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FEBRUARY 14, 2001 MEMORANDUM FOR DISTRIBUTION

DEPARTMENT OF THE NAVY OFFICE OF THE ASSISTANT SECRETARY (FINANCIAL MANAGEMENT AND COMPTROLLER) 1000 NAVY PENTAGON WASHINGTON, D.C. 20350-1000

Subj.: DEPARTMENT OF THE NAVY FINANCIAL AND FEEDER SYSTEMS COMPLIANCE PROCESS - OVERVIEW

Ref: (a) Chief Financial Officers Act of 1990 (b) Federal Financial Management Improvement Act of 1996

Encl.: (1) System Compliance Background Information (2) USD(C) memo of 5 Jan 01

By references (a) and (b), federal agencies are required to implement integrated financial management systems that are substantially compliant with federal financial management requirements (FFMR). Background information on the FFMR is provided in enclosure (1). To ensure that the Department of Defense's Financial and Feeder Systems are compliant with the FFMR, the Under Secretary of Defense (Comptroller) (USD(C)) has initiated a five phase "Y2K"-like systems compliance process, enclosure (2). The five phases of this process are: (1) Awareness, (2) Evaluation, (3) Renovation, (4) Validation, and (5) Compliance. As part of this process, the Office of the Secretary of Defense re-established the Senior Financial Management Oversight Committee (SFMOC) and created a Systems Compliance Working Group (SCWG). The SFMOC and the SCWG will oversee our internal Department of the Navy (DON) progress in making our systems compliant as defined by the FFMR.

While the DON has made great strides toward making our systems compliant, we still need to reassess our performance at each stage of this process to ensure that our efforts are complete and auditable. We plan to examine the exit criteria requirements for each phase of the process and issue supplemental guidance and/or data calls, as needed, as we proceed through the overall implementation of the process. We also plan to coordinate our efforts with the Naval Audit Service and the DON Chief Information Officer to gain full advantage of their expertise.

As a first step, you are requested to provide a point of contact to this office to represent your command on system compliance issues, by 28 February 2001. Your representative will be our primary focal point in gathering system compliance information for all of your systems. Your command, through your representative, will be expected to complete status reports, as required and may be asked to respond to short-fused questions, Finally your command may be requested to participate in DON system compliance meetings.

The FMO point of contact for this matter is Mr. William Aldrich. He can be reached at (202) 685-6731 or e-mail: [Aldrich.William@fmo.navy.mil](mailto:Aldrich.William@fmo.navy.mil)

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## SYSTEM COMPLIANCE BACKGROUND INFORMATION

Over the past decade, the General Accounting Office (GAO), the Inspector General, DoD, and the Naval Inspector General have issued numerous reports that criticized the DON financial management systems and feeder systems for their inability to capture, maintain, control and report reliable, timely, and consistent information. Over the past several years, the DON has mounted a major effort to improve its financial management processes and systems. However, the DON'S financial management deficiencies were more fundamental and entrenched than previously recognized.

A major element within the DoD reform initiatives is the consolidation and standardization of finance and accounting systems. The DoD designated certain existing finance and accounting systems as migratory systems, into which the functions of similar systems (e.g., civilian pay, military pay and travel) would be consolidated. Simultaneously, the DON undertook improvements to its critical financial and accounting systems to make them compliant with generally accepted accounting principles. The objective of these improvement efforts is to make DON financial systems capable of providing accurate, timely, and auditable information to management and decision-makers, including the DoD, other federal agencies and the Congress.

In order for the DON accounting systems to produce accurate and auditable information, many systems--in addition to the accounting systems--need to be enhanced and upgraded. Within the DON, dozens of systems provide financial data to the accounting systems operated by DON commands and Activities and/or the Defense Finance and Accounting Service. Much of the data, which flow through a myriad of feeder systems, are not under adequate general ledger control and do not comply with federal requirements, thereby rendering the resulting financial information unreliable and unauditible.

There have been a number of regulatory and statutory requirements that have impacted the DON financial and feeder systems with specific criteria and requirements for compliancy. The following are synopses of the Federal Financial Management Improvement Act (FFMIA) and the Office of Management and Budget (OMB) guidance that materially impact the DON financial management systems.

FFMIA of 1996. This Act requires each federal agency to implement and maintain financial management systems that comply with applicable accounting requirements and standards. Specifically, agencies' financial management systems are to comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USGSGL).

OMB Guidance. The OMB formulates and coordinates management procedures and program objectives among federal departments and agencies. Relative to financial management operations and systems, the OMB adopts and publishes federal accounting standards that have been recommended by the Federal Accounting Standards Advisory Board the Department of the Treasury, or the GAO. Also, the OMB has issued circulars and bulletins that establish requirements with which federal agencies must comply. Principal among these are Circulars A-127 and A-130, and Bulletin 98-08.

OMB Circular A-127. Prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems, including feeder systems.

OMB Circular A-130. Prescribes policies regarding information resource management.

OMB Bulletin 98-08. Defines the minimum requirements for audits of federal agencies' financial statements.

OMB Circular A-127. Requires that all financial management systems and feeder systems comply with the following 12 factors.

- (1) Agency-wide Financial Information Classification Structure. The system includes an agency-wide financial information classification structure that is consistent with the USGSGL, provides for tracking of specific program expenditures, and covers financial and financially related information.
- (2) Integrated Financial Management Systems. The system provides effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. Integrated Financial Management Systems are required to have the following characteristics:
  - Common Data Elements
  - Common Transaction Processing
  - Consistent Internal Controls
  - Efficient Transaction Entry
- (3) Application of the USGSGL at the Transaction Level. Transactions are processed following the definitions and defined uses of the general ledger accounts and standard general ledger account attributes as described in the USGSGL. Compliance with this standard requires that:
  - Reports displaying financial information that are produced by the system, whether used internally or externally, include financial data that can be traced directly to the USGSGL accounts.
  - The criteria (e.g., timing and processing rules or conditions) for recording financial events in all financial management systems are consistent with accounting transaction definitions and processing rules defined in the USGSGL.
  - Transaction details supporting USGSGL accounts are available in the financial management systems and directly traceable to specific USGSGL account codes.
- (4) Federal Accounting Standards. Requires that accounting data be maintained in such a manner so as to permit reporting in accordance with government-wide accounting standards and reporting requirements issued by the OMB Director or the Secretary of the Treasury.
- (5) Financial Reporting. Financial information shall be available in a timely and useful fashion that:
  - Supports management's fiduciary role.
  - Supports the legal, regulatory and other special management requirements of the agency.
  - Supports budget formulation and execution functions.
  - Supports fiscal management of program delivery and program decision-making.
  - Complies with internal and external reporting requirements.
  - a Monitors the financial management system to ensure the integrity of financial data.
  - Captures and produces financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management and financial statement presentation.
- (6) Budget Reporting. The system enables the preparation, execution and reporting on budgets in accordance with the requirements of OMB Circular A-11, "Preparation and Submission

of Budget Estimates;" OMB Circular A-34, "Instructions on Budget Execution;" and other OMB-issued circulars and bulletins.

- (7) Functional Requirements. The system conforms to the functional requirements defined in the Joint Financial Management Improvement Program (JFMIP) series of publications titled "Federal Financial Management Systems Requirements."
- (8) Computer Security Act Requirements. For those financial management systems that contain "sensitive information" as defined by the "Computer Security Act of 1987," the system incorporates security controls in accordance with that Act and OMB Circular A-130.
- (9) Documentation. Systems are documented clearly in paper or electronic medium in accordance with: (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by the JFMIP, or (b) other applicable requirements.
- (10) Internal Controls. Mechanisms are installed to safeguard against waste, loss, and misuse; and produce reliable reports. These system-related controls form a portion of the management control structure required by OMB Circular A-123.
- (11) Training and User Support. Adequate training and appropriate user support is provided that enables the system users at all levels to understand, operate and maintain the system
- (12) Maintenance. The system operates in an effective and efficient manner. Periodic evaluations determine how effectively and efficiently each financial management system supports the agency's changing business practices with appropriate modifications.