

Strategy: The following program strategies have been established to respond to the strategic goals. They are as follows:

1. Provide outdoor recreation opportunities in an effective and efficient manner at Corps operated water resource projects.
2. Provide continued outdoor recreation opportunities to meet the needs of present and future generations.

Program Performance Measures and Annual Targets.

Performance Measure Number 1: Cost of visitor day in providing outdoor recreation services.

Performance Target Number 1: The cost per visitor day is determined in part by number of recreation visitors. The visitor day parameter is influenced by weather and economic conditions that are not under the management influence of the Corps of Engineers. The cost of providing recreation opportunities is a variable that can be managed by Corps managers. Historically, a management performance target has not been specified because of the inability to significantly influence the visitor day component of the measure. Actual statistical performance has instead been reported.

Performance Achieved:

	FY 95	FY 96	FY 97	FY 98
Visitor Days	205M	212M	213M	217 M
Cost Per Visitor Day	$0.83	$0.84	$0.83	$0.83

Emergency Management

Description: The Civil Works Program includes a disaster response and recovery program. The program is pursued under the Corps own authority under Public Law (P.L.) 84-99 and under the Federal Response Plan in coordination with the Federal Emergency Management Agency (FEMA) and others. Response activities are supplemental to state and local efforts. The Corps disaster response and recovery program is not limited to water resource related disasters. Disaster preparedness and response capabilities encompass a broad range of natural disasters and national emergencies because of the engineering skills and management capabilities that are maintained at a readiness state through peacetime Corps Civil Works Program support. The emergency preparedness planning and disaster response capability makes a significant and direct contribution to national security objectives.

Strategy. Two program strategies have been established to respond to the strategic goals. They are as follows:

1. Attain and maintain a high consistent state of preparedness.
2. Provide for a rapid, effective, efficient all-hazards response.

Performance Measures and Annual Targets. Performance measures for this program are being developed.

Support for Others

Description. The Corps Support for Others Program provides technical and specialized contract management assistance to about 60 other Federal agencies, state, local, tribal and foreign governments, international organizations, and private firms. Support is provided on a reimbursable basis. The Corps' considerable and far ranging environmental expertise is drawn upon by the Environmental Protection Agency and the Department of Energy to assist them in the Superfund Program and cleanup at nuclear production facilities, respectively. Corps support of other agency infrastructure programs includes designing and building border control facilities for the Immigration and Naturalization Service, drug testing laboratories for the Drug Enforcement Administration, and inspections of public housing renovations for the Department of Housing and Urban Development.

Strategy: Ensure customer satisfaction.

Performance Measure and Annual Target. Performance measures are being developed for this program.

U. S. ARMY CORPS OF ENGINEERS

CIVIL WORKS

PRINCIPAL STATEMENTS

SEPTEMBER 30, 1998

UNAUDITED

Department of Defense
US ARMY CORPS of ENGINEERS
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
($ in Thousands)

	FY 1998
ASSETS	
1. Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	$2,505,599
2. Investments, Net (Note 4)	1,631,349
3. Accounts Receivable, Net (Note 5)	242,053
4. Other Assets (Note 6)	42
B. Total Intragovernmental	$4,379,043
C. Investments, Net (Note 4)	0
D. Accounts Receivable, Net (Note 5)	738,097
E. Loans Receivable and Related Foreclosed Property , Net (Note 7)	0
F. Cash and Other Monetary Assets (Note 3)	0
G. Inventory and Related Property, Net (Note 8)	51,391
H. General Property, Plant and Equipment, Net (Note 9)	32,649,563
I. Stewardship Assets (National Defense PP&E, etc.)	See Stewardship Statement
J. Other Assets (Note 6)	967,269
K. Total Entity Assets	$38,785,363
2. Non-Entity Assets:	
A. Intragovernmental	
1. Fund Balance With Treasury (Note 2)	46,116
2. Accounts Receivable, Net (Note 5)	2
3. Other Assets (Note 6)	0
B. Total Intragovernmental	$46,118
C. Accounts Receivable, Net (Note 5)	324
D. Cash and Other Monetary Assets (Note 3)	12,004
E. Other Assets (Note 6)	0
F. Total Non-Entity Assets	$58,446
3. Total Assets	$38,843,809

The accompanying notes are an integral part of these statements.

ANNEX A

UNAUDITED

Department of Defense
US ARMY CORPS of ENGINEERS
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
($ in Thousands)

	FY 1998
LIABILITIES	
4. Liabilities Covered by Budgetary Resources:	
A. Intragovernmental:	
1. Accounts Payable	$811,188
2. Environmental Cleanup (Note 11)	
3. Debt (Note 10)	
4. Other Liabilities (Notes 11, 12, and 15)	8,551
B. Total Intragovernmental	819,739
C. Accounts Payable	566,241
D. Liabilities for Loan Guarantees	0
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	0
G. Other Liabilities (Notes 11, 12, and 15)	299,975
H. Total Liabilities Covered by Budgetary Resources	$1,685,955
5. Liabilities Not Covered by Budgetary Resources:	
A. Intragovernmental:	
1. Accounts Payable	0
2. Debt (Note 10)	0
3. Environmental Cleanup (Note 11)	0
4. Other Liabilities (Notes 11, 12, and 15)	0
B. Total Intragovernmental	$0
C. Accounts Payable	0
D. Debt (Note 10)	0
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)	0
F. Environmental Cleanup (Note 11)	0
G. Other Liabilities (Notes 11, 12, and 15)	0
H. Total Liabilities Not Covered by Budgetary Resources	$0
6. Total Liabilities	1,685,955
NET POSITION	
7. Unexpended Appropriations (Note 14)	$1,379,707
8. Cumulative Results of Operations	35,778,147
9. Total Net Position	$37,157,854
10. Total Liabilities and Net Position	$38,843,809

The accompanying notes are an integral part of these statements.

UNAUDITED

Department of Defense
US ARMY CORPS OF ENGINEERS
CONSOLIDATED STATEMENT OF NET COST
For the period ending September 30, 1998
($ in Thousands)

	FY 1998
1. Program Costs	
A. Intragovernmental	$1,126,392
B. With the Public	6,000,196
C. Total Program Cost	7,126,588
D. Less: Earned Revenues	(2,594,057)
E. Net Program Costs	$4,532,531
2. Costs Not Assigned to Programs	0
3. Less: Earned Revenues Not Attributable to Programs	0
4. Deferred Maintenance (Note 17)	
5. Net Costs of Operations	$4,532,531

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

ANNEX A

UNAUDITED

Department of Defense
US ARMY CORPS OF ENGINEERS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the period ending September 30, 1998
($ in Thousands)

	FY 1998
1. Net Cost of Operations	$4,532,531
2. Financing Sources (Other than Exchange Revenues):	
A. Appropriations Used	3,461,594
B. Taxes (and Other Non-exchange Revenue)	822,470
C. Donations (Non-exchange Revenue)	251
D. Imputed Financing	0
E. Transfers-In	908,560
F. Transfers-Out	(1,814,416)
3. Net Results of Operations (Line 2 less Line 1)	($1,154,072)
4. Prior Period Adjustments (Note 18)	(1,854,140)
5. Net Change in Cumulative Results of Operations	(3,008,212)
6. Increase (Decrease) in Unexpended Appropriations	1,427,467
7. Change in Net Position	(1,580,745)
8. Net Position-Beginning of Period	38,738,599
9. Net Position-End of Period	$37,157,854

Additional Information included in Note 18.

The accompanying notes are an integral part of these statements.

UNAUDITED

Department of Defense
US ARMY CORPS of ENGINEERS
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 1998
($ in Thousands)

	FY 1998
BUDGETARY RESOURCES:	
1. Budget Authority	$5,184,479
2. Unobligated Balance - Beginning of Period	2,120,547
3. Net Transfers Prior-Year Balance, Actual(+/-)	0
4. Spending Authority from Offsetting Collections	4,554,767
5. Adjustments	0
6. Total Budgetary Resources	$11,859,793
STATUS OF BUDGETARY RESOURCES:	
7. Obligations Incurred	8,986,598
8. Unobligated Balances - Available	2,870,530
9. Unobligated Balances - Not Available	2,665
10. Total, Status of Budgetary Resources	$11,859,793
OUTLAYS:	
11. Obligations Incurred	8,986,598
12. Less: Spending Authority From Offsetting Collections and Adjustments	(4,554,767)
13. Obligated Balance, Net - Beginning of Period	(19,489)
14. Obligated Balance Transferred, Net	0
15. Less: Obligated Balance, Net - End of Period	355,406
16. Total Outlays	$4,767,748

Additional information included in Note 19.

The accompanying notes are an integral part of these statements.

ANNEX A

UNAUDITED

Department of Defense
US ARMY CORPS OF ENGINEERS
COMBINED STATEMENT OF FINANCING
For the period ending September 30, 1998
($ in thousands)

	FY 1998
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	$8,986,598
B. Less: Spending Authority for Offsetting Collections and Adjustments	(4,554,767)
C. Donations Not in the Entity's Budget	251
D. Financing Imputed for Cost Subsidies	0
E. Transfers-In (Out)	(905,856)
F. Exchange Revenue Not in the Entity's Budget	21,621
G. Other	0
H. Total Obligations as Adjusted and Nonbudgetary Resources	$3,547,847
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	561,900
B. Costs Capitalized on the Balance Sheet	2,412,094
C. Financing Sources That Fund Costs of Prior Periods	42
D. Other	0
E. Total Resources That Do Not Fund Net Costs of Operations	$2,974,036
3. COSTS THAT DO NOT REQUIRE RESOURCES:	
A. Depreciation and Amortization	731,836
B. Revaluation of Assets and Liabilities	(2,468,985)
C. Other	47
D. Total Costs That Do Not Require Resources	($1,737,102)
4. Financing Sources Yet to be Provided	(252,250)
5. Net Cost of Operations	$4,532,531

Additional Information included in Note 20.

The accompanying notes are an integral part of these statements.

U.S. ARMY CORPS OF ENGINEERS

CIVIL WORKS

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 1998

ANNEX A

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation. These financial statements have been prepared to report the financial position and results of operations of the U. S. Army Corps of Engineers, as required by the Chief Financial Officers (CFO) Act expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The report has also been prepared to provide information with which Congress, agency managers, the public and other interested parties can assess management performance and stewardship. The financial statements have been prepared from the books and records of the Corps in accordance with "Department of Defense Financial Management Regulation" "DoD FMR" Volume 6B, as adopted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements". These statements, therefore, are different from the financial reports, also prepared by the Corps pursuant to OMB directives that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity. Congress initially established the U. S. Army Corps of Engineers on June 16, 1775 when they also established the Continental Army. After the war, the Corps was mustered out of service in 1783. It was permanently reestablished on March 16, 1812 in conjunction with the founding of West Point Military Academy. The Corps, which celebrates June 16, 1775 as its birthday, has provided engineering, management and technical support to the Nation in peacetime and in war for more than two centuries. The mission of the Civil Works Program of the Corps is to promote prosperity and democracy and to strengthen national security through the development, management, protection and enhancement of the Nation's water and related land resources for flood damage reduction, commercial navigation, environmental restoration and allied purposes.

The accounts used to prepare the statements are classified as entity/non-entity. Entity accounts consists of resources that the Corps either has the authority to decide how to use or management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are unavailable for use in operations.

The Civil Works Program uses the following deposit fund and budget clearing accounts which are classified as non-entity accounts:

Deposit Funds

96X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues
96X6094	Advances from the District of Columbia
96X6145	Technical Assistance, United States Dollars Advanced from Foreign Government
96X6302	Moneys Withheld from Contractors
96X6875	Suspense

Clearing Accounts

96F3875	Budget Clearing Account
96F3878	Deposits in Transit Differences
96F3879	Undistributed and Letter of Credit Differences
96F3880	Unavailable Check Cancellations and Overpayments

96F3886 TSP

C. Budgets and Budgetary Accounting. The Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding also come from non-Federal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Support for Others Program, which is conducted under reimbursable agreements with Federal agencies.

The following Civil Works Funds are used to record financial transactions arising under congressional appropriations:

96X3112	Flood Control, Mississippi River and Tributaries
96X3121	General Investigations
96X3122	Construction, General
96X3123	Operation and Maintenance, General
96 93/97 3123	Operation and Maintenance, General (fiscal year)
96X3124	General Expenses
96 95 3124	General Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
96 93/97 3125	Flood Control and Coastal Emergencies (fiscal year)
96X3126	Regulatory Program
96X3130	FUSRAP

In 1997, the Corps received borrowing authority from the Treasury for the next three years (1997 through 1999) to finance capital improvements to the Washington Aqueduct. Appropriation 96X3128 was established to record financial transactions for these capital improvements.

The Corps also has two accounts to reflect partnering through cost-share projects:

96X3930	Consolidated Working Fund
96X8862	Rivers and Harbors Contributed and Advance Funds

The following special fund accounts are used to record receipts that are earmarked for a specific purpose:

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters

The following trust fund accounts are used to record the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the trust agreement or statute:

96X8861	Inland Waterways Trust Fund
96X8863	Harbor Maintenance Trust Funds
96X8868	Oil Spill Research

The Corps receives transfer funds from other agencies to perform specific services for

that agency. During 1998, the Corps reported the following transfer fund accounts:

96 12X1105 State and Private Forestry, Forest Service
96 13X2050 Economic Development Administration
96 14X1039 Construction National Park Service
96 21X2020 OMA, American Samoa Projects
96 46X0200 Appalachian Regional Development Program
96 47X4542 GSA Building Delegation Program
96 89X4045 Bonneville Power Administration

Financial data for collections made to receipt accounts are excluded from our financial statements since these funds are returned to the Department of the Treasury at fiscal year end. However, the Corps reports collections throughout the fiscal year into the following receipt accounts:

96 0891 Miscellaneous fees for regulatory and judicial services, not otherwise classified
96 1099 Fines, Penalties, and Forfeitures, not otherwise classified
96 1435 General Fund Proprietary Interest, Not Otherwise Classified
96 3220 General Fund Proprietary Receipts. Not Otherwise Classified, All Other
96 5007 Special Recreation Use Fees, Bureau of Land Management, Interior
96 5090 Receipts from leases of lands acquired for flood control, navigation, and allied purposes
96 5125 Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%)

The Revolving Fund, 96X4902, was established by Congress in 1953 and replaced the Plant Allotment Account. The Revolving Fund is used by the Corps for expenses necessary for the maintenance and operation of the plant and equipment used in civil works functions and the temporary financing of services finally chargeable to appropriations authorized for civil works functions.

In addition to the above funding, the Civil Works Program receives transfer authority from the Aquatic Resources Trust Fund 96X8333 (Coastal Wetlands Restoration Trust Fund). Since, the Department of Transportation is the lead agency responsible for financial reporting of this account; we have omitted financial data for the Coastal Wetlands Restoration Trust Fund in our fiscal year 1998 statements.

D. Basis of Accounting. Transactions are generally recorded on an accrual accounting bases and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds.

During fiscal year 1998, the Corps completed the deployment of the Corps of Engineers Financial Management System (CEFMS) to all its divisions, districts, centers, laboratories and field offices. CEFMS is a fully automated, comprehensive financial management system that simplifies the management of all aspects of the Corps business, including civil, military revolving fund and reimbursable activity.

E. Funds with the U. S. Treasury and Cash. The Corps' fund resources are maintained in U. S. Treasury accounts. Its cash receipts and disbursements are processed by the Treasury Department and the balance with the Treasury represents the aggregate of all unexpended balances. Material disclosures are provided at Note 2.

F. Investments in U. S. Government Securities. Investments in U. S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. Amounts reported reflect the value of investments in the Inland Waterways and Harbor Maintenance Trust Fund accounts, which are managed by the Treasury Department. The Treasury's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Therefore, no provision is made for unrealized gains or losses on these securities.

ANNEX A

NOTE 2. Fund Balances with Treasury:

($ in Thousands)

	Trust Funds	Revolving Funds	Appropriated Funds	Fund Types	Total
A Entity Fund and Account Balances:					
Unobligated Balance Available:					
Available	121,959	519,413	2,185,189	12,392	2,838,953
Restricted					
Reserve For Anticipated Resources					
Obligated (but not expensed)	82,068	254,107	(712,108)	18,882	(357,051)
Unfunded Contract Authority					
Unused Borrowing Authority				23,697	23,697
Total Entity Treasury Balance	204,027	773,520	1,473,081	54,971	2,505,599
B. Non-Entity Fund and Account Balance					46,116

C. Other Information: Other Funds represent Borrowing Authority for Capital Improvements to the Washington Aqueduct and authority received for special fund accounts established for Payments to States, Hydraulic Mining in California and Maintenance and Operations of Dams and Other Improvements of Navigable Waters.

The following adjustments are required in order to reconcile the Funds Balance with Treasury in our financial statements to the FMS 2108 "Year End Closing Statement":

Trust Funds	
-$7,592	Coastal Wetlands Restoration reported by Department of Transportation
$14,124	IWW obligation authority
-$5,243	IWW and HMTF funds recorded by Treasury but reported by the Corps as lead agency
Appropriated Funds	
$18,741	Transfer authority
-$1,996	Outstanding Travel Advances
Other Funds	
-$18,036	FY 99 authority for special funds recorded by Treasury in September
$40,393	Available borrowing authority for Washington Aqueduct
Non-Entity	
$46,116	Deposit, Suspense and Budget Clearing Account Balances

NOTE 3. Cash, Foreign Currency and Other Monetary Assets:

($ in Thousands)

	Entity Assets	Non-Entity Assets
A Cash		$11,868
B Foreign Currency		$136
C Other Monetary Assets		
D Total Cash, Foreign Currency, and Other Monetary Assets		$12,004

E. Other Information: Unconfirmed deposits in the amount of $9,271 were reported to the Treasury by the North Atlantic Division, Rock Island, Baltimore, Los Angeles, New England and New York Districts.

NOTE 4. Investments, Net:

($ in Thousands)

	(1) Cost	(2) Amortization Method	(3) Amortized Premium/ (Discount)	(4) Investments, Net	(5) Other Adjustments	(6) Market Value Disclosure
A. Intragovernmental Securities:						
(1) Marketable	$1,620,678		$6,037	$1,626,715		$1,626,715
(2) Non-Marketable, Par Value						
(3) Non-Marketable, Market-Based						
Subtotal	$1,620,678		$6,037	$1,626,715		$1,626,715
(4) Accrued Interest	$4,634					$4,634
Total	$1,625,312					$1,631,349
B Governmental Other Securities:						
(1) Commercial Paper						
(2) Other						
Subtotal						
(4) Accrued Interest						
C Total	$1,625,312					$1,631,349

D. Other Information: Investments for the Inland Waterways and Harbor Maintenance Trust Funds are reported by the Department of Treasury and included in our financial statements as the lead reporting agency.

NOTE 5. Accounts Receivable, Net:
($ in Thousands)

	(1) Gross Amount Due	(2) Allowance for Estimated Uncollectables	(3) Net Amount Due
A. Entity Receivables:			
Intragovernmental	$242,053	N/A	$242,053
With the Public	$738,097		$738,097
B. Non-Entity Receivables:			
Intragovernmental	$2	N/A	$2
With the Public	$324		$324

C. Allowance Method Used: The Corps of Engineers has no established method for estimating uncollectible accounts receivable.

D. Other Information: Accounts receivable with the public includes adjusting entries in the amount of $19 to correct erroneous FSN's reflected on the original transactions. Therefore, the financial statement exceeds the Schedule 9 by this amount. An additional difference of $36 in the revolving fund is being researched for corrective action. The remaining difference of $132,154 is due to receivables established in receipt accounts, which are included in the Schedule 9 report but are not included in the financial statements.

NOTE 6. Other Assets:

($ in thousands)

A. Other Entity Assets	
1. Intragovernmental	
(a) Assets Returned for Credit	
(b) Other (Revolving Fund Advances to Others)	$42
Total Intragovernmental	$42
2. Other	
(a) Assets Awaiting Disposal	$15,962
(b) Travel Advances	$1,652
(c) Advances - All Others - Public	$8,901
(d) Deferred & Undistributed Items	$7,723
(e) Intangible Assets	$903,100
(f) Other Assets	$29,931
Total Other	$967,269

B. Other information related to entity assets: Not applicable.

C. Other Non-Entity Assets: Not applicable.

D. Other information: Not applicable.

NOTE 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

Not Applicable

ANNEX A

NOTE 8A. Inventory:

($ in Thousands)

	(1) Inventory Amount	(2) Allowance for (Gains) Losses	(3) Inventory, Net	(4) Valuation Method
1. Inventory Categories:				
(a) Held for Current Sale	$72,808	$21,627	$51,181	AC
(b) Held in Reserve For Future Sale				
(c) Excess, Obsolete, and Unserviceable	$28		$28	AC
(d) Held for Repair				
Total	$72,836	$21,627	$51,209	

2. Restrictions on Inventory Use, Sale or Disposition: Not applicable

3. Other information: Not applicable

Legend: Valuation Methods

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

NOTE 8B. Operating Materials and Supplies (OM&S):
($ in Thousands)

	(1) OM&S Amount	(2) Allowance for (Gains) Losses	(3) OM&S, Net	(4) Valuation Method
1. OM&S Categories:				
(a) Held for Use	$182		$182	AC
(b) Held in Reserve For Future Use				
(c) Excess, Obsolete, and Unserviceable				
Total	$182		$182	

2. Restrictions on operating materials and supplies: Not applicable

3. Other Information: Not applicable

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

NOTE 8C. Stockpile Materials: Not applicable

NOTE 8. Recap of Inventory and Other Related Property:
($ in Thousands)

	Amount
Inventory, Net	$51,209
Operating Materials and Supplies, Net	182
Stockpile, Net	
Seized Property, Net	
Forfeited Property, Net	
Total	$51,391

ANNEX A

NOTE 9. General Property, Plant and Equipment (PP&E),Net:

($ in Thousands)

	(1) Depreciatio Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Major Classes of Assets					
A. Land			$6,388,377		$6,388,377
B Structures, Facilities, and Leasehold Improvements	SL	>20	$28,300,468	$9,186,339	$19,114,129
C ADP Software	SL	2-3	$1,600	$669	$931
D Equipment	SL	3-10	$1,100,015	$459,796	$640,219
E. Assets Under Capital Lease					$0
F. Construction-in-Progress			$6,505,560		$6,505,560
G. Other - Natural Resources			$347		$347
Total			$42,296,367	$9,646,804	$32,649,563

H. Other Information: Since there is no known decline in the value of land, construction-in-progress or natural resources structures, these assets are not depreciated. Personal property having an estimated useful life of 2 or more years and an acquisition cost which equals or exceeds the current monetary capitalization threshold of $25,000 will be capitalized. Real property has an inherent useful life of 2 or more years and will be capitalized regardless of monetary value.

Legends:
Column (1) Above Depreciation Methods:
SL = Straight Line

NOTE 10. Debt: Not applicable

NOTE 11A. Environmental Cleanup: Not applicable.

NOTE 11B. Other Liabilities:
($ in Thousands)

1. Other Liabilities Covered by Budgetary Resources	Noncurrent Liability	Current Liability	Total
a Intragovernmental			
(1) Advances from Others		$5,818	$5,818
(2) Deferred Credits			
(3) Deposit Funds and Suspense Account Liabilities			
(4) Liability for Borrowings to be Received			
(5) Liability for Subsidy Related to Undisbursed Loans			
(6) Other Liabilities - Advances to Agents		$2,733	$2,733
(7) Resources Payable to Treasury			
Total		$8,551	$8,551
b With the Public			
(1) Accrued Funded Payroll and Benefits		$63,671	
(2) Advances from Others		$43,536	$43,536
(3) Deferred Credits			
(4) Deposit Funds and Suspense Accounts		$40,657	$40,657
(5) Other Liabilities		$152,111	$152,111
Total		$299,975	$299,975

2. Other Information: Other liabilities with the public consists of $9,271 in unconfirmed deposits, $45,343 in contingent liabilities, a $97,461 adjustment to Revolving Fund's funding authorization and $36 in unidentified revolving fund liabilities.

3. Other Liabilities not Covered by Budgetary Resources: Not applicable.

4. Other Information: Not applicable.

NOTE 12. Leases: Not applicable.

NOTE 13. Pensions and Other Actuarial Liabilities: Not Applicable.

ANNEX A

NOTE 14. Unexpended Appropriations:

($ in Thousands)

A. Unexpended Appropriations	
(1) Unobligated	
a Available	$984,093
b Unavailable	
(2) Undelivered Orders	$395,614
Total	$1,379,707

B. Other Information: Unobligated and undelivered orders represent that portion that is direct funded. It excludes unobligated balances and undelivered orders that are reimbursable.

NOTE 15. Contingencies: Contingent liabilities in the amount of $45,343 are reserve funds in the Revolving Fund account which are set aside to cover loss or damage to major plant assets such as barges and dredges.

NOTE 16A. Suborganization Program Costs: Not applicable.

NOTE 16B. Cost of National Defense PP&E: Not applicable.

NOTE 16C. Cost of Stewardship Assets: Not applicable.

NOTE 16D. Stewardship Assets Transferred: Not applicable.

NOTE 16E. Exchange Revenue: Not applicable.

NOTE 16F. Revenue and Expense Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors: Not applicable.

NOTE 16G. Benefit Program Expense:

Reporting Entity
For the year ended September 30, 1998
($ in thousands)

1. Service Cost	$200,257
2. Period Interest on the Benefit Liability	
3. Prior (or Past) Service Cost	
4. Period Actuarial Gains or losses	

NOTE 16H. Gross Cost and Earned Revenue by Budget Functional Classification:

($ in Thousands)

	Budget Function Code	Gross Cost	Earned Revenue	Net Cost
A. Department of Defense Military	051			
B. Water Resources by US Army Corps of Engineers	301	$6,955,258	$2,584,075	$4,371,183
C. Pollution Control and Abatement by US Army Corps of Engineers	304	$171,330	$9,982	$161,348
D. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602			
E. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits trust Fund				
Total		$7,126,588	$2,594,057	$4,532,531

NOTE 16I. Other Disclosures to the Statement of Net Cost: Imputed financing for CSRS Pension Liability is $112,295. Imputed financing for Employment Health Insurance is $83,839. Imputed financing for Other Retirement Benefits-Life Insurance is $4,123.

ANNEX A

NOTE 17A. Summary of Deferred Maintenance Amounts by Category of Property, Plant and Equipment: Not applicable

NOTE 17B. General Property, Plant and Equipment Deferred Maintenance Amounts: Not applicable.

NOTE 17C. National Defense Property, Plant and Equipment Deferred Maintenance Amounts: Not applicable.

NOTE 18. Footnote Disclosures Related to the Statement of Changes in Net Position:

NOTE 18A. Prior Period Adjustments:

($ in Thousands)

A. Prior Period Adjustments:	
1. Changes in Accounting Standards	
2. Errors and Omission in Prior Year Accounting Reports	($1,854,140)
3. Other	
Total	($1,854,140)

B. Other Information: Prior period adjustments of ($2,468,985) were made in order to record and report prior years' depreciation expense on capitalized assets transferred from work-in-progress to plant-in-service during the current fiscal year. $614,845 in prior period adjustments were made due to improved reporting of Trust funds, Transfer appropriations, and Special accounts as well as full deployment of CEFMS, a comprehensive, automated financial management system.

NOTE 18B. Other Disclosures to the Statement of Changes in Net Position: Imputed financing for CSRS Pension Liability is $112,295. Imputed financing for Employment Health Insurance is $83,839. Imputed financing for Other Retirement Benefits-Life Insurance is $4,123.

NOTE 19. Disclosures Related to the Statement of Budgetary Resources:

($ in Thousands)

1. Net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$1,219,454
2. Available Borrowing and Contract Authority at the End of Period	$23,697

3. Other Information: The Statement of Budgetary Resources is a combining statement, and, as such, intra-entity transactions have not been eliminated.

The net amount of budgetary resources obligated for undelivered orders at the end of the period includes $823,841 in reimbursable undelivered orders and $395,614 in direct.

Adjustments to the beginning balances were necessitated by first time compilation from the general ledger.

The Statement of Budgetary Resources will not reconcile to the SF133's reported to the Office of Management and Budget (OMB) because of differences in reporting responsibilities. Agencies that receive transfer appropriations from other agencies must report an Adjusted Trial Balance (ATB) for each Treasury appropriation they receive as well as transfer funds that they receive from other agencies. Since the CFO statements must reconcile to the ATBs, we have included transfer appropriation financial data in the Statement of Budgetary Resources. However, submission of the SF133, Report on Budget Execution, is the responsibility of the parent agency rather than the receiving agency. Consequently, there are no SF133's for comparison purposes. In addition, the Statement of Budgetary Resources includes revolving

fund activity for the Corps of Engineers. However, DFAS submits the SF133 for revolving funds. Finally, the Corps submitted the SF133 for the Coastal Wetlands Restoration Trust Fund but the Department of Transportation is the lead agency for reporting the CFO statements and the ATB.

NOTE 20. Disclosures Related to the Statement of Financing: Adjustments made in Civil Works funds in order to record and report prior year's depreciation expense on capitalized assets erroneously affected the Costs Capitalized on the Balance Sheet. Therefore, adjusting entries were made to the standard general ledger to reflect current fiscal year capitalized costs only. Further research is being done to ensure that capitalized costs are accurately stated.

NOTE 21. Disclosures Related to the Statement of Custodial Activity: Not applicable.

NOTE 22. Inter-Agency Eliminations:

($ in Thousands)

Part A DoD Eliminations of Seller Activity With Other Federal Agencies Arrayed by DOD Entities	Treasury Index	Column A Accounts Receivable With Other Federal Entities	Column B Revenue With Other Federal Entities	Column C Unearned Revenue From Other Federal Entities
Department of the Army, General Funds	21			
Department of the Navy, General Funds	17			
Department of the Air Force, General Funds	57			
Department of the Army, WCF	97X4930.01			
Department of the Navy, WCF	97X4930 02			
Department of the Air Force, WCF	97X4930 03			
Defense Logistics Agency, WCF	97X4930 05xx			
Defense Finance and Accounting Service, WCF	97X4930 05xx			
Other Defense Organizations, General Funds	97-xxxx			
Other Defense Organizations, WCF	97X4930 04 97X4930 05xx			
DOD Military Retirement Trust Fund	97-8097			
U S Army Corps of Engineers	96	$242,052	$408,888	$47,625
Total		$242,052	$408,888	$47,625

Part B DoD Eliminations of Seller Activity Arrayed by Other Federal Agencies	Treasury Index	Column A DoD Accounts Receivable Arrayed by Customer:	Column B DoD Revenue Arrayed by Customer:	Column C DoD Unearned Revenue by Customer:
Executive Office of the President, Defense Security Assistance Agency	11			
Department of Agriculture*	12	$2,311	$1,914	
Department of Commerce*	13	$1,313	$1,489	
Department of the Interior*	14	$9,615	$12,804	
Department of Justice*	15	$36,208	$47,089	
Department of Labor*	16	$11	$9	
Department of State*	19	$481	$436	
Department of the Treasury*	20	$18,064	$42,790	
Office of Personnel Management*	24	$1	$2	
Nuclear Regulatory Commission*	31	$40	$168	
Department of Veterans Affairs*	36			
General Service Administration*	47	$23,444	$36,244	
National Science Foundation*	49	$64	$684	
Federal Emergency Management Agency*	58	$12,011	$29,454	
Environmental Protection Agency*	68	$40,797	$79,176	
Department of Transportation	69	$17,664	$27,559	
Agency for International Development*	72	$301	$298	
Small Business Administration*	73		$3	
Department of Health and Human Services*	75	$2,680	$1,841	
National Aeronautics and Space Administration*	80	$109	$227	
Department of Housing and Urban Development*	86	$15	$16	
Department of Energy*	89	$4,181	$16,981	
Department of Education*	91			
Social Security Administration*	28			
Unidentifiable Federal Agency Entity	00	$72,742	$109,704	$47,625
Miscellaneous Identifiable Federal Agencies Not Required to Prepare CFO Audited Financial Statements	00			
Total		$242,052	$408,888	$47,625

NOTE 23. Other Disclosures: None.

U.S. ARMY CORPS OF ENGINEERS

CIVIL WORKS

REQUIRED SUPPLEMENTARY STEWARDSHIP REPORTING

AS OF SEPTEMBER 30, 1998

HERITAGE ASSETS
For Fiscal Year Ended September 1998
(Quantities in Actual Amounts Except for Battlefields,
Cemeteries, and Land Which Are in the Number of Sites and (Thousands of Acres))

(a)	(b) As of 10/01/97	(c) Additions	(d) Deletions	(e) As of 9/30/98
Collection Type				
1. Documents				
2. Works of Art				
3. Military Artifacts				
4. Non-Military Artifacts	886			886
5. Classic Weapon Systems				
6. Other				
Total Collection Type	886			886
Noncollection Type				
7. Historic Structures or Buildings				
8. Monuments	49			49
9. Battlefields	47			47
10. Cemeteries and other Burial Grounds				
11. Land	95	3		98
12. Other				
Total Noncollection Type	191	3		194
Total Heritage Assets	1,077	3		1,080

Narrative Statement

Other than multipurpose heritage assets, heritage assets are not material to the mission of the U. S. Army Corps of Engineers. Disclosures pertinent to multipurpose heritage assets is contained in the financial statements.

Heritage assets classified as Land are special land plots containing archaeological sites as listed on the National Register of Historic Places.

Heritage assets on display are assumed to be in adequate condition for display purposes, consistent with their origins, unless otherwise noted. Reported heritage assets are free of material conditions that are counter to safeguarding, adequately protecting, and properly managing those assets; they have not materially degraded while under the care of the U. S. Army Corps of Engineers. The existence of most of the un-categorized heritage assets is informally known to be adequate for display purposes, however, the condition of many un-categorized assets are unknown.

SUPPORTING AUDIT REPORTS

FY 96 Financial Statements, U.S. Army Corps of Engineers, Civil Works
Audit Report: AA 97-136

FY 97 Financial Statements, Opinion Report, U.S. Army Corps of Engineers, Civil Works
Audit Report: AA 98-112

FY 97 Financial Statements, Report on Internal Controls and Compliance With Laws and Regulations, U.S. Army Corps of Engineers, Civil Works
Audit Report: AA 98-248

FY 97 Financial Statements, U.S. Army Corps of Engineers, Southwestern Division, Civil Works
Audit Report: AA 98-196

Audit of Corps of Engineers FY 97 Financial Statements, Lessons Learned From the Audit of the Southwestern Division
Audit Report: AA 98-249

Initial Assessment of Lessons Learned
Audit Report: AA 98-289

Final Assessment of Lessons Learned
Audit Report: AA 99-116

FY 98 Financial Statements, Significant Matters, U.S. Army Corps of Engineers, Civil Works
Audit Report: AA 99-XXX

OTHERS RECEIVING COPIES OF THE REPORT

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Assistant Secretary of the Army (Financial Management and Comptroller)
Director of the Army Staff
The Inspector General
Chief of Public Affairs
Deputy Chief of Staff for Personnel
Deputy Chief of Staff for Logistics
Assistant Chief of Staff for Installation Management

Deputy Assistant Secretary of the Army for Budget
Director, Program Analysis and Evaluation
Commanders
- U.S. Army Criminal Investigation Command
- 3d MP Group, USACIDC
- 6th MP Group, USACIDC

Commandant, U.S. Army Logistics Management College
Director, Center for Army Lessons Learned

Under Secretary of Defense (Comptroller)
Inspector General, Department of Defense
Directors
- Defense Intelligence Agency
- Defense Logistics Studies Information Exchange

Auditors General
- Air Force Audit Agency
- Naval Audit Service

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