

NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

**APPLYING DEPARTMENT OF DEFENSE FINANCIAL
STATEMENT GUIDELINES TO THE NAVAL
POSTGRADUATE SCHOOL**

by

Robert E. Flannery

December 2002

Thesis Co-Advisors:

O. Douglas Moses
Don Summers

Approved for public release; distribution is unlimited

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE December 2002	3. REPORT TYPE AND DATES COVERED Master's Thesis	
4. TITLE AND SUBTITLE: Applying Department of Defense Financial Statement Guidelines to the Naval Postgraduate School			5. FUNDING NUMBERS	
6. AUTHOR(S) Robert E. Flannery				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A			10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited			12b. DISTRIBUTION CODE	
13. ABSTRACT (maximum 200 words) The federal government has focused on better business practices by implementing legislature, such as the Chief Financial Officer's Act of 1990, which initiated requirements for federal agencies to produce auditable financial statements. This thesis reviews the extent to which the Naval Postgraduate School can apply the guidelines for federal financial accounting to its own financial management capabilities. The financial information system capabilities and limitations are explained, showing how NPS accounts for the financial transactions during its operations and how these transactions are captured by the Department of the Navy's primary accounting system. This thesis also evaluates the capabilities of the Standard Accounting and Reporting System, as it pertains to NPS, and how its reports can be used to create the necessary financial statements described in the financial management regulations for the federal government.				
14. SUBJECT TERMS Chief Financial Officer's Act, Department of Defense, Department of the Navy, Federal Accounting Standards Advisory Board, Financial Reporting, Financial Statements, NPS Financial Information Systems			15. NUMBER OF PAGES 67	
			16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL	

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited

**APPLYING DEPARTMENT OF DEFENSE FINANCIAL STATEMENT
GUIDELINES TO THE NAVAL POSTGRADUATE SCHOOL**

Robert E. Flannery II
Captain, United States Marine Corps
B.S., United States Naval Academy, 1998

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN FINANCIAL MANAGEMENT

from the

**NAVAL POSTGRADUATE SCHOOL
December 2002**

Author: Robert E. Flannery

Approved by: O. Douglas Moses
Thesis Co- Advisor

Don Summers
Thesis Co-Advisor

Douglas A. Brook.
Dean, Graduate School of Business and Public Policy

THIS PAGE INTENTIONALLY LEFT BLANK

ABSTRACT

The federal government has focused on better business practices by implementing legislature, such as the Chief Financial Officer's Act of 1990, to initiate requirements for federal agencies to produce auditable financial statements. This thesis reviews the extent to which the Naval Postgraduate School can apply the guidelines for federal financial accounting to its own financial management capabilities. The financial information system capabilities and limitations are explained, showing how NPS accounts for the financial transactions during its operations and how these transactions are captured by the Department of the Navy's primary accounting system. This thesis also evaluates the capabilities of the Standard Accounting and Reporting System (STARS), as it pertains to NPS, and how its reports can be used to create the necessary financial statements described in the financial management regulations for the federal government.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	BACKGROUND.....	1
B.	SCOPE AND OBJECTIVE.....	2
C.	METHODOLOGY.....	3
D.	ORGANIZATION.....	4
E.	BENEFIT OF STUDY.....	5
II.	HISTORY AND DESIGN OF FEDERAL FINANCIAL REPORTING.....	7
A.	CHIEF FINANCIAL OFFICER'S ACT OF 1990.....	7
B.	GOVERNMENT MANAGEMENT REFORM ACT OF 1994.....	8
C.	FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD.....	9
D.	CHARACTERISTICS OF FEDERAL FINANCIAL REPORTING.....	10
E.	FORM AND OBJECTIVES OF FINANCIAL STATEMENTS.....	13
	1. The Financial Statements in General.....	13
	2. The Balance Sheet.....	14
	<i>a. Assets.....</i>	<i>14</i>
	<i>b. Inventory and Related Property.....</i>	<i>15</i>
	<i>c. Plant, Property, and Equipment (PP&E).....</i>	<i>15</i>
	<i>d. Liabilities.....</i>	<i>16</i>
	<i>e. Net Position.....</i>	<i>17</i>
	3. Statement of Net Cost.....	17
	4. Statement of Changes in Net Position.....	17
	5. Statement of Budgetary Resources.....	18
	6. Statement of Financing.....	18
	7. Statement of Custodial Activity.....	19
F.	SUMMARY.....	19
III.	NPS FINANCIAL ORGANIZATION AND FINANCIAL SYSTEMS.....	25
A.	FLOW OF FUNDS.....	25
B.	ACCOUNTING AT NPS.....	26
C.	FINANCIAL MANAGEMENT SYSTEMS AT NPS.....	28
	1. DORS.....	28
	2. FASTDATA.....	29
	3. PARIS/XP.....	29
	4. ANSERS.....	29
	5. ETAC.....	30
	6. LDCADA.....	30
	7. DCPS.....	30
	8. Gelco Travel Manager.....	31
	9. DPAS.....	31
D.	SUMMARY.....	32
IV.	STARS-FL AND FINANCIAL STATEMENTS AT NPS.....	35

A.	USSGL.....	35
B.	USING STARS TO CREATE THE BALANCE SHEET.....	37
1.	Assets	38
2.	Liabilities.....	38
3.	Equity (Net Position).....	39
C.	USING STARS TO CREATE THE STATEMENT OF NET COST.....	39
1.	Revenue	39
2.	Expenses	39
D.	USING STARS TO CREATE THE STATEMENT OF BUDGETARY RESOURCES	40
E.	STATEMENT OF CHANGES IN NET POSITION	41
F.	STATEMENT OF FINANCING	41
G.	SUMMARY.....	41
V.	SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS.....	45
A.	THESIS SUMMARY	45
B.	CONCLUSIONS.....	47
C.	RECOMMENDATIONS FOR FURTHER RESEARCH.....	49
1.	Statement of Changes in Net Position and Statement of Financing.....	49
2.	Evaluation of Fixed Assets (Land and Buildings).....	49
3.	Quality of the Financial Management Process at NPS.....	50
4.	Cost/Benefit Analysis of Creating Unit Level Financial Statements.....	50
	LIST OF REFERENCES	51
	INITIAL DISTRIBUTION LIST	53

LIST OF FIGURES

Figure 2.1.	Balance Sheet.....	20
Figure 2.2.	Statement of Net Costs.....	21
Figure 2.3.	Statement of Changes in Net Position.....	21
Figure 2.4.	Statement of Budgetary Resources.....	22
Figure 2.5.	Statement of Financing.....	22
Figure 2.6.	Statement of Custodial Activity.....	23
Figure 3.1.	NPS Flow of Funds.....	26
Figure 3.2.	NPS Financial Information Systems.....	33
Figure 4.1.	USSGL Trial Balance Report.....	44

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

Table 2.1. Timeline Summary of Federal Financial Management Initiatives. (From: Brook, p. 8, Burks, p. 15)..... 9

THIS PAGE INTENTIONALLY LEFT BLANK

I. INTRODUCTION

A. BACKGROUND

Prior to 1990, the federal government made several attempts to formalize the practices and procedures of its entities to perform accurate accounting. Until 1990, the most transformational act of legislation was the Budget and Accounting Act of 1921, which created the budget system for the federal government and established the General Accounting Office (GAO). Over the years, there were several public laws passed to improve previous established guidance in order to make federal financial accounting more accurate and useful. However, the most important public law passed was the Chief Financial Officers (CFO) Act of 1990, which established requirements for audited financial statements and improved reporting of federal accounts. The CFO Act was the foundation of modern federal financial management reform. (Brook, p. 9)

The CFO Act pushed the federal government in the direction of private sector business practice. The federal government has an obligation to the people of the United States to manage the taxpayers' money in the most efficient and effective manner. The process of creating formal financial statements and accountability reporting is a tool to ensure proper financial management is taking place. It allows the leadership within the federal agencies to identify weaknesses in financial management practices and make improvements.

The process of creating financial statements helps leadership identify shortfalls in internal controls, documentation procedures, and record maintenance. All of these factors are fundamental to good financial management procedures. The CFO Act requires federal agencies, including the Department of Defense (DoD), to produce auditable financial statements but does not mention sub-entities within those agencies. Each component within the DoD is responsible for preparing financial statements, but it ends at the Department of the Navy (DoN) level. Commands falling under the DoN have little guidance or responsibility to produce financial statements.

With the federal government pushing for better business practices, the DoN has made it one of its primary goals, emphasized by both the Secretary of the Navy (SECNAV) and the Chief of Naval Operations (CNO). The DoN has a responsibility to Congress and the American people to ensure that timely, reliable, and comprehensive financial information is used when making decisions and carrying out its mission. Improvement efforts made by stakeholders to ensure sound financial management is applied in the federal government, such as the CFO Act, are moving the DoN and the government in the right direction. Departments must now consider long-range planning and strengthen accountability reporting to conform to current guidance.

DoD encourages its organizations to prepare stand-alone financial statements and have those statements audited by certified public accountants. While DoD does not require sub-entities at the lower level to create their own financial statements or have them audited, the process of accounting for all financial activity within a given fiscal year may result in very useful information for the sub-entity financial managers.

This thesis looks at the possible implementation of guidelines put forth for the DoD and its components in order to assist the Naval Postgraduate School (NPS), a command within the DoN, determine if and how it can create useful financial statements. Even though the public laws mentioned above were designed for the high level agencies within the federal government, the nature of a sub-entity within that agency is the same. NPS is a non-profit federal entity that operates on appropriations and other sources of funding similar to the DoN. The same benefits reaped by the DoN by going through the financial reporting process can hopefully be reaped by NPS.

B. SCOPE AND OBJECTIVE

Research for this thesis was limited to DoD and DoN financial guidance derived from applicable public laws, such as the CFO Act and Government Management Reform Act. This thesis looks only at developing guidance for Naval Postgraduate School, Monterey, California and applying federal financial reform guidance to NPS. It provides a qualitative analysis of the information available at NPS to determine if NPS can use the DoD guidelines. It also discusses if NPS has the information systems and capability to

access the information it needs to produce financial statements, identifying any shortfalls during this assessment.

This thesis first examines the history of legislative initiatives driving financial management reform in the federal government. It also presents and explains the organization and content of federal financial statements, which differ from private sector financial statements because of the unique nature of the federal government.

The primary objective of this thesis is to answer the following question: Can a set of financial statements for NPS be prepared based on the DoD and DoN financial statement framework?

Secondary objectives of this thesis, which must be met in order to answer the primary question driving this study, are as follows:

- How and where does the money to NPS flow within the DoN?
- What financial information systems exist at NPS?
- Do NPS financial information systems produce the information required to complete financial statements according to DoD guidelines?
- Can any missing information be developed in order to comply with the guidelines?
- Can a prototype NPS financial statement be created?

C. METHODOLOGY

In order to accomplish the objectives of this thesis, the methodology used included literature review of relevant articles about federal financial statement guidelines and DoD and federal financial reporting. This review leads to a summary of requirements for DoD and DoN financial reporting to use as a template in determining what NPS needs in order to compose its financial statements. The template of DoD and DoN requirements is the basis of comparison for NPS in identifying the limits between broad agency reporting and sub-entity reporting.

Research of the NPS financial organization was done to determine how NPS is organized and how it falls in the reporting process within the DoN. Analyzing the school's financial management systems provides the information necessary to determine the shortfalls and adequacies of the systems when comparing them to the requirements

for producing federal financial statements. This research included interviews with the NPS comptroller's office and the individual account management offices to learn about the integration of all those responsible for funds within NPS.

The literature review and NPS research allowed the comparison between the federal financial reporting requirements and guidance and the capabilities of the NPS financial management systems. The heart of this study revolves around the research and analysis of these two areas. From this comparison, conclusions and recommendation are made in order to address the primary and secondary objectives of this study.

D. ORGANIZATION

This thesis is organized into five chapters. Following the background and content description in Chapter I, the legislative initiatives driving federal financial management reform and the content of federal financial statements are described in Chapter II. Chapter II presents the requirements of federal financial statement development as a basis for comparison of what NPS currently has as financial management tools later in the thesis.

Chapter III describes NPS organization. It first describes the flow of funds from congressional appropriations through the DoN chain of command within the operational units ending at the comptroller's office at NPS. It further describes the information systems used by NPS to account for all sources of funds to include budget authority, reimbursables, and non-appropriated funds. Chapter III identifies what currently exists at NPS to assist in the production of financial statements according to federal guidelines.

Chapter IV is the primary analysis of this thesis. It compares the two areas discussed in Chapters III and IV in order to reach the primary and secondary objectives identified in Chapter I. It identifies what NPS has to help in the creation of financial reports and how it needs to transform that data in order to use it. It also identifies what NPS is lacking in its financial management procedures that prevent it from reaching its goal of producing a set of financial statements. Furthermore, Chapter IV identifies the limitations of a sub-entity, such as NPS, pertaining to the creation of financial statements according to the guidelines of the federal government.

Chapter V summarizes the findings of chapter IV and makes recommendations for NPS financial management to assist it in achieving its goal to produce useful financial statements in accordance with federal guidelines. It also gives recommendations on exclusions of certain federal guidelines when working at the sub-entity level. This allows NPS to create useful statements by excluding some requirements by federal guidelines that are irrelevant at the lower level. The cost-benefit analysis of including certain information at lower levels leads to the conclusion that it may not worth the effort to capture that information and still produce useful reports.

E. BENEFIT OF STUDY

The benefit of this study lies in improving mission performance of an operating unit, particularly the Naval Postgraduate School. By applying the directives and initiatives driving DoD towards accurate financial reporting, NPS can benefit from the determination of how compliant it is to DoD guidelines concerning the necessary requirements for developing financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

II. HISTORY AND DESIGN OF FEDERAL FINANCIAL REPORTING

Since the early days of this nation, Congress has looked for ways to improve financial management and accounting regulation. After all, this country operates on resources primarily provided by its citizens. The federal government has a responsibility to ensure the taxpayer's dollars are used in the most effective and efficient manner. It must also be able to provide citizens and other interested parties with timely and accurate accounting reports, summarizing financial activity in a given period. Many initiatives moved the federal government in the right direction, but the complexity of the federal budget demands constant re-evaluation of previous financial management guidance. Today, more than ever, the federal government is focused on better business practices and standards similar to accounting standards in the private sector. This new focus was initiated in 1990 with revolutionary changes in the way the federal government handled financial management and accounting. There are many players and policies surrounding the federal financial management system, but this chapter will focus on the following three important factors: 1) the Chief Financial Officer's (CFO) Act of 1990, 2) the Government Management Reform Act (GMRA) of 1994, and 3) the Federal Accounting Standards Advisory Board (FASAB). Major initiatives in federal financial management reform are summarized in Table 2.1.

A. CHIEF FINANCIAL OFFICER'S ACT OF 1990

The CFO Act of 1990 (Public Law 101-576) was initiated by Congress and signed into law by President Bush on November 15, 1990 to reform the financial management practices of the federal government. It charged the Office of Management and Budget (OMB) with new duties to include the direction of federal financial management and appointment of two new positions within OMB to help in the reformation. A Deputy Director for Management and a Controller were established as well as a new Office of Federal Financial Management.

The CFO Act designated OMB as the responsible agency for steering the federal government in the right direction concerning financial management. The CFO Act

requires OMB to not only focus on today's problems, but to look ahead at potential problems and develop solutions to prevent those problems from occurring. This means the federal government will constantly seek to improve its financial management practices and systems. In order to create useful financial reports, all agencies in the federal government must have accurate and useful financial information. The CFO Act requires all agencies to have accounting and financial management systems that provide them with the necessary information to create relevant, useful, and timely financial reports. The CFO Act also requires that the financial reports be audited. (GAO/AFMD-12.19.4 CFO Act)

The movement towards audited financial statements demonstrates the complexity of the reform that took place with the CFO Act of 1990. Prior to its implementation, federal agencies had no requirement or desire to produce business-like financial statements. The system revolved around appropriations and budgetary planning, which relied on budgetary tracking data rather than systems that could provide them with cost data. (Brook, p. 10) The CFO Act's requirements created a paradigm shift from budgetary accounting to a private sector financial accounting style. With this shift came the need for federal accounting standards and a standards setting process. OMB collaborated with the Secretary of the Treasury and the Comptroller General to create the Federal Accounting Standards Advisory Board (FASAB). The FASAB's contribution to financial management reform is discussed later in the chapter.

B. GOVERNMENT MANAGEMENT REFORM ACT OF 1994

The GMRA (Public Law 103-356) further improved financial management in the federal government by requiring the head of each executive agency to prepare financial management statements. It also required the Secretary of the Treasury, in coordination with the Director of OMB, to prepare an audited financial statement for the entire government, covering all accounts and activities of the federal government. The GMRA directed the Comptroller General of the United States to audit these statements. This set of audited government-wide financial statements is submitted to the Congress and the President. The expansion of the requirement to create audited financial statements to all

24 departments and agencies allowed the government to account for 98 percent of the total federal budget. (Brook, p. 10)

C. FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

In response to the passage of the CFO Act in 1990, the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB). They created the board to develop the accounting standards and principles used to guide the federal government. In the private sector, businesses and corporations are guided by generally accepted accounting principles (GAAP); however in the public sector, the same principles do not apply because of the unique nature of the federal government.

Budget and Accounting Act of 1921	<ul style="list-style-type: none"> • Created budget system for the U.S. • Established Bureau of Budget under the Executive Branch • Created the Government Accounting Office (GAO)
Budget and Procedures Act of 1950	<ul style="list-style-type: none"> • Gave comptroller general responsibility for accounting and auditing standards • Assigned responsibility of financial management and reporting to the executive branch
Reorganization Plan No. 2 of 1970	<ul style="list-style-type: none"> • Reorganized Bureau of Budget and renamed it Office of Management and Budget
Federal Managers Financial Integrity Act of 1982	<ul style="list-style-type: none"> • Amended 1950 Act by directing GAO to set standards • Required annual reports to congress on agency compliance to standards • Improved internal accounting and administrative controls
Chief Financial Officer's Act of 1990	<ul style="list-style-type: none"> • Established a financial management reform framework • Reduced redundancy in agency financial systems • Required submission of audited financial statements for ten federal agencies • Created position for CFO in each federal agency
Federal Accounting Standards Advisory Board 1990	<ul style="list-style-type: none"> • Established organization to develop federal accounting standards as GAAP in the federal government
Government Performance and Results Act of 1993	<ul style="list-style-type: none"> • Mandated that federal agencies measure and publish outputs vs planning objectives • Emphasized focus on performance planning and agency strategy implementation
Government Management Reform Act of 1994	<ul style="list-style-type: none"> • Expanded actions of the CFO Act - mandated all 24 federal agencies create and publish financial statements • Mandated government-wide financial statement audited by comptroller general of the U.S.
Federal Financial Management Improvement Act of 1996	<ul style="list-style-type: none"> • Mandated agency financial systems conform with the Government Standard General Ledger to ensure standardized federal accounting • Established standards for financial management systems to ensure integration

Table 2.1. Timeline Summary of Federal Financial Management Initiatives. (From: Brook, p. 8, Burks, p. 15)

In 1999, the American Institute of Certified Public Accountants (AICPA) recognized FASAB as the organization that is responsible for creating the generally accepted accounting principles used to guide the federal government. The mission of FASAB is to develop the accounting standards necessary to allow the federal agencies to create financial statements useful to congressional oversight groups, executive agencies, and other users of federal financial statements (FASAB Facts, p. 2). The primary responsibilities of FASAB are summarized below:

- Determine the primary users of federal financial statements and their needs
- Develop accounting standards and principles that improve the usefulness of financial reports based on the needs of users and the primary characteristics of understandability, relevance, and reliability
- Provide advice to central financial agencies on implementing the standards
- Improve the common understanding of information contained in financial reports
- Develop standards and principles that take into account expected benefits and perceived costs
- Review the effects of current standards and make amendments or new standards when appropriate
- Use a thoughtful, open, neutral, and fair deliberative process and consider the accountability and decision-making needs of the users
- Develop rules of procedures designed to permit timely, thorough and open study of financial accounting and reporting issues and to encourage broad public participation in all phases of the standards setting process
- Be free from bias and ensure that the information resulted from its proposed standards is a faithful representation of the effects of federal government activities (FASAB Facts, p. 2)

FASAB, while guided by its mission and the responsibilities listed above, use the Statements of Federal Financial Accounting Concepts (SFFAC) and the Statements of Federal Financial Accounting Standards (SFFAS) as GAAP for federal government financial reporting.

D. CHARACTERISTICS OF FEDERAL FINANCIAL REPORTING

Before discussing the format of federal financial statements, it is important to understand the fundamental differences between federal financial management and

private sector business. The overall responsibility of the federal government is to ensure the security of the citizens of the United States in all aspects of social and public policy. The mission of the government is much more complex than a business's mission to make a profit. The resources used by the federal government must be carefully managed because the nation's citizens are the primary stakeholders of the organization. In the federal government, success is not simply measured by profit margins and contribution margins. (Granof, p. 3) The role financial statements play in federal accounting is not so much in the report itself, but in the process to account for the information in the report.

In the private sector, the financial statements are the primary financial documents used to report the results of business activities to permit informed judgment and decision by the users (stockholders, creditors, managers, regulators, etc.). However, financial statements in the federal sector receive little attention once created due to the emphasis on the federal budget. The budget is the primary financial document used by federal agencies and even outsiders to determine the financial status of a particular government entity. People working in the public sector have a huge responsibility to ensure the budget is not over-executed and the people's money is spent effectively. The focus within federal organizations is on a balanced budget rather than a successfully audited financial statement. (Granof, p. 5)

In federal financial reporting, users must realize the uniqueness of the statements produced. The categories of the balance sheet and income statement do not necessarily mean anything in determining the success of an agency. Revenues and expenses do not relate the same way in the federal environment as they do in the private sector. Asset valuation in the federal government is difficult because assets invested in by the government do not necessarily yield tangible revenue or value. (Granof, p. 6)

Balance sheet and income statement account classification in the public sector is often confusing because of the uniqueness of the federal government. What commonly would be called an asset in the private sector, resources that will provide future economic benefit that are owned or controlled by the entity, are not necessarily assets in the federal government. This includes appropriations given to a particular agency to spend in a given year. In the private sector cash is a current asset, providing the agency the means

to operate. In the public sector appropriated funds are intuitively classified as an asset (future economic benefit). However, most federal agencies do not pay for goods and services directly: they create a potential liability (an obligation) that needs to be paid by the Treasury. The sum total of the obligations they create must not exceed their allocated share of appropriations provided to the department (DoN/DoD) by Congress. SFFAS No. 5 defines a liability as “a probable future outflow or other sacrifice of resources as a result of past transactions or events” (par. 19). As a federal organization operates, it creates transactions that result in a future outflow of money from the Treasury. This perspective shows how these transactions are classified as liabilities covered by budgetary resources, rather than an asset, cash. This distinction is important: most federal agencies do not manage cash directly and cash flow does not have the same significance (working capital funds excepted) as it does in private companies.

The federal government uses a two-tracked system of accounting, budgetary and proprietary, to act as a check and balance and provide the users of the statements and the managers of the agencies with the necessary tools for improved financial management. A two-track system is used because of poor cost accounting systems in the federal government. (Wilson, p. 526)

To produce accurate financial reports, agencies must be able to capture all historical costs associated with their operations. In federal agencies, cost is defined as the value of goods and services used or consumed by an agency within a given period, regardless of when they were ordered, received, or paid for. (Wilson, p. 526)

Proprietary accounting measures were designed to provide agency managers with the necessary financial management information. Budgetary accounting measures were designed to provide constituents and agencies with a tool to ensure budgetary resources and authority are properly managed and to facilitate budgetary reporting. FASAB is focused on the improvement and standards of proprietary reporting because of its goal to move federal reporting closer to the private sector standards. However, budgetary accounting will most likely continue because of the requirement to carefully manage budgetary resources and appropriations to ensure overobligations or overexpenditures do not occur. (Wilson, p. 526)

E. FORM AND OBJECTIVES OF FINANCIAL STATEMENTS

Although the characteristics of the inputs to federal financial statements are different from the private sector style, the objectives of producing financial statements are very similar. The four objectives of federal financial reporting are budgetary integrity, operating performance, stewardship, and systems and control. Budgetary integrity allows the government to publicly account for monies raised through taxes and other means and the proper expenditure of appropriations according to the laws and budget for a given fiscal year. Operating performance refers to assisting the users of federal reports to evaluate the costs of providing specific programs and services, the efforts and accomplishments associated with those programs and services, and the efficiency and effectiveness of managing its assets and liabilities. Stewardship refers to the reports assisting users in evaluating government operations' contributions to the well being of this nation. They also allow the users to evaluate future needs and where the government needs to make improvements to sustain adequate public service. Systems and control refer to ensuring the federal financial management systems and internal controls are adequate to deter fraud, waste, and abuse. The focus on systems and control also ensure transactions are done legally and in accordance with federal accounting standards. (SFFAC No. 1) These objectives follow the same characteristics of the Financial Accounting Standard Board's objectives of financial reporting.

1. The Financial Statements in General

OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," outlines the requirements for producing the financial statements of the Executive Branch in accordance with the CFO Act of 1990. (Kenney, p. 29) The content of the financial statement of a reporting entity include the following requirements:

- Overview of the reporting entity
- Principal statements and related notes
- Required supplemental stewardship information
- Required supplemental information

The annual financial statements also need to include any other accompanying information that may provide users with a better understanding of the entity's programs

and performance objectives. The principal statements required by OMB Bulletin 97-01 include:

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

2. The Balance Sheet

The balance sheet presents a snapshot of the amount of future economic benefit held or managed by the reporting entity, amounts owed by the entity, and the difference between these two amounts, which is the net position. The balance sheet shows those assets managed by the entity and available for its use and those assets managed by the entity, but not available for its use. An example of this is the Internal Revenue Service's collection of federal income taxes. This is a source of revenue, but the IRS is not authorized to use those assets. An example of a balance sheet is in Figure 2.1. (Wilson, p. 515)

a. Assets

SSFAS No. 1 breaks assets into the following four categories:

- **Entity Assets.** These are assets that the entity has authority to use in its operations. Entities have the authority to decide how the funds are spent or are obligated to spend the funds in certain areas.
- **Non-Entity Assets.** These are assets managed by an entity, but not available to use by the entity. An example of a non-entity asset is the federal income tax revenue held by the Internal Revenue Service.
- **Intragovernmental Assets.** These are assets created by transactions with other Federal entities.
- **Governmental Assets.** These are assets created by transactions with non-federal entities.

Cash is not often used as an asset category by federal departments and agencies. Most entities do not have the right to maintain a bank account from which to draw cash or write checks. For this reason, the title, "Fund Balance with Treasury" is more applicable to this type of asset. This title indicates that the entity has a claim

against the Treasury from which it may draw to pay liabilities. Most departments and agencies are not allowed to write checks directly, but must request that the Treasury issue checks to their payees. There are a few exceptions, one of which includes the Department of Defense, which employs DFAS in this capacity as an agent of the Treasury. (Granof, p. 518)

b. Inventory and Related Property

Inventory is tangible personal property that is held for sale, whether it be raw materials, work in process, or consumed in the production of goods or services. Operating materials and supplies are tangible personal property consumed in the daily operations. Other related property includes stockpiled material, seized property, forfeited property, and goods held under price support and stabilization programs. Stockpiled materials are materials held due to legal requirements for use in national defense, conservation, or national emergencies. They are not intended to be sold during normal operations. (OMB 97-01) Inventory may be valued at either historical cost or latest acquisition cost. (Wilson, p. 518)

c. Plant, Property, and Equipment (PP&E)

Plant, property, and equipment are classified into four categories. SSFAS no. 6 classifies the accounting of PP&E as follows:

- General PP&E. PP&E used to provide general government goods and services
- Federal Mission PP&E. PP&E including military weapons systems and space exploration equipment or PP&E classified as such by the FASAB
- Heritage Assets. PP&E including federal monuments that possess educational, cultural, or natural characteristics
- Stewardship Land. Land such as national parks or other than that included in general PP&E

Currently, SSFAS no. 6 requires that for categories 2), 3), and 4), acquisition, replacement, construction and improvement will be reported at cost in the period incurred. These assets are not reported on the balance sheet and are not depreciated. However, after a private consultation in December 2000, certain Federal Mission PP&E costs classified as National Defense PP&E were recommended to be capitalized when incurred and expensed in future periods. This recommendation has

begun was implemented in 2001 but will not be complete until 2005. (DoD,KPMG, p. 15) Category 1) assets are capitalized at acquisition cost and are depreciated over their useful lives with the exception of land. (Wilson, p. 518)

d. Liabilities

SSFAS No. 5, “Accounting for Liabilities of the Federal Government” describes liabilities as “a probable future outflow or other sacrifice of resources as a result of a past transaction or event.” Liabilities are classified as either governmental or intragovernmental in the same manner as assets. They are also broken down into two additional categories 1) Liabilities covered by budgetary resources (funded), and 2) Liabilities not covered by budgetary resources (not funded). Liabilities covered by budgetary resources include funding that has been available by appropriations. Liabilities not covered by budgetary resources include those expenses incurred but not yet covered by Congressional appropriations. SSFAS No. 5 outlines the recognition criteria for liabilities created from the following transactions or events:

- Exchange Transactions. Recognize when one party receives goods or services in exchange for a promise to provide money or other resources in the future
- Nonexchange Transactions. Recognize for any unpaid amounts due at end of fiscal period
- Government-Related Events. Recognize when the event occurs if the future outflow of resources is probable and measurable. (Example is damage to private property)
- Government-Acknowledged Events. Recognize when government formally acknowledges responsibility for an event and a nonexchange or exchange transaction has occurred.
- Contingencies. Usually disclosed in notes.
- Capital Leases. Recognized in the amount of the present value of the rental and other minimum lease payments.
- Federal Debt. Recognize when exchange transaction occurs between involved parties. Original issue premiums and discounts are amortized using the effective interest method.
- Pensions, Retirement, and Other Postemployment Benefits. Recognize when employee's services are rendered. Any unfunded portion of the cost should be reported as a liability.

- Insurance and Guarantee Programs. Recognize for unpaid claims incurred as a result of insured events that have already occurred. (Wilson, p. 519)

e. Net Position

Net Position is comparable in structure to the private sector's Shareholder's Equity section of the balance sheet. In the private sector, shareholders equity is the difference between assets and liabilities. So too, in federal accounting, net position is the difference between assets and liabilities. Net position is comprised of two items, 1) Unexpended appropriations, and 2) Cumulative result of operations. Unexpended appropriations include the portion of appropriations represented by undelivered orders and unobligated balances. The unobligated balance can either be available or unavailable for obligation and must be disclosed. Cumulative results of operations include any items that affect net position. It is the difference between expenses/losses and financing sources, which include appropriations, revenues, and gains since the beginning of the activity. It also includes the net investment by the government in the entity, which are fixed assets and additional investment funded through appropriation less reduced investment due to depreciation, sale, transfers, or disposal. (Wilson, p. 520)

3. Statement of Net Cost

The statement of net cost shows how the components of the net cost of the reporting entity operated for the period. Net cost of operations is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. The gross cost is the sum of the full cost of the outputs produced and the non-production costs that can be assigned to the activity. This allows the user to relate information to the outputs and outcomes of the activity. The net cost is the amount for which the entity is responsible and funded by either tax revenue or government financing. An example of a Statement of Net Cost is in Figure 2.2. (Wilson, p. 520, Kenney, p. 31)

4. Statement of Changes in Net Position

The statement of changes in net position shows all changes in the entity's net position. The net cost of operations is given from the statement of net cost, which includes gross cost less any earned revenue. The net cost of operations less nonearned financing gives the net results from operations, which is comparable to net income in the private sector. Any other additions or deductions to prior period adjustments, changes in

cumulative results of operations and appropriations yield the total change in net position. An example of a Statement of Changes in Net Position is in Figure 2.3. (Wilson, p. 521)

5. Statement of Budgetary Resources

The statement of budgetary resources shows the current status of budgetary resources and the status of the resources at the end of the year. Available budgetary resources are equal to the new budget authority plus any unobligated budget authority, including additions or subtractions due to any budgetary adjustments. The status of budgetary resources section shows the budget authority expended or reserved for undelivered orders. It shows the current budget authority left to fund other operations, or unobligated balance available and shows any prior budget authority remaining, or unobligated balance not available. The Outlays section reconciles the obligations incurred with total budgetary outlays for the period and makes adjustments for collections and budgetary changes. Any changes to obligations carried forward from previous years are also accounted for in the Outlays section. An example of a Statement of Budgetary Resources is in Figure 2.4. (Wilson, p. 522)

6. Statement of Financing

The statement of Financing joins the two-track system of federal accounting by reconciling the Statement of Budgetary Resources with the Net Cost of Operations information from the Statement of Net Costs. The first section, Obligations and Nonbudgetary Resources, shows the total budgetary and nonbudgetary resources available to fund current operations. The second section, Resources That Do Not Fund Net Cost of Operations, subtracts items that were reported in the Statement of Budgetary Resources but not included in the Net Cost of Operations. This difference occurs because the Net Cost of Operations is an accrual based reporting procedure and the Statement of Budgetary Resources is not. The third section, Costs That Do Not Require Resources, show the items that would have been included in determining the net cost of operations but did not require funding. The final section, Financing Sources Yet To Be Provided, shows any increases in unfunded liabilities. An example of a Statement of Financing is in Figure 2.5. (Wilson, p. 523)

7. Statement of Custodial Activity

The Statement of Custodial Activity is not required by all agencies. Only those who collect nonexchange revenue for the General Fund of the Treasury, trust fund, or other recipient entities (OMB Bulletin 97-01, p 39) are required to prepare a Statement of Custodial Activity. Agencies such as the Internal Revenue Service or U.S. Customs collect taxes or duties and therefore are required to produce this statement. An example of a Statement of Custodial Activity is in Figure 2.6. (Wilson, p. 525)

F. SUMMARY

This chapter presented the necessary background information for federal financial accounting to familiarize the reader with federal financial accounting history and standards. This background is necessary to understand the limitations of applying these standards to a small unit within a federal agency in addition to the movement towards better business practices in federal agencies.

Chapter III describes the organizational and financial structure of the Naval Postgraduate School (NPS), an organization with the desire to improve financial management by applying federal standards and practices of accounting. This information is necessary to understand the financial responsibilities and resources at NPS.

Balance Sheet			
ASSETS			
Entity			
	Intragovernmental		
	Fund Balance With Treasury	XXX	
	Investments	XXX	
	Accounts Receivable	<u>XXX</u>	
	Total Intragovernmental		XXX
	Investments		XXX
	Accounts Receivable		XXX
	Loans Receivable		XXX
	Inventory and Related Property		XXX
	General PP&E		<u>XXX</u>
	Total Entity		XXX
Non-Entity			
	Intragovernmental		
	Fund Balance With Treasury	XXX	
	Accounts Receivable	<u>XXX</u>	
	Total Intragovernmental		XXX
	Accounts Receivable		XXX
	Taxes Receivable		XXX
	Cash and Other Monetary Assets		<u>XXX</u>
	Total Non-Entity		<u>XXX</u>
TOTAL ASSETS			XXX
LIABILITIES			
	Funded Liabilities		
	Intragovernmental		
	Accounts Payable	XXX	
	Debt	<u>XXX</u>	
	Total Intragovernmental		XXX
	Accounts Payable		XXX
	Loan Guarantees		XXX
	Public Debt		XXX
	Federal Employee and Veterans Benefits		<u>XXX</u>
	Total Funded Liabilities		XXX
	Unfunded Liabilities		
	Intragovernmental		
	Accounts Payable	XXX	
	Debt	<u>XXX</u>	
	Total Intragovernmental		XXX
	Accounts Payable		XXX
	Loan Guarantees		XXX
	Public Debt		XXX
	Federal Employee and Veterans Benefits		<u>XXX</u>
	Total Unfunded Liabilities		<u>XXX</u>
Total Liabilities			XXX
NET POSITION			
	Unexpended Appropriations	XXX	
	Cumulative Results of Operations	<u>XXX</u>	
Total Net Position			<u>XXX</u>
TOTAL LIABILITIES AND NET POSITION			XXX

Figure 2.1. Balance Sheet.

Statement of Net Costs			
COSTS	Sub-Organization A	Sub-Organization B	Total
Crosscutting Programs			
Program A			
Intragovernmental	XXX	XXX	XXX
Public	XXX	XXX	XXX
Net Program Costs	XXX	XXX	XXX
Other Programs			
Program B	XXX	XXX	XXX
Program C	XXX	XXX	XXX
Program D	XXX	XXX	XXX
Program E	XXX	XXX	XXX
Other Programs	XXX	XXX	XXX
Total Other Programs	XXX	XXX	XXX
Costs Not Assigned to Programs	XXX	XXX	XXX
Total Costs	XXX	XXX	XXX
REVENUES			
Intragovernmental	XXX	XXX	XXX
Revenues Not Attributable to Programs	XXX	XXX	XXX
Interest Revenue	XXX	XXX	XXX
Total Revenues	XXX	XXX	XXX
NET COST OF OPERATIONS	XXX	XXX	XXX

Figure 2.2. Statement of Net Costs.

Consolidating Statement of Changes in Net Position			
	Sub-Organization A	Sub-Organization B	Total
Net Cost of Operations	XXX	XXX	XXX
Financing Sources			
Appropriations Used	XXX	XXX	XXX
Taxes	XXX	XXX	XXX
Donations	XXX	XXX	XXX
Imputed Financing	XXX	XXX	XXX
Transfers In	XXX	XXX	XXX
Transfers Out	XXX	XXX	XXX
Net Result of Operations	XXX	XXX	XXX
Prior Period Adjustments	XXX	XXX	XXX
Net Changes in Cumulative Results of Operations	XXX	XXX	XXX
Change in Unexpended Appropriations	XXX	XXX	XXX
Change in Net Position	XXX	XXX	XXX
Net Position - Beginning			XXX
Net Position - Ending			XXX

Figure 2.3. Statement of Changes in Net Position.

Statement of Budgetary Resources			
	Major Budget Account	Major Budget Account	Total
Budgetary Resources			
Budget Authority	XXX	XXX	XXX
Unobligated Balances	XXX	XXX	XXX
Net Transfers	XXX	XXX	XXX
Spending Authority from Offsetting Collections	XXX	XXX	XXX
Adjustments	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Total Budgetary Resources	XXX	XXX	XXX
Status of Budgetary Resources			
Obligations Incurred	XXX	XXX	XXX
Unobligated Balances (available)	XXX	XXX	XXX
Unobligated Balances (unavailable)	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Total Status of Budgetary Resources	XXX	XXX	XXX
Outlays			
Obligations Incurred	XXX	XXX	XXX
(Spending Authority from Offsetting Adj)	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Net Obligations Incurred	XXX	XXX	XXX
Obligated Balance (beginning)	XXX	XXX	XXX
Obligated Balance Transferred	XXX	XXX	XXX
(Obligated Balance (ending))	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Total Outlays	XXX	XXX	XXX

Figure 2.4. Statement of Budgetary Resources.

Statement of Financing		
Obligations and Non-Budgetary Resources		
Obligations Incurred	XXX	
(Spending Authority for Offsetting Adj)	XXX	
Donations not in Budget	XXX	
Financing imputed for Cost Subsidies	XXX	
Transfers Out	XXX	
Exchange Revenue not in Budget	<u>XXX</u>	
Total Obligations and Non-Budgetary Resources		XXX
Resources That Do Not Fund Net Cost of Operations		
Change in amounts of G&S Ordered but not received	XXX	
Cost capitalized on balance sheet	XXX	
Financing sources that fund costs of prior periods	<u>XXX</u>	
Total Resources That Do Not Fund Net Cost of Operations		XXX
Costs That Do Not Require Resources		
Depreciation and Amortization	XXX	
Revaluation of Assets and Liabilities	<u>XXX</u>	
Total Costs That Do Not Require Resources		XXX
Financing Sources Yet To Be Provided		<u>XXX</u>
Net Cost of Operations		XXX

Figure 2.5. Statement of Financing.

Statement of Custodial Activity		
	<u>Year</u>	<u>Year</u>
Revenue Activity		
Sources of Cash Collection		
Individual Income and FICA/SECA Taxes	XXX	XXX
Corporate Income Taxes	XXX	XXX
Excise Taxes	XXX	XXX
Estate and Gift Taxes	XXX	XXX
Federal Unemployment Taxes	XXX	XXX
Customs Duties	XXX	XXX
Miscellaneous	<u>XXX</u>	<u>XXX</u>
Total Cash Collections	XXX	XXX
Accrual Adjustments	<u>XXX</u>	<u>XXX</u>
Total Custodial Revenue	XXX	XXX
Disposition of Collections		
Transferred to Others		
Recipient A	XXX	XXX
Recipient B	XXX	XXX
Recipient C	XXX	XXX
Changes in Amounts Yet to be Transferred	XXX	XXX
Refunds and Other Payments	XXX	XXX
Retained by the Reporting Agency	<u>XXX</u>	<u>XXX</u>
Net Custodial Revenue Activity	0	0

Figure 2.6. Statement of Custodial Activity.

THIS PAGE INTENTIONALLY LEFT BLANK

III. NPS FINANCIAL ORGANIZATION AND FINANCIAL SYSTEMS

A. FLOW OF FUNDS

Like all federal organizations, the Naval Postgraduate School's flow of funds begins at the Congressional level. In federal accounting, there are three levels of fund control. The first level is the department level. The second level is the headquarters level. The third level is the major claimant level. The Chief of Naval Education and Training (CNET) is the major claimant for NPS.

Congress passes 13 appropriation bills, including one for DoD by 1 October every year. Once signed by the president and passed into law, the Treasury issues an appropriation warrant. An appropriation warrant designates the funding amounts authorized for withdrawal from the Treasury accounts. OMB apportions the appropriated funds to the Under Secretary of Defense, Comptroller (USD (C)) who in turn allocates the funds to the components. In the case of NPS, it is ASN, FM&C. The ASN, FM&C further allocates the funds to CNO N82, the responsible office. ASN, FM&C allocates these funds to the major claimant, which in this case is Chief of Naval Education and Training (CNET). At this point, CNET issues an operating budget to NPS. (Hleba, p. 63) Figure 3.1 shows the flow of Direct Funds from passing of the appropriation bill to the individual accounts within NPS.

NPS receives three types of funding – Direct, Foreign Military Training, and Reimbursables. Reimbursables and Foreign Military Training (FMT) are received by NPS through a different process than the appropriated direct funding. Typical reimbursables are received via funding documents forwarded by the agencies and units requesting the services. FMT, through fiscal year 2002, was received as an unfunded reimbursable. Direct funding, appropriated directly for NPS under Budget Activity 3 of DoD appropriations, is classified into three separate accounts.

The first is for base operations support (BOS) and is segregated under subhead 62PB. The second is for mission accomplishment (i.e. teaching and some research) and is classified as subhead 62MB. The third and smallest account is subhead 62TB, which is

funding for public affairs. These categories are also classified for budget tracking purposes into activity groups (AG) and sub-activity groups (SAG). This helps in tracking expenses and transactions by type. Expenses are tracked in further detail by cost accounting codes (CAC), object class codes (OCC), and expense elements (EE). These are specified by higher headquarters and cannot be created or manipulated at NPS's level of financial management.

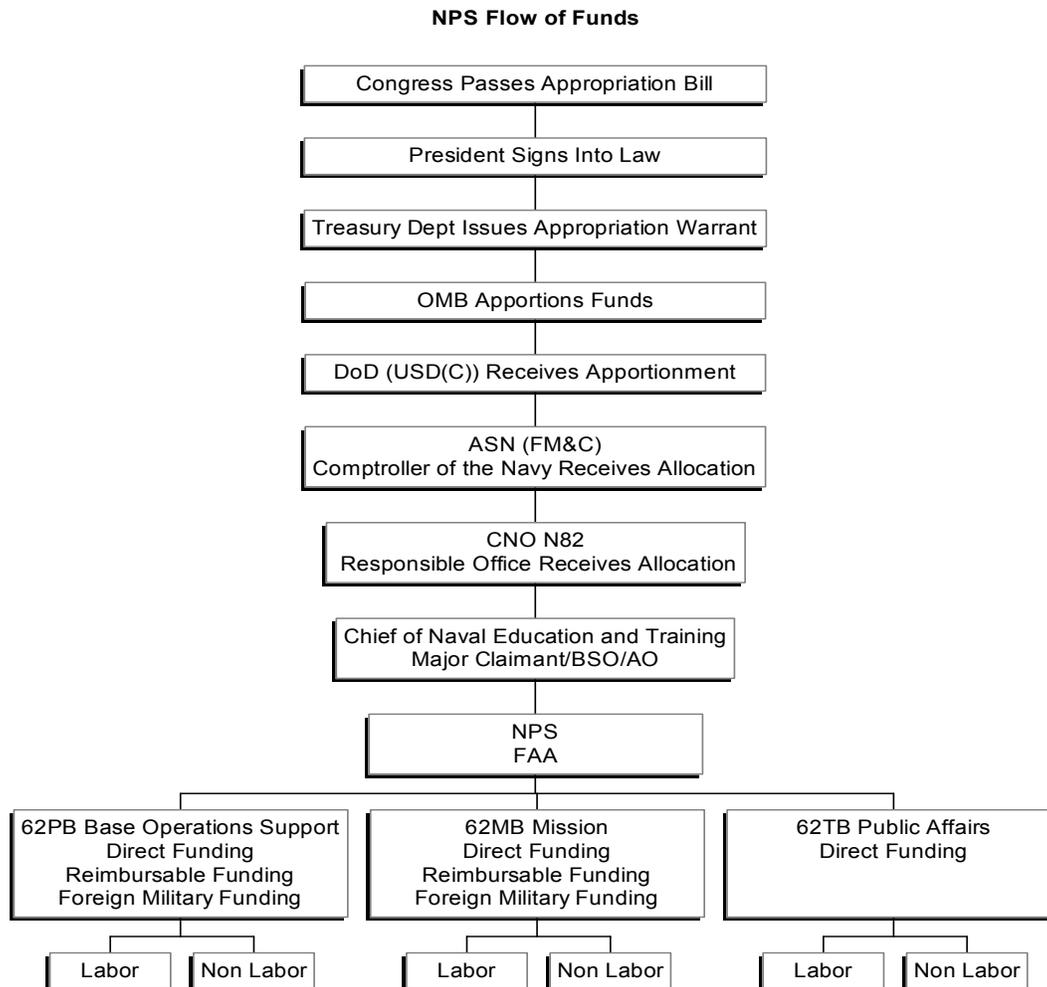


Figure 3.1. NPS Flow of Funds.

B. ACCOUNTING AT NPS

The primary accounting system used in the DoN is the Standard Accounting and Reporting System (STARS). STARS was established to improve the overall

effectiveness of the Navy's financial management through consolidation, standardization, and integration of the financial and accounting procedures, processes, operations, and systems. STARS is classified into four subsystems including the field level subsystem, or STARS-FL. STARS-FL is the primary accounting system for field level units including NPS. It allows units to track, near real time, financial, budgetary, and managerial data. It is also designed with the intention to allow units to produce auditable, accurate, and timely financial statements. (STARS Conference, Slide 3)

The DoN moved towards the STARS system of accounting and reporting in 1991 in order to consolidate reporting processes and decrease costs in DoN financial management. The DoN went from 27 accounting systems in 1991 to one accounting system by 2001, saving over 80 million dollars per year in operating costs. Many recent initiatives in the STARS system have made it more functional for all areas in the DoN. Units can tailor STARS information in order to produce useful and timely reports by assigning different funding classifications within the accounting data. (STARS Conference, Slide 19)

Although DoN has improved the financial reporting and accounting system used within the commands, there are still many shortfalls that prevent units from using the system to track the daily cost of operations and create complete financial reports. Units must often create their own local systems to track costs associated with daily operations and reconcile them with total costs summarized in STARS data.

One of the most significant shortfalls of the STARS system at the unit level is the lack of detail that users can get from STARS reports. STARS produces reports at a very broad level, not allowing NPS users the flexibility to tailor reports that can extract specific expense data. Labor, for example, is an area that STARS fails provide detail by individual employee. STARS classifies all labor into one category, not allowing users to separate part-time labor, General Schedule (GS) labor, and Wage Grade (WG) labor. STARS also fails to combine the general labor expenses with the fringe benefit expenses. Fringe benefit expenses include employer contributions such as social security and Medicare, which may differ by employee and therefore, must be tracked separately.

The primary reason that the STARS is limited in the level of detail covered in its reporting is because of the coding classification system used. OMB determines which object classification codes (OCC) will be used by the system. If labor has a code and units use several sub-classifications within that code, STARS will not separate them. All expenses under one OCC are combined. In order for NPS to produced detailed listings of labor expenses, local reporting systems are used.

C. FINANCIAL MANAGEMENT SYSTEMS AT NPS

The following sections describe the systems used at NPS for accounting and finance, supply purchases for credit card and service contracts, personnel time and expenses, and travel. Each system is described in detail with the general capabilities of the system and its purpose at NPS. The Navy mandates some of the systems described; others are locally established systems to help account for NPS specific financial information. The major systems that are used Navy-wide interface with the DoN accounting system, STARS. Most of the local systems do not interface directly with STARS.

1. DORS

Department Online Reporting System (DORS) is a locally developed system that provides NPS with overall account balances by department and reimbursable account balances by project. DORS receives daily information from the labor and non-labor databases and allows users to view multiple accounts and Job Order Numbers (JONs). DORS is updated with the latest personnel time and expenses for labor, contracts and credit card expenses, and travel expenses broken down by JON. DORS receives information for the non-labor, including travel, from FASTDATA. The FASTDATA administrator collects account information from the other non-labor systems at NPS used to track purchases and travel. DORS collects labor information from ETAC, an NPS developed time and attendance system tailored to support reimbursable research. DORS can show all account information from the different accounts, making account queries more efficient. DORS is important not only for increased efficiency, but also for departmental account knowledge. DORS provides departments and other personnel access to pertinent account information and has limited query capability. FASTDATA and the other systems are described in the following sections. (NPS Data Call, p. 794)

2. FASTDATA

The Fund Administration and Standardization Document Automation (FASTDATA) system captures the transactions from documents entered into the various accounting systems used at NPS. This includes contract and credit card expenses, and travel expenses. FASTDATA interfaces with the following systems: PARIS, ANSERS, Travel Manager, DORS, and STARS. It is updated with information from ETAC for labor expenses. PARIS and ANSERS interface with FASTDATA to provide the accounting information for supply expenses from credit cards and contractual services. The Travel Manager updates FASTDATA with departmental travel expenses. Another critical factor of the FASTDATA system is its capability to interface with STARS, the DoN-wide accounting system. FASTDATA is the gateway where all of NPS financial transactions are recorded and tracked in the DoN official accounting system. (NPS Data Call, p. 792)

3. PARIS/XP

The Purchase and Requisition Information System (PARIS) is a Space and Naval Warfare Systems Command developed system and is used at the department level to record credit card purchases. Credit card purchases are, generally, purchases less than \$2,500.00 in value. Each department has a PARIS account and creates the requisitions, which are uploaded to the FASTDATA system daily. The FASTDATA administrator certifies that funds are available and, once approved STARS is updated with the purchasing related obligations. (NPS Data Call, p. 802)

4. ANSERS

The Automated Non-Standard Requisitioning System (ANSERS) is a Navy-mandated system and is used at the department level, similar to the PARIS credit card expense tracking system, however, it is used to track contracts for services. Each department has an ANSERS account and creates the original contract documentation, which is forwarded to the comptroller for approval via the FASTDATA system. Once approved, FASTDATA is updated and interfaces with STARS to reflect the appropriate accounting action. (NPS Data Call, p. 801)

5. ETAC

The Electronic Time and Attendance Certification (ETAC) system is a computerized time and attendance software program. NPS uses this system to certify attendance, leave, overtime, absence without leave, night differential, holiday work, Sunday pay, and compensatory time worked for all staff, with the exception of public works and military personnel. ETAC is a stand-alone system that interfaces only with DORS. DORS pulls the time and attendance information from ETAC to allow efficient queries of account information by accounting staff. The information from ETAC is used to update the Navy mandated time and attendance system, SLDCADA, which interfaces with other DoN and defense accounting systems for labor, including STARS and the Defense Civilian Pay System (DCPS). (NPS Data Call, p. 795)

6. LDCADA

The Standard Labor Data Collection and Distribution Application (SLDCADA) is a Navy mandated system developed by the Navy Sea Systems Command (NAVSEA) for time and attendance accountability. Accounting personnel must manually input information from ETAC into SLDCADA in order to update the accounts in DCPS and eventually, STARS. SLDCADA tracks civilian, military and contractor labor hours for financial accounting purposes. It also matches the type of hours worked with designated codes for pay purposes. For example, holiday or overtime is calculated differently than normal working hours. SLDCADA allows financial managers to query individual personnel accounts for leave availability, pay adjustments, and other information accessible through the DCPS. SLDCADA does not have a capability to prevent overexpenditure of labor by job order number. ETAC does have this capability. (NPS Data Call, p. 796)

7. DCPS

The Defense Civilian Pay System (DCPS) is the standard DoD civilian pay system. This system maintains pay and leave records, deductions and withholdings, time and attendance records, and other relevant civilian employee personnel information. The information acquired from NPS from the SLDCADA system is used to updated DCPS which interfaces with STARS in tracking civilian pay expenses at NPS. DCPS is

essentially the link between civilian personnel expenses at NPS and the official accounting of those expenses in STARS. (NPS Data Call, p. 798)

8. Gelco Travel Manager

Travel Manager is the software mandated by DoN used to help departments make travel arrangements. Travel Manager creates travel itineraries that are forwarded to the NPS Comptroller's office for fund availability and approval. Once approved, the information is updated in FASTDATA and eventually interfaces with STARS to reflect the change in accounting information. Each department is responsible for the travel account balance maintained in DORS to ensure the budget is not over-executed. DORS is updated with the travel account information from FASTDATA. (NPS Data Call, p. 800)

9. DPAS

NPS captures asset value using the Defense Property Accountability System (DPAS). In 1994, DoD designated DPAS as the standard system for total asset visibility, asset accountability, asset management, and financial reporting of assets. DPAS allows more efficient tracking of assets in a given command through the implementation of the latest bar code and scanning technology. This reduces time needed for inventories and other administrative duties such as preventative maintenance scheduling. (Durborow, p. 17)

DoN outlines the categories for all personal property within the Navy. The primary categories used in the NPS DPAS database are capitalized assets and minor assets. Capitalized assets have a recorded cost, book value, or estimated fair market value greater than or equal to \$100,000.00. Minor assets have a recorded cost greater than \$5,000.00 but less than the capitalized threshold of \$100,000.00. Once assets are entered in the DPAS database, the system provides general ledger control and depreciation schedule reflected in the DPAS reports and the STARS reports by interfacing with the Defense Business Management System (DBMS) and the Defense Finance and Accounting Service (DFAS). (NPS Data Call, p. 797)

D. SUMMARY

NPS uses many information technology systems to capture the financial transactions that occur on a daily basis. The important conclusion to make from this information is that NPS is capable of collecting all the necessary data regarding each financial transaction that is made. This is one of the goals of improved financial management cited by the CFO Act and other legislation. NPS has implemented local systems to foster budget awareness and financial management knowledge. DORS allows the decentralization of budget control with a check and balance in the comptroller's office for final transaction approval. FASTDATA is the organization's link for non-labor to the official accounting system, STARS. ETAC, via SLDCADA captures the labor information and links it to STARS. All systems at NPS demonstrate the capability to provide STARS with timely and accurate financial data. Figure 3.2 shows the flow of information to and from the various systems within NPS and the DoN wide accounting system, STARS.

The capability of the financial systems used at NPS to update STARS with relevant, timely, and accurate financial data is critical to the evaluation of the STARS generated financial reports. In the following chapter, the primary STARS generated reports will be analyzed to determine which financial statements they could create from the accounting data provided.

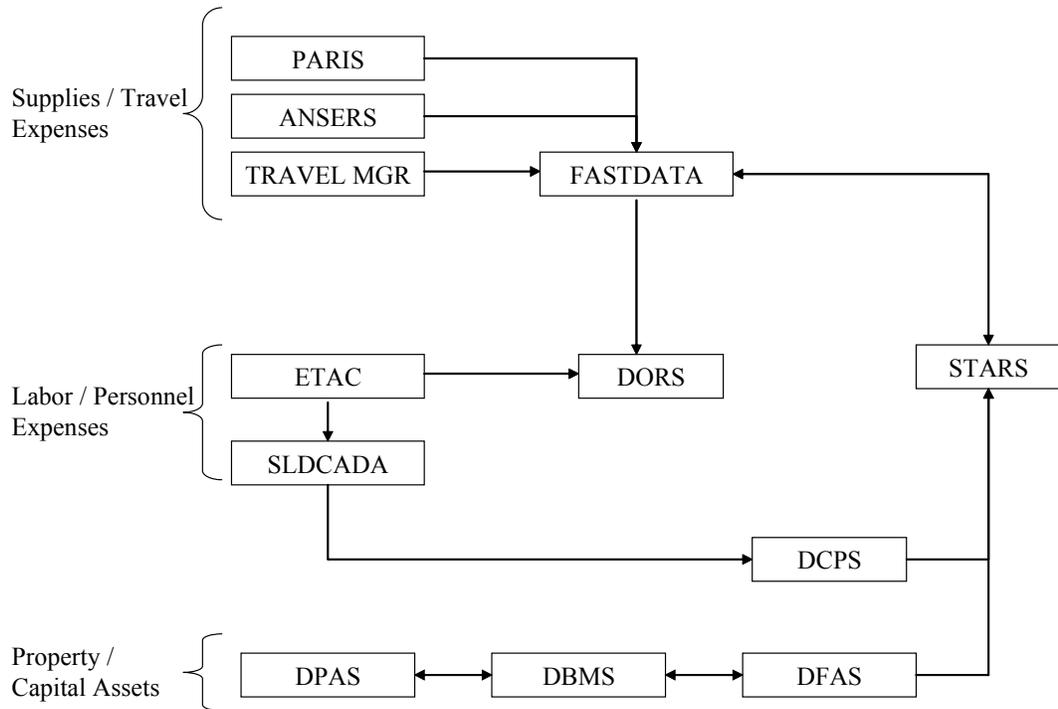


Figure 3.2. NPS Financial Information Systems.

THIS PAGE INTENTIONALLY LEFT BLANK

IV. STARS-FL AND FINANCIAL STATEMENTS AT NPS

A. USSGL

Chapter III described the financial information systems used at NPS and how they interface with the DoN accounting system, STARS. As the information technology used by the DoN and NPS improved over the years, the financial accountability has also improved and become more efficient. Systems used at NPS, both local and Navy-mandated, demonstrate the capability to accurately report transactions to the STARS United States Standard General Ledger (USSGL). In the determination of NPS's capability of developing CFO Act and federal legislative compliant financial statements, it was essential to ensure it has the accounting systems necessary to capture all transactions during an operating year.

The USSGL was the financial management information system mandated by the Federal Financial Management Improvement Act of 1996. The USSGL was designed to manage both budgetary and proprietary accounts. The budgetary accounts track the sources and uses of appropriated funds. The accountability of appropriated funds is the traditional role of budgetary accounting, maintaining a status of budgetary resources. Proprietary accounting refers to the government's ability to track revenues and expenses in operations. The USSGL implementation allowed DoD and DoN organizations the means to comply with the financial improvement legislation discussed earlier in this thesis. The STARS USSGL is not a finished product. Financial management is an ongoing area of improvement and desire to increase efficiencies and accountability. Updates and changes will be made to the USSGL as future requirements are determined. (USSGL Manual, p. 20)

All of the financial transactions, from the issuing of the operating budget to NPS to the departmental credit card charges, are captured in STARS and the USSGL. The most important report that STARS generates for its users regarding departmental reports and CFO reports is the USSGL Trial Balance. This report reflects all of the transactions at NPS and is displayed in a DoD standardized format. This format allows users to create

the pertinent financial reports in accordance with the CFO Act and other legislative initiatives. The USSGL account structure is summarized below:

<u>Account Series</u>	<u>Description</u>
1000	Assets
2000	Liabilities
3000	Equity
4000	Budgetary
5000	Revenue
6000	Expenses
7000	Gains and Losses
8000	Loan Activity
9000	Holding

The account series classification is standardized and can be further segregated into more specific accounts within the series. This allows for detailed listing of each type of account and specifically how the money is spent within an account. The idea behind implementing the USSGL was to allow its users to create useful financial reports tailored to the specific operations of different commands. The statements that NPS is looking to create are not the reports STARS was designed to create; however, the USSGL classifies the financial information in a manner facilitating the creation of certain financial statements.

The accounting series classification separates the types of accounting at the unit. For example, account series 1000 through 3000 and 5000 through 8000 support proprietary accounting. Account series 4000 supports budgetary accounting. The Trial Balance captures all transactions in these accounts and reflects the latest financial status. At the end of the fiscal year, if the financial information has been accurately reconciled and maintained between STARS and the financial systems at NPS, the Trial Balance can reflect the financial information needed to create accurate, relevant, and timely statements.

Of the six financial statements described earlier in this thesis, five apply to NPS. The Statement of Custodial Activity does not apply to NPS because it is not responsible for collecting nonexchange revenue for the U.S. Treasury or other recipient agencies. Of the five statements that NPS can produce, STARS and the USSGL Trial Balance can be used directly to create the following three statements for NPS's three primary accounts: Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources. The Trial Balance's structure facilitates the creation of these three statements.

There are limitations to the Trial Balance's ability to capture all necessary financial information for creating the financial statements. With regards to the Balance Sheet, STARS does not capture the costs and expenses associated with all NPS property, for example, buildings and land. Maintenance expenses are captured as base operations support, but the depreciation associated with NPS buildings and land is not accounted for in the trial balance report. This limits the scope of what STARS can be used to create in terms of financial statements. NPS has the technology and information to create statements summarizing financial activity in a given period with the exception of the value of its buildings and land. If these items are to be included in the reports, more information about their valuation and depreciation needs to be collected. An example of an NPS USSGL Trial Balance Report is in Figure 4.1 at the end of this chapter.

B. USING STARS TO CREATE THE BALANCE SHEET

The design and purpose of the USSGL supports the structure of the federal financial statements described in chapter two of this thesis. As described above, the 1000 series account captures all of the assets held by the command. The Trial Balance at NPS has numerous assets categories including fund balance with treasury, accounts receivable, and equipment. The financial systems described in chapter three feed data into STARS, reflecting account balances in the trial balance report. STARS can run reports including the Trial Balance and the 2171 report, which further break down accounts by individual expense element. Each of the three accounts at NPS, 62MB, 62PB, and 62TB can have individual account trial balance reports created to reflect the major account transactions. Each account has a different level of detail needed to capture expenses and transactions due to the different sizes and account activity. Because the mission account is the largest

at NPS, it will be used as the example in describing how the trial balance contributes to the development of financial statements.

1. Assets

Reviewing the Trial Balance report for the mission account, 62MB, NPS shows assets in the following major categories: Fund Balance with Treasury, Funds Collected, Funds Disbursed, Funds with Treasury, Undistributed Disbursements, Net Receivables (current and noncurrent), Advances and Prepays, and Net Fixed Assets. Some of these assets are categorized in a stand-alone account with no sub-accounts, others have many sub-accounts further classified by a different series code. Net Receivables, for example, is the 1300 series and includes both federal and non-federal receivables.

The capability of NPS to create its own financial statements lies in the capability of the systems responsible for tracking the accounts that feed into the trial balance report in STARS. DPAS, for example, capture the property value and updates capital assets with the appropriate depreciation, which is eventually reflected in Equipment in Use, under Net Fixed Assets. Travel advances are also reflected in the trial balance under Advances and Prepays. Gelco Travel Manager links with FASTDATA and eventually STARS to reflect changes in this account. Assets are summarized in the 1000 classification code, which is the total of all 1000 series accounts mentioned above.

2. Liabilities

Liabilities are summarized in the trial balance report in the 2000 series classification code. In the NPS trial balance, the major liabilities include Accrued Liabilities - Pay and Benefits and Unearned Revenue-Advances. Accrued Pay and Benefits is the estimated salaries and wages of civilian employees and military personnel that has been earned but not paid. It also includes the amount of annual leave, sick leave, and other employee benefits earned but unpaid.

Because the liabilities are primarily estimates of employee wages and benefits, the figures in the trial balance are only as good as the estimating process used at NPS. This is why the ETAC and SLDCADA systems are so important to accurate financial reporting at NPS. ETAC is the local labor expense tracking and reporting system at NPS.

Its data must be accurate in order for financial managers to accurately estimate future labor expenses and benefits to accurately capture the liabilities in the Trial Balance.

3. Equity (Net Position)

Equity is reflected in the 3000 series. As discussed in chapter two, in federal agencies, equity is also known as Net Position. The equity section of the trial balance includes the unexpended appropriations left after subtracting the liabilities from the net assets. The USSGL Trial Balance format lists assets first, liabilities second, and Equity third. When looking at the 62MB trial balance, the equity total equals the total assets less total liabilities. STARS accounts directly for the unexpended appropriations as equity, but does not directly account or classify the cumulative result of operations. Cumulative result of operations, as discussed in chapter two, is the difference between expenses and financing sources (appropriations, gains, revenues). At NPS' level of financial control, the unexpended appropriations section is essentially the cumulative result of operations. The USSGL for NPS does not record gains and losses for NPS, which are reflected in the 7000 series of accounts in the USSGL. (USSGL, p. 32)

C. USING STARS TO CREATE THE STATEMENT OF NET COST

1. Revenue

The USSGL Trial Balance also makes it very easy to create the Statement of Net Cost. Revenue is captured under the 5000 classification series. Revenue includes the financing sources and inflow of resources to NPS. Receipt of appropriations, transfers, and imputed financing are recorded in the 5000 series accounts. The 5700 series is the financing source that matches expenses funded by appropriations. Another financing source at NPS for the 62MB account include the Foreign Military Student (FMS) Trust Fund, which is reflected in the 5900 series.

2. Expenses

Expenses are the outflow or utilization of assets or incurrence of liabilities during a period of providing goods or services related to the department's mission. (USSGL Manual, p. 31) At NPS, these are the outflow of assets and incurrence of liabilities in providing education and training to the DoD and foreign personnel assigned to NPS. Expenses at NPS are listed below:

Operating and Program Expenses
Personnel Compensation - Civilian
Personnel Benefits - Civilian
Former Personnel - Benefits
Travel / Transportation of People
Transportation of Things
Rent, Communications, Utilities
Printing and Reproduction
Supplies and Materials
Equipment (Not Capitalized)
Annual Leave
Other Expenses

Each of these expenses are assigned a classification code and the financial information displayed in the trial balance gets to STARS through the systems used at NPS. This again demonstrates the importance of the systems including ANSERS, PARIS, Travel Manager, ETAC, and FASTDATA in getting information to STARS quickly and accurately.

D. USING STARS TO CREATE THE STATEMENT OF BUDGETARY RESOURCES

The 4000 series in the Trial Balance captures all the financial information regarding budgetary resources. The balancing equation used in the Trial Balance includes the Allotment or Authorization Received on one side of the equation and the following accounts on the other side: Available Operating Budget Balance, Commitments, Undelivered Orders, and Expended Authority. Each of these accounts falls under a different accounting code under the 4000 series. The 4580 series captures the allotments or authorizations received and the 4600 through 4900 series capture the outflow of those authorizations as they move through the accounting cycle.

Under Budgetary Resources, the 4200 series captures reimbursable financial information. The reimbursable section is broken into two sections: Reimbursable and Other Income Collected and Reimbursable and Other Income Receivable.

E. STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position is comprised of changes in net position due to net cost and any earned revenue. For NPS, earned revenue is not captured in the USSGL Trial Balance. Essentially, any change in net position is due to changes in revenue and expenses, which comprise the net cost. At NPS, the balancing equation is that revenues equal expenses, therefore, the trial balance reflects a net cost of zero. At NPS' level, in order to create this statement, changes in reimbursables or foreign military funding could be classified as earned revenue and reflected as a change in net position.

F. STATEMENT OF FINANCING

The information necessary to create a Statement of Financing is available in the USSGL Trial Balance report. The intent of the Trial Balance is to join the proprietary and budgetary accounting in one report to capture all aspects of financial information in accordance with the CFO Act. The intent of the Statement of Financing is to reconcile the Statement of Budgetary Resources (budgetary) with the Statement of Net Cost (proprietary). All of the information necessary to create this report should be available. As discussed earlier, revenues and expenses are captured in a certain accounting series, as well as budgetary resources. The difficulty lies in separating the accounts within these series into the proper section of the Statement of Financing. A STARS technician familiar with the accounting classifications needs to determine and separate the resources into budgetary and non-budgetary. The technician also needs to determine which items are captured in the budgetary section of the USSGL, but not captured in the Net Cost section (revenues and expenses).

G. SUMMARY

This chapter described the current capabilities of NPS to create its own financial reports given the DoN accounting system, STARS. The format of the USSGL Trial balance classifies all financial transactions at NPS in accordance with the CFO Act. This allows the financial information to be easily transferred from STARS into the necessary format of a balance sheet, Statement of Budgetary Resources, and Statement of Net Cost.

In order to develop a Statement of Changes in Net Position and Statement of Financing, the USSGL Trial Balance needs to be further explored.

USER ID: KOP1230 STARS/FL 10/21/2002 LXR0752
 10/21/2002 10:06:23 USSGL TRIAL BALANCE REPORT PAGE: 1

APPN: 031804 SBHD: 62MB OB/BCN: 62271 SX: 0 MTH+1: Y

USGLA	TITLE	BRT PWD	CHANGES	NEW BALANCE
1010.0000	FUND BAL W/ TREASURY	693332.20	.00	693332.20
1010.0200	FUNDS DISBURSED	1182667.80-	.00	1182667.80-
1010.0300	FUNDS WITH TREASURY	1876000.00	.00	1876000.00 <
1300.0000	RECEIVABLES, NET	214020.47	.00	214020.47
1310.0000	ACCOUNTS RECEIVABLE	214020.47	.00	214020.47
1310.0200	A/R-GOVT-NONCUR	203699.35	.00	203699.35
1310.0210	A/R-GOVT-NONCUR-AUTO	203699.35	.00	203699.35
1310.0211	INTRAFUND	5458.71	.00	5458.71
1310.0212	OTHER DEFENSE	147224.09	.00	147224.09
1310.0213	FMS TRUST FUND	2759.79	.00	2759.79
1310.0216	OTHER NON-DEFENSE	48256.76	.00	48256.76
1310.0300	A/R-PUB-CUR	154.62	.00	154.62
1310.0320	A/R-PUB-CUR-OTA	154.62	.00	154.62
1310.0323	CIV-PREPAID FBHE	154.62	.00	154.62
1310.0400	A/R-PUB-NONCUR	10166.50	.00	10166.50
1310.0410	A/R-PUB-NONCUR-AUTO	10166.50	.00	10166.50
1310.0412	NON-FEDERAL SOURCES	10166.50	.00	10166.50
1000.0000	TOTAL ASSETS	907352.67	.00	907352.67
2200.0000	ACCRD LIAB-PAY&BEN	34570.24-	.00	34570.24-
2210.0000	ACCRD FUNDED PAY&BEN	34570.24-	.00	34570.24-
2210.0300	ACCRD PAY-CIV-FRNG	34570.24-	.00	34570.24-
2300.0000	UNEARNED REV-ADVS >	28892.05 <	.00 >	28892.05 <
2310.0000	ADVANCES FROM OTHERS >	28892.05 <	.00 >	28892.05 <
2310.0200	U/R-ADV FROM PUB >	28892.05 <	.00 >	28892.05 <
2000.0000	TOTAL LIABILITIES	5678.19-	.00	5678.19-
3100.0000	UNEXPENDED APPNS	901519.86-	.00	901519.86-
3000.0000	TOTAL EQUITY	901519.86-	.00	901519.86-
4220.0000	UNF CUST ORDS-UNOBL	3137343.84	.00	3137343.84
4221.0000	UCO W/O ADV	3166235.89	.00	3166235.89
4221.0100	UNF C ORDS-W/O ADV-A	3166235.89	.00	3166235.89
4221.0110	INTRAFUND	699878.29	.00	699878.29
4221.0120	OTHER DEFENSE	2467037.76	.00	2467037.76
4221.0130	FMS TRUST FUND >	2759.79-<	.00 >	2759.79-<
4221.0140	NON-FEDERAL SOURCES	50336.39	.00	50336.39
4221.0170	OTHER NON-DEFENSE >	48256.76-<	.00 >	48256.76-<
4222.0000	UNF CUST ORDS ADV >	28892.05-<	.00 >	28892.05-<
4222.0100	UNF C ORDS-W/ ADV-A >	28892.05-<	.00 >	28892.05-<
4222.0140	NON-FEDERAL SOURCES >	28892.05-<	.00 >	28892.05-<
4250.0000	RMBS&OTHER INC EARND	242757.90	.00	242757.90
4251.0000	RMB/OTH INC EARN-REC	213865.85	.00	213865.85
4251.0100	RMB/OTH INC EARN-REC	213865.85	.00	213865.85
4251.0110	INTRAFUND	5458.71	.00	5458.71
4251.0120	OTHER DEFENSE	147224.09	.00	147224.09
4251.0130	FMS TRUST FUND	2759.79	.00	2759.79
4251.0140	NON-FEDERAL SOURCES	10166.50	.00	10166.50
4251.0170	OTHER NON-DEFENSE	48256.76	.00	48256.76
4252.0000	RMBS&O INC EARN-COLL	28892.05	.00	28892.05

USER ID: K0P1230
10/21/2002 10:06:23

STARS/FL 10/21/2002
USSGL TRIAL BALANCE REPORT

LXR07S2
PAGE: 2

APPN: 031804 SBHD: 62MB OB/BCN: 62271 SX: 0 MTH+1: Y

USGLA	TITLE	BRT FWD	CHANGES	NEW BALANCE
4252.0100	RMB/OTH INC BARN-COL	28892.05	.00	28892.05
4252.0140	NON-FEDERAL SOURCES	28892.05	.00	28892.05
4580.0000	ALLOTMENTS RECEIVED	1876000.00	.00	1876000.00
4580.0010	ALLTS RCVD-NONMRP	1876000.00	.00	1876000.00
4610.0000	ALLOTMENTS-RESOURCES	3838776.70	.00	3838776.70
4610.0100	UNCOM/UNOBL ALLT-DIR	860433.44	.00	860433.44
4610.0400	UNCOM/UNOBL ALLT-RMB	2978343.26	.00	2978343.26
4800.0000	UNDELIVERED ORDERS	200087.00	.00	200087.00
4801.0000	UNDELIVRD ORDRS-UNPD	200087.00	.00	200087.00
4801.0100	UNDEL ORD-UNPD-DIR	41086.42	.00	41086.42
4801.0110	U/O UNPD-DIR-NON MFR	41086.42	.00	41086.42
4801.0200	UNDEL ORD-UNPD-REIM	159000.58	.00	159000.58
4801.0220	OTHER DEFENSE	159000.58	.00	159000.58
4900.0000	EXPENDED AUTHORITY	1217238.04	.00	1217238.04
4901.0000	EXPD AUTH-UNPAID	34570.24	.00	34570.24
4901.0100	EXPEND AUTH-UNPD-DIR	34570.24	.00	34570.24
4901.0110	EXP AUTH-UNPD-DR-DST	34570.24	.00	34570.24
4902.0000	EXPD AUTH-PAID	1182667.80	.00	1182667.80
4902.0100	EXP AUTH-PD-DIR	939909.90	.00	939909.90
4902.0110	EXP AUTH-PD-DIR	939909.90	.00	939909.90
4902.0200	EXP AUTH-PD-REIM	242757.90	.00	242757.90
4902.0210	EXP AUTH-PD-REIM	242757.90	.00	242757.90
4000.0000	TOTAL BUDGETARY	.00	.00	.00
5700.0000	APPRO CAPITAL USED	974480.14	.00	974480.14
5900.0000	OTHER REVENUE	242757.90	.00	242757.90
5900.0100	MISC REIMBURSEMENTS	242757.90	.00	242757.90
5900.0110	MISC REIMS-AUTO	242757.90	.00	242757.90
5900.0111	INTRAFUND	5458.71	.00	5458.71
5900.0112	OTHER DEFENSE	147224.09	.00	147224.09
5900.0113	FMS TRUST FUND	2759.79	.00	2759.79
5900.0114	NON-FEDERAL SOURCES	39058.55	.00	39058.55
5900.0117	OTHER NON-DEFENSE	48256.76	.00	48256.76
5000.0000	TOTAL REVENUE	1217238.04	.00	1217238.04
6100.0000	OPER/PROG EXPENSES	1217238.04	.00	1217238.04
6100.0110	PERS COMP-CIVILIAN	919006.28	.00	919006.28
6100.0111	UNDISTRIBUTED	155010.28	.00	155010.28
6100.0112	DISTRIBUTED	763996.00	.00	763996.00
6100.0130	PERS BENEFITS-CIV	200552.69	.00	200552.69
6100.0150	BENEFITS FORMER PERS	961.52	.00	961.52
6100.0300	ANNUAL LEAVE	96717.55	.00	96717.55
6700.0000	EXP NOT REQ BDGT RES>	154.62-<	.00 >	154.62-<
6790.0000	OTHER EXP NOT REQ BR>	154.62-<	.00 >	154.62-<
6000.0000	TOTAL EXPENSES	1217083.42	.00	1217083.42
	GRAND TOTAL	.00	.00	.00

USER ID: KOF1230 STARS/FL 10/21/2002 LXR07S2
 10/21/2002 10:06:23 USSGL TRIAL BALANCE REPORT PAGE: 3

APPN: 031804 SBHE: 62MB OB/BCN: 62271 SX: 0 MTH+1: Y

USGLA	TITLE	BRT FWD	CHANGES	NEW BALANCE
SUPPLEMENTAL MANAGEMENT INFORMATION				
9221.0512	FRINGE BENEFITS PAYA	34570.24	.00	34570.24
9458.0110	AUTO RWO-INTRA APPN	705337.00	.00	705337.00
9458.0120	AUTO RWO-OTHER GOV	2614261.85	.00	2614261.85
9458.0140	AUTO RWO-NON FED	60502.89	.00	60502.89
9481.0971	GAO TRAVEL DIR	41086.42	.00	41086.42
9481.0998	GAO OBLIG AUTH DIR	1015566.56	.00	1015566.56
9482.0972	GAO TRAVEL REIM	2544.58	.00	2544.58
9482.0999	GAO, AUTO-REMPGM	401758.48	.00	401758.48
	TOTAL STATISTICAL	4875628.02	.00	4875628.02

*** END OF REPORT ***

Figure 4.1. USSGL Trial Balance Report.

V. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

A. THESIS SUMMARY

This thesis examined the possibility of NPS creating financial statements based upon the guidelines set forth by the DoD and DoN on federal financial reporting standards. Both the Secretary of the Navy and the Chief of Naval Operations have emphasized improved financial management and better business practices in order to more accurately account for how the taxpayers' money is spent. This allows stakeholders to review how funds are used within the Navy and give them confidence that the Navy can account for the money spent in a given period. The desire of NPS to create its own financial statements reinforces the practice of better accounting, ensuring it has the means to effectively track the inflow and outflow of the operating funds it receives on a yearly basis.

Chapter II introduced the legislative measures taken to improve financial management federal agencies. Congress represents the American people and in order to ensure tax dollars are effectively used, measures were taken to ensure federal agencies were accountable for the resources they used during operations. Three legislative initiatives were classified as having the most impact on the federal government and improved financial management.

The first and most transformational initiative was the Chief Financial Officer's Act of 1990. The CFO Act set the framework for all financial management improvement steps taken after 1990. Major contributions of the CFO Act were the requirements of federal agencies to submit financial statements and the assignment of chief financial officers to ten departments within the federal government. The Government Management Reform Act took the initiatives of the CFO Act further by requiring the federal government to publicize a government-wide audited financial statement, capturing all accounts and activities of the federal government. It also extended the requirements of producing financial statements to all 24 agencies within the federal government. The Federal Accounting Standards Advisory Board was established to bring

the federal government more in line with private sector accounting standards. FASAB was created to set the guidelines and standards for accounting in the federal sector.

Chapter III summarized the flow of funds at NPS and introduced the financial management systems used at the Naval Postgraduate School to track all financial transactions. It is important to understand where and how the resources flow to NPS in supporting its mission. NPS receives three types of funding - Direct, Reimbursable, and Foreign Military Training. It uses these funds to support the three major areas of daily operations, which include primary mission, base operations, and public affairs.

In order to determine if NPS is capable of creating accurate, relevant, and timely financial statements, the systems used to account for the financial information had to be studied. NPS uses ten financial management systems to capture the transactions for labor and personnel expenses, supply and travel expenses, and property and capital assets. Nine of these systems are essentially feeder systems that update the Navy's standard accounting system, STARS.

The descriptions of the systems in chapter three show that they are capable of updating STARS with the information reflecting operations at NPS. In the spirit of financial management reform in the federal government, the processes at NPS involve all departments in accounting for funds and budgetary expenses. The Department On-Line Reporting System gives each department a way to track their portion of NPS's budget ensuring transaction accuracy and decreasing the chance of over-execution. NPS is constantly upgrading the systems to improve accuracy, and as technological advances allow the processes to become more efficient, changes are implemented. Because STARS is the official accounting system used by the Navy, NPS financial managers must reconcile STARS reports with the information in FASTDATA and the other systems to ensure errors are fixed and accounts reflect the most updated and accurate figures.

Once it was determined that NPS has the systems capable of feeding accurate and timely financial information to STARS, the capabilities of STARS was analyzed in chapter four. Recent changes and updates to STARS allow it to more adequately support the financial improvement guidance set forth in the CFO Act. The transition from the old

general ledger system to the new USSGL allows financial information to be presented in a manner compliant with the legislative guidance. The format of the USSGL Trial Balance Report easily supports the creation of the desired financial reports. The information in the Trial Balance is both proprietary and budgetary to comply with the intent of the CFO Act. It allows a user to capture assets, liabilities, and equity as well as the status of budgetary resources.

Three of the five financial statements can directly be produced from the USSGL Trial Balance. The Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources can be created by using the classification series of the Trial Balance and separating the accounts into their respective categories.

B. CONCLUSIONS

This thesis conclusions apply to the primary and secondary questions posed in chapter one. The primary goal of this thesis was to determine if NPS could produce a set of financial statements in accordance with DoD and DoN guidelines. From a capability perspective, NPS does have the technology and systems to capture the financial information and present it in the form of financial statements. The Department of the Navy has made numerous updates to its primary accounting system, STARS. This system is responsible for allowing NPS to make a relatively easy transition to the financial reports. STARS does not create the Balance Sheet or Statement of Net Cost directly, but as described in chapter four, the information needed to create these reports is captured in the Trial Balance. The Trial Balance classifies the financial information into the necessary categories to separate the transactions into assets, liabilities, equity, budgetary resources, revenues, and expenses.

Another part of the primary question of this thesis is if the reports created are in compliance with the CFO Act and other legislative initiative designed to improve financial management. Once NPS uses the information from the trial balance to create the financial statements, those statements would be in compliance with CFO Act standards and guidance. Summarizing the purpose of STARS and the recent changes to the system in Chapter IV, STARS was designed to bring DoN up to the standards of the CFO Act and other federal guidance. Because all systems Navy-wide feed into STARS,

DoN has the responsibility for ensuring it can capture all transactions in the most efficient and accurate manner.

As a user of the system, NPS must rely on STARS as the official accounting system. With all of its systems accurately and timely feeding information into STARS, the reports in STARS should adequately reflect those transactions and accounting status.

STARS is still undergoing development. In the spirit of continued process improvement, STARS will probably never be completely finished. There will always be improvements that can be made to make the system more accurately and timely in capturing the financial status of its users. This means that NPS can only move as fast as the Department of the Navy in financial management improvement on a macro level. Internally, NPS can ensure that its systems are providing STARS with the latest financial information and data is transferred accurately and quickly. Externally, however, higher headquarters rely on STARS to determine financial status.

The format of the USSGL Trial Balance gives NPS a tremendous head start on creating its own financial statements. However, one material limitation in creating accurate financial statements is in the area of long term assets. (The limitations of NPS with regards to capturing all aspects of financial information in an annual report or financial report include long term assets, such as property and buildings, however, NPS does have latitude to create statements that do not include such information.) There is not a requirement for NPS to create the financial reports, so it does have the freedom to display whatever information it wants or feels is necessary for the users of the financial information to make informed judgments and decisions.

However, if NPS wants to capture all financial information to include in an annual report, more research will have to be done to incorporate missing financial information, such as long- term assets. Furthermore, classification of USSGL information into OMB directed financial statement style, including the Statement of Changes in Net Position and Statement of Financing, must be done by those most familiar with the STARS system and the inputs into the trial balance report.

C. RECOMMENDATIONS FOR FURTHER RESEARCH

Improving financial reporting is a continuous process. Constant improvement must be made in order to achieve the goal of accurate reporting in the federal government. This thesis provided a very broad overview of the accounting process at NPS and how NPS can use the resources it has to create the financial statements it desires. Areas not discussed in this thesis but are recommended areas of further research include:

- Creating a Statement of Changes in Net Position and Statement of Financing
- Evaluation of Fixed Assets to include the historical acquisition cost of land and buildings and the applicable depreciation
- Quality of the financial management process at NPS
- Cost/Benefit Analysis of creating financial statements at the field unit level

1. Statement of Changes in Net Position and Statement of Financing

At NPS's level, STARS does not make it as easy in developing the Statement of Changes in Net Position and Statement of Financing. In order to develop these two financial statements further research would have to be done. The Trial Balance does what the Statement of Financing is intended to do, although it is not in the format of an actual statement. The Statement of Financing reconciles the budgetary and proprietary accounts into one statement. The Trial Balance reconciles all accounts and captures all transactions as the flow through the accounting cycle. Developing these statements would require learning more about the Trial Balance classifications and the STARS accounting cycle.

2. Evaluation of Fixed Assets (Land and Buildings)

Because NPS is a sub-entity of DoN, STARS does not capture the value of fixed assets such as land and buildings in its calculation of assets. NPS is not a component in itself under DoD, and therefore does not need to capture the value of land and buildings. However, if NPS was inclined to include these categories in its balance sheet as part of an annual report, it would need to determine the value of its buildings and land. A depreciation method would also have to be researched and applied.

3. Quality of the Financial Management Process at NPS

The scope of this thesis was limited to determining if NPS could produce financial statements, not necessarily the quality of the financial statements. In order to determine how accurate and useful the financial statements would be, the author would have to take a much closer look at the input processes to the various financial management information systems used at NPS. Many of the systems are automatically interfaced with other systems, but some still rely on manual input from one system to another and manual input of transactions.

A study of the process could ensure expense element codes and object classification codes are properly utilized. Detailed reports can be created summarizing individual account transactions, but problems do occur in STARS by lumping like transactions into one category. This pertains to the labor issue and is one of the reasons why NPS must maintain a local labor system like ETAC. Many units fail to fully utilize a system like STARS due to lack of training or knowledge about the capabilities of the system.

4. Cost/Benefit Analysis of Creating Unit Level Financial Statements

The first question asked by the author prior to beginning this thesis was “What would be the realistic benefit of producing financial statements at the user level?” This question could be the basis for a thesis on its own. At the user level, such as NPS, the primary concern of the financial manager is ensuring the budget is effectively executed, but not over-executed. Reports are designed to show account balances and account expense summaries in order to determine budget demands and trends. This allows units to justify possible cuts or areas where it needs more funding. If NPS developed an annual statement, would readers of those statements be concerned with Balance Sheet and Statement of Changes in Net Position or would they be more concerned with departmental expenses and total budget execution summaries for the fiscal year?

The cost/benefit analysis of determining if the process of creating these financial reports would be worth the time and effort of the comptroller's office may be necessary before actually creating the financial statements.

LIST OF REFERENCES

Belchoff, Boris S., *Analysis of Change in Federal Financial Ratios*, Master's Thesis, Naval Postgraduate School, Monterey, California, June 2001.

Benko, George, "STARS," STARS-FL Major Command Conference, Microsoft Power Point Presentation, February, 2002.

Brook, Douglas A., *Audited Financial Statements: Getting and Sustaining "Clean" Opinions*, July 2001.

Burks, Michael S., *The Price and Progress of Compliance With Federal Financial Management Reporting Requirements in Department of the Navy Property, Plant, and Equipment Nonfinancial Feeder Systems*, Master's Thesis, Naval Postgraduate School, Monterey, California, December 2000.

Department of Defense, "Form and Content of the Department of Defense Audited Financial Statements," Financial Management Regulation Volume 6B, October 2000 with changes through January 2002.

Department of Defense, "Report on the Evaluation of National Defense PP&E Reporting Approaches," KPMG LLP, Washington D.C., December 8, 2000.

Department of Defense, "STARS-FL USSGL Implementation Support Manual," Summer/Fall 2002.

Department of the Navy, *Annual Financial Report, Fiscal Year 2000*, February 2001.

Durborow, Susan, "Navy Personal Property Management: DPAS...Focusing on Quality Service For Our Customers," *The Navy Supply Corps Newsletter*, pp. 17-19, September/October 2002.

Executive Office of the President, Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996.

Federal Accounting Standards Advisory Board, "FASAB Facts 2002," pp. 1-7, 2002.

Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards No. 1, "Objectives of Federal Financial Reporting," October 2001.

Government Accounting Office, "The Chief Financial Officers Act: A Mandate for Federal Financial Reform," GAO/AFMD - 12.19.4, September 1991.

Granof, Michael H., *Government and Not-For-Profit Accounting*, (John Wiley & Sons, Inc., New York), 1998.

Hleba, Ted, *Practical Financial Management: A Handbook of Practical Financial Management Topics for the DoD Financial Manager*, 3rd Ed., Naval Postgraduate School, 2002.

Interview between Jack Gallagher, Comptroller, Naval Postgraduate School, and the Author, September 30, 2002.

Interview between Paul Effinger, Financial Analyst, Comptroller, Naval Postgraduate School, and the Author, October 16, 2002.

Kenney, Shane P., *Financial Ratio Analysis of Audited Federal Financial Statements*. Master's Thesis, Naval Postgraduate School, Monterey, California, June 2000.

NPS Financial Information Systems Description to Higher Headquarters, Comptroller, Naval Postgraduate School, 2002.

Public Law 103-356, 103rd Congress, "Government Management Reform Act of 1994".

Secretary of the Navy, SECNAV Instruction 7320.10, "Department of the Navy (DoN) Personal Property Policies and Procedures," August 1, 2001.

Wilson, Earl R., Hay, Leon E., and Kattelus, Susan C., *Accounting for Governmental and Nonprofit Entities*, 11th Ed., (Irwin McGraw-Hill: Boston, MA, 1999).

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
Fort Belvoir, Virginia
2. Dudley Knox Library
Naval Postgraduate School
Monterey, California
2. Director, Training and Education, MCCDC, Code C46
Quantico, Virginia
3. Director, Marine Corps Research Center, MCCDC, Code C40RC
Quantico, Virginia
4. Marine Corps Tactical Systems Support Activity (Attn: Operations Officer)
Camp Pendleton, California
5. Marine Corps Representative
Naval Postgraduate School
Monterey, California
6. Professor Douglas Moses
Graduate School of Business and Public Policy
Naval Postgraduate School
Monterey, California
7. LtCol Don Summers, USMC (RET)
Graduate School of Business and Public Policy
Naval Postgraduate School
Monterey, California
8. CAPT John J. Gallagher, USN (RET)
Director, Financial Planning
Naval Postgraduate School Comptroller. Code 021C
Monterey, California