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Accounting and Financial
Management Division

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November 19, 1992

Lieutenant General Arthur E. Williams, USA
Commander, U.S. Army Corps of Engineers
20 Massachusetts Avenue, NW
Washington, D.C. 20314-1000

Dear General Williams:

We have conducted a comprehensive review of the Department of the Army's financial systems and operations. The primary objectives of that review were to assess the Army's internal control systems and audit the fiscal year 1991 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). As part of that review, we evaluated the Corps of Engineers' internal accounting controls. In our opinion on the Army's principal statements,[1] we reported that there were material uncertainties concerning the reliability of the amounts reported for most of the Army assets, including the $1.3 billion reported for Corps equipment (personal property) and the $28 billion reported for Corps real property.

The purpose of this letter is to report to you specific weaknesses in controls over data processing operations and accounting and financial reporting processes noted during our review at selected Corps activities. Our work was performed primarily at Corps headquarters, nine district/division offices, the Corps' Accounting Systems and Procedures Branch Office in Huntsville, Alabama, and the Corps' data processing center located in Vicksburg, Mississippi. In June 1992, we discussed these weaknesses with key members of your staff but because of the pervasive nature of the deficiencies we noted, these weaknesses warrant your attention to ensure that appropriate corrective actions are taken Corps-wide.

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[1] Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83, August 7, 1992).

CONTROLS OVER ACCOUNTING DATA BASE CHANGES NOT FOLLOWED

The Corps accounting system has a transaction entry procedure (referred to by the Corps as "data base build") that allows accounting personnel to make changes or additions to the accounting data base. In prior years, the main use of the procedure was to correct accounting data input errors. Corps' Federal Managers Financial Integrity Act work, and several other internal reviews and audits performed prior to our review, noted that this transaction capability was being overused to perform entry work that could be accomplished through normal processing routines.

In January 1991, Corps headquarters issued guidelines to control use of the procedure, including the requirement for supervisory approval of its use. The guidelines also prescribed records and documentation requirements to be followed when using the procedure. However, these guidelines had not been consistently and completely followed at the Corps locations we reviewed, thus increasing the risk of unauthorized or incorrect accounting data base changes. We found the following:

- At five locations, transaction control logs for documenting data base build entries did not include sequential transaction control numbering, as required by Corps guidelines. At one other location, no control logs were maintained by either the civil works or the revolving fund accounting sections. At another location, the military accounting section was not maintaining a transaction control log.

- At five locations, the same person could prepare and approve transactions, contrary to separation of duties standards contained in the Comptroller General's internal control standards.

- At five locations, supporting documentation required by the guidelines for data base build entries was either not maintained or not attached to the required entry documents.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to enforce full implementation of the guidelines issued to control the use of data base build transactions.

ACCOUNTING SYSTEM PRODUCTION PROGRAMS NOT PROPERLY RESTRICTED

We found that system accountants and contractor computer programmers in the Corps Accounting Systems and Procedures Branch Office in Huntsville, Alabama, had unrestricted access to accounting system computer production programs. Computer production programs, comprising the Corps accounting system, direct the computer in processing and accumulating accounting transactions, including collections and disbursements of Corps funds. This type of access is contrary to the access to and accountability for resources standard contained in the Comptroller General's internal control standards and generally recognized information processing systems control objectives.

This unrestricted access provided system accountants and contractor programmers with the ability to insert, modify, or delete computer program instructions for the entire accounting system. Such access increases the risk that programs could be altered to achieve fraudulent objectives. In response to our concerns, a Corps official advised us in October 1991 that unrestricted access privileges for the accountants and programmers had been eliminated. However, we did not perform subsequent follow-up on the effectiveness of the actions taken.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to assess the effectiveness of actions taken to control access to its accounting system production programs.

NO WRITTEN PROCEDURES FOR SOFTWARE CHANGES AND TESTING

The Corps lacked written policies and procedures governing changes and testing of accounting system software, and for reporting and documenting software problems encountered by system users. Federal Information Processing Standards

Publications 73 and 106 specify that written policies and procedures should be developed in these areas to ensure that (1) proposed changes are properly authorized in writing, (2) program changes do not destroy system data or render it unusable, or (3) improper program instructions do not result in fraudulent transactions.

We reviewed 20 judgmentally selected accounting system software changes made by the Corps' Accounting Systems and Procedures Branch during March through May 1991 and found that

-- all 20 changes were based on telephone requests from users rather than written requests,

-- system accountants did not consistently review software program code to determine if only the requested program changes were made,

-- no test plans for testing program changes were prepared for the software changes we reviewed, and

-- little documentation of the program tests conducted was available.

Also, contrary to the standards in Federal Information Processing Standards Publication 106, Corps system accountants did not document system software problems in a way that would allow them to readily determine whether problems reported by users were new, or whether they were supposed to have been corrected by prior software modifications. Data collected by the Accounting Systems and Procedures Branch on system problems reported by users did not include information on (1) specific software problems encountered, (2) the types and frequencies of software errors, and (3) software modifications that were required because of previous programming errors.

Corps officials agreed there was a need for written software maintenance policies and a software problem reporting system but as of June 1992, neither had been developed.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to develop written software maintenance policies and procedures, consistent with federal information processing standards, for all accounting system software development and modifications, along with a formal software problem reporting system to help evaluate the maintenance and testing process.

NO PLAN FOR DISASTER RECOVERY AND BACKUP

The Corps did not have a formal contingency plan for disaster recovery and backup processing of accounting data for its processing centers in Vicksburg, Mississippi, and Portland, Oregon. Office of Management and Budget (OMB) Circular A-130 states that federal agencies should establish contingency plans to ensure the continuity of data processing support in case normal operations are interrupted by power outages or other events. Without formal contingency plans, the Corps had little assurance that interruptions of data center operations could be managed effectively or that continuity of data processing could be maintained for priority accounting system requirements. Corps officials agreed that formal disaster recovery and backup plans were needed for its data processing centers, but as of June 1992, such plans had not been implemented.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to develop a contingency plan for disaster recovery and backup processing at its accounting system processing centers, consistent with OMB Circular A-130.

ACCURATE CIVIL WORKS FIXED ASSET REPORTING IMPEDED

The Corps had not implemented a uniform general ledger account structure such as that prescribed by the Department of Defense, which calls for individual asset accounts for land, personal property (equipment), and structures. At present, civil works land, personal property, and structures are accounted for as an aggregate dollar figure (or balance) either in the Plant-in-Service or Construction Work-in-Progress civil works general ledger accounts. The cost of these assets is accounted for in the Construction Work-in-Progress account if the project to which they relate is under construction. After project construction is completed, the asset costs are transferred to the Plant-in-Service account.

To allow preparation of financial statements that separately classify the cost of land, personal property, and structures, the Corps issued instructions to its accounting offices requiring them to submit "footnotes" to their general ledgers that identify the total cost of land and personal property in the Plant-in-Service account. Using these totals, Corps headquarters subtracted the total reported for land and personal property from the aggregate dollar value of the Plant-in-Service account to calculate a cost for structures. However, the instructions for developing the footnote information do not provide assurance that all land and personal property asset values are reported accurately. For example, the instructions require reporting only land and personal property values associated with the Plant-in-Service account even though land and personal property costs are also accounted for the Construction Work-in-Progress account. At the time of our review, the Corps' policy was to report an aggregate total for Construction-Work-in-Progress even though they acknowledged that it included the value of land and some personal property costs.

Such aggregate accounting of fixed asset values for financial statement reporting is inconsistent with DOD's accounting policy, which calls for separately accounting for all land and personal property asset values. By not extracting the value of land and personal property assets accounted for in the Construction Work-in-Progress account, the potential exists for understating the reported value of these assets and overstating work-in-progress costs.

To extract the land and personal property costs from the accounting system's data base, the Corps' instructions require that certain cost codes be used. We found, however, that the required codes also do not assure that all land and personal property values are reported accurately. For example:

-- According to Corps headquarters officials, cost codes for land and personal property have changed over the years. Costs accumulated under the old codes have not been transferred to the new codes. Also, the footnote instructions do not identify the old codes; therefore, there is no assurance that all land and personal property values are being reported.

-- One of the codes required by the footnote instructions to extract the cost of personal property assets (code 630) could result in operating expenses being included in the reported asset values. This might occur because the Corps' accounting regulation showed this code as also being used to account for costs such as repair parts, maintenance, and miscellaneous materials and supplies related to maintaining personal property.

Corps headquarters officials acknowledged that the footnote instructions were outdated and inaccurate. These officials stated that district accounting personnel should know how to extract the land and personal property values from the accounting system even though they had not been provided specific guidance because they input the information into the system. However, we found that the methods used by the districts to prepare their footnote information resulted in the reporting of inaccurate fixed asset values.

For example, although the value for land was supposed to be a subset of the Plant-in-Service account, one Corps location we visited reported the total balance of its Plant-in-Service account--$482 million--as the value of land. Finance and accounting officials at this location acknowledged this amount was incorrect, but told us that individual values for land, personal property, and structures could not be extracted from the accounting system with any degree of accuracy--they were doubtful that the cost codes required by the footnote instructions would produce the required cost information.

Two Corps locations we visited obtained the cost data for personal property from their logistics management offices. The value reported by these locations included not only personal property meeting the criteria to be capitalized[2] (or recorded) in the accounting system and reported as an asset, but also included property that, under the existing capitalization criteria, would be accounted for as an expense. One of these location's reported value for personal property was based on the total of all civil works property recorded in the property records maintained by the logistics office. This location did not use the accounting system to compile the footnote information for personal property because it did not adhere to DOD's capitalization criteria. The other location's reported value was based on an estimate of what the logistics office thought the value to be, and included not only civil works-owned property but also personal property owned by the Corps' revolving fund. An official at this location told us she was trained to obtain the cost data from logistics rather than using the accounting system-generated information.

Two other Corps locations we visited did not report a value for personal property in their possession. At one location, the official responsible for preparing the footnote stated that she believed the accounting system was not designed to generate a value for personal property. The other location did not report a value because it did not follow the requirement to capitalize civil works personal property, thus there was nothing to extract from the accounting system data base.

In addition, some Corps locations we visited extracted personal property costs not only from the Plant-in-Service account as required by the footnote instructions, but also extracted these costs from the Construction Work-in-Progress account. Corps headquarters, however, used the costs reported for personal property to calculate the value it reported for structures--$27.5 billion--in the 1991 financial statements as if the costs had been derived from only the Plant-in-Service account. To the extent that personal property costs extracted from the Construction Work-in-Progress account were included in the calculation, the potential exists for understating the reported value for structures.

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[2]DOD requires personal property to be capitalized as an asset and reported in financial statements when the property costs $5,000 or more and has a useful life of at least 2 years.

According to Corps headquarters officials, the need for land and personal property footnotes will be eliminated with the implementation of the Corps' new accounting system currently under development, the Corps of Engineers Financial Management System (CEFMS). CEFMS will have separate general ledger accounts for land, personal property, and structures. However, according to the official responsible for the design and implementation of CEFMS, land and personal property specific to a project under construction will continue to be accounted for through the use of codes, as part of the total Construction Work-in-Progress account balance. Land and personal property assets will not be recorded in the separate general ledger accounts until the construction project is completed and project costs are transferred out of the Construction Work-in-Progress account. Currently, full deployment of CEFMS is not expected until the end of fiscal year 1994.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to ensure that the Corps' new accounting system accounts for all civil works land and personal property in separate general ledger accounts, including land and personal property acquired for a project during the construction phase. We also suggest that until the new accounting system is implemented, you direct the Director to revise the footnote instructions to specify, to the extent possible, all cost codes associated with land and personal property assets regardless of the account they are being carried in, and enforce compliance with the instructions. This would enhance the financial reporting of fixed asset values until the new system is implemented and provide more reliable civil works fixed asset values for input to the new accounting system.

NONCURRENT RECEIVABLES NOT UNDER GENERAL LEDGER CONTROL

A basic tenet of accounting is the establishment of accounting control over all receivables. GAO's Policy and Procedures Manual for Guidance of Federal Agencies (Title 2) requires that receivables be recorded in an agency's accounting system. In keeping with these accounting doctrines, DOD's accounting policy requires that noncurrent receivables[3] be recorded in the accounting system so as to provide timely and reliable financial status on debts owed the federal government. However, we found that the Corps did not record noncurrent receivables due from the public in its accounting system.

To report on the value of its noncurrent receivables, the Corps manually developed the total from information contained in contract files. In its fiscal year 1991 financial statements, the Corps reported noncurrent receivables totaling approximately $412 million. However, we found this reported value to be inaccurate. For example, one location we visited understated the value of noncurrent receivables it reported to headquarters for inclusion in the financial statements by approximately $482 million.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to record noncurrent receivables due from the public in the Corps' accounting system.

EDIT ROUTINES NEEDED TO ENSURE DATA ACCURACY

The Corps lacked edit routines to ensure the accuracy of civil works financial data received from field locations and consolidated at the headquarters level for reporting to DFAS and the Department of the Treasury. Generally, account balances for specific classes of accounts will carry a normal or predictable balance. For example, asset accounts will generally carry a positive (or debit) balance. Operating expense accounts also carry a positive balance, but at year-end their balances are closed (the balances transferred) to equity accounts. When expense accounts are closed, their post-closing balances should be zero in order to prepare the accounts for recording the next period's expense transactions.

[3]Army accounting regulation, AR 37-1, defines noncurrent receivables to be those that will not be due for collection within 12 months following the current financial reporting period.

We found that the summarization of general ledger account balance information did not consider abnormal account balances or existing account balances that should have been closed at year-end. For example, we found asset accounts such as "Funds With Treasury" containing abnormal (negative) balances totalling $97 million, and "Accounts Receivable" accounts containing abnormal (negative) balances totalling $10 million. In addition, we found "Operating Expense" accounts with post-closing balances totalling $49 million instead of zero balances that would normally be expected after such accounts are closed at year-end.

Suggested Actions

We suggest you direct the Director, Directorate of Resource Management, to develop edit routines to identify general ledger accounts with abnormal balances and accounts with existing post-closing balances that should be closed at year-end and investigate the causes.

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We would appreciate receiving your comments on these matters and a description of planned corrective actions within 30 days from the date of this letter. We appreciate the cooperation and assistance provided by Corps officials and staff during our audit work. If you have any questions or require assistance in addressing these matters, please contact me or Senior Assistant Director, Terry Carnahan, at (202) 275-7095.

Sincerely yours,

David M. Connor

David M. Connor
Director, Defense Financial Audits

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