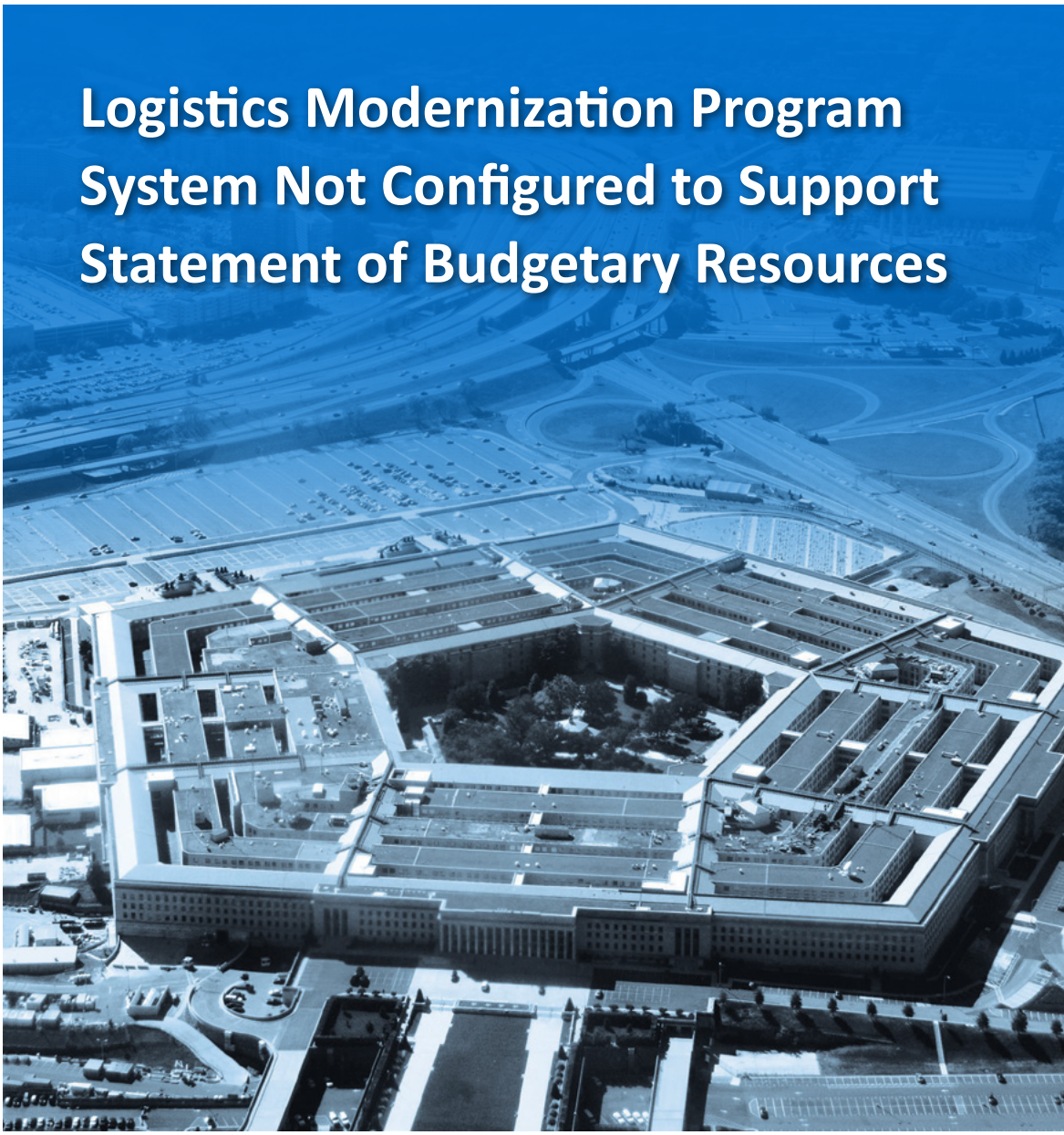
Report No. DODIG-2014-066

Inspector General

U.S. Department of Defense

MAY 5, 2014

Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources



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Results in Brief

Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources

May 5, 2014

Objective

We determined whether the Army's Logistics Modernization Program (LMP) system Product Management Office implemented the Budget-to-Report (B2R) business process required to support the Army Working Capital Fund (AWCF) Statement of Budgetary Resources.

Findings

LMP did not contain the functionality to perform the B2R business process. Specifically, Army financial managers did not provide the LMP Product Management Office the correct system configuration requirements. This occurred because Army financial managers did not assess the DoD transaction codes to determine applicability to AWCF business areas or to incorporate existing manual workarounds, and managers in the Office of the Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD, did not provide sufficient oversight. As a result, Army financial managers, despite spending more than $1.8 billion, could not use the LMP trial balance data to prepare the Statement of Budgetary Resources and other budgetary reports without making more than $41 billion in adjustments. This put at risk the Army's ability to achieve audit-ready AWCF financial statements by FY 2017.

Office of Under Secretary of Defense (Comptroller) personnel did not provide information about the preparation, submission, and approval of the apportionment to the

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Findings Continued

Army Budget Office for accurate and timely recording in the general ledger. This occurred because personnel did not reengineer the funds-distribution-process or develop procedures for budget offices to record appropriate accounting entries in enterprise resource planning systems. In addition, Army Budget Office personnel did not appropriately suballot all types of budgetary authority. As a result, Army financial managers configured LMP to post the end effects of multiple business events that misreported the amount and status of budgetary resources by about $1.8 billion.

Recommendations

We recommend the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD, develop procedures for distributing budget authority to the budget offices for recording in the enterprise resource planning systems and establish comprehensive suballotment procedures. We recommend the Deputy Chief Financial Officer collaborate with the Deputy Chief Management Officer to extend the DoD transaction codes' alignment in the DoD Business Enterprise Architecture. Among other recommendations, we recommend that Army financial managers develop a plan of action and milestones to validate and certify that system functionality aligns with the Transaction Library, applicable business events, and the B2R business process.

Management Comments and Our Response

The response from the Deputy Chief Financial Officer on Recommendation B.1 partially addressed the recommendation. Based on comments from the Acting Deputy Chief Management Officer, we redirected Recommendation A.2 to the Deputy Chief Financial Officer. The response from the Deputy Assistant Secretary of the Army (Financial Operations) addressed all the specifics of the recommendations directed to the Army. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD	A.2, B.1.a, B.1.b, B.1.c	A.1, B.2
Assistant Secretary of the Army (Financial Management and Comptroller)		A.3.a, A.3.b, A.3.c, A.3.d, A.3.e, A.3.f

Please provide comments by June 5, 2014.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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May 5, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
DEPUTY CHIEF MANAGEMENT OFFICER, DOD
AUDITOR GENERAL, DEPARTMENT OF ARMY

SUBJECT: Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources (Report No. DODIG-2014-066)

We are providing this report for review and comment. Despite spending more than $1.8 billion, Army personnel did not perform sufficient reengineering to provide the correct system requirements for executing the Budget-to-Report business process. As a result, the Logistics Modernization Program system cannot provide financial managers with reliable budgetary execution information without more than $41 billion in manual adjustments to prepare the budgetary reports. Unless Army personnel perform the reengineering needed to implement the DoD Transaction Library correctly, it is unlikely they will achieve audit-ready financial statements by FY 2017. Due to the complexity of the system models and the interrelationship of various end-to-end processes, it took considerable time to evaluate the Army's implementation of the Budget-to-Report business process. The report is still relevant because of the Army's recent efforts toward audit readiness of its working capital fund activities.

We considered management comments on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. The response from the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD, on Recommendation B.1 did not address all the specifics of the recommendation. Based on comments from the Deputy Chief Management Officer, we redirected Recommendation A.2 to the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer. We request additional comments from the Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer on both recommendations by June 5, 2014. The response from the Deputy Assistant Secretary of the Army (Financial Operations) addressed all the specifics of the recommendation, and we do not require additional comments.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

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INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

Introduction

Objective

Our objective was to determine whether the Logistics Modernization Program (LMP) system Product Management Office (PMO) implemented the DoD Business Enterprise Architecture (BEA) Budget-to-Report (B2R) business process to support the Army Working Capital Fund (AWCF) Statement of Budgetary Resources (SBR). See Appendix A for a discussion of the scope and methodology and Appendix B for prior audit coverage. See the Glossary for definitions of technical terms used in this report.

Background

The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) and the Army Materiel Command G-8 (Army financial managers) reported to Congress that LMP would be the AWCF system solution for developing auditable financial statements. LMP is an Enterprise Resource Planning (ERP) system to record Army logistical and financial transactions. By September 30, 2013, the LMP PMO completed system deployment to all but one AWCF business area activity. LMP replaced the Standard Depot System and will replace the Commodity Command Standard System in FY 2014, once LMP deploys to the Non-Army Managed Inventory activities.

ASA(FM&C) plans to develop LMP in two increments. The Milestone Decision Authority designated the LMP deployment effort through December 28, 2011, as Increment One. The LMP PMO will resolve existing deficiencies as part of Increment One. The Defense Business Council designated LMP acquisition activities after December 2011 as Increment Two. This increment will add functionality and convert LMP to Government control. LMP Increment Two achieved the Business Capability Lifecycle Prototyping Phase (Milestone B) on August 27, 2013. The life-cycle cost estimate for LMP is $4.1 billion. As of September 30, 2013, the Army spent approximately $1.8 billion of the $4.1 billion.

The Deputy Chief Management Officer (DCMO) established the Standard Financial Information Structure (SFIS) to achieve the financial data standardization required to comply with the United States Government Standard General Ledger (USSGL). Office of Management and Budget (OMB) Circular No. A-136 Revised (OMB A-136), "Financial Reporting Requirements," October 21, 2013, requires SBR preparation

using primarily financial data reported from an activity's budgetary general ledger accounts.[1] Therefore, LMP must contain reliable and SFIS compliant budgetary data to report an accurate AWCF SBR.

This is the third in a series of DoD Office of Inspector General reports on LMP functionality. The first report, Report No. D-2011-015, "Insufficient Governance Over Logistics Modernization Program System Development," November 2, 2010, concluded the Army failed to deliver a USSGL-compliant system. The second report, Report No. DODIG-2012-087, "Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses," May 29, 2012, concluded Army financial managers did not implement the DoD BEA requirements for the Procure-to-Pay business process and correct known material weaknesses. In addition, Army managers did not review control activities to assess internal control effectiveness, resulting in the use of costly manual business processes and LMP's failure to provide reliable financial data.

Roles and Responsibilities

The Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) is responsible for overseeing and monitoring ERP deployment efforts to achieve an audit-ready system environment. The DCMO is responsible for advising the Secretary of Defense and Deputy Secretary of Defense on the management and improvement of integrated business operations. In addition, the DCMO is responsible for defining, optimizing, and implementing the end-to-end business processes, including the integration of requirements and data standards. Managers working for the Deputy Chief Financial Officer (DCFO managers) generate all financial management content in the BEA. The Defense Finance and Accounting Service (DFAS) provides departmental and field-level accounting services.

ASA(FM&C) is responsible for modernizing Army financial management systems and processes and the integration of financial data and cost information. ASA(FM&C) Financial Operations Directorate is responsible for Army financial management policies, procedures, and programs; Army ERP systems; and internal control and audit compliance. The Army Office of Business Transformation acts under the authority, direction, and control of the Secretary of the Army; reports directly to the Army Chief Management Officer; and is the lead for business transformation efforts. Both the Office of Business Transformation and ASA(FM&C) share the responsibility

[1] The USSGL breaks down accounts into proprietary accounts (series 1000, 2000, 3000, 5000, 6000 and 7000), budgetary accounts (series 4000), and memorandum accounts (series 8000).

for confirming that LMP activities implement the appropriate internal control over financial business processes. The Army Program Executive Office Enterprise Information Systems is responsible for the acquisition, development, and business integration of enterprise information systems, which includes LMP PMO oversight. Army Materiel Command is responsible for managing financial and logistical functions within the two AWCF business areas (Supply Management and Industrial Operations).

Statement of Budgetary Resources Material Weakness

The Army's FY 2013 Statement of Assurance reported 11 material weaknesses, including those related to its financial management system and the AWCF SBR. The Army stated it did not populate the SBR using data from the LMP budgetary accounts. DFAS personnel continued to use budget execution data in status reports to make adjustments because the accounting system incorrectly recorded budgetary accounts. The Army established an FY 2015 target date to correct the SBR material weakness. Public Law 111-84, "The National Defense Authorization Act for Fiscal Year 2010," Section 1003, "Audit readiness of financial statements of the Department of Defense," requires a validation that the AWCF Financial Statements, including its SBR, are ready for audit no later than September 30, 2017.

DoD Business Enterprise Architecture

Annually, DCMO issues an updated DoD BEA version defining the business transformation priorities, business capabilities required to support those priorities, and enterprise systems combinations and initiatives to enable those capabilities.[2] The BEA contains 15 standard, integrated and optimized end-to-end business processes, including the B2R business process. The B2R business process is one of the three BEA business processes that underwent validation and refinement for which the requirements are mostly developed. Future BEA releases will finalize the remaining 12 business processes.

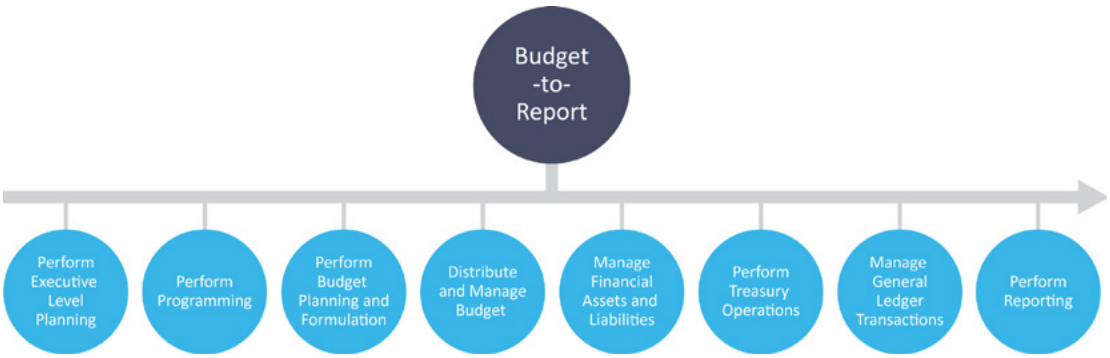
SFIS provides the BEA financial data standard and contains the DoD USSGL transaction library (hereafter referred to as Transaction Library). The DoD Standard Chart of Accounts (DoD SCOA), comprising the USSGL general ledger account codes and DoD standard account extensions, provides the detail required for budgetary, financial, and management reports. OUSD(C) Memorandum, "DoD Standard Chart of Accounts in Standard Financial Information Structure (SFIS)," August 13, 2007, directs the use of a DoD SCOA in the target general ledger systems.

[2] DCMO develops the annual BEA version to comply with Public Law 108-375, "Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005." On February 14, 2013, the Office of Deputy Chief Management Officer delivered BEA Version 10.0 (BEA 10.0). BEA 10.0 did not significantly change the B2R business process, but it further refined it.

Budget-to-Report Business Process

The B2R business process encompasses functions necessary to plan, formulate, create, execute, and report the budget. Figure 1 shows the B2R business flow related to the eight phases of the BEA B2R business process.

Figure 1. BEA Version 9.0 B2R Business Flow



Source: DoD BEA 9.0

The 8 phases contained 23 business events and numerous process steps. See Appendix C for a brief description of the 23 business events. DoD Financial Management Regulation, volume 1, chapter 7, "United States Standard General Ledger," June 2009, states that the USSGL must be used in all DoD accounting systems for all appropriations and funds. The Transaction Library process breaks down the USSGL accounting transactions for the B2R business process into individual DoD transaction codes (DTCs). The DTCs provide the appropriate pairings of budgetary, proprietary, and memorandum general ledger accounts. Compliance with OMB Circular No. A-127, "Financial Management Systems," January 9, 2009, requires the recording of approved transactions that generate appropriate pairings of general ledger accounts for posting according to the USSGL business rules.

Budget Preparation, Submission, and Execution

OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," August 3, 2012, (OMB A-11), identifies the basic laws for regulating the budget process. OMB A-11 provides Federal managers guidance for preparing and submitting agency budget requests and other required materials for OMB and Presidential review. In addition, OMB A-11 provides instruction on budget execution, including the apportionment and reapportionment processes, and how to report budget

execution and budgetary resources on the SF 133, "Report on Budget Execution and Budgetary Resources." Agencies submit an SF 133 for each expired and unexpired Treasury Appropriation Fund Symbol.[3]

Annual Operating Budget Process

Annually, Army Budget Office (ABO) personnel submit a budget estimate to OUSD(C) personnel requesting annual budget authority. This estimate includes:

- appropriated authority to support such things as prepositioned stocks and war reserve materiel;
- contract authority to support supply management activities, capital investment programs, and a variability target;[4] and
- spending authority for unobligated balances brought forward from previous years and anticipated new customer orders.

OUSD(C) personnel combine the Army's request with the requests of other Defense Working Capital Fund (DWCF) subcomponents and submit to OMB a combined request for DWCF budget authority as part of the President's Budget sent to Congress. Once Congress approves the DWCF budget authority, OMB uses Treasury Appropriation Fund Symbol 97X4930 to apportion the DWCF authority to the OUSD(C) Revolving Funds Directorate, which assesses congressional and OMB actions and transfers a portion of the appropriated budget authority to the five DWCF subcomponents.[5] OUSD(C) Revolving Funds Directorate personnel also determine each subcomponent's share of the approved apportionment and prepare an Annual Operating Budget that allots the authority to the subcomponents, as approved by the Director of Revolving Funds. These process steps occur during the Distribute and Manage Budget Phase of the B2R business process.

[3] Treasury Appropriation Fund Symbol refers to the individual Treasury accounts established for each appropriation based on the availability of the resources in the account. It is a combination of Treasury Agency code, Federal account symbol, and availability code, such as annual, multi-year, or no-year funds.

[4] DoD Financial Management Regulation, volume 3, chapter 19, states that the variability target represents an amount of contract authority held in reserve by the OUSD(C) Revolving Funds Directorate to provide continuity of operations for fluctuations in customer orders due to contingency operations.

[5] Each DWCF subcomponent receives a Treasury Appropriation Fund Symbol 97X4930.XXX. AWCF is designated 97X4930.001.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the ability of LMP to prepare the AWCF SBR. These occurred because Army financial managers did not properly assess and implement SFIS requirements and business processes necessary to comply with the B2R end-to-end process. In addition, OUSD(C) personnel did not provide information concerning the preparation, submission, and approval of the DWCF apportionment to Army personnel for accurate and timely recording in the AWCF general ledger, because they did not perform the needed reengineering and develop procedures for operating in an ERP environment. We will provide a copy of the report to the DoD and Army senior officials responsible for internal controls.

Finding A

System Functionality Incorrectly Distributed, Executed, and Reported Budget Authority

LMP did not contain the B2R business process functionality to prepare the AWCF SBR. Specifically, LMP lacked the necessary functionality to accomplish 18 of the 23 business events in the B2R business process correctly. This occurred because Army financial managers did not perform sufficient business process reengineering to implement the B2R business process. In addition, DCFO managers did not provide sufficient oversight to certify that Army financial managers complied with the Transaction Library requirements for recording budgetary transactions. DCFO managers took almost 6 years to agree on the baseline of the DoD SCOA accounts applicable to the AWCF activities.

As a result, Army financial managers, despite spending more than $1.8 billion on implementing the system, cannot rely on the LMP trial balance data to prepare the AWCF SBR and other budgetary reports needed to manage AWCF budget execution. Instead, DFAS personnel must perform extensive manual adjustments, totaling $22.8 billion, and journal vouchers, totaling $18.2 billion, to prepare the required reports. Unless Army financial managers implement the correct Transaction Library in LMP to record transactional data correctly, it is unlikely they will achieve audit ready AWCF financial statements by FY 2017.

System Did Not Contain Required Budget-to-Report Business Process

Army financial managers did not develop the LMP functionality needed to accomplish the B2R business process. The B2R business process contains eight phases. Six of these require Army financial managers to perform an assessment for the business process requirements, accomplish any required business process reengineering, and develop the requirements needed for the LMP PMO to configure LMP. The first two phases of the process contain no business events requiring system configuration. Army financial managers did not correctly assess and develop requirements to accomplish

Army financial managers did not correctly assess and develop requirements to accomplish 18 of the 23 business events for the remaining six phases.

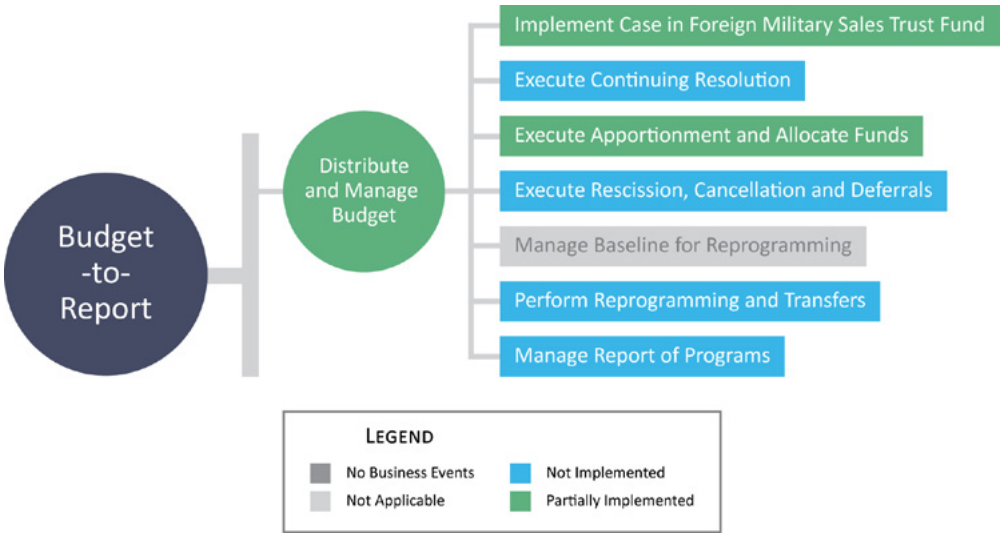
18 of the 23 business events for the remaining six phases.[6] This finding predominately addresses problems with two phases of the business process — Distribute and Manage Budget Phase and Manage General Ledger Transactions Phase. Specifically, LMP did not contain all the functionality to perform the nine applicable business events in these two phases. Functionality also did not exist to accomplish nine business events in the remaining four phases that relate mostly to the other BEA end-to-end business processes, primarily the Order-to-Cash and Procure-to-Pay business processes.

Report No. DODIG-2012-087 previously found significant problems with how the Army configured the LMP Procure-to-Pay business process. These problems also impair how LMP accomplishes the B2R business process. Appendix C describes each of the 23 business events and provides details on the problems.

System Configuration Cannot Accomplish the Distribute and Manage Budget Phase

Army financial managers did not provide correct requirements for configuring LMP to accomplish the Distribute and Manage Budget Phase. This phase contains six AWCF applicable business events used to establish and manage budget authority. LMP lacked functionality to perform four of the business events and can perform only some of the functionality of the other two business events. Figure 2 shows the four business events (denoted in blue boxes) not implemented and the two business events (denoted in green boxes) partially implemented in the Distribute and Manage Budget Phase.

Figure 2. Implementation Status of the Business Events in Distribute and Manage Budget Phase



Source: Auditor analysis based on BEA 10.0

[6] Of the 23 business events, 5 were not applicable to AWCF and do not require the LMP functionality. See Appendix C for more details.

OUSD(C) provides activities, such as the AWCF, with budget authority in the form of appropriated funds, contract authority, and spending authority. Historically, Army financial managers established and distributed AWCF budget authority outside of the accounting system and only began recording data to the general ledger accounts once they received allotted funds. Table 1 identifies, by type of budget authority, the dollar value of AWCF budget authority apportioned and allotted, recorded in LMP, and reported on the SBR as of March 31, 2013.

Table 1. AWCF Budget Authority as of March 31, 2013 (in Millions)

Budget Authority	DoD SCOA Account	Apportioned (SF 132)	Allotted (Annual Operating Budget)	Recorded in LMP	Reported on the SBR
Appropriated Funds	4170	$42.6	$42.6	$68.8	$102.6
Contract Authority	4032	7,293.4	7,042.9	6,970.9	7,353.6*
Spending Authority	4210	5,965.2	6,095.6	6,069.4	6,055.1
Totals		**$13,301.2**	**$13,181.1**	**$13,109.1**	**$13,511.3**

* The amount includes the automatic reapportionment of contract authority recovered from prior year obligations not identified on SF 132.

Army financial managers did not develop the LMP requirements to configure the DTCs needed to accomplish all aspects of the funds-distribution-process, causing differences in the amounts recorded as budget authority. Army financial managers did not understand the significance of not using the DTCs from the Transaction Library for maintaining an accurate general ledger throughout the business process. Consequently, the LMP PMO did not configure the system using the correct Transaction Library DTCs for recording the apportionment, allotment, and suballotment processes. The Transaction Library defines the requirements for accomplishing the three funds-distribution-process steps that would:

- establish budget authority in the appropriate budget resource accounts and DoD SCOA account 445000.9000, "Unapportioned Authority," based on annual congressional actions;
- record the OMB approval of apportioned authority in DoD SCOA account 451000.9000, "Apportionments," or DoD SCOA account 459000.9000, "Apportionments–Anticipated Resources–Programs Subject to Apportionment;" and
- allot funding to the DWCF activities using DoD SCOA account 461000.9000, "Allotments — Realized Resources."

Once a DWCF activity receives an allotment, it can then suballot that authority using the DoD unique accounts provided in the DoD SCOA account 454000-458000 series. However, Army financial managers did not provide the correct requirements to configure LMP to accomplish the individual DTCs as each process step occurred. Instead, they directed the LMP PMO to configure LMP to bypass the recording of these individual process steps and developed LMP posting logic that recorded only the end effect of the AWCF receiving its allotment.

This prevented the system from providing an audit trail showing the establishment of the unapportioned authority and AWCF budget authority transition to an apportioned status and an allotted status based on the Transaction Library DTCs. As we will discuss in Finding B, OUSD(C) personnel did not provide the documentation that ABO personnel require to record the business events related to the Distribute and Manage Budget Phase.

Army financial managers admitted that they did not develop LMP functionality to establish unapportioned budgetary authority using DoD SCOA account 445000.9000, as required in the Transaction Library. However, LMP requires this account to establish, execute, close, and carry forward all its budget authority and to report the correct balance on the SBR and SF 133, Line 1000, "Unobligated Balance Brought Forward, October 1." Consequently, as of March 31, 2013, the LMP trial balance reported an abnormal balance of $11.4 billion in DoD SCOA account 445000.9000.

The following paragraphs describe how LMP's inability to execute the correct general ledger postings, as defined in the Transaction Library, for distributing and managing the three types of AWCF budget authority prevented the proper execution of the business events associated with the Distribute and Manage Budget Phase.

System Does Not Manage Appropriated Funds Properly

Army financial managers did not accurately configure the LMP general ledger to establish and distribute AWCF appropriated funds. The FY 2013 DoD SCOA identified five general ledger accounts related to establishing, distributing, and reducing AWCF appropriated funds. However, the LMP Chart of Accounts did not contain four of the five accounts. For example, the Execute Apportionment and Allocate Funds business event required LMP to record the establishment of AWCF appropriated funding using DoD SCOA account 417000.3102, "Transfers–Current-Year Authority Transfers In." The AWCF received its annual appropriation amounts from the DWCF as a transfer using the SF 1151, "Nonexpenditure Transfer of Funds." Using this process to establish appropriated funding requires the posting of DTCs as described in

Appendix C, under the Execute Apportionment and Allocate Funds business event. However, Army financial managers did not provide requirements to the LMP PMO to properly configure the accounts in LMP.

Similarly, LMP could not accomplish the Execute Continuing Resolution business event, which provides the annualized appropriation amount applicable to the AWCF under a continuing resolution. See the Execute Continuing Resolution section of Appendix C for the DTCs and accounting entries needed to configure this business event. Appendix D, Table D-1, identifies applicable information about the DoD SCOA accounts and DTCs related to establishing and distributing AWCF appropriated funds.

Configuration Did Not Establish and Manage Contract Authority

Army financial managers did not configure the LMP general ledger to correctly establish and manage AWCF contract authority. The FY 2013 DoD SCOA identified nine DoD SCOA accounts related to establishing, distributing, and executing contract authority. The LMP Chart of Accounts contains the nine accounts. However, Army financial managers did not accomplish the business process reengineering required to support 18 of 34 DTCs required to record those accounts. Specifically, they did not provide the LMP PMO the correct requirements to configure the system to record the three separate business events that would establish, apportion, and allot AWCF contract authority. Instead, they directed the LMP PMO to configure the system to record a nonstandard business event consisting of part of the first event and part of the third event. Specifically, LMP recorded contract authority by debiting DoD SCOA account 403200.9000, "Estimated Indefinite Contract Authority," and crediting either DoD SCOA account 451000.9000 or DoD SCOA account 461000.9000. This accounting entry bypassed the required Transaction Library accounting entries and did not record the establishment of contract authority as Unapportioned Authority using DTC A176-001-01 or the OMB apportionment of that authority using DTC A116-001-01. It also incorrectly recorded the suballotment of authority in DoD SCOA account 451000.9000 for amounts already allotted to the AWCF. Appendix D identifies LMP's capability to accomplish DTCs by DoD SCOA account.

Army financial managers did not provide the LMP PMO the correct requirements to configure the system to record the three separate business events that would establish, apportion, and allot AWCF contract authority.

Furthermore, the withdrawal and liquidation of contract authority requirements provided to LMP PMO did not align with the Transaction Library. The Annual Operating Budget provided authority to automatically reapportion and reuse AWCF contract authority recovered from prior-year obligations. Based on this authority, ABO personnel should accomplish DTCs within LMP to establish, apportion, and allot the reapportioned authority and withdraw the old contract authority, as described in Appendix C, in the Execute Apportionment and Allocate Funds section. Instead, Army financial managers provided the LMP PMO incorrect requirements that configured LMP to recover and withdraw contract authority using a single accounting entry that bypassed the required Transaction Library DTCs. Army financial managers did not believe they needed to record the individual DTCs and instead recorded the end effect of the multiple transactions. This prevented ABO personnel from recognizing the amounts withdrawn and preparing documentation to support the establishment of new contract authority. See Appendix C, Manage Liabilities section, for the proper posting logic for establishing new contract authority.

LMP also did not contain the proper DTCs for contract authority liquidation. As of March 31, 2013, the LMP trial balance did not report any amount in DoD SCOA account 413500.9000, "Contract Authority Liquidated." This showed that the LMP configuration did not record the proper DTCs and resulted in DFAS personnel having to estimate the liquidated amounts and prepare journal vouchers in the Defense Departmental Reporting System (DDRS) to record the amounts. Appendix D, Table D-2, identifies the applicable DoD SCOA accounts and their status in LMP as well as the status of implementing the DTCs related to contract authority.

Spending Authority Requirements Not Properly Determined

LMP did not contain the configuration needed for posting accurate general ledger data to administer spending authority. The LMP Chart of Accounts did not contain 7 of the 10 accounts related to spending authority. Consequently, the LMP PMO could not develop the posting logic needed to accomplish the 10 DTCs that support those accounts. In addition, LMP did not contain the functionality to accomplish the posting logic associated with 28 other DTCs. Army financial managers incorrectly configured LMP to post the end effect of multiple business events, which disregarded accounting for the status of unapportioned authority and ignored the occurrence of specific business events.

For example, LMP did not configure the DTCs required to establish the amount of unapportioned spending authority provided to the AWCF (DTC A702-001-01) or record the OMB-approved SF 132, "Apportionment and Reapportionment Schedule,"

(DTC A118-001-01). Instead, Army financial managers directed the LMP PMO to configure the system to debit DoD SCOA account 421000.9000, "Anticipated Reimbursements and Other Income," and credit DoD SCOA account 459000.9000, bypassing those business events. Since OMB can withhold or rescind spending authority, bypassing the initial recording of the unapportioned authority may not accurately reflect the status of those resources. Appendix D, Table D-3, identifies the applicable DoD SCOA accounts and their status in LMP as well as the status of implementing the DTCs related to spending authority.

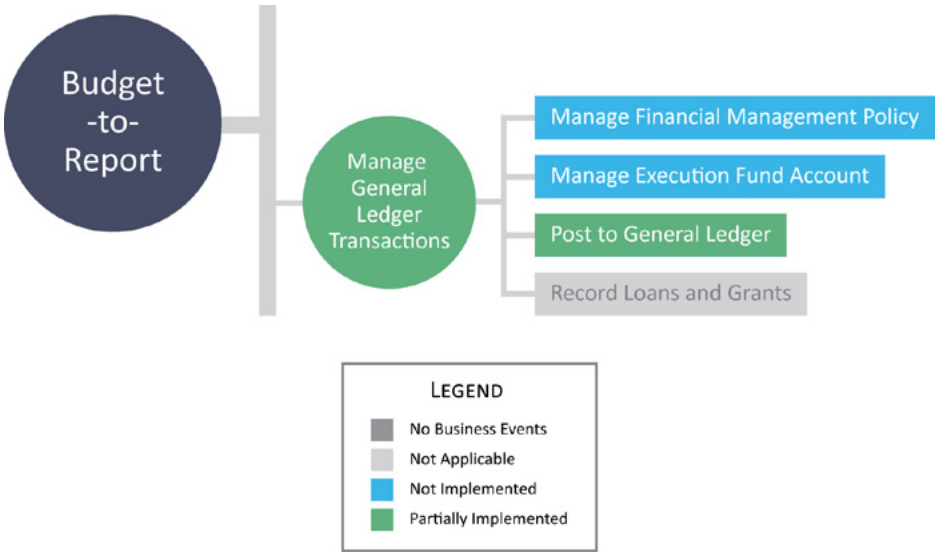
According to OMB A-11, OMB apportions spending authority to activities; however, they cannot realize the authority until receipt of funded customer orders. Therefore, upon establishment of a customer order using DTC A706-001-01, LMP should simultaneously allot and apportion spending authority by using DTCs A122-001-01 and A122-002-01. As a result, the account balances for DoD SCOA accounts 421000.9000 and 459000.9000 should remain equal, unless a portion of the anticipated authority remained unapportioned. As of March 31, 2013, because none of the authority was unapportioned, there was a $26.1 million difference between the two accounts, indicating a potential LMP configuration problem.

Incomplete Requirements in Manage General Ledger Transactions Phase

LMP did not contain the DTCs needed to correctly close out the budgetary accounts in the Manage General Ledger Transactions Phase. The monthly and annual closing processes provided the data needed to prepare the SF 133 and SBR and to develop LMP ending and beginning balances. The Transaction Library divided closing entry DTCs between pre-closing and closing entries. To accomplish the F100-F299 DTCs as pre-closing entries, LMP should accomplish the DTCs in accounting period 12 and accomplish the remaining F-series DTCs, to close any remaining budgetary accounts, in accounting periods 13-16.[7] However, Army financial managers did not develop a year-end closing plan that would allow the use of the LMP trial balance data to support the preparation of SF 133 and SBR. Figure 3 shows the two business events not implemented and the one business event partially implemented in the Manage General Ledger Transactions Phase.

[7] LMP contains accounting periods 0-16. Accounting period zero provided the fiscal year beginning balances. Accounting periods 1–12 provided accounting for the months of October through September. The system uses accounting periods 13–16 to perform closing entries and develop the year-end trial balances.

Figure 3. Implementation Status of the Manage General Ledger Transactions Phase



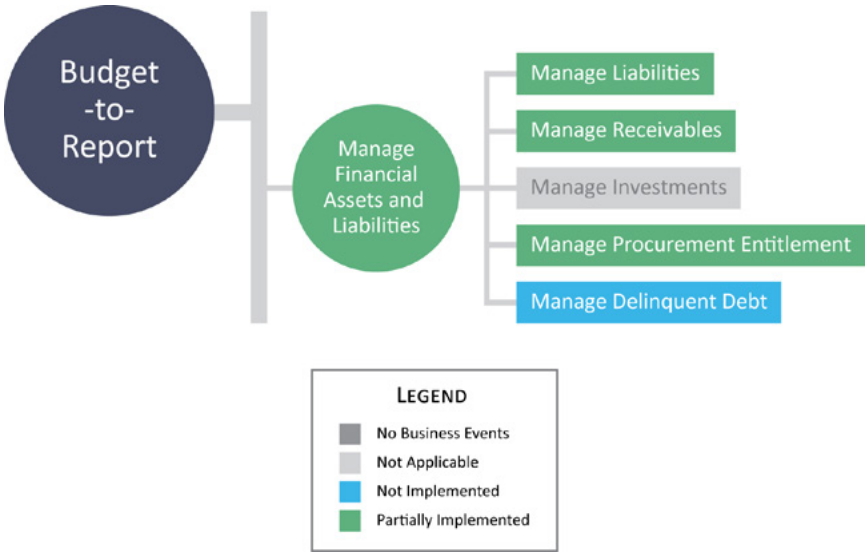
Source: Auditor analysis based on BEA 10.0

For example, LMP did not record DTCs F112 and F113 correctly to adjust for anticipated resources not realized and to reduce unobligated balances at year-end for contract authority. A properly configured system should be able to reduce the amounts in unobligated balance accounts to reflect only the amounts Army financial managers intended to carry forward at year-end. Army financial managers could then configure the system to close out the remaining unobligated balances to DoD SCOA account 445000.9000 using DTC F308. However, the improper configuration of the LMP pre-closing and closing DTCs caused DoD SCOA accounts 461000.9000 and 470000.9000, "Commitments–Programs Subject to Apportionment," to report a combined $4.4 billion balance at year-end, rather than closing those accounts into DoD SCOA account 445000.9000 at year-end. See Appendix C for additional details on the incorrect implementation of the business events.

Budget Authority Execution Requirement Not Defined

Army financial managers did not provide the LMP PMO the proper requirements to configure the system to execute AWCF budget authority. A majority of the DTCs related to the execution of AWCF budget authority supported the Manage Financial Assets and Liabilities and Perform Treasury Operations Phases. They also supported the Order-to-Cash and Procure-to-Pay BEA business processes. Figure 4 shows the three business events partially implemented and the one business event not implemented in Manage Financial Assets and Liabilities Phase.

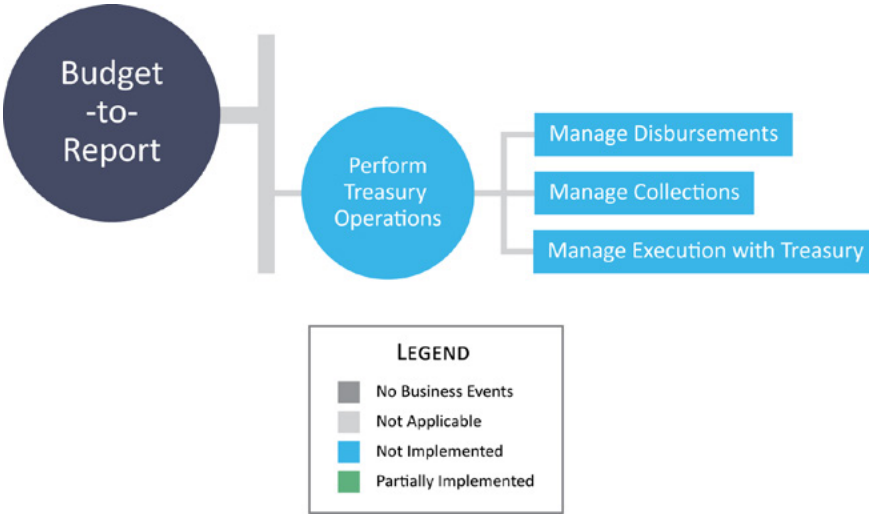
Figure 4. Status of the Manage Financial Assets and Liabilities Phase



Source: Auditor analysis based on BEA 10.0

Likewise, Figure 5 shows the three business events LMP did not implement related to the Perform Treasury Operations Phase. Army financial managers did not accomplish the reengineering needed to integrate the Treasury reconciliation function into LMP or provide the capability to receive cash management files directly from Treasury and reconcile them.

Figure 5. Status of the Perform Treasury Operations Phase



Source: Auditor analysis based on BEA 10.0

The FY 2013 DoD SCOA identified 33 DoD SCOA accounts applicable to the execution of AWCF budget authority. However, the LMP Chart of Accounts did not contain 10 of the 33 accounts. Consequently, LMP did not contain the posting logic to accomplish the 20 DTCs to support those 10 accounts. In addition, LMP PMO could not demonstrate the posting logic associated with 571 other DTCs supporting the remaining 23 accounts. Appendix D, Table D-4, identifies the applicable DoD SCOA accounts and their status in LMP as well as the status of implementing the DTCs related to execution of budget authority.

Business Process Reengineering Not Sufficient to Implement Business Process

Army financial managers did not perform the business process reengineering needed to implement the B2R end-to-end business process. Industry best practices suggest the use of business process reengineering when implementing new business processes or information systems. Business process reengineering requires the analysis and design of workflows and processes within an organization. Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," Section 1072, "Business Process Reengineering," October 28, 2009, mandates the review of business process reengineering. This requires organizations to assess their business processes and reengineer the LMP posting logic to incorporate the new standard data structure contained in the Transaction Library. The OUSD(C) memorandum directed transaction alignment to the DoD USSGL Transaction Library as part of SFIS implementation and issued the first detailed transaction format in 2007.

Army financial managers did not perform the business process reengineering to determine which DTCs LMP needed to perform the B2R business process.

Army financial managers did not perform the business process reengineering to determine which DTCs LMP needed to perform the B2R business process. The Army completed LMP fielding in October 2010. However, system requirements continued to evolve with each BEA version since FY 2006. In FY 2012, in response to previous DoD Office of Inspector General audit reports, Army financial managers tried to provide the LMP PMO system requirements for implementing portions of the budget process. However,

ASA(FM&C) personnel informed us they did not use the Transaction Library when developing those requirements. They did not have a sufficient understanding of the requirement for configuring LMP to use only the DTCs in the Transaction Library, as mandated for new targeted accounting systems, and therefore did not perform the reengineering to populate the correct DTCs as transactions occurred.

In June 2012, Defense Chief Management Officer published guidance directing the Pre-Certification Authority to determine if information system investments were BEA compliant. Prior to requesting certification, the Pre-Certification Authority should ascertain that the program offices undertook sufficient reengineering efforts to streamline business processes, reduce the need to tailor systems to meet unique requirements, and incorporate unique interfaces to the maximum extent practicable.

On June 13, 2013, the Army Chief Management Officer, as the Pre-Certification Authority, certified that LMP complied with BEA version 10.0 and the Army accomplished the required business process reengineering. However, he did not confirm that the LMP PMO implemented the correct Transaction Library DTCs. The certification package submitted indicates that both the Distribute and Manage Budget and Manage General Ledger Transactions Phases are compliant. However, the LMP PMO did not implement all the DTCs needed for six of the business events and partially implemented three other business events in those phases.

Neither the Army's Office of Business Transformation nor ASA(FM&C) personnel validated the implementation of the Transaction Library. Office of Business Transformation personnel stated that their function was to compile, not validate, the requirements and pass the information to Defense Chief Management Officer. However, Public Law 111-84 required the Army Chief Management Officer to do more than just compile information. The Public Law required a determination as to whether or not LMP was in compliance with the BEA and the Army had undertaken appropriate business process reengineering efforts. Additionally, ASA(FM&C) personnel acknowledged they did not conduct a Transaction Library review to facilitate business process reengineering. Although the DoD Financial Management Regulation (FMR) mandated the use of the Transaction Library DTCs, neither office recognized the need to validate the proper implementation of the Transaction Library, and DCMO managers did not require it.

Army financial managers stated they could not attest to the accuracy of the SBR but that they began working with the Army's audit readiness team to identify the actions required to correct known material weaknesses and put these

actions into a comprehensive plan of action and milestones. As part of this effort, the ASA(FM&C), in coordination with Army Materiel Command G-8, should perform a comprehensive business process reengineering effort that validates and certifies that LMP functionality aligns with the Transaction Library, applicable BEA business events, and DoD SCOA accounts for the B2R business process.

System Reengineering Needed to Integrate Manual Processes and Workarounds

Army financial managers did not assess the manual processes and workarounds developed to support their legacy accounting systems and conduct the reengineering needed to incorporate those processes in LMP. During LMP development, they did not determine how to incorporate existing manual processes and reduce interfaces. Army financial managers stated they took actions to implement the B2R process but could not substantiate that they conducted a comprehensive review of the 23 business events. They also could not provide documentation supporting their use of the Transaction Library in developing B2R requirements. For example, they did not reengineer LMP to implement the Perform Treasury Operations Phase. Army financial managers continued to use legacy cash management business processes to accomplish the Manage Disbursements, Manage Collections, and Manage Execution with Treasury business events instead of conducting the reengineering needed to integrate these business events into LMP. On August 31, 2012, the Office of Deputy Chief Management Officer issued guidance on DoD's Delinquent Debt Management process and directed DoD Components to incorporate the process into their ERP systems as part of the system implementation strategy. Although the Delinquent Debt Management process was part of the B2R business process within the Manage Financial Assets and Liabilities Phase, Army financial managers did not initiate actions to perform the business process reengineering required to incorporate the debt management process as part of LMP. Opportunities for business process reengineering also existed in the Manage Financial Assets and Liabilities and Manage General Ledger Transaction Phases. (See Appendix D for further details.)

Army financial managers also could not provide documentation supporting their use of the Transaction Library in developing B2R requirements.

The reengineered processes should develop the LMP functionality to directly receive Department of Treasury disbursement and collection files and post the corresponding LMP general ledger transactions, including any undistributed transactions. Instead,

LMP continued to receive data from legacy processes that DFAS personnel must reconcile before posting to the LMP general ledger. Army financial managers also should reengineer the delinquent debt-management process and cease recording debt-related transactions outside the system. These nonintegrated processes caused DFAS personnel to prepare journal vouchers to reconcile budgetary amounts to the proprietary accounts, record undistributed disbursements and collections, and reconcile and eliminate intragovernmental transactions within DDRS. Army financial managers need to investigate the root causes of each manual process and workaround related to the B2R business process. They must then develop the reengineering plan for implementing the LMP functionality to record the data correctly within the system's general ledger.

Performing an Assessment of DTC Requirements

Army financial managers did not determine the applicability of the DoD SCOA or the Transaction Library DTCs when developing LMP requirements. In 2011, Army financial managers completed a review to determine the applicability of DoD SCOA and Transaction Library DTCs to AWCF business activities. However, they did not perform the comprehensive assessment needed to develop the correct system requirements for implementing the DoD SCOA and Transaction Library DTCs required to record B2R transactional data. Army financial managers did not understand they needed to perform a comprehensive assessment of the business events and determine the relevancy of each of the DTCs. Examples of incorrect requirements included:

- establishing AWCF appropriated funding using DoD SCOA account 411900.9000, "Other Appropriations Realized." However, because the AWCF actually received its appropriated funding as a nonexpenditure transfer from the DWCF, the recording of DoD SCOA account 411900.9000 should occur only in the accounting system supporting Treasury Appropriation Fund Symbol 97X4930. Once established in that accounting system of record, funding should then transfer to LMP using DTC A484-001-01.

- managing the AWCF contract authority. They did not develop the correct requirements for LMP to administer contract authority from enactment through year-end closing.

- establishing and distributing the AWCF spending authority.

As a result, the LMP PMO did not properly configure LMP to record AWCF budgetary transactions.

In February and March 2013, the Army financial managers assessed the DoD SCOA and determined which accounts they needed to configure in the LMP general ledger. Based on that assessment, they developed the system change requests that will implement the missing DoD SCOA accounts identified. As part of this effort, ASA(FM&C) should document and certify a comprehensive review of AWCF business activities that baselines the DTCs and general ledger accounts needed for recording the LMP B2R business process. They then should develop the system requirements for and request funding from the Defense Business Council to implement the B2R within LMP correctly.

In addition, Army financial managers did not properly assess each of the DTCs contained in the account closing process to provide the LMP PMO with the correct requirements for closing each general ledger account. In FY 2012, many of the closed accounts reflected incorrect or abnormal balances. Discussions with LMP PMO, ASA(FM&C), and DFAS personnel about the period-end closing process revealed that the process in place for FY 2012 did not properly execute the Transaction Library DTCs. Only 6 of the 22 pre-closing DTCs contained evidence supporting proper implementation. For the remaining 16 DTCs, Army financial managers could not provide evidence of proper implementation. ASA(FM&C) needs to develop a plan to accomplish the required pre-closing transactions necessary to support the preparation of the SF 133 and SBR at year-end.

Oversight Needed to Certify Standard Financial Information Structure Compliance

DCFO and DCMO managers did not provide sufficient oversight of LMP development to confirm that the system contained the required functionality to populate the SBR. DCFO and DCMO managers were responsible for ensuring newly developed ERP systems complied with Federal financial management requirements, Federal accounting standards, the USSGL, and other DoD financial requirements. However, they allowed Army financial managers to complete LMP development without the functionality to support BEA end-to-end processes, including the B2R business process. The USSGL has required the posting of specific general ledger accounts using specific posting logic since before the development of the DoD SCOA in 2007. Although we recognize that DCFO and DCMO managers have made significant progress in providing guidance and oversight since then, they did not develop procedures to validate whether the LMP PMO actually implemented the DoD SCOA and Transaction Library policies. Report No. DODIG-2013-057, "Enterprise

Business System Was Not Configured to Implement the United States Government Standard General Ledger at the Transaction Level," March 20, 2013, identified the need for DoD managers to develop a more comprehensive validation process for demonstrating that program managers implemented the correct DoD SCOA in ERP systems.

On June 3, 2013, the Deputy Chief Financial Officer issued additional policy requiring that financial systems process transactions using the DoD SCOA and attributes according to the defined Transaction Library. The policy also directed that financial managers make every effort not to group multiple DTCs into one transactional posting, so that each business event posts separately and does not bypass the individual transactions needed to support the business process. Therefore, LMP must incorporate, at a minimum, the DoD SCOA accounts and DTCs applicable to AWCF business processes and transactions. The policy allowed Army financial managers to request a waiver for accounts not associated with the system's business processes and transactions. Army financial managers had already completed a full assessment of the DoD SCOA accounts and submitted a request for exemption in April 2013 from configuring 17 budgetary accounts in LMP that they determined were not applicable to AWCF business activities.

On July 19, 2013, the Director, Business Integration Office, OUSD(C), issued a memorandum to the Deputy Assistant Secretary of the Army (Financial Operations) agreeing that the 17 budgetary accounts were no longer applicable to working capital fund activities. He also identified an additional 12 budgetary accounts that were not applicable to AWCF. Appendix D, Tables D-1 through D-4, identify the 57 baselined budgetary accounts that the LMP PMO needed to configure and their status in LMP.[8]

From August 2007, when the OUSD(C) first required DoD SCOA implementation, until July 19, 2013, nearly 6 years later, when the Director, Business Integration Office, finally approved an LMP baseline of general ledger accounts, the DCFO and Army financial managers did not reach a decision on the correct LMP configuration requirements. During the audit, we made multiple attempts to baseline these requirements with personnel from ASA(FM&C) and

For nearly 6 years, the DCFO and Army financial managers did not reach a decision on the correct LMP configuration requirements.

[8] The FY 2013 Transaction Library included 79 DoD SCOA budgetary accounts that DCFO managers identified as applicable to the working capital fund activities. Based on the response from the Director, Business Integration Office, to the Army's exemption request and meetings held with DCFO and Army financial managers, LMP PMO can reduce and baseline the revised number of DoD SCOA budgetary accounts at 57. See Appendix D for additional details.

DCFO managers but continually received conflicting requirements as to which budgetary accounts DoD actually required in LMP. DCFO's and Army financial managers' inability to determine the proper system requirements hindered proper system configuration by the LMP PMO. DCFO and Army financial managers must still take steps to make sure they provide the LMP PMO requirements to support the configuration of all DTCs needed to populate those accounts. The DCFO should approve the baseline configuration of the LMP B2R business process based on Army certification that the Army has implemented the appropriate Transaction Library transactions for recording AWCF budgetary accounts.

BEA 9.0 provided implementation guidance on the B2R business process. However, DCFO managers did not adequately identify which DTCs a system manager should implement to accomplish each of the 23 business events contained in the process. In BEA 10.0, released inMarch 2013, the Deputy Chief Management Officer added DTCs to the supporting information available for the 23 business events. However, DCFO managers did not associate the DTCs to each of the 23 business events where the transaction actually would occur. Several business events had no process step developed for posting the accounting entries. Instead, DCFO managers added the DTCs to process steps supporting other business events. For example, BEA 10.0 identified the specific DTCs needed during the Execute Continuing Resolution business event (DTCs A196-A199), but the business event in Operational View 6c models did not contain a process step in the proper business event for posting the accounts. Instead, they added those DTCs to process step supporting the Execute Apportionment and Allocate Funds business event.

Army financial managers had not independently assessed the business model processes to determine how or whether to implement each of the DTCs. However, DCFO and DCMO managers should have identified how each of the DTCs related to specific business events and process steps to assist system managers in understanding the need to configure those DTCs. In many instances, the DTCs needed to support a specific business event were included in process step related to a different business event. DCMO personnel stated that since BEA 6.0, they have aligned the DTCs to the applicable BEA process steps that describe where transactions were executed within a business event as described by in Operational View 6c model. However, they recognized that mapping DTCs at a specific and more detailed level would require a redefinition of multiple processes, including recognition of applicable general ledger impact for each business event. The DCFO and DCMO needs to extend the current DTC alignment within the BEA by expanding current definitions of business process steps to a sufficient level that allows for DTC mapping at the specific detailed process step level.

Trial Balance Data Do Not Support the Statement of Budgetary Resources

Army financial managers cannot use the LMP trial balance data to develop the AWCF SBR without making significant adjustments. In December 2012, they began using LMP trial balance data to create the SBR, instead of continuing the use of legacy budgetary status data. However, the incorrect DTC implementation in LMP resulted in trial balance data that did reflect accurate budget authority execution. As of March 31, 2013, LMP reported inaccurate amounts for general ledger accounts supporting the SBR, which required the need for more than $41 billion in DDRS adjustments and journal vouchers.

LMP reported inaccurate amounts for general ledger accounts supporting the SBR, which required the need for more than $41 billion in DDRS adjustments and journal vouchers.

Army financial managers stated they were aware of many of the LMP accounting and posting logic problems that affected the account balances; however, they did not analyze the dollar variances. For example:

- An $11.4 billion difference existed between the accounts supporting Total Budgetary Resources (Line 1910) and the Status of Budgetary Resources (Line 2500).
- A $7.4 billion difference existed between the LMP accounts supporting SBR Line 1000 and what actually the SBR reported. Three DoD SCOA accounts used to support SBR Line 1000 continually reported abnormal balances. The SBR published for September 30, 2012, reported $434 million in unobligated balances carried forward at year-end; however, the supporting LMP trial balance data contained abnormal balances totaling more than $16.3 billion in the closed general ledger accounts, including:
    - A $11.4 billion debit balance in DoD SCOA account 445000.9000;
    - A $4.3 billion credit balance in DoD SCOA account 413900.9000, “Contract Authority Carried Forward;” and
    - A $603.9 million credit balance in DoD SCOA account 420100.9000, “Total Actual Resources–Collected.”

The Army financial managers did not identify the root cause or take the actions needed to correct system functionality to address these abnormal balances. The abnormal balances indicate either that they implemented the incorrect LMP functionality or that the AWCF violated the Antideficiency Act. ASA(FM&C) should direct AWCF activities to conduct an immediate investigation as to whether abnormal balances in unobligated accounts represent a funding violation.

Appendix E identifies, by line, the variances between the amounts reported on the SBR and the LMP trial balance data used to calculate each SBR line item as of March 31, 2013. Army financial managers stated they did not analyze these differences because:

- AWCF activities did not summarize feeder data used to prepare the trial balances so they could analyze the lines that comprise the SBR;
- LMP did not produce a monthly SF 133 report; and
- Departmental-level adjustments were not in the source system.

DFAS personnel provided us data that supported the dollar variances between the AWCF SBR and the LMP trial balance. This support included approximately $22.8 billion in beginning balance and other manual adjustments that Army financial managers did not reconcile and record into LMP. The adjustments included at least:

- $8.9 billion in data from legacy systems that Army financial managers should eliminate or reconcile and migrate into LMP;
- $6.8 billion in Commodity Command Standard System activity related to the future transition of one AWCF activity to LMP in FY 2014;
- $4.7 billion in beginning balance adjustments that they need to reconcile and incorporate into the LMP beginning balances;
- $266 million in unrecorded or misreported LMP trial balance adjustments that they need to determine why LMP functionality is either not recording or misreporting the information;
- $1.8 billion in systematically generated reapportionments; and
- $257 million in DDRS generated adjustments to record undistributed collections and disbursements for which they need to develop LMP functionality to record.

The need for these adjustments demonstrated that sufficient business process reengineering did not occur and that LMP did not maintain the correct beginning or closing balances within its general ledger.

Manual Journal Vouchers Required to Correct LMP Reporting

Army financial managers and DFAS personnel continued to use costly manual procedures to produce the SBR and correct inaccurate LMP trial balance data. In addition to the $22.8 billion in beginning balance and other manual adjustments, DFAS personnel also prepared 129 unsupported journal vouchers within DDRS, totaling $18.2 billion. Table 2 details the types of journal vouchers made.

Table 2. Journal Vouchers for March 2013 AWCF Financial Reporting

Voucher Categories	Count	Absolute Dollar Amount (in billions)
Not Recorded in LMP	47	$8.2
Match Budgetary to Proprietary	73	4.8
Correction of Attributes	9	5.2
Totals	**129**	**$18.2**

Legacy Processes Not Recorded in the System

DFAS personnel prepared 47 unsupported journal vouchers, totaling $8.2 billion, to record financial data not reported in the LMP trial balances. For example, DFAS personnel prepared:

- 13 journal vouchers, totaling $7.3 billion, to record budget authority that the ABO did or could not record in LMP;
- 4 journal vouchers, totaling $5.7 million, to adjust cash collections and disbursements to agree with the Governmentwide Accounting report;
- 3 journal vouchers, totaling $637.1 million, to recognize the earnings allocated to the funding of the capital program and for customer orders from outside of Federal Government without an advance; and
- 27 journal vouchers, totaling $239.4 million, to account for Mechanization of Contract Administration Services accruals because Army financial managers did not reengineer LMP to integrate the entitlement and disbursement process as discussed in Report No. DODIG-2012-087.

Forcing of Budgetary Data to Match Proprietary Data

DFAS personnel prepared 73 unsupported journal vouchers, totaling $4.8 billion, to force budgetary data to match the proprietary data supporting accounts receivable, accounts payable, prepaid advances, collections, and disbursements. For example, the amount reported for DoD SCOA proprietary account 1310000.9000, "Accounts Receivable," should match DoD SCOA budgetary account 425100.9000, "Reimbursable and Other Income Earned – Receivable." As of March 31, 2013, there was a $3.5 million difference between these accounts. If Army financial managers configured LMP to record simultaneous budgetary and proprietary data using the DTCs, then there would be no difference.

SFIS Attribute Corrections

DFAS personnel prepared nine unsupported journal vouchers, totaling $5.2 billion, to correct SFIS attributes. DFAS personnel generated these journal vouchers because Army financial managers did not verify that LMP properly recorded the SFIS attributes, such as the Reimbursable Flag Indicator, Year of Budget Authority Indicator, and Trading Partner Information. ASA(FM&C) should investigate the root causes for each of the 129 manual vouchers and develop a corrective action plan to reengineer and correct the LMP functionality to report the transactional data correctly.

Conclusion

Despite spending more than $1.8 billion on implementing LMP as of September 30, 2013, Army financial managers cannot use LMP trial balance data to prepare budgetary reports without requiring DFAS personnel to prepare journal vouchers and making other adjustments to the data. The accuracy of the data, even after the journal vouchers and other adjustments, was highly questionable without the assurance that the general ledger posted all B2R business events correctly. For almost 6 years, Army financial managers did not assess SFIS requirements against the AWCF business environment to enable them to perform the business process reengineering needed to implement the BEA B2R business process. Because they did not implement the required DTCs, the LMP general ledger accounts did not contain accurate budgetary data. Consequently, they must continue to use costly manual work around procedures that were not supportable by LMP transactional data. In addition, OUSD(C) personnel cannot rely on the LMP reported information to prepare future budget requests to Congress. Until Army financial managers incorporate the appropriate DTCs and correct inaccurate

accounting data, the AWCF SBR material weakness will continue to exist. Without a comprehensive plan of action and milestones to address these deficiencies, the AWCF is at risk of not meeting the FY 2017 deadline to obtain auditable financial statements.

Redirected Recommendation

As a result of management comments, we redirected Recommendation A.2 to the DCFO. Both the DCFO and DCMO play an important role in implementing actions associated with the recommendation. Consequently, the DCFO should collaborate with the DCMO to extend the DoD transaction codes' alignment in the BEA.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Deputy Chief Financial Officer, DoD, approve the baseline configuration of the Logistics Modernization Program system Budget-to-Report business process based on Army certification that the Army has implemented the appropriate DoD United States Government Standard General Ledger Transaction Library transactions for recording budgetary accounts for the Army Working Capital Fund.

Deputy Chief Financial Officer Comments

The DCFO agreed that an assessment of the baseline configuration for the LMP B2R business process should be done to confirm that the Army has implemented the appropriate DoD Transaction Library transactions for recording budgetary accounts in LMP. However, the DCFO stated that to comply with established OUSD(C) guidelines, an independent public accountant should accomplish the review and, once satisfied, provide its assurance. He also stated he would work with the Army to seek this independent review to validate the baseline configuration of the LMP B2R business process.

Our Response

The response from the DCFO addressed all the specifics of the recommendation, and no additional comments are requested.

Recommendation A.2

We recommend that the Deputy Chief Financial Officer, DoD, collaborate with the Deputy Chief Management Officer, DoD, to extend the DoD transaction codes' alignment in the Business Enterprise Architecture by expanding current definitions of business process steps to a sufficient level that allows for DoD transaction codes mapping at the specific detailed process step level.

Deputy Chief Management Officer Comments

The Acting DCMO stated that the recommendation should be directed to the DCFO. The Acting DCMO stated that the DCMO works closely with the DCFO on reviewing and updating financial management content in the DoD BEA. However, the DCFO is the principal requirements owner for all financial management content.

Our Response

Based on the DCMO comments, we are redirecting the recommendation to the DCFO. The DCFO needs to collaborate with the DCMO to extend the DoD transaction codes' alignment in the BEA. We request additional comments by June 5, 2014.

Recommendation A.3

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in coordination with Army Materiel Command G-8, develop a plan of action and milestones to validate and certify that they have configured Logistics Modernization Program system functionality according to the DoD United States Government Standard General Ledger Transaction Library, applicable business events, and the DoD Standard Chart of Accounts for the Budget-to-Report business process. As part of the comprehensive business process reengineering effort, they should:

a. Investigate the root causes for each manual adjustment and other workarounds related to the Budget-to-Report business process and develop the reengineering plan for implementing the system functionality to record the data correctly. The reengineering plan should also incorporate, to the extent possible, the functionality to integrate within the Logistics Modernization Program system the:

(1) Debt Management Process and

(2) Cash Management Process.

Assistant Secretary of Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), on behalf of the ASA(FM&C), agreed and stated that ASA(FM&C), in coordination with Army Materiel Command G-8 and DFAS, will develop a plan of action and milestones no later than June 30, 2014, that will address the B2R findings assigned to ASA(FM&C). The Deputy stated that the Army held a workshop in September 2013 to discuss the root causes and corrective actions for manual adjustments. The Army analyzed the journal vouchers prepared for migrated balances and for July 2013 month-end transactional data. As a result of a second workshop, held in December 2013, the Army plans to delay the month-end reports for 3 days to allow activities to enter data (undistributed disbursements and collections, transportation charges, and Mechanization of Contract Administration Services accrual into LMP before closing the reporting period. The change in month-end reporting will start in May 2014 for the April 2014 reporting month. The Army plans to hold additional workshops.

The Deputy also stated that the Army acknowledges that ideally, all processes should be implemented in ERP systems, but the reality is that not all Federal agency and DoD decisions have permitted this. Therefore, the Army will consider audit results as it weighs risks of leaving some processes and system capabilities as-is and elevating others to priority implementation status. He also stated the Army is evaluating the implementation of debt management at the enterprise level and will determine a path forward. Until then, the Army will continue to use journal vouchers to record, manage, and maintain debt accounts. In addition, the Army has no immediate plan to incorporate the cash management functionality within LMP and will continue to rely on DFAS to perform the function. Furthermore, he stated the Army has deferred implementing Local Vendor Pay functionality past May 2015 due to higher audit readiness priorities, but the Army is evaluating a pilot program to perform disbursing functions within an ERP system. The Deputy also stated that the Army was incorporating mitigating controls by delaying month-end reports to allow the posting of the Mechanization of Contract Administration Services accrual directly in LMP.

Our Response

The Army response addressed all the specifics of the recommendations, and no additional comments are required. Although the Army will develop plans on

implementing some measures that will eliminate the need for manual adjustments, much work remains to be done to implement system functionality to accomplish B2R business processes in LMP.

b. Document and certify to the Deputy Chief Financial Officer the comprehensive review of Army Working Capital Fund business activities that baselines the DoD transaction codes and general ledger accounts needed for recording the Logistics Modernization Program Budget-to-Report business process.

Assistant Secretary of Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), on behalf of the ASA(FM&C), agreed and stated that the Army performed a comprehensive review of the May 2013 and March 2014 DoD SCOA and obtained agreement from OUSD(C) that 188 accounts were not applicable to AWCF business. The Army identified 13 system change requests to bring the LMP chart of accounts in line with the FY 2013 and FY 2014 DoD SCOA and to correct errors identified with the posting logic. The Army implemented 2 of 13 system changes in FY 2013 and has plans to implement the other system change requests before May 2016. Once implemented, LMP will be able to use SFIS attributes rather than relying on legacy processes to classify transactions. The Deputy stated that, starting in FY 2014, all system change requests requiring a change to general ledger posting logic must cite the applicable DTC. He stated that the Army has established a plan to address the missing business rules and to populate general ledger accounts. He added that the Army has also analyzed the 591 DTCs applicable to the budget execution process that are not used or used improperly in LMP and will submit the results of the review to OUSD(C) for approval May 30, 2014. In addition, the Army is developing an LMP transaction library to document the postings for applicable transactions to populate the SBR.

Our Response

The Army response addressed all the specifics of the recommendation and no additional comments are required.

c. Develop system requirements for and request funding from the Defense Business Council to correct the Budget-to-Report process within the system.

Assistant Secretary of Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), on behalf of the ASA(FM&C), agreed and stated that ASA(FM&C) and Army Materiel Command will reevaluate all change request related to the audit findings and will submit additional change requests for DCFO funding approval. The Army has already submitted system change requests in five areas (LMP Chart of Accounts, abnormal balances, Contract Authority, Tie Point Report, and SF 133 Report). The final completion date for the change requests is September 30, 2015.

Our Response

The Army response addressed all the specifics of the recommendation, and no additional comments are required.

d. Develop a plan to accomplish the required pre-closing transactions necessary to support the preparation of the Standard Form 133 and Statement of Budgetary Resources at year-end.

Assistant Secretary of Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), on behalf of the ASA(FM&C), agreed and stated that DFAS personnel implemented fiscal year-end pre-closing entries for contract authority, SF 133, and SBR during FY 2013 year-end close. These entries, along with the existing pre-closing entries support closing accounts related to the SF133 and SBR.

Our Response

The Army response addressed all the specifics of the recommendation, and no additional comments are required.

e. Direct activities to conduct an immediate investigation of abnormal balances in unobligated accounts to determine whether a potential funding violation occurred.

Assistant Secretary of Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), on behalf of the ASA(FM&C), stated that the Army Budget Office confirmed that sufficient funding was continuously available to preclude an occurrence of a potential Antideficiency

Act violation. The Army Budget Office reviewed the accounting reports and Annual Operating Budget data at year-end and did not find any instances of abnormal obligations at the limit level. In addition, the Deputy stated the Army is reconciling accounts with abnormal balances, starting with reversing all transactional level manual journal vouchers from LMP to determine the true abnormal account balances and enable analysis of root causes for them. The Army plans to complete reconciliation of the general ledger accounts for Contract Authority, Total Actual Resources–Collected, Unapportioned Authority, and Allotments–Realized Resources by June 2015.

Our Response

The Army response addressed all the specifics of the recommendation, and no additional comments are required.

f. Investigate the root cause of each journal voucher reported in budgetary accounts and develop a corrective action plan for recording the data within the Logistics Modernization Program system.

Assistant Secretary of Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), on behalf of the ASA(FM&C), agreed and stated that, in September 2013, the Army analyzed the differences between DDRS, the official Army reports, and the data in LMP. The Army also examined journal vouchers involving improperly or incorrectly migrated balances and concluded that timing differences preclude entering all data, such as undistributed disbursements and collections, transportation charges, and Mechanization of Contract Administration Services accrual, reported on the official Army reports to be entered into LMP before closing a reporting period. The results of the review will be used to develop a plan of action and milestones addressing the reversal of DFAS journal vouchers to reconcile transactional data. To enhance analysis and identify out-of-balance conditions between budgetary and proprietary data, and the Deputy stated that LMP will promote implementation of the functionality for Tie Point reconciliation in FY 2015. This action coupled with implementing Government Treasury Account Symbol should significantly reduce the necessity for preparing journal vouchers that force agreement of financial data from various sources. However, because some data calls occur only quarterly, configuring interfaces for this functionality within LMP would be cost-prohibitive.

Our Response

The Army response addressed all the specifics of the recommendation, and no additional comments are required.

Finding B

Comptroller Personnel Not Providing Information to Record Budget Authority

OUSD(C) Revolving Fund Directorate personnel (OUSD[C] personnel) did not provide the information concerning apportionment preparation, submission, and approval to ABO for accurate and timely recording of business events in the ERP general ledgers. Specifically, they did not:

- provide the funding documentation needed to record the status of budgetary authority business events, or
- request the apportionment of authority and distribute it using the President's Budget source data or take actions needed to correct inaccurately reported data.

This occurred because OUSD(C) personnel did not reengineer the funds-distribution business process and develop procedures for the DWCF budget offices to record proper accounting entries in the ERP systems for business events required to establish, apportion, allot, and sub-allot budget authority. In addition, ABO personnel did not properly suballot budget authority because OUSD(C) personnel did not provide appropriate guidance for distributing all types of budget authority below the allotment level. As a result, Army financial managers configured LMP to post the end effects of multiple business events that misreported both the amount of budgetary resources and the status of those resources by about $1.8 billion.

Information Needed to Record Budget Authority Business Events

OUSD(C) personnel did not provide the ABO with the detailed information it needed to record the business events related to the preparation, submission, and approval of the DWCF apportionment. Specifically, they did not provide the documentation showing the determination of actual authority provided to the AWCF based on congressional actions, the apportionment amount they requested to support the AWCF, or the amount OMB actually approved. Instead, OUSD(C) personnel only notified ABO personnel

OUSD(C) personnel did not provide the documentation showing the determination of actual authority provided to the AWCF.

of the amounts allotted them, resulting in the inability to record the proper LMP accounting transactions as they occurred. ABO personnel needed this information to record the proper LMP accounting entries associated with the B2R business processes. Although LMP contained the inherent capability to manage the AWCF portion of each type of budget authority from inception through cancelation or withdrawal, Army financial managers did not implement the DTCs necessary for accomplishing the Execute Apportionment and Allocate Funds business event.

As was discussed in Finding A, they instead incorrectly directed the LMP PMO to configure the system to bypass the three individual process steps that would establish, apportion, and allot budget authority. Appendix F provides a more detailed description of the process and communication that should occur during this business event.

Army Budget Office Did Not Receive Documentation to Support the Recording of Appropriated Funds

OUSD(C) personnel did not provide the funding documents needed to record the status of budgetary authority throughout the Execute Apportionment and Allocate Funds business event. They did not provide ABO personnel with the documentation they needed to record the AWCF portion of the appropriated funds immediately after Congress enacted the annual appropriation act. To establish, apportion, and allot AWCF appropriated funding in LMP, ABO personnel needed documentation to support the recording of the DTCs A480, A116, and A120. The DTCs support the receipt of transferred funds based on the enactment of the Appropriation Act that provided the authority and the receipt of a funding transfer document, notification that OMB approved the apportionment of the authority, and the receipt of the allotment. Appendix F provides a description of this process. Instead, OUSD(C) personnel provided ABO personnel only with a document showing the amounts allotted to them. ABO personnel did not receive documentation supporting amounts apportioned to the AWCF by OMB or the SF 1151 transferring funds to the AWCF. OUSD(C) personnel also did not inform them of the total amount for each type of budget authority approved by Congress.

Establishing Appropriated Funds While Under a Continuing Resolution

OUSD(C) personnel did not provide the budget offices with the information they needed to record DTCs related to the FY 2013 continuing resolution. For FY 2013, Congress enacted Public Law 112-175, "Continuing Appropriations Resolution, 2013," on September 28, 2012, which provided DWCF appropriated funding. OUSD(C) personnel determined that the AWCF's share of the annualized appropriation was

$144.4 million.[9] OMB Bulletin No. 12-02, "Apportionment of the Continuing Resolution(s) for Fiscal Year 2013," September 28, 2012, implemented the continuing resolution. OUSD(C) personnel requested apportionment of $42.6 million for AWCF Overseas Contingency Operations and precluded from obligation the remaining $101.8 million designated for AWCF War Reserve Materials. Instead of providing the source information to ABO personnel, OUSD(C) personnel provided the information to DFAS. DFAS personnel recorded the amounts directly in DDRS using a journal voucher on January 3, 2013, more than 3 months after the business event actually occurred. As a result, ABO personnel did not record this funding within LMP until February 2013, after receiving the information they needed to record it.

Establishing and Apportioning AWCF Appropriated Funds

OUSD(C) personnel did not take appropriate actions to establish and apportion AWCF appropriated funds. Upon enactment of Public Law 113-6, "Consolidated and Further Continuing Appropriations Act, 2013," on March 26, 2013, they did not request an SF 1151 from Treasury to transfer $102.6 million in appropriated funds for AWCF War Reserve Material, when the Treasury issued the DWCF warrant on April 17, 2013. Timely receipt of this documentation provides ABO personnel with the information needed to record the AWCF's FY 2013 appropriated funding transferred in as unapportioned authority. On April 9, 2013, DFAS personnel erroneously processed a DDRS journal voucher to record the enactment, apportionment, and allotment of the AWCF FY 2013 funding before OMB approval on April 19, 2013. In addition, DFAS personnel did not receive the Treasury warrants supporting the rescissions enacted under the sequestration legislation until May 23, 2013, 2 months after the sequestration occurred. Consequently, ABO personnel did not have the documentation they needed to correctly record the AWCF's share of the appropriation by populating DoD SCOA account 417000.3102 within LMP. On June 19, 2013, the Treasury transferred appropriated funding to the AWCF on an approved SF 1151. This occurred almost 3 months after the enactment of the law and 2 months after the Treasury issued the DWCF warrant. Consequently, OMB apportioned the funding and OUSD(C) personnel notified ABO of the AWCF allotment before DoD processed the SF 1151 to transfer the funding. Not involving the ABO personnel in the distribution process resulted in the Army financial managers misstating its second quarter SBR.

[9] The enactment of Public Law 113-6 reduced the AWCF appropriated funding from an annualized amount of $144.4 million to $102.6 million.

Congressionally Approved Budgetary Authority Not Used When Preparing Apportionment Schedule

OUSD(C) personnel did not use the proper source data or take actions to correct inaccurate data to request the apportionment of authority and distribute it to the AWCF. They did not include $1.5 billion in unapportioned AWCF contract authority on the initial SF 132 submission to OMB. They also revised the amount of spending authority requested for new customer orders because the unobligated balances brought forward did not accurately estimate the amount of work carried over from the previous fiscal year.

Army Budget Office Unable to Record Contract Authority Business Events Correctly

In August 2012, OUSD(C) personnel did not prepare an SF 132 requesting the apportionment of all congressionally approved contract authority. When they prepared the initial SF 132, they only requested an apportionment of $7.3 billion in AWCF contract authority. This request did not include $1.5 billion in unapportioned contract authority, classified as a variability target. In addition, they did not provide ABO personnel documentation to record the $8.6 billion in unapportioned contract authority approved by Congress or notify them when OMB approved the apportionment of $7.3 billion in contract authority so that they could record the accounting entries in LMP. As of March 31, 2013, OUSD(C) personnel allotted only $7 billion in contract authority to the AWCF. Consequently, the LMP general ledger did not reflect the $1.5 billion in unapportioned authority or an additional $250 million in apportioned authority that OUSD(C) personnel did not allot to the AWCF.

DoD Requested Spending Authority In Excess of Anticipated New Customer Orders

OUSD(C) personnel did not request the correct spending authority from OMB to support the estimated $5.1 billion in new customer orders budgeted in the FY 2013 AWCF President's Budget submission. Instead, they incorrectly requested $6 billion in new spending authority to support AWCF Industrial Operations activities. The initial SF 132 submission also requested the reapportionment of prior year unobligated balances reported on SF 133, line 1000. When OUSD(C) personnel prepared and submitted the initial SF 132 in August 2012, they did not assess the current LMP balances reported in the accounts that would support AWCF unobligated balances estimated at year-end. Because Army financial managers did not configure LMP to record accurate unobligated balance accounts, OUSD(C) personnel could not rely on LMP to provide

an accurate estimate. On September 30, 2012, the account that supports the amount carried forward (DoD SCOA account 445000.9000) reported an abnormal balance of $7 billion. Instead, OUSD(C) personnel used the amount ($2.1 billion) on the FY 2012 unobligated balance brought forward (SF 133, line 1000). However, this amount did not accurately estimate the $434.8 million that the AWCF actually reported as carried forward on September 30, 2012.

In December 2012, after FY 2012 closure, OUSD(C) personnel submitted a second SF 132 requesting apportionment of $398.1 million[10] in unobligated balances carried forward. Again, this did not represent the amount reported in LMP for DoD SCOA account 445000.9000 at year-end. Although, Army financial managers were not confident that the amount reported on SF 133, line 1000, was correct, they did not take action to reconcile that amount with the transaction data within LMP. Incorrect data reported on SF 133, line 1000, caused the OUSD(C) personnel to erroneously request almost $1 billion ($6 billion request of SF-132 minus $5.1 billion in new customer budgeted) more in spending authority than the AWCF budgeted in FY 2013 for new customer orders. The erroneous request occurred because according to the DoD's Comptroller Information System, the AWCF budgeted for $6.4 billion in Total Reimbursable Authority for FY 2013, and the reported unobligated balances carried forward were only $270.3 million for industrial operations activities. Therefore, OUSD(C) requested the $6 billion in new spending authority to achieve the total authority amount.

Incorrect data reported on SF 133, line 1000, caused the OUSD(C) personnel to erroneously request almost $1 billion more in spending authority than the AWCF budgeted in FY 2013 for new customer orders.

Procedures Must Be Developed To Distribute Budget Authority Within An ERP Environment

OUSD(C) personnel did not reengineer procedures to allow each DWCF budget office to enter and manage its budget authority by recording all required business events within their ERP system. Instead, they continued using legacy business processes, which entailed providing most of the information to DFAS personnel for recording in DDRS. OUSD(C) personnel need to implement new procedures to establish, apportion,

[10] This included $270.3 million carried forward in outstanding industrial operations customer orders and $127.8 million in unexpended appropriations for supply management. The OUSD(C) did not request apportionment of $36.7 million reported within the AWCF component level.

allot, and suballot budget authority using the ERP systems' general ledgers. These procedures would require that OUSD(C) personnel provide DWCF budget office personnel with documentation supporting the determination of the total annual budget authority authorized by Congress and provide budget office personnel additional documentation to provide an accurate accounting of the status of those resources throughout the fiscal year.

The current Annual Operating Budget procedure provides each budget office its fiscal-year allotment. However, in an ERP environment, budget-office personnel need to know what resources Congress approved and whether OUSD(C) personnel consider those resources unapportioned, apportioned, or allotted to their activity. This allows DWCF budget-office personnel to record accurate accounting entries in their ERP systems. This would increase involvement of budget-office personnel, allowing them to control the recording of all BEA business events. As a result, they would be able to better manage and distribute their funds and provide better management oversight of the B2R business process. OUSD(C) personnel should develop new procedures designating each DWCF budget office as the funds-control official for recording all budget-related business events. OUSD(C) personnel should also provide the budget offices documentation to support the anticipated annual budget authority (based on enactment of the annual Defense Appropriation Act or other legislation) for the budget offices to use in recording this authority in ERP systems as unapportioned authority. OUSD(C) should do these tasks before the budget offices submit their DWCF SF 132s to OMB. The procedures should also require OUSD(C) personnel to provide documentation to notify the DWCF budget offices upon approval of the DWCF SF 132 and provide the allotment of budget authority to the activities.

Suballotment of Budget Authority Using DoD-Unique General Ledger Accounts

ABO personnel did not properly suballot all types of budget authority below the allotment level. DoD FMR, volume 3, chapters 13, 14, and 15, provide policy on distributing budget authority at or below the departmental level. The DoD FMR established unique accounts for suballotting budget authority. However, the DoD FMR does not recognize a need to suballot contract or spending authority from the ABO to Army commands and AWCF activities for execution. The guidance addresses only the suballotment of appropriated funds. Therefore, Army financial managers did not consider using the unique DoD accounts to suballot AWCF budget authority to Army activities. Instead, they developed incorrect requirements that debited and credited DoD SCOA accounts 451000.9000 and 461000.9000 at multiple activity levels and forced the allotment

down to the execution level. This resulted in LMP retaining $1.8 billion within DoD SCOA account 451000.9000 that Army financial managers should have actually recorded as an allotment in DoD SCOA account 461000.9000.

This occurred because OUSD(C) personnel did not provide appropriate guidance on suballotting the various types of budget authority below the allotment level. The Treasury reserved GLACs 4520 through 4580 for agency use. Based on that, OUSD(C) personnel established accounts to suballot budget authority using uniquely established DoD SCOA accounts 454000.9000 through 458000.9000. Although the DoD FMR provided policies for using accounts, the policies limited the use to only appropriated funds. The guidance also incorrectly implied that providing funding to the subordinate command or activity was an allocation. OMB A-11 defined the type of business event actually accomplished as a suballotment of budget authority. The AWCF executes a majority of its budget authority below the Department of the Army level. Consequently, suballotment procedures are necessary to allow AWCF activities to execute the authority at their level. DoD managers have begun taking actions to develop procedures that permit the suballotment of appropriation authority using DoD SCOA accounts 454000.9000 through 458000.9000 and SFIS attribute A12, "Authority Type Code," when recording transactions. This will allow the DWCF budget offices to receive an allotment from DoD and then use those accounts to suballot the authority for execution using the ERP systems. However, they should create these procedures to support all types of budget authority. OUSD(C) personnel should update DoD FMR, volume 3, to provide suballotment procedures for ERP systems to record and distribute each type of budget authority below the allotment level.

OUSD(C) personnel did not provide appropriate guidance on suballotting the various types of budget authority below the allotment level.

Budgetary Data Recorded in System Are Inaccurate

ABO personnel lacked the information to support the accurate recording of budgetary authority within LMP. Without the documentation to record congressionally approved budget authority and other actions associated with recording the status of budgetary authority occurring during the Distribute and Manage Budget Phase of the B2R process, Army financial managers could not properly configure LMP to accomplish the accounting entries needed to record the business events. Instead, they configured LMP to post only the Annual Operating Budget receipt, which recorded

the end effect of the multiple business events. The detailed information would allow them to configure LMP to record the DTCs associated with key business processes required to report the status of AWCF budgetary resources. In addition, because the OUSD(C) did not identify to the ABO the amounts of its budget authority that remained unapportioned or apportioned but not allotted to them, LMP inaccurately reported total AWCF budgetary resources by about $1.8 billion. Specifically, the LMP general ledger did not accurately report $1.5 billion in unapportioned authority and $250 million in apportioned authority not allotted for use by the AWCF. Furthermore, Army financial managers erroneously recorded $1.8 billion of allotted budget authority held at the Department of the Army, Major Command, and Lifecycle Management Command level as an apportionment in DoD SCOA account 451000.9000, instead of as an allotment to the AWCF.

Recommendations, Management Comments, and Our Response

Recommendation B

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

1. **Develop procedures for distributing Defense Working Capital Fund budget authority to the budget offices for recording in the Enterprise Resource Planning systems that support the Defense Working Capital Fund. The procedures should designate each Defense Working Capital Fund budget office as the funds-control official for recording all budgetary related business events and require that the Revolving Fund Directorate provide budget offices documentation supporting:**

    a. **The anticipated annual budget authority amounts determined based on enactment of the annual Defense Appropriation Act or as provided by other legislation and prior to submission of the Defense Working Capital Fund Apportionment and Reapportionment Schedule to the Office of Management and Budget.**

    b. **Approval of the Defense Working Capital Fund Apportionment and Reapportionment Schedule by the Office of Management and Budget for recording in the general ledger.**

    c. **Allotment of budgetary authority to subordinate activities.**

Deputy Chief Financial Officer Comments

The DCFO partially agreed and stated that DoD receives funding for DWCF budget authority at the appropriation level and the OUSD(C) Revolving Funds Directorate has procedures for distributing DWCF budget authority through the use of Annual Operating Budget documents. As indicated in the FY 2014 Annual Operating Budget documents,[11] the AWCF Annual Operating Budget for Supply Management and Industrial Operations identify the connection to the SF 133, SBR, and the associated USSGL accounts. However, the DCFO stated that USSGL accounts do not exist for this type of anticipated authority prior to enactment of an appropriation or for budget authority formulation and no financial audit requirement exists to record this information in an ERP system. He also stated that ERP systems can be configured for different purposes and how ERP systems are used are functions of management decisions and available budget resources. Additionally, the DCFO stated that the OUSD(C) Revolving Funds Directorate complies with Department-wide procedures for the Apportionment and Reapportionment Schedule (SF 132), and management decisions for establishing DWCF resources throughout the year do not impact budget development and submission decisions. The budget-related data are recorded on the Annual Operating Budgets.

Finally, the DCFO stated that the leadership of each Military Department or agency with a DWCF activity is responsible for designating its respective funds control official for recording all budget-related business events. The OUSD(C) Revolving Funds Annual Operating Budget Control Officer sends each Annual Operating Budget to the respective budget office and appropriate DFAS office for processing. Suballotment to subordinate activities is within the management purview of the respective activity managers.

Our Response

The response from the DCFO partially addressed the specifics of the recommendation. Existing operating procedures did not provide ABO personnel with the documentation needed to record the AWCF portion of the appropriated funds immediately after Congress enacted the annual appropriation act. Instead, OUSD(C) personnel provided ABO personnel with only a document supporting amounts allotted to them, but they did not receive documentation supporting amounts apportioned to AWCF by OMB or the SF 1151 transferring funds to the AWCF. The Annual Operating Budget documents needed to record the continuing resolution were only provided to DFAS,

[11] The DCFO provided the FY 2014 Annual Operating Budget documents (Addendums 1-6) as part of his comments on the draft version of this report. We did not include addendums in the final report due to their length.

more than 3 months after the business event actually occurred. As a result, ABO personnel did not record this information within LMP until February 2013. The FY 2014 Annual Operating Budget documents provided by the DCFO shows the associated USSGL accounts for recording different budgetary authority that did not exist on the FY 2013 Annual Operating Budget documents. However, they do not show the unapportioned authority and the status of budgetary resources. In addition, the Department is not using the inherent capability in DoD ERP systems to record the budgetary data. DoD should use this inherent capability to maximum extent possible to support financial management and reporting functions. The guidance the DCFO plans to develop for the DWCF in response to Recommendation B.2 should address the allotment of budget authority to subordinate activities, if it properly defines suballotment and uses DoD SCOA (454000, 456000, and 457000) to suballot budget authority below the allotment level. We request additional comments on how DoD plans to better use the inherent capability of ERP systems for distributing and recording DWCF budget authority.

2. **Update DoD Financial Management Regulation, volume 3, to provide suballotment procedures for the Enterprise Resource Planning systems to record and distribute each type of budget authority below the allotment level.**

Deputy Chief Financial Officer Comments

The DCFO partially agreed and stated that the DoD FMR is a policy document and not a procedures manual. He stated that appropriate management teams must develop guidance to properly define the suballotment procedures because it will vary by activity and supporting systems' requirements. He further stated that he has been developing internal funds-distribution guidance to provide the basic framework and proper accounting to be used for General Funds and plans to prepare additional guidance, covering continuing resolutions, and other financial events. The DCFO stated he will work with the Revolving Funds Directorate to develop internal funds-distribution guidance for the DWCF that will meet the requirements of the recommendation.

Our Response

The DCFO met the intent of the recommendation. The internal funds-distribution guidance should address the posting logic for suballotting the various types of budget authority and reporting the status of budgetary resources. No additional comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from December 2012 through February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions in relation to the audit objectives.

During the audit, we received detailed briefings from personnel within the LMP PMO to understand how the LMP PMO implemented the DoD BEA B2R business process supporting the AWCF SBR. We also held detailed discussions with personnel from the offices of the OUSD(C), Deputy Chief Management Officer, ASA(FM&C), Army Materiel Command G-8, Army Office of Business Transformation, and DFAS. We obtained documentation to support the Army's implementation of the B2R business process for both BEA 9.0 and BEA 10.0 as well as LMP Architecture of Integrated Information System models showing how they implemented the process. We compared the 23 business events within the BEA 9.0 B2R business process to the corresponding LMP Architecture of Integrated Information System models to determine if the LMP PMO implemented the appropriate BEA 9.0 B2R business processes events and steps. After the release of BEA 10.0, we performed additional analysis to determine whether new requirements affected the results of our original analysis.

We also obtained copies of the FY 2013 USSGL, DoD SCOA, LMP Chart of Accounts, and the Transaction Library. We identified the accounts necessary to perform the B2R business process and determined which accounts LMP PMO implemented. We reviewed the DoD SCOA accounts to determine whether the LMP Chart of Accounts complied with DoD reporting requirements. In addition, we compared the LMP posting logic with the Transaction Library DTCs to determine if the LMP PMO configured the correct transaction codes to support the AWCF. We discussed our analysis with LMP PMO personnel and considered other information, to include test scripts, demonstrations, and various procedural documents. We limited our analysis to process steps related to the B2R business process.

We traced a limited number of transactions through LMP to verify that LMP was capable of posting each transaction type correctly and in accordance with DoD SFIS

and Treasury requirements. Specifically, we selected transactions that recorded the anticipated resources and the actual receipt and execution of budgetary resources in the AWCF.

We obtained and reviewed DDRS journal vouchers citing the general ledger accounts in the 4000 series to determine the types of accounting adjustments used to prepare the AWCF SBR. In addition, we downloaded the March 31, 2013, LMP trial balance and analyzed the differences between the amounts reported on the AWCF SBR and what was included in the actual trial balance data.

Use of Computer-Processed Data

To perform this audit, we obtained data from LMP. We determined data reliability by reviewing selected B2R business transactions and the support for them. We compared the LMP Chart of Accounts to the DoD SCOA and determined that LMP did not contain 21 of 57 budgetary accounts needed to perform B2R business processes. We compared data from the March 31, 2013, LMP trial balance and found significant variances between the trial balance data and the amounts reported in the AWCF SBR. We reviewed 129 journal vouchers recorded in DDRS as of March 31, 2013. Our review of these journal vouchers and other adjustments occurring outside of LMP showed that the system was not recording accurate data related to the B2R process. LMP posting logic problems caused abnormal balances and the incomplete and inaccurate posting of business events resulted in the need to adjust LMP reported data. Overall, the computer-processed data we used were sufficiently reliable for reaching the audit conclusions and supporting the findings in the report.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), Department of Defense Inspector General (DoDIG), and the U.S. Army Audit Agency issued 15 reports discussing LMP functionality. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm. Unrestricted U.S. Army Audit Agency reports can be accessed from .mil and gao.gov domains over the Internet at https://www.aaa.army.mil/.

GAO

GAO Report No. 13-499, "Army Industrial Operations: Budgeting and Management of Carryover Could Be Improved," June 27, 2013

GAO Report No. 12-685, "DoD Business Systems Modernization: Governance Mechanisms for Implementing Management Controls Need to be Improved," June 1, 2012

GAO Report No. 12-565R, "DoD Financial Management: Reported Status of Department of Defense's Enterprise Resource Planning Systems," March 30, 2012

GAO Report No. 12-134, "Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DoD's Auditability Goals," February 28, 2012

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DoD IG

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Army

U.S. Army Audit Agency Report No. A-2012-0168-FMR, "Recoveries of Prior Year Obligations, Logistics Modernization Program," September 11, 2012

U.S. Army Audit Agency Report No. A-2012-0123-FMR, "Examination of Federal Financial Management Improvement Act Compliance Validation," July 19, 2012

U.S. Army Audit Agency Report No. A-2010-0220-FFM, "Examination of Federal Financial Management Improvement Act Compliance – Requirements," September 30, 2010

Appendix C

Review of 23 Budget-to-Report Business Events

DCMO developed the BEA to comply with Public Law 108-375. To assist with requirements determination and DoD standardization, the Office of Deputy Chief Management Officer developed system models for each of the 15 end-to-end business processes. The eight phases of the B2R business process contained 23 specific business events. The first two phases of B2R business process related to performing executive level planning and programming, which did not include specific business events requiring system functionality.

For each business event, we compared the BEA 9.0, Operational View 6c models to the LMP Architecture of Integrated Information System models. However, some B2R process steps overlapped with two other (Procure-to-Pay and Order-to-Cash) end-to-end business processes. To the extent that we reviewed the Procure-to-Pay business process in a previous audit, we included those results in this review of the B2R business process. Table C provides the results of our review of each of the business events within the eight phases of the B2R process.

Table C. Review of the Implementation of the B2R Business Phases

Business Phase	Business Event	Implementation Status
Perform Executive Level Planning	No business events within this phase	None
Perform Programming	No business events within this phase	None
Perform Budget Planning and Formulation	Perform Budgeting	Not Applicable
Perform Budget Planning and Formulation	Support Congressional Budget Review	Not Applicable
Perform Budget Planning and Formulation	Track Congressional Actions	Not Implemented
Distribute and Manage Budget	Implement Case in Foreign Military Sales	Partially Implemented
Distribute and Manage Budget	Execute Continuing Resolution	Not Implemented
Distribute and Manage Budget	Execute Apportionment and Allocate Funds	Partially Implemented
Distribute and Manage Budget	Execute Rescission, Cancellation, and Deferrals	Not Implemented
Distribute and Manage Budget	Manage Baseline for Reprogramming	Not Applicable

Business Phase	Business Event	Implementation Status
Distribute and Manage Budget	Perform Reprogramming and Transfers	Not Implemented
Distribute and Manage Budget	Manage Report of Programs	Not Implemented
Manage Financial Assets and Liabilities	Manage Liabilities	Partially Implemented
Manage Financial Assets and Liabilities	Manage Receivables	Partially Implemented
Manage Financial Assets and Liabilities	Manage Investments	Not Applicable
Manage Financial Assets and Liabilities	Manage Procurement Entitlement	Partially Implemented
Manage Financial Assets and Liabilities	Manage Delinquent Debt	Not Implemented
Perform Treasury Operations	Manage Disbursements	Not Implemented
Perform Treasury Operations	Manage Collections	Not Implemented
Perform Treasury Operations	Manage Execution with Treasury	Not Implemented
Manage General Ledger Transactions	Manage Financial Management Policy	Not Implemented
Manage General Ledger Transactions	Manage Execution Fund Account	Not Implemented
Manage General Ledger Transactions	Post to General Ledger	Partially Implemented
Manage General Ledger Transactions	Record Loans and Grants	Not Applicable
Perform Reporting	Perform Financial Reporting	Partially Implemented

The following paragraphs contain information about each of the eight phases and 23 business events, as well as our assessment as to whether LMP contained the appropriate functionality to implement the relevant process steps.

Perform Executive Level Planning Phase

During this phase, OUSD(C) personnel review the national military and national security strategies and develop the DoD Strategic Management Plan through the alignment of the nation's priorities to the strategic goals, objectives, measures, and initiatives. There are no business events, transactions, or other LMP system requirements identified in this phase.

Perform Programming Phase

During this phase, planning decisions, programming guidance, and congressional guidance are used to develop detailed resource allocations. OUSD(C) personnel develop the Program Objective Memorandum, which matches requirements against available resources along with other alternatives to address significant programmatic issues and OUSD(C) personnel create the Program Decision Memorandum. There are no LMP transactions to record during this business event.

Perform Budget Planning and Formulation Phase

During this phase, budget office and OUSD(C) personnel prepare the Budget Estimate Submission or Budget Change Proposals using the approved Program Objective Memorandum as adjusted by the Program Decision Memorandum. OUSD(C) personnel use these documents to develop a series of Program Budget Decisions and the President's Budget Submission. Once the President's Budget Submission receives congressional action, it becomes public law. The following three business events outline the requirements for this phase.

Perform Budgeting

This business event provides a detailed review of a program's pricing, phasing, and overall capability to execute on time and within budget. This business event was not applicable to AWCF. Consequently, there are no LMP transactions to record during this business event.

Support Congressional Budget Review

This business event defines the DoD roles and responsibilities in the congressional hearing budget review. This business event was not applicable to AWCF. Consequently, there are no LMP transactions to record during this business event.

Track Congressional Actions

This business event captures the markups and markdowns that result from budget negotiations between Congress, DoD, and OMB. These negotiations occur between the submission of the President's Budget to Congress and enactment of the Appropriation Act. We determined that OUSD(C) personnel did not provide the documentation ABO personnel needed to record the AWCF budget authority enacted by Congress. With proper documentation, ABO personnel could record within LMP the DTCs required to establish each type of AWCF budget authority for the upcoming fiscal year. This

is the logical business event to determine and communicate the amounts needed for establishing budget authority using DTCs A176 (Contract Authority), A480 (Appropriated Funding), and A702 (Spending Authority) (see Finding B). However, Army financial managers did not implement the functionality in LMP to accomplish this business event.

Distribute and Manage Budget Phase

This phase establishes legal budgetary limitations within the agency, including appropriation warrants, apportionments, continuing resolutions, funding allocations, and allotments. This phase also includes posting the budgetary general ledger transactions for financial visibility, funds control, and reporting. The following seven business events outline the requirements for this phase.

Implement Case in Foreign Military Sales

This business event starts with a specific Letter of Offer and Acceptance document in the Foreign Military Sales Trust Fund. Upon acceptance and receipt of a deposit from the foreign country, Army financial managers should establish budget authority for each case and record the authority at the case level. LMP received Foreign Military Sales customer orders and recorded applicable DTCs but did not have the capability to record the required SFIS attributes needed to maintain the transaction file related to each case. LMP needed the capability to record SFIS attributes T21, "Security Cooperation Customer Code;" T22, "Security Cooperation Case Designator;" T23; "Security Cooperation Case Line Item Identifier;" and T27, "Security Cooperation Implementing Agency Code," for each transaction. Overall, Army financial managers partially implemented the functionality in LMP to accomplish this business event.

Execute Continuing Resolution

This business event identifies amounts available and the additional authority requested for distribution under the Continuing Resolution Act. Army financial managers did not perform the business process reengineering required to record this business event according to the Transaction Library. Instead, DFAS personnel used a journal voucher to correct the trial balance data. LMP did not record:

- DTC A480-001-01 to establish the annualized appropriation amount transferred from the DWCF to the AWCF and/or to record any increase in the AWCF's portion of the actual annual appropriation enacted by Congress;

- DTC A128-001-01 to record the amount of unapportioned authority temporarily unavailable for obligation, by debiting DoD SCOA account 445000.9000 and crediting DoD SCOA account 439500.9000, "Authority Unavailable for Obligation Pursuant to Public Law – Temporary;"
- DTC A116-001-01 to change the status of appropriated funding from unapportioned to apportioned upon notification that OMB approved the SF 132;
- DTC A120-001-01 to record the Army allotment upon the receipt of the Annual Operating Budget;
- the reversal of DTC A128-001-01 to record the amount of unapportioned authority that was temporarily unavailable for obligation and subsequently released for execution, when required; and
- DTC A486-001-01 to transfer any unapportioned authority back to the DWCF if the congressionally enacted appropriation was less than amount originally recorded under the Continuing Resolution authority.

Execute Apportionment and Allocate Funds

This business event distributes the budget authority to appropriate activities for execution. The business event accomplishes apportionments, reapportionments, allotments, suballotments, and budget authority transfers. Although Army financial managers had implemented within LMP the capability of recording the budget authority allotted to the Army, they did not correctly configure LMP to record the individual business events as they occurred. This resulted in misreporting the status of budget authority. LMP must be able to record the establishment, apportionment, allotment, and suballotment as individual business events occur. LMP must also be able to delineate the type of authority created and used throughout the budget reporting process using SFIS attribute "A12" and separate DTCs as follows:

- For appropriated authority with SFIS attribute "A12" equaling "P" (Appropriation):
    - DTC A480 to record the receipt of a funds transfer as unapportioned authority,
    - DTC A116 to record the DoD apportionment based on OMB approval,
    - DTC A120 to record the allotment provided by USD(C), and
    - DTCs to record the suballotment.

- For contract authority with SFIS attribute "A12" equaling "C" (Contract Authority):
    - DTC A116 and
    - DTC A120.
    - To record the suballotment, LMP should use the DTCs designed based on updated OUSD(C) policy (see Finding B).
- For spending authority with SFIS attribute "A12" equaling "S" (Spending Authority):
    - DTC A116,
    - DTC A120, and
    - DTC A482 or A486 to record the spending authority transfers using an SF 1151.
    - To record the suballotment, LMP should use the DTCs designed based on updated OUSD(C) policy.

Execute Rescission, Cancellation, and Deferrals

This business event describes the withdrawal of and deferral of funds as mandated by the Appropriation and Impoundment Acts. Army financial managers did not implement the LMP functionality needed to perform the individual processes needed to record transactional data using DTCs A126, A128, and A131. Instead, DFAS personnel used journal vouchers to record these business events. Therefore, Army financial managers need to reengineer their business processes to allow LMP to record the DTCs needed to accomplish this business event.

Manage Baseline for Reprogramming

This business event manages the baseline for reprogramming appropriated funds within a fiscal year. OUSD(C) personnel use this baseline as the starting point for reprogramming actions to include below threshold reprogramming, internal reprogramming, and prior approvals. Since the business event centers on facilitating offline reporting requirements there are no LMP transactions to record during this business event.

Perform Reprogramming and Transfers

This business event realigns funds from the original congressional enactment or subsequent funds distribution to new areas. It begins with ABO submitting reprogramming requests that should require the recording of DTCs A468 and A470 in LMP. Army financial managers did not configure LMP to accomplish these business events and LMP did not contain several of the DoD SCOA accounts needed to accomplish the business events. Therefore, they need to reengineer their business processes to allow LMP to record the DTCs needed to accomplish this business event.

Manage Report of Programs

This business event focuses on the creation and publication of report of programs. Annually, as of September 30, the report documents changes to programming levels. There are no LMP transactions to record during this business event. However, the system should be able to develop the annual reports using the data recorded in the trial balance. Army personnel agreed that having LMP generate the report of programs would be helpful to ABO. Therefore, Army financial managers should take steps to develop the reporting functionality in LMP.

Manage Financial Assets and Liabilities Phase

This phase demonstrates accountability over assets and liabilities through identification, classification, and valuation from acquisition or inception to disposal or liquidation. The following five business events outline the requirements for this phase. Most of the business events in this phase relates to other end-to-end business processes. Additional audit work occurred or will occur on these business processes.

Manage Liabilities

This business event recognizes and records the amounts DoD owed to Federal or nonfederal entities based upon physical or implied performance. It includes activities related to managing payables and accruals, recording the request for payment, and recording the other liabilities and the related asset or expense. LMP continued to use source data from legacy systems to accomplish major aspects of this business event. Report No. DODIG-2012-087 and U.S. Army Audit Agency Report No. A-2012-0168-FMR identified that the contracting and entitlement portions of the business event occur outside LMP. Army financial managers have developed a plan of actions and milestones to implement the recommendations and have begun implementing of system changes.

In addition, LMP did not accurately record obligation recoveries. For example, when recoveries occur to contract authority, LMP should be capable of recording the following DTCs:

- DTC D120-002-01 to record the recovery of prior year obligations, and
- DTC D136-001-01 to withdraw the original authority that was withdrawn in the previous fiscal years.

Once ABO personnel determine that OMB provided automatic reapportionment of the contract authority, LMP should record:

- DTC A176-001-01 to establish the new automatically reapportioned authority,
- DTC A116-001-01, and
- DTC A120-001-01.
- To record the suballotment, LMP should use the DTCs designed based on updated OUSD(C) policy.

Army financial managers and LMP PMO personnel stated that they continue to work towards implementing the requirements associated with managing AWCF liabilities within LMP; however, they did not yet reengineer business processes to allow LMP to record the DTCs needed to accomplish this business event.

Manage Receivables

This business event entails recording the receivable, recognizing revenue earned, applying cash receipts, and liquidating receivables. The process also includes billing, aging, dunning, writing off, and adjusting receivables, as well as assessing interest and penalties on outstanding receivables. LMP models showed that Army financial managers did not conduct sufficient business process reengineering to implement these functions within LMP. LMP had implemented most of the functionality needed to record the status of customer orders; however, it did not record all the required process steps. For example, although LMP contained the DoD SCOA accounts to record the liquidation of contract authority, it did not contain the functionality to record DTC A187 for recording the liquidation of contract authority. As a result, DFAS personnel prepared journal vouchers to record these amounts. In addition, DCFO managers continue to require that the AWCF accomplish cash management functions outside of LMP. This forced the use of interfaces to migrate the legacy data into LMP. Therefore, Army financial managers still need to reengineer their business processes to allow LMP to record the DTCs needed to accomplish this business event.

Manage Investments

This business event describes how DoD manages and records securities held for the production of investment revenues. This business event was not applicable because the AWCF does not use securities and investments to fund its operation. Consequently, there are no LMP transactions to record during this business event.

Manage Procurement Entitlement

This business event includes the approval of payment requests from commercial vendors for goods or services rendered based upon contract terms and conditions such as financing payments. The business event includes invoice matching against a receiving report and the purchase order before payment. Although LMP contains some of the process steps involved in the business event and can record processes such as commitments and obligations, they have not implemented the entire business event. In Report No. DODIG-2012-087, we reported that Army financial managers did not reengineer the Procure-to-Pay business process. Consequently, the entitlement of contractor payments continues to occur outside of LMP. Army financial managers have a plan of action and milestones but have not yet completed the reengineering needed to integrate the entitlement process and correctly record the required DTCs. They do not expect completion of these actions until FY 2015.

Manage Delinquent Debt

This business event defines the appropriate actions to record, manage, and maintain DoD delinquent debt accounts. It provides standardized processes, such as:

(1) collection of eligible receivables and referrals to Treasury;

(2) application of penalties, administrative, and interest fees;

(3) processing of other types of delinquent debt collection actions, such as waivers, write-offs, wage garnishments, debt compromise, installment, close outs, and remissions; and

(4) recording of financial transactions associated with the adjustments of debt balances and statuses.

On August 31, 2012, the Deputy Chief Financial Officer issued a memorandum titled "DoD Delinquent Debt Management Policy Guidance for the Target Environment." The guidance defines a standard end-to-end solution for managing public accounts receivable and provides standard values for Department of the Treasury interfaces. The guidance is to become part of ERP system implementation strategies; business process

reengineering; roles and responsibilities refinement; and change management efforts. Army financial managers have not yet reengineered their business processes to allow LMP to record the DTCs needed to accomplish this business event. In the interim, DFAS personnel used journal vouchers to record debt related business events in DDRS.

Perform Treasury Operations Phase

The Perform Treasury Operations Phase includes execution of disbursements and collections and all related Treasury reporting. It includes replacement of financial instruments, cash management, and the management of securities held for the production of investment revenues. The phase also includes reconciling Fund Balance with Treasury transactions with Treasury information to validate proper and timely posting of the undistributed disbursements and collections. The following three business events outline the requirements for this phase.

Manage Disbursements

This business event supports all activities necessary to execute the payment process in accordance with Federal payment regulations, including the Prompt Payment Act. Processes within this event include payment groupings; credit offset application; check and EFT ready to pay file generation; payment file certification, confirmation, and cancellation; payment cancellation with and without re-issuances; and payment remittance notifications. Army financial managers did not correctly configure LMP to accomplish this business event. For example, Army financial managers did not reengineer LMP business processes to implement a capability to receive and reconcile cash management files directly from the Treasury. Previously reported discrepancies with data transfer and the posting logic remain uncorrected. Report No. DODIG-2012-087 states that DoD managed disbursements using legacy systems and allowed for payment entitlement outside of LMP. In addition, the data transferred in from legacy systems did not contain complete information for recording the business event within LMP. This process created duplicate obligations and the need to reconcile the unmatched disbursements, and caused the recording of incorrect information in LMP for undistributed disbursements. Further, DDRS automatically adjusted undistributed amounts to balance disbursements with amounts reported by the Treasury.

Manage Collections

This business event involves receiving, controlling, and recording DoD monies owed, including the receipt and recording of cash and cash-like instruments to liquidate an open receivable, a prepayment prior to delivering goods or performing services (advance), or

funds transferred between appropriations. It also includes the procedures for unbilled and unidentified collections. Through review of LMP models and discussions with Army financial managers and LMP PMO personnel, we determined that the LMP PMO did not configure LMP to perform cash management functions. Instead, DCFO managers continued to perform these functions outside the ERP environment and required the transfer of data to LMP using interfaces. Further, by not integrating the process, DFAS personnel must record journal vouchers within DDRS to reconcile issues identified within the LMP trial balance data that resulted from the transferred data. For example, DFAS personnel completed journal vouchers to record undistributed collections that LMP did not record. Army financial managers did not reengineer the B2R process to accomplish this business event or implement the required functionality to record the DTCs related to the collection process within LMP.

Manage Execution with Treasury

This business event develops the agreement of the general ledger account balances with corresponding Treasury balances, which includes the monitoring of collections and disbursements. This business event also establishes agreement of Trading Partner data with cash balances. Although the business event does not contain specific DTCs, the reconciliation of transactions could require the recording of DTCs related to other business events. In addition, Army financial managers did not reengineer and implement cash management functions needed to integrate the business event within LMP. Instead, this process continues to reside outside of LMP with corrections made by journal voucher.

Manage General Ledger Transactions Phase

The Manage General Ledger Transactions Phase encompasses posting of financial events (transactions) to the USSGL accounts for assets, liabilities, fund balances, revenues, and expenses associated with the recording of federal funds. The phase also includes the review and reconciliation of subsidiary ledgers to the corresponding USSGL account. The following four business events outline the requirements for this phase.

Manage Financial Management Policy

This business event begins with the receipt of a new requirement from an internal or external source and flows through OUSD(C) involvement in making financial management policy. A Control Board approves requirements to implement changes to the DoD SCOA, SFIS attributes, and pro forma entries in the Transaction Library. This business event ties to the successful implementation of the other 22 B2R business

events and associated business process reengineering efforts within LMP. Review of the other 22 business events identified 17 business events applicable to the AWCF that Army financial managers did not completely implement within LMP. As a result, we concluded that they did not properly assess financial management policy requirements to verify proper implementation of 17 business events within LMP.

Manage Execution Fund Account

This business event includes establishing an initial appropriation fund balance for each program and decrementing the amount of available funds as spending activity occurs. It allows for funds control validation prior to approval of commitments, obligations, entitlements, and expenditures. The business event supports the commitment and obligation of funds requested from other activities. Commitments, obligations, entitlements, and expenditures decrease the available fund balance. As previously discussed in Report No. DODIG-2012-087, Army financial managers did not reengineer the Procure-to-Pay business process to entitle contractor payments within LMP. Until they complete the reengineering needed to integrate the entitlement process and correctly record the required DTCs, LMP cannot fully accomplish this business event.

Post to General Ledger

This business event accounts for journal entries and the posting of pro forma entries. Pro forma entries maintain a complete audit trail of all system transactions, records the business events, and reports the financial condition. We determined that LMP appeared to have configuration to perform the required account postings associated with 598 of 1,258 DTCs applicable to working capital fund activities (see Appendix D). Implementing of the remaining 660 DTCs would require changes to system functionality to address missing accounts and the recording of inaccurate transactions that bypassed the required accounts. As a result, Army financial managers only partially implemented this business event within LMP.

Record Loans and Grants

This business event records the financial outcome of activity related to the award, origination, performance, payment, collection, and closeout of direct loans, loan guarantees, and grants. This business event was not applicable because the AWCF does not use these instruments; therefore, there are no LMP transactions to record.

Perform Reporting Phase

This phase and the corresponding business event (Perform Financial Reporting) encompass the receipt of financial management reporting requirements, information product preparation, and finished product distribution to the requestor. This phase routinely involves summarizing and clearly communicating financial data collected through various means and providing output results based on specified reporting requirements. LMP is not required to post any DTCs for this business event. However, we determined that Army financial managers did not fully implement this business event within LMP because they did not use existing LMP functionality to handle general ledger account analyses. Instead, DFAS personnel used DDRS to reconcile and enter journal vouchers, creating the need to manage two separate sets of accounting information. Army financial managers relied on DDRS to record the end effect of transactions that they should have recorded in LMP.

LMP continued to report inaccurate information because Army financial managers were not addressing data within the system. This perpetuated the need to maintain two sets of accounting information. During our audit, they began a project to develop the capability to populate the SF 133 by AWCF location. While the project is not complete, this effort may provide the types of information necessary to correct data and abnormal balances identified within the system.

Appendix D

General Ledger Accounts and Transaction Codes Not Implemented

On August 13, 2007, the Acting, Deputy Chief Financial Officer, DoD, issued a memorandum requiring the implementation of the DoD SCOA in target general ledger systems. In November 2012, the DoD Director, Accounting and Finance Policy, issued an updated memorandum that provided the FY 2013 DoD SCOA, which contained 214 10-digit budgetary accounts for accomplishing the B2R business process. The FY 2013 DoD SCOA identified 79 of the 214 budgetary accounts as applicable to working capital fund activities. Subsequently, OUSD(C) personnel identified nine additional accounts that the Treasury Financial Manual required for revolving fund activities. This resulted in a determination that 88 DoD SCOA should be applicable to LMP. Subsequently, on June 3, 2013, the Deputy Chief Financial Officer, DoD, issued a memorandum that permitted financial management system owners to assess the DoD SCOA account requirements and request an account exemption from DoD SCOA accounts that they determined as not associated with the business mission or not supporting systems' business processes, required transactions, and purpose.

On April 23, 2013, the Deputy Assistant Secretary of the Army (Financial Operations) submitted an exemption request for 169 DoD SCOA accounts, including 17 of the 88 budgetary accounts identified as applicable to working capital fund activities.[12] OUSD(C) personnel assessed the request, and on July 19, 2013, the Director, Business Integration Office issued a memorandum to the Deputy Assistant Secretary of the Army (Financial Operations) agreeing that the 17 budgetary accounts were no longer applicable to working capital fund activities. In addition, the Director identified an additional 12 budgetary accounts determined no longer to be applicable. Army financial managers subsequently determined that two budgetary accounts considered applicable in the FY 2014 DoD SCOA will not be applicable to the AWCF. Consequently, Army financial managers should now be able to provide the LMP PMO with requirements to configure 57 DoD SCOA accounts. The Transaction Library associates the use of 1,258 DTCs with the 57 accounts.[13]

[12] The Army requested this exemption based on an earlier draft of the June 3, 2013, memorandum.

[13] Army financial managers can reduce the number of DTCs required for configuration by assessing and documenting the applicability of the corresponding proprietary accounts populated by the DTC. LMP PMO would not need to configure any DTCs citing exempt proprietary accounts.

The following paragraphs discuss, by type of budgetary authority, the results of our analysis of the 57 DoD SCOA accounts that Army financial managers should implement in LMP and the significance of not configuring LMP with the correct posting logic to populate these accounts. We also performed a similar analysis on DoD SCOA accounts related to budget execution. Tables D-1 through D-4 identify the 57 DoD SCOA accounts that required LMP configuration and the system's ability to demonstrate configuration of the corresponding DTCs.

DoD Transaction Codes Related to Appropriated Funds

The LMP Chart of Accounts did not contain four of the five accounts related to appropriated funds. Consequently, LMP could not accomplish the posting logic associated with 12 DTCs that support those four accounts. In addition, LMP did not contain the functionality to accomplish one other DTC. In total, LMP did not properly accomplish 13 applicable DTCs associated with the management of appropriated funds. Table D-1 identifies the five accounts that required LMP configuration and the system's ability to demonstrate configuration of the 13 corresponding DTCs.

Table D-1. Transaction Codes Implementation Related to Appropriated Funds

DoD Standard Account	Implemented In LMP	Number of Applicable DTCs	DTCs Implemented	DTCs Not Implemented
417000.3102	No	3	0	3
417000.3103	No	3	0	3
419000.3102	No	3	0	3
419000.3103	No	3	0	3
439500.9000	Yes	1	0	1
Totals		**13**	**0**	**13**

DoD Transaction Codes Related to Contract Authority

The LMP Chart of Accounts contained the nine accounts required to manage contract authority correctly. However, Army managers did not accomplish the business process reengineering required to develop the posting logic for 18 of the 34 DTCs corresponding to those accounts. Table D-2 shows the nine accounts that required configuration in LMP and Army financial managers ability to demonstrate LMP configuration for the 34 DTCs.

Table D-2. Transaction Codes Implementation Related to Contract Authority

DoD Standard Account	Implemented In LMP	Number of Applicable DTCs	DTCs Implemented	DTCs Not Implemented
403200.9000	Yes	8	5	3
403400.9000	Yes	4	1	3
413100.9000	Yes	2	1	1
413200.9000	Yes	6	5	1
413300.9000	Yes	6	1	5
413400.9000	Yes	2	1	1
413500.9000	Yes	4	1	3
413800.9000	Yes	1	1	0
413900.9000	Yes	1	0	1
Totals		**34**	**16**	**18**

DoD Transaction Codes Related to Spending Authority

The LMP Chart of Accounts did not contain 7 of the 10 accounts related to spending authority. Consequently, the LMP PMO could not develop the posting logic needed to accomplish the 10 DTCs that supported those accounts. In addition, LMP did not contain the functionality to accomplish the posting logic associated with 28 other DTCs. In total, LMP did not properly accomplish 38 of the 63 DTCs associated with managing spending authority. Table D-3 identifies the 10 accounts that required LMP configuration and the system's ability to demonstrate configuration of the 63 corresponding DTCs.

Table D-3. Transaction Codes Implementation Related to Spending Authority[14]

DoD Standard Account	Implemented In LMP	Number of Applicable DTCs	DTCs Implemented	DTCs Not Implemented
421000.9000	Yes	20	10	10
425100.0700	No	0	0	0
425100.9000	Yes	7	5	2
425200.0700	No	0	0	0
425200.9000	Yes	26	10	16
425300.9000	No	2	0	2
426100.9000	No	1	0	1
438200.9000	No	3	0	3

[14] DoD SCOA accounts reporting all zeroes in the DTC columns of Table D-3 are those DTCs that we had already addressed as applicable to the other account involved in the transaction, which prevents duplication.

DoD Standard Account	Implemented In LMP	Number of Applicable DTCs	DTCs Implemented	DTCs Not Implemented
438300.9000	No	3	0	3
439800.9000	No	1	0	1
Totals		**63**	**25**	**38**

DoD Transaction Codes Related to Budget Execution

The LMP Chart of Accounts did not contain 10 of the 33 accounts needed to report budget execution correctly. Consequently, LMP could not accomplish the business process reengineering required to develop the posting logic associated with 12 DTCs that support those 10 accounts. In addition, LMP did not contain functionality to accomplish the posting logic associated with 571 other DTCs. In total, LMP did not properly accomplish 591 of the 1,148 applicable DTCs associated with the execution of budget authority. Table D-4 shows the 33 accounts that required LMP configuration and the system's ability to demonstrate configuration of the 1,148 corresponding DTCs.

Table D-4. Transaction Codes Implementation Related to Budget Execution[15]

DoD Standard Account	Implemented In LMP	Number of Applicable DTCs	DTCs Implemented	DTCs Not Implemented
420100.9000	Yes	4	2	2
422100.9000	Yes	9	6	3
422200.9000	Yes	3	0	3
423000.9000	No	0	0	0
423100.9000	No	0	0	0
423300.9000	No	0	0	0
423400.9000	No	2	0	2
426600.9000	No	8	0	8
427700.9000	No	2	0	2
428700.9000	No	0	0	0
431000.9000	Yes	85	2	83
439200.9000	Yes	6	0	6
445000.9000	Yes	327	3	324
451000.9000	Yes	9	0	9
459000.9000	Yes	1	1	0

[15] DoD SCOA accounts reporting all zeroes in the DTC columns of Table D-4 are those DTCs that we had already addressed the DTC as applicable to the other account involved in the transaction, which prevents duplication.

DoD Standard Account	Implemented In LMP	Number of Applicable DTCs	DTCs Implemented	DTCs Not Implemented
461000.9000	Yes	299	230	69
470000.9000	Yes	6	5	1
480100.9000	Yes	300	282	18
480200.9000	Yes	62	2	60
483200.9000	No	0	0	0
487100.9000	Yes	0	0	0
487200.9000	Yes	0	0	0
488100.9000	Yes	0	0	0
488200.9000	Yes	0	0	0
490100.0700	No	0	0	0
490100.9000	Yes	23	22	1
490200.0700	No	0	0	0
490200.9000	Yes	2	2	0
493100.9000	Yes	0	0	0
497100.9000	Yes	0	0	0
498200.9000	Yes	0	0	0
497200.9000	Yes	0	0	0
498100.9000	Yes	0	0	0
Totals		**1,148**	**557**	**591**

Appendix E

Statement of Budgetary Resources to LMP Trial Balance Comparison

Figure E identifies the differences between what the AWCF SBR reported on March 31, 2013, and the supporting LMP trial balance data for the same period. The calculated variance for two key sections of the SBR (Budgetary Resources and Status of Budgetary Resources) was $11.4 billion.

Figure E. SBR and LMP Trial Balance Variances as of March 31, 2013 (In Millions)

Line Number and Title	SBR	LMP Trial Balance	Dollar Variance
Budgetary Resources			
1000 Unobligated Balance Brought Forward, October 1	$435	($6,987)	$7,422
1020 Adjustment to Unobligated Balance, Brought Forward, October 1 (+ or -)	0	0	0
1020.5 Unobligated Balance Brought Forward, October 1, as Adjusted	435	(6,987)	7,422
1021 Recoveries of Prior Year Unpaid Obligations	780	780	0
1043 Other Changes in Unobligated Balance (+ or -)	(311)	10	(321)
1051 Unobligated Balance From Prior Year Budget Authority, Net	904	(6,197)	7,101
1290 Appropriations (Discretionary and Mandatory)	103	69	34
1490 Borrowing Authority (Discretionary and Mandatory)	0	0	0
1690 Contract Authority (Discretionary and Mandatory)	7,353	6,971	383
1890 Spending Authority from Offsetting Collections (Discretionary and Mandatory)	6,055	6,069	(14)
1910 Total Budgetary Resources	**$14,415**	**$6,912**	**$7,503**

Line Number and Title	SBR	LMP Trial Balance	Dollar Variance
Status of Budgetary Resources			
2190 Obligations Incurred	$6,522	$6,087	$435
2204 Apportioned	7,893	12,204	(4,311)
2304 Exempt From Apportionment	0	0	0
2404 Unapportioned	0	0	0
2490 Total Unobligated Balance, End of Year	7,893	12,204	(4,311)
2500 Total Budgetary Resources	**$14,415**	**$18,291**	**($3,876)**
Change in Obligated Balance			
Unpaid Obligations			
3000 Unpaid Obligations, Brought Forward, October 1	$6,989	$8,576	($1,587)
3006 Adjustment to Unpaid Obligations, Start of Year (+ or -)	0	0	0
3012 Obligations Incurred	6,522	6,087	435
3020 Outlays (Gross) (-)	(5,112)	(5,660)	548
3032 Actual Transfers, Unpaid Obligations (Net) (+ or -)	0	0	0
3042 Recoveries of Prior Year Unpaid Obligations (-)	(780)	(780)	0
3050 Unpaid Obligations, End of Year	**$7,619**	**$8,223**	**($604)**
Uncollected Payments			
3060 Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	($6,077)	$6,673	($12,750)
3066 Adjustments to Uncollected Payments, Federal Sources, Start of Year (+ or -)	0	0	0
3072 Change in Uncollected Payments, Federal Sources (+ or -)	(410)	(53)	(357)
3082 Actual Transfers, Uncollected Payments, Federal Sources (Net) (+ or -)	0	0	0

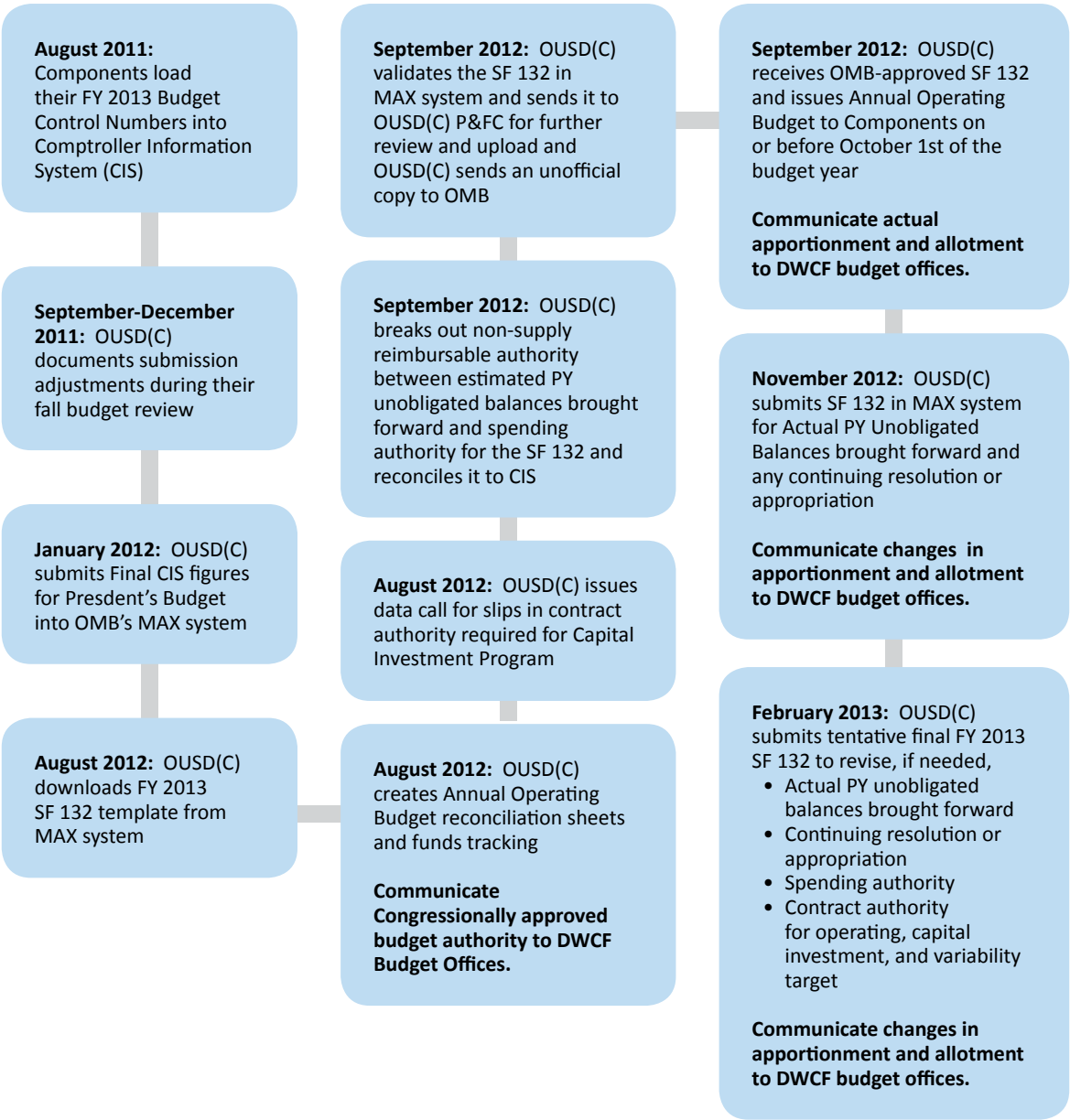
Line Number and Title	SBR	LMP Trial Balance	Dollar Variance
3090 Uncollected Payments, Federal Sources, End of Year (-)	(6,487)	6,620	(13,107)
3100 Obligated Balance, Start of Year (+ or -)	912	15,249	(14,337)
3200 Obligated Balance, End of Year (+ or -)	**$1,132**	**$14,843**	**($13,711)**
Budget Authority and Outlays, Net			
4175 Budget Authority, Gross (Discretionary and Mandatory)	$13,511	$13,109	$402
4177 Actual Offsetting Collections (Discretionary and Mandatory) (-)	(4,906)	(5,094)	(188)
4178 Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	(410)	(53)	(357)
4179 Anticipated Offsetting Collections (Discretionary and Mandatory) (+ or -)	(2,787)	(2,921)	134
4180 Budget Authority, Net (Discretionary and Mandatory)	5,408	5,041	367
4185 Outlays, Gross (Discretionary and Mandatory)	5,112	5,661	(549)
4187 Actual Offsetting Collections (Discretionary and Mandatory) (-)	(4,906)	(5,094)	188
4190 Outlays, Net (Discretionary and Mandatory)	**$206**	**$567**	**($361)**
4200 Distributed Offsetting Receipts (-)	0	0	0
4210 Agency Outlays, Net (Discretionary and Mandatory)	**$206**	**$567**	**($361)**

Appendix F

Managing the Apportionment and Allotment Process

Illustration F-1 provides a summary-level view of funds control for revolving fund activities. It depicts the business flow from the time DWCF activities provide their proposed budget to OUSD(C) in support of the President's Budget Submission through the Final SF 132 submitted to OMB. Illustration F-1 shows information for FY 2013 as provided by OUSD(C) personnel.

Illustration F-1. Business and Communication Flow for Annual Operating Budget Distribution



During the process, communication between OUSD(C) personnel and the DCWF budget offices is essential. At four points during the process, we identified the key communication points (annotated in black). OUSD(C) personnel needed to better communicate events occurring throughout the DWCF budget process. DWCF budget preparation focuses on business events occurring during the Perform Budget Planning and Formulation and the Distribute and Manage Budget Phases.

Perform Budget Planning and Formulation Phase

At the beginning of each fiscal year, OUSD(C) personnel need to capture the enactment of the annual appropriation acts and other legislation and assess what budget authority Congress gave to the DWCF. Once determined, they should communicate the anticipated, estimated, and realized budget authority amounts to the DWCF budget offices for them to establish these amounts within their ERP systems. For example, in August 2012, OUSD(C) personnel should have informed ABO personnel of the amounts that Congress approved for FY 2013 AWCF appropriated funding, contract authority, and spending authority and provided them a document supporting those amounts for entry into LMP. ABO personnel could then record each of the budget authorities in LMP as Unapportioned Authority within DoD SCOA account 445000.9000. This business event typically occurs in August of each year before the submission of the DWCF apportionment schedule to OMB. This activity should coincide with the August 2012 events depicted in Illustration F-1. For FY 2013, Congress did not pass an appropriation act by August 2012; therefore, OUSD(C) personnel should only request from OMB the contract reapportionment of balances carried forward, new contract authority, and new spending authority on its initial SF 132. For the AWCF, OUSD(C) personnel should have requested $8.6 billion in new contract authority and $5 billion in spending authority for new customer orders, a total increase in unapportioned authority of $13.6 billion. LMP did not properly record these amounts because the current Annual Operating Budget process did not provide ABO with the documentation needed to support the recording of all unapportioned authority.

Distribute and Manage Budget Phase

OUSD(C) personnel needed to update the procedures for performing processes associated with the Execute Continuing Resolution and the Execute Apportionment and Allocate Funds business events. Once ERP systems contain the Unapportioned Authority for an upcoming fiscal year, it was essential that OUSD(C) personnel provide the DWCF budget offices with the information they need to update the status of each type of budget authority, beginning with the apportionment by OMB and continuing

through the allotment to DWCF budget offices. This requires the DWCF budget offices to record two or more business events in the ERP systems that change the status of authority from unapportioned to allotted. The September 2012 box in Illustration F-1 depicts where in the process OUSD(C) personnel should communicate the OMB approval of the apportionment. The recording of DTCs to perform the allotment of authority to the DWCF budget offices and the suballotment of authority by those offices to execution activities should follow receipt of the Annual Operating Budget from OUSD(C). The apportionment, allotment, and suballotment process can occur multiple times in a fiscal year upon release of subsequent SF 132s. Each time, OUSD(C) personnel should communicate any change in budget authority status to the DWCF budget offices so they can update information in the ERP systems.

- During the normal appropriation process, DFAS personnel receive a Treasury warrant for Treasury Appropriation Fund Symbol 97X4930 and prepare non expenditure transfer documents (SF 1151) transferring the funding to the five DWCF subcomponents. The recording of the appropriation and any reprogramming requirements should occur in an accounting system that OUSD(C) personnel designate to manage Treasury Appropriation Fund Symbol 97X4930. OUSD(C) personnel should also substantiate that the accounting system records the rescissions or withholding of authority and transfers funding to the accounting systems designated to manage the five subcomponents of the DWCF. Upon receipt of a Treasury warrant or continuing resolution authority, they should provide the DWCF budget office personnel with an SF 1151 showing the amount of unapportioned authority transferred to that component. Each DWCF budget office should establish this amount as unapportioned budget authority within its ERP system. Normally, this action would occur upon enactment of the public law providing the appropriation. OUSD(C) personnel can then submit an SF 132 to request the apportionment of the funds and, upon approval, notify each DWCF budget office of the amount apportioned for them to record in the ERP systems as an apportionment transaction. Finally, OUSD(C) personnel can then allot funding to the DWCF budget offices for execution by using the Annual Operating Budget to communicate the status of the three distinct business events (DTCs A480, A116, and A120).

- Beginning in August, OUSD(C) personnel should communicate the total amount of budget authority provided in the congressionally approved budget and continually update each resources status from inception through its allotment to one of the five DWCF subcomponents.

Management Comments

Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MAR 20 2014

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on the Department of Defense Inspector General Draft Audit Report, "Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources"

We received the subject February 12, 2014, draft audit report and reviewed your recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) and Deputy Chief Financial Officer. Attached are detailed responses to your recommendations.

Many of our target systems are fully deployed and provide tremendous value in support of mission requirements. We acknowledge, however, that development of the Business Enterprise Architecture and our understanding of end-to-end business processes often followed systems implementations. This has led to a need to identify specific actions to improve system configuration and procedures. We would like to work with your audit teams to ensure those improvements are understood and properly prioritized.

Thank you for the opportunity to review and comment on the draft audit report. My staff point of contact is [redacted]

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD (cont'd)

DOD IG DRAFT REPORT – DATED FEBRUARY 12, 2014
DOD IG PROJECT NO. D2013-D000FI-0059.000

"LOGISTICS MODERNIZATION PROGRAM SYSTEM NOT CONFIGURED TO SUPPORT STATEMENT OF BUDGETARY RESOURCES"

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
(OUSD(C)) RESPONSE TO DOD IG RECOMMENDATIONS

RECOMMENDATION A.1.: We recommend that the Deputy Chief Financial Officer, DoD, approve the baseline configuration of the Logistics Modernization Program system Budget-to-Report business process based on Army certification that it has implemented the appropriate DoD United States Government Standard General Ledger Transaction Library transactions for recording budgetary accounts for the Army Working Capital Fund.

OUSD(C) RESPONSE: Partially concur. We agree that an assessment of the baseline configuration of the Logistics Modernization Program (LMP) system's Budget-to-Report (B2R) business process should be done to confirm that the Army has implemented the appropriate Department of Defense (DoD) United States Standard General Ledger (USSGL) Transaction Library transactions for recording budgetary accounts in the Army's LMP solution. However, in compliance with established OUSD(C) guidelines, an independent public accountant should accomplish the review and, once satisfied, should provide its assurance. The Deputy Chief Financial Officer will work with the Army to seek this independent review to validate the baseline configuration of the LMP B2R business process.

RECOMMENDATION B: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

1. **Develop procedures for distributing Defense Working Capital Fund budget authority to the budget offices for recording in the Enterprise Resource Planning systems that support the Defense Working Capital Fund. The procedures should designate each Defense Working Capital Fund budget office as the funds control official for recording all budgetary related business events and require that the Revolving Funds directorate provide budget offices documentation supporting:**

    a. **The anticipated annual budget authority amounts determined based on enactment of the annual Defense Appropriation Act or as provided by other legislation and prior to submission of the Defense Working Capital Fund Apportionment and Reapportionment Schedule to the Office of Management and Budget.**

Attachment

Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD (cont'd)

Final Report Reference

b. Approval of the Defense Working Capital Fund Apportionment and Reapportionment Schedule by the Office of Management and Budget for recording in the general ledger.

c. Allotment of budgetary authority to subordinate activities.

OUSD(C) RESPONSE: Partially concur. The Department receives funding for Defense Working Capital Fund (DWCF) budget authority at the appropriation level. The OUSD(C) Revolving Funds directorate has existing procedures for distributing DWCF budget authority to the Army, Navy, Air Force (including the U.S. Transportation Command), Defense-wide, and Defense Commissary Agency via Annual Operating Budget (AOB) documents. The Army Working Capital Fund AOBs for Supply and Industrial Operations (attached as Addendums 1-6) identify the connection to the Report on Budget Execution and Budgetary Resources (SF 133), Statement of Budgetary Resources, and the associated USSGL account. However, USSGL accounts do not exist for either this type of anticipated authority prior to enactment of an appropriation or for budget authority formulation. No financial audit requirement exists to record this information in an enterprise resource planning system (ERP). Furthermore, ERPs can be configured for different purposes, and how ERPs are used are functions of management decisions and available budget resources.

Addendums 1–6 are not included in the report

OUSD(C) Revolving Funds complies with Department-wide procedures for the Apportionment and Reapportionment Schedule (SF 132). The Department is authorized, after 48-hour notification to the Office of Management and Budget, to redistribute DWCF resources during the fiscal year as follows: 1) transfer between components not to exceed $200 million in contract authority, 2) transfer up to $200 million between the business activities within each component, and 3) transfer up to $10 million between capital and operating budgets within each component. These management decisions do not impact budget development and submission decisions. The budget-related data is recorded on the AOBs.

Finally, the leadership of each Military Department or agency with a DWCF activity is responsible for designating the respective funds control official for recording all budget-related business events and informs the OUSD(C) Revolving Funds AOB Control Officer on points of contact and communication lines. The OUSD(C) Revolving Funds AOB Control Officer sends each AOB to the respective Budget Office and appropriate Defense Finance and Accounting Service office for processing. Suballotment to subordinate activities is within the management purview of the respective activity managers.

2. Update DoD Financial Management Regulation, volume 3, to provide suballotment procedures for the Enterprise Resource Planning systems to record and distribute each type of budgetary authority below the allotment level.

OUSD(C) RESPONSE: Partially concur. The DoD Financial Management Regulation (FMR) is a policy document rather than a procedures manual. Further, since they will vary by activity and supporting systems' requirements, procedures must be defined outside of the DoD FMR. The appropriate management teams must develop guidance to properly define the suballotment

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Under Secretary of Defense (Comptroller)/ Deputy Chief Financial Officer, DoD (cont'd)

procedures for their activities and systems. The DCFO has been developing internal funds distribution guidance to provide the basic framework and proper accounting transactions to be used for General Funds, and plans to prepare additional guidance to include Continuing Resolutions and other specific financial events. The DCFO will work with the Revolving Funds directorate to develop internal funds distribution guidance for the DWCF that will meet the requirements of this recommendation.

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Deputy Chief Management Officer, DoD

Final Report Reference

DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-9010

MAR 20 2014

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR DEPARTMENT OF DEFENSE (DoD) FINANCIAL MANAGEMENT AND REPORTING (DoD INSPECTOR GENERAL)

SUBJECT: Comments to Draft Report, "Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources" (Project No. D2013-D000FI-0059.000)

This memorandum responds to your request for comments on recommendation A.2, contained in the subject draft audit report issued February 12, 2014. Upon review of the draft report, we non-concur with recommendation A.2, as this recommendation should be directed to the Deputy Chief Financial Officer (DCFO). The Office of the DCFO is the principal requirements owner for all financial management content in the Business Enterprise Architecture (BEA). The Office of the Deputy Chief Management Officer works closely with the DCFO in reviewing and updating applicable financial management content in the BEA.

Redirected recommendation

We appreciate the opportunity to review and comment on the draft report. If you have any questions, [redacted]s my point of contact for this response. [redacted] may be reached by telephone at [redacted]

Kevin J. Scheid
Acting Deputy Chief Management Officer

Assistant Secretary of the Army (Financial Management and Comptroller)

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO
ATTENTION OF

MAR 14 2014

MEMORANDUM FOR Assistant Inspector General for Audit, Department of Defense Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Army Response to Draft Report, DODIG Draft Report D2013-D000FI0059.000, Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources, dated February 12, 2014

1. Attached is the ASA (FMC) response to Recommendation A.3. of the subject draft report. ASA (FMC) in this reply refers to Financial Operations and Army Budget. The draft report recommends that we coordinate with Army Materiel Command (AMC) G-8, to develop a plan of action and milestones to validate and certify that we have configured Logistics Modernization Program (LMP) system in accordance with the DoD United States Government Standard General Ledger Transaction Library, applicable business events, and the DoD Standard Chart of Accounts for the Budget-to-Report business process. You also recommended actions to correct other financial reporting issues related to that Process.

2. We concur with the subject draft report. We acknowledge that ideally all processes should be implemented in our ERPs, but reality is that not all Federal Agency and DoD decisions have permitted this. Therefore, Army will consider these and other audit results as we weigh the audit and operational risks of leaving some processes and system capabilities as-is and elevating others to priority implementation status. The risk assessments and approach will be part of our overall audit assertion documentation.

3. The subject draft report directed recommendations A.1, A.2, B.1.a, B.1.b and B.2 to the Under Secretary of Defense (Comptroller)/Chief Financial Officer and Deputy Chief Management Officer. Recommendation B.1 requires OUSD develop procedures to provide certain funding documentation to Army. The OUSD reply will determine the needed configuration for certain general ledger accounts (for example, Unapportioned Authority) in LMP. The Army may need to adjust its approach, once we have the OUSD reply.

4. We coordinated this reply with AMC-G-8, the Defense Finance Accounting Service, and the Program Manager, LMP.

5. The point of contact for this action is [redacted] She can be reached by e-mail at [redacted]

Enclosure

James J. Watkins
Deputy Assistant Secretary of the Army
(Financial Operations)

Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

Enclosure: Official Comments

DODIG Draft Report D2013-D000FI0059.000
Logistics Modernization Program System Not Configured to Support Statement of Budgetary Resources, dated February 12, 2014

Recommendation A.3.

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) in conjunction with Army Materiel Command G-8, develop a plan of action and milestones to validate and certify that they have configured Logistics Modernization Program system functionality according to the DoD U.S. Government Standard General Ledger Transaction Library, applicable business events, and the DoD Standard Chart of Accounts for the Budget to Report business process. As part of the comprehensive business process reengineering effort, they should:

Overall Response: ASA(FM&C), in coordination with Headquarters, Army Materiel Command (HQ AMC) -G8 and the Defense Finance and Accounting Service (DFAS), will develop a Plan of Action and Milestones (POAM) NLT 30 Jun 14 that will address the B2R findings assigned to ASA(FM&C). The POAM will include an action to certify the financial configuration of LMP.

a. Investigate the root causes for each manual adjustment and other workarounds related to the Budget-to-Report business process and develop a reengineering plan for implementing the system functionality to record the data accurately. The reengineering plan should also incorporate, to the extent possible, within the Logistics Modernization Program (LMP) Budget-to-Report business process the:

(1) Debt Management Process, and
(2) Cash Management Process.

Army Response: Concur. In September 2013, Army held a workshop to discuss root causes and corrective actions for manual adjustments. We analyzed the differences between what Defense Finance and Accounting Service (DFAS) reported through Defense Departmental Reporting System (DDRS) on the official Army reports and the data in LMP. We examined the journal vouchers (JVs) prepared for migrated balances and for July 2013 month-end transactional data. The path forward included holding additional workshops to develop plans to reverse all DFAS JVs, to reconcile to transactional data, and determine an approach for ensuring activities could enter data in LMP prior to closing the reporting period.

We held the second workshop, JV strategy, the week of 9 December 2013. We determined that timing differences precluded entering all data into LMP that is reported on the official Army reports (Undistributed Disbursements and Collections, Transportation Charges, MOCAS Accrual). We agreed that delaying the month-end reports for three days would allow activities time to enter data.

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Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

This will begin in May 2014 for April 2014 reporting month.

Debt Management: – The Army is evaluating the implementation of Debt Management at the enterprise level and will determine the path forward at a future date. Until that time, Army will continue to use journal vouchers to record, manage and maintain debt accounts.

Cash Management: - There is no immediate plan to incorporate the cash management functionality within LMP; therefore, we will continue to rely on DFAS for performing this function. Implementation of functionality for part of the entitlement process, Local Vendor Pay (Change Request Database (CRDB) ticket number 39124) was deferred past the May 2015 release due to higher competing audit readiness priorities. We are also evaluating the progress of the General Fund Enterprise Business System (GFEBS) pilot program to perform disbursing functions within the Enterprise Resource Planning (ERP) system. We are incorporating mitigating controls to the extent possible, such as delaying the month-end reports by three days beginning with the April 2014 month-end to allow the posting of the Mechanization of Contract Administration System (MOCAS) accrual directly into LMP.

b. Document and certify to the Deputy Chief Financial Officer the comprehensive review of Army Working Capital Fund business activities that baselines the DoD transaction codes and general ledger accounts needed for recording the Logistics Modernization Program Budget-to-Report business process.

Army Response: Concur. Army conducted a comprehensive review of all DoD general ledger accounts contained in May 2013 and again in March 2014. We obtained agreement from OUSD that 188 general ledger accounts were not applicable to Army Working Capital Fund business. We established 13 system change requests to bring the LMP chart of accounts in line with the FY13 and FY14 DoD chart of accounts and to correct errors we identified with posting logic. Two of the change requests were implemented prior to FY13 year-end close; five will be implemented in FY14 and the remaining six implemented prior to May 2016. The pending change requests will bring LMP into alignment to use Standard Financial Information Structure (SFIS) attributes rather than relying on legacy processes to classify transactions.

For FY14 forward, all change requests requiring general ledger posting logic must cite the applicable DoD Transaction Code (DTC) prior to review by the LMP Architectural Review Board (ARB). We established a plan to address missing business rules and to populate all required general ledger accounts based on workshops conducted in March 2014. We also established a working group and began to analyze the 591 DTCs cited in Appendix D as applicable to the budget execution process that are not used or used improperly in LMP. We will submit the results of the DTC review to DCFO for approval 30 May 2014. We are also

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Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

developing an LMP transaction library to document those transactions applicable to populating the Statement of Budgetary Resources.

c. Develop system requirements for and request funding from the Defense Business Council to correct the Budget-to-Report process within the system.

Army Response: Concur. By 30 Jun 2014, ASA(FMC) and HQ AMC will reevaluate all audit related Change Requests (CRs) to idenify those related to findings in this draft report. We will submit additional CRs for gaps identified, including those arising from the DCFO review and approval of the DTCs. We will submit a funding request for those not funded.

We have submitted the following CRs to date: Enhance LMP Chart of Accounts to comply with DoD Chart of Accounts (CRDBs ticket numbers 75502, 44577, 67782, 75611, 76453, 76454, 76455, 76491, 76492, 76493, 76494, 76495, 76496); Abnormal Balances (ticket number 76142); Contract Authority (ticket numbers 78348, 62040, 62041); Tie Point Report (ticket number 22668); and SF133 Report (ticket number 76401). The final completion date for the CRs above is 30 Sep 2015.

d. Develop a plan to accomplish the required pre-closing transactions necessary to support the preparation of the Standard Form 133 and Statement of Budgetary Resources at year-end.

Army Response: Concur. During the FY13 year end close, DFAS personnel from Accounts Maintenance & Control and Departmental Reporting implemented fiscal year end pre-closing entries for contract authority, supporting Standard Form 133 (SF-133) and Statement of Budgetary Resources(SBR) , including DTCs F112-021-01, F112-058-01, F112-061-01, F113-003-01, and F113-005-01. Implementing these entries with the existing pre-closing entries, provides the needed entries to support closing accounts related to the SF 133 and SBR.

e. Direct activities to conduct an immediate investigation of abnormal balances in unobligated accounts to determine whether a potential funding violation occurred.

Army Response: Concur. The Army Budget Office confirmed that sufficient funding was continuously available to preclude the occurrence of a potential anti-deficiency act violation. To substantiate the statement, the Army budget Office reviewed the 1307 reports and AOB data at yearend and did not find any instances where the abnormal obligations at the limit level, should have flagged a potential funding violation at the Army level. The independent auditor's report for the AWCF FY13 Financial Statements included an Army statement that during FY13, the AWCF reported no ADA violations.

To further cleanse accounts with abnormal balances, we began reconciling accounts, starting with reversing all transactional level manual JVs from the LMP system. This step was necessary to determine the true abnormal general ledger

3

Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

balances, to enable analysis of the root causes. We held a workshop the week of 9 December 2013, and set 30 September 2014 as the target date to have reverse all JVs and correct the transactions. We will complete the reconciliation on general ledger accounts for Contract Authority (413900), Total Actual Resources – Collected (420100), Unapportioned Authority (445000) and Allotments - Realized Resources (461000) by June 2015.

We will document the approach and use it to support actions taken to address financial reporting material weaknesses related to the Budget to Report Process.

f. Investigate the root cause of each journal voucher (JV) reported in budgetary accounts and develop a corrective action plan for recording the data within the Logistics Modernization Program system.

Army Response: Concur. In September 2013, we conducted a workshop to analyze the differences between DDRS, the official Army reports, and the data in LMP. We examined approximately 156 journal vouchers from FY 2010 through FY 2013 involving improperly OR incorrectly migrated balances. We concluded that timing differences preclude entering all data reported on the official Army reports (Undistributed Disbursements and Collections, Transportation Charges, MOCAS Accruals) in LMP prior to closing a reporting period.

As stated under reply A.3.e. above, results of the 9 December 2013 JV workshop indicated that we needed reverse all DFAS JVs in order to reconcile to true transactional data, and to delay the LMP month-end closure by three days, without preventing a normal open of the subsequent accounting period. The JV reversal and reconciliation plan will be part of the POAM required under this recommendation. The delay to the month-end reports will begin in May 2014 for the April reporting month.

To enhance analysis and identify out of balance conditions between budgetary and proprietary data, LMP will implement the functionality for Tie Point reconciliation as an independently promotable CR in FY15. This action coupled with implementing GTAS should significantly reduce the necessity for preparing JVs that force agreement of financials data from various sources.

We recognize that financial data for some business areas will always be recorded via JV; with the information based on data calls to other organizations (Federal Employees' Compensation Act - workers compensation - amounts provided by the Department of Labor, for example). Since some of these data calls occur only quarterly, configuring interfaces for this functionality within LMP would be cost-prohibitive.

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Glossary

Allotment. A subdivision of an apportionment made by the agency head.

Allocation. A delegation of authority to obligate budget authority and outlay funds, authorized in law, by one agency to another agency.

Apportionment. An OMB-approved plan to spend resources provided by one of the annual appropriations acts, a supplemental appropriations act, a continuing resolution, or a permanent law (mandatory appropriations). OMB apportions resources by Treasury Account Fund Symbol. The apportionment identifies amounts available for obligation and expenditure. It specifies and limits the obligations that may be incurred and expenditures made (or makes other limitations, as appropriate) for specified periods, programs, activities, projects, objects, or any combination thereof.

Annual Operating Budget. The Annual Operating Budget identifies an operating budget, operating results, unit cost targets and capital budget limitation for each Component's activity group.

Appropriation. A provision of law, not necessarily in an appropriations act, authorizing funds expenditure for a given purpose. An appropriation usually provides budget authority.

Budget Authority. The authority, provided by law, to incur financial obligations that will result in outlays. Specific types of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections.

Continuing Resolution. An appropriation, in the form of a joint resolution that provides budget authority, specific activities, or both to continue operation when Congress and the President did not complete actions on the regular appropriations acts by the beginning of the fiscal year.

Contract Authority. A type of budget authority that allows agencies to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. Typically, Congress provides contract authority in an authorizing statute to allow agencies to incur obligations in anticipation of the collection of receipts or offsetting collections used to liquidate the obligations.

Spending Authority from Offsetting Collections. A type of budget authority that allows the financing of obligations and outlays by offsetting collections.

Suballotment. A subdivision of an allotment.

Transfer. The process of moving budgetary resources from one budget account to another. An expenditure transfer involves an outlay; whereas, a nonexpenditure transfer does not.

Unexpended Balance. The sum of the unobligated and obligated balances.

Unobligated Balance. The cumulative amount of budget authority that is not obligated and remains available for obligation.

Acronyms and Abbreviations

ABO	Army Budget Office
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
AWCF	Army Working Capital Fund
BEA	Business Enterprise Architecture
B2R	Budget-to-Report
DCFO	Deputy Chief Financial Officer
DCMO	Deputy Chief Management Officer
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
DTC	DoD Transaction Code
DWCF	Defense Working Capital Fund
ERP	Enterprise Resource Planning
FMR	Financial Management Regulation
LMP	Logistics Modernization Program
OMB	Office of Management and Budget
OUSD(C)	Office of Under Secretary of Defense (Comptroller)
PMO	Product Management Office
SBR	Statement of Budgetary Resources
SCOA	Standard Chart of Accounts
SFIS	Standard Financial Information Structure
USSGL	United States Government Standard General Ledger

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