Joint Logisitcs Systems Center
Working Capital Fund

Chief Financial Officer Annual Financial Statement FY 1997

February 27,1998

JOINT LOGISTICS SYSTEMS CENTER

WORKING CAPITAL FUND

OVERVIEW

Joint Logistics Systems Center
Overview of the Reporting Entity

1. Program Summary

The Joint Logistics Systems Center (JLSC) was established in March 1992 with the mission of achieving Logistics Functional Area goals for the Department of Defense (DoD) Depot Maintenance (DM) and Supply Management (SM) business areas by managing the design, development and implementation of corporate DoD systems and facilitating improved logistics business processes. The JLSC is a jointly staffed organization with military and civilian personnel from each of the Military Services and the Defense Logistics Agency (DLA). Unlike most other Working Capital funds, JLSC does not have an operating budget consisting of revenue and expense. The JLSC operating budget is part of the total capital budget and pays for the normal operations of JLSC; i.e., payroll for personnel assigned to the JLSC, moving expenses, travel, supplies, office equipment, etc. Civilian end strengths and workyears are reflected in the Components' budgets, while salaries are budgeted and paid for by JLSC.

JLSC is working closely with the DoD Logistics community to effectively integrate strategies, business processes, data, information systems,technologies and resources to "equip the warfighters with improved logistics processes, systems and information." The JLSC's primary responsibility is the development of logistics information systems within the DM and SM business areas. The JLSC-developed logistics systems will provide reliable, flexible, and prompt logistics support, information, and services resulting in a more effective and efficient logistics infrastructure.

The JLSC has evolved from an initial strategy of supporting Near Term Initiatives (NTIs), which provided specific capabilities to the Military Services and the DLA resulting in substantial immediate benefits, to a strategy based upon consensus within the Logistics Community. This budget funds development, deployment, and sustainment of the requirements as identified by the Deputy Under Secretary of Defense for Logistics (DUSD{L}). Failure to provide the necessary resources will result in either a delay in the current schedule or fielding systems which do not contain all of the functionality required by the JLSC's customers.

The JLSC will have delivered or deployed most of its projects by the end of FY98, at which time the projects enter the sustainment phase. The objective of theDUSD(L) is to transfer all residual acquisition and sustainment responsibility to the Services by the end of FY 98. FY99 funding is to complete transfer actions of the JLSC projects to the Services and DLA and to complete closure of the JLSC as an organization.

Preliminary plans have been drafted to transfer each of the projects to a Lead Component which will accept and execute all program management responsibilities. In the case where there is more than one Component receiving an application, one is designated as the Lead and the others will receive support. Negotiations are currently underway between the JLSC and Lead Components to prepare Program Management Responsibility Transfer (PMRT) plans for each of the Depot Maintenance (DM) and Materiel Management (MM) projects. Additionally, a second memorandum of agreement will be negotiated between the Lead Component and the supported Components which will address their interaction in areas such as requirements, funding, and configuration management. Program development, maintenance, and configuration management responsibility for the DM and MM projects continue to reside within JLSC until transferred to the Component. No projects were transferred in FY97.

On August 18, 1997, the Acting Under Secretary of Defense (Comptroller) approved the final decisions and approved recommendations resulting from the Working Capital Fund Study Group. Among the decisions was one to terminate JLSC and begin to devolve its programs and responsibilities to the individual Components no later than October 1, 1997. The decision included a prohibition of any new starts at JLSC, required the individual activity groups or Defense Working Capital Funds (DWCFs) to be responsible for financing the liquidation of any unfunded liabilities remaining at JLSC, and directed the return of any unneeded cash and financial assets not used for paying off program liabilities or program shutdown costs or not needed for the initial deployments of systems developed by JLSC.

The Depot Maintenance Systems (DMS) applications address major end item management, commodities repair, and specialized support. The objective is to provide to the user a suite of service specific migration applications with basic interfaces to the legacy environment. This budget through FY98 supports the development, deployment and program management for the DMS applications currently approved by the DUSD(L). The current DMS projects are:

- Manufacturing Resource Planning Commercial Off-The-Shelf System (MRP II COTS)
- Interservice Material Accounting and Control System (IMNACS)
- Depot Maintenance-Hazardous Material Management System (DM-HMMS)
- Enterprise Information System (EIS)
- Facilities and Equipment Maintenance (FEM)
- Laboratory Information Management System (LIMS)
- Tool Inventory Management Application (TIMA)
- Baseline Advanced Inventory Management (BAIM)
- Programmed Depot Maintenance Scheduling System (PDMSS)
- NAVAIR Depot Maintenance (DM) System
- DM System beyond Jax

The Materiel Management Systems (MMS) applications support business processes of the DoD Inventory Control Points (ICPs). The budget through FY98 funds development, deployment, sustainment, and program management of these applications as identified and approved by the DUSD(L). The current MMS projects are:

- Configuration Management Information System (CMIS)
- Maintenance Planning and Execution (MP&E)
- Stock Control System (SCS)
- Math Models
- Commercial Asset Visibility II (CAV II)
- Defense Supply Expert System (DESEX)

In addition to the requirements for the development and deployment of JLSC applications, JLSC received Component legacy funding for "must changes"; i.e. public law, Congressional mandates, and to assist Components in their efforts toward Defense Information Infrastructure Common Operating Environment (DII COE) compliance. Legacy systems are those automated information systems currently in place at the Component's DM and SM business areas. In FY98, most JLSC Legacy funding will be transferred to the Components. The Defense Integrated Subsistence Management System (DISMS) and Defense Medical Logistics Standard System-Wholesale (DMLSS-W), will be transferred from the JLSC to the DLA beginning in FY98.

Also included in the FY97 & FY98 budget is funding for Logistics Community Management (LCM). The LCM charter was coordinated with the Components and signed by DUSD(L) and endorsed by the Logistics Directorate of the Joint Chiefs of Staff (JCS J-4) in July, 1997. The Logistic Community Manager will facilitate the identification of joint requirements, development of interservice common business practices, and the promotion of a common interface with industry. The organization will work with the DII COE to support the needs of the logistics enterprise and orchestrate the transition to management and operations of a shared data environment.

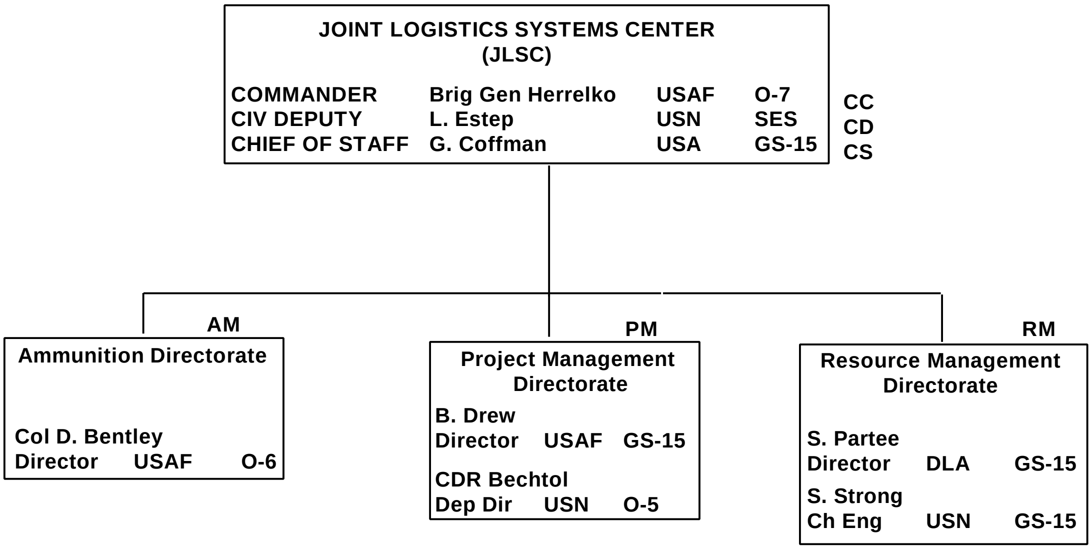
The LCM is not a mission of the JLSC but is currently funded as part of the JLSC because the requirement arose from a central logistics perspective andDUSD(L) identified those requirements in the JLSC budget.

2. Description of the Reporting Entity

The JLSC operates as a joint center at Wright Patterson AFB OH with representation from the Army, Navy, Air Force, Marine Corps and Defense Logistics Agency (the Components). The JLSC receives direction/oversight from four sources: Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASDC{3}I)-Technical, DUSD(L)-Functional, Office Secretary of Defense Comptroller (OSD-C)-Budget and Air Force/Program Element Office Joint Logistics (AF/PEOJL) -Acquisition/Execution.

Effective 1 Sep 1997, the JLSC restructured its operations. The JLSC organization is depicted below:

Restructured JLSC Organization



Although JLSC is an activity within the Defense Working Capital Fund (DWCF), the JLSC does not have the typical customer-supplier relationships found with other business areas. The JLSC centrally procures investments for the Supply Management and Depot Maintenance business areas within the DWCF. The nature of JLSC's mission is such that it does not routinely sell a product or service to its customers in order to generate revenue to offset costs incurred in the development of software projects. The JLSC's ultimate customers are the functional activities within the Components who will use the JLSC-sponsored capital investments to provide goods and services to their customers. JLSC's costs were to be recouped to the DWCF when software projects under its purview were transferred to the Components and depreciation of these systems commences. However, the Components have been directed to incorporate all JLSC costs into their sales rates, thus recouping these costs through surcharges based on actual JLSC disbursements.

The JLSC's total DWCF Annual Operating Budget (AOB) for FY97 was $171.3M. The AOB was comprised of JLSC capital authority ($119.6M), JLSC operating authority ($29.6M), LCM capital authority ($12.0M), and direct reimbursable authority ($10.1M).

The JLSC FY97 workforce profile was as follows:

	Military	Civilian	Total
Air Force	9	77	86
Army	3	40	43
Navy	6	36	42
USMC	3	8	11
DLA	0	47	47
Total	21	208	229

3. Program Performance Measures

During FY97, the JLSC continued implementation of its program to identify and implement performance measures across its programs. These measures were designed specifically to support the needs of program management for day-to-day decision making, as well as provide needed inputs for Joint Program Reviews and Major Automated Information System (MAIS) reporting. There are two categories of measures program managers and project leads use to manage their programs/projects at JLSC, Key Program Measures and Key Software Development Metrics. Among those being used on JLSC projects are these specific measurement areas:

Key Program Measures:

- Funding - compares the amount of funding required to execute the program each year with the amount of funding approved
- Schedule - compares planned program activities (i.e., deployments of applications, interface activities, etc.) to the actual activities completed during the period
- Requirements - compares the functionality deployed by projects to the total functionality to be deployed

Key Software Development Metrics

- Schedule - compares the actual milestones completed to the established milestone schedule
- Development - compares the contractor's development activities to the established development schedule
- Software Size - compares the actual size of the software being developed to the estimated software size
- Requirements Changes - compares the total number of requirements to the cumulative number of requirement changes
- Staffing - compares the contractor's actual staffing and unplanned losses to the planned staffing
- Software Problem Status Report - compares the total number of Class 1 reports that are closed to the total number of Class 1 reports
- Number of Waivers - tracks the total number of waivers that were requested to the JLSC Integrated Technical Architecture/Common Operating Environment (ITA/COE) when finalized

4. Financial Performance Measures

The JLSC is accountable for its performance to its customer community, to the logistics functional managers in OSD, and to the DWCF managers in USD(C). In order to track financial performance and ensure accountability, the JLSC identified the requirement to include financial performance measures as part of its overall performance reporting. In FY97, the JLSC reported the status of obligations and expenditures against a time-phased spend plan and the AOB. This information was presented at all program reviews to both DUSD/L and SAF/AQ.

5. Financial Management Challenges

The JLSC has been approached by some non-DWCF entities and even some non-DoD entities with interest in acquiring some of our systems once completed. With this in mind, the JLSC requested and obtained reimbursable authority from USD(C) for FY97.

With the closure of the JLSC rapidly approaching, FY92-98 accounts are being researched and reconciled for closure. The Air Force (AFMC/FM) has been tasked with follow-on close out actions not completed by JLSC at time of closure. Therefore, the JLSC is trying to clean up as many open accounts as possible before closure, making it less of a burden on the Air Force. A team of four people has been established to work full time on this effort.

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JOINT LOGISTICS SYSTEMS CENTER

WORKING CAPITAL FUND

PRINCIPAL STATEMENTS

Principal Statements____

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($103,288)	($165,343)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	(689)	3
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	1,593,875	1,305,516
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	$1,489,898	$1,140,176
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$1,489,898	$1,140,176
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$23,100	($30,531)
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	211	50
(b) Annual Accrued Leave	767	4,104
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	$24,078	($26,377)

The accompanying notes are an integral part of these statements.

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,804	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$1,804	$0
6. Total Liabilities	$25,882	($26,377)
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	1,615,241	1,287,737
c. Cumulative Results of Operations	(149,421)	(121,184)
d. Other	0	0
e. Future Funding Requirements	(1,804)	0
f. Total Net Position	$1,464,016	$1,166,553
8. Total Liabilities and Net Position	$1,489,898	$1,140,176

The accompanying notes are an integral part of these statements.

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	1,628	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$1,628	$0
EXPENSES		
9. Program or Operating Expenses (Note 23)	$27,733	$37,994
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	555	555
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	1,628	0
15. Total Expenses	$29,916	$38,549
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($28,288)	($38,549)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($28,288)	($38,549)

The accompanying notes are an integral part of these statements.

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$1,166,553	$832,383
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	$1,166,553	$832,383
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(28,288)	(38,549)
23. Plus (Minus) Non Operating Changes (Note 28)	325,751	372,719
24. Net Position, Ending Balance	$1,464,016	$1,166,553

The accompanying notes are an integral part of these statements.

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($28,288)	($38,549)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	692	7
4. Decrease (Increase) in Other Assets	0	0
5. Increase (Decrease) in Accounts Payable	53,632	(41,233)
6. Increase (Decrease) in Other Liabilities	(1,372)	1,398
7. Depreciation and Amortization	555	555
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(1,749)	1,299
10. Total Adjustments	$51,758	($37,974)
11. Net Cash Provided (Used) by Operating Activities	$23,470	($76,523)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(288,915)	(453,428)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	($288,915)	($453,428)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	327,500	371,420
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	0	0
23. Net Appropriations	$327,500	$371,420

The accompanying notes are an integral part of these statements.

Department of Defense
Joint Logistics Systems Center - Working Capital Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	**1997**	**1996**
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public		0
26. Borrowing from the Treasury and the Federal Financing Bank		0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments		0
29. Net Cash Provided (Used) by Financing Activities	$327,500	$371,420
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	$62,055	($158,531)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(165,343)	(6,812)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($103,288)	($165,343)

Supplemental Disclosure of Cash Flow Information:	**1997**	**1996**
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	**1997**	**1996**
34. Property and Equipment Acquired Under Capital Lease Obligations		$0
35. Property Acquired Under Long-Term Financing Arrangements		$0
36. Other Exchanges of Non-cash Assets or Liabilities		$0

The accompanying notes are an integral part of these statements.

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JOINT LOGISTICS SYSTEMS CENTER

DEFENSE WORKING CAPITAL FUND

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Audit Opinion

JOINT LOGISTICS SYSTEMS CENTER
DEFENSE WORKING CAPITAL FUND
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position, results of operations, and the cash flow of the Joint Logistics Systems Center activity group as required by the Chief Financial Officers (CFOs) Act, and other appropriate legislation. They have been prepared from the books and records of the activity group in accordance with Department of Defense (DoD) guidance on the form and content of financial statements. These statements are different from the financial reports that are used to monitor and control the activity group's use of budgetary resources.

B. Reporting Entity:

The Assistant Secretary of Defense for Production and Logistics (ASD(P&L)), directed that a Joint Logistics Systems Center (JLSC) be established effective December 31, 1991. The JLSC was established as a separate Defense Business Operations Fund (DBOF) business area. The JLSC implements integrated business process improvements by managing the development, integration, implementation and maintenance of the logistics business areas for Depot Maintenance and Supply Management.

The JLSC mission requires that it take a central role in the logistics functional area. The JLSC will facilitate, in conjunction with the functional communities, the identification of corporate business process improvements, and the appropriate application of Automated Information Systems (AIS) and related technologies to maximize operational effectiveness and achieve cost savings. The JLSC will employ data standardization to support corporate logistics systems design, development, integration, implementation and maintenance.

On August 18, 1997, the Acting Under Secretary of Defense (Comptroller) approved the final decisions and approved recommendations resulting from the Working Capital Fund Study Group. Among the decisions was one to terminate JLSC and begin to devolve its programs and responsibiliti to the individual Components no later than October 1, 1997. The decision included a prohibition of any new starts at JLSC, required the individual activity groups or Defense Working Capital Funds (DWCFs) to be responsible for financing the liquidation of any unfunded liabilities remaining at JLSC, and directed the return of any unneeded cash and financial assets not used for paying off program liabilities or program shutdown costs or not needed for the initial deployments of systems developed by JLSC.

The Defense Finance and Accounting Service - Denver Center uses the Departmental On-line Accounting and Reporting System (DOLARS) to consolidate and prepare JLSC's financial reports. DOLARS uses an Air Force unique general ledger structure.

C. Budgets and Budgetary Accounting:

(1) Budgets. JLSC business budgets are segregated into operating and capital budgets. Except for equipment costing more than $100,000 (during FY 1997) and used exclusively for the JLSC operations, all other equipment is expensed in the year of acquisition. Based on guidance from DoD(IG) (Report Number 94-147, Subject: JLSC Financial Statements for FY 1993), the JLSC has capitalized all of its equipment, meeting the capitalization criteria as established by DBOF Accounting Guidance (July 1992 letter) and accordingly depreciate all applicable equipment on a straight-line basis over a useful life of 5 years. This is properly reflected in the FY 1997 Financial Statements.

(2) Software Development Costs. The JLSC does not sell its software projects to its primary customers, the Depot Maintenance and Materiel Management business areas. Rather, PBD 426 directs a surcharge to these business areas within the Services and DLA for reimbursement of development and deployment back to the Defense Working Capital Fund (DWCF).

(3) Financial Constraints. Under the auspices of DoD and the federal government, the JLSC interacts with and is dependent on the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the JLSC as though it were a stand-alone entity.

D. Basis of Accounting:

The financial statements are presented in accordance with the accounting principles and reporting standards contained in the Department of Defense (DoD) Accounting Manual (DoD 7220.9-M) and DoD Financial Management Regulation (DoD 7000-14-R). The following are areas in which JLSC does not currently comply with existing DoD accounting standards:

(1) Chart of Accounts. JLSC has not implemented the standard DoD General Ledger chart of accounts.

(2) General Ledger. JLSC has not implemented a true transaction driven general ledger system to provide a consolidated source of financial management information for either management or financial statement purposes.

Transactions are recorded on the accrual basis of accounting as required by the DoD Accounting Manual. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt for payment of cash. Presently JLSC does not purchase from or sell to DWCF activities; therefore, there are no interfund transactions that require elimination.

Presently, JLSC funds are accounted for as a DoD corporate fund using an Air Force stock fund chart of accounts. However, JLSC does not sell merchandise as do stock fund business activities. The JLSC's cost is recouped to the Defense Working Capital Fund (DWCF) through surcharge directed in PBD 426.

We were granted $10.1million Reimbursable Authority in FY 97. Of that, $1.3 million in customer orders were accepted. No earnings were generated in FY 97.

E. Revenues and Other Financing Sources:

JLSC is a DWCF business area. Its purpose is to develop logistics software programs for Supply Management and Depot Maintenance, two other DWCF areas. Under most circumstances DWCF areas use revolving funds whereby an initial appropriation, fund transfer, or capital transfer provides the beginning capital. Funds are replenished by the sales of goods or services.

JLSC, however, does not sell its software projects to the two previously mentioned business areas. Rather, it transfers the completed projects to the various DoD DWCF business areas with reimbursement through surcharges. It initially received a start up contribution from the Military Components and the Defense Logistics Agency of $10.1 million. Additional funding authority was received as follows:

(Millions)

Fiscal Year	Operating	Capital	Total
1992	$21.2	$282.8	$304.0
1993	37.1	423.7	460.8
1994	37.1	504.0	541.1
1995	33.9	297.0	330.9
1996	29.6	198.2	227.8
1997	29.6	132.9	162.5
Total	$188.5	$1,838.6	$2,027.1
	=====	======	========

During FY 1997, JLSC received $327.5 million by cash transfers from the military departments.

F. Accounting for Intra-governmental Activities: Not applicable.

G. Funds with the U.S. Treasury and Cash:

The fund balances with Treasury are maintained at DLA.

H. Foreign Currency: Not applicable.

I. Accounts Receivable:

Accounts Receivable has an abnormal balance. The formula for net receivables includes undistributed collections. Since JLSC maintains no active accounts receivables, amounts recorded in undistributed collections causes an abnormal balance. Reference Note 5.

J. Loans Receivable: Not applicable.

K. Inventory: Not applicable.

L. Investments in U.S. Government Securities: Not applicable.

M. Property and Equipment:

Reference Note 15.

N. Prepaid and Deferred Charges: Not applicable.

O. Leases: Not applicable.

P. Contingencies: Not applicable.

Q. Accrued Leave:

The amount reported on the Statement of Financial Position, Line 4.b .(2)(b) for Annual Accrued Leave is $767.

R. Equity:

The Invested Capital balance stands at $1,615,241. The cumulative operating results is ($149,421), and future funding requirements is ($1,804). This leaves a net position balance of $1,464,016. (See Note 20).

S. Aircraft/Ship Crashes: Not applicable.

T. Treaties for Use of Foreign Bases: Not applicable.

U. Comparative Data:

Comparative data for FY 1996 and FY 1997 are presented to provide an understanding of changes in financial position and operations of the JLSC.

V. Undelivered Orders:

Undelivered Orders as reported on the SF133, Report on Budget Execution, amounted to $227,859 (DOD GLA 9411).

NOTE 2. Fund Balances with Treasury:

A. Fund and Account Balances:

	Funds Collected	Entity Assets Funds Disbursed	Cum Transfers
Beginning Balance	$0	$0	$0
Transfers of Cash to Others			0
Transfers of Cash from Others			162,161
Funds Collected:	692		
Funds Disbursed:		(266,141)	
Ending Balance	$692	($266,141)	$162,161

B. Other Information:

The fund balances with Treasury are maintained at DLA. Transfers of Cash from Others includes the 1996 ending balance of ($165,339) and cash transfers-in of $327,500.

The Treasury Balance, as reported on the AR(M)1307, breaks down as:

Funds Collected - Operating Program	$692
Funds Collected - Capital Program	0
Funds Disbursed - Operating Program	73,650
Funds Disbursed - Capital Program	(339,791)
Funds with Treasury - Operating Program	162,157
Funds with Treasury - Capital Program	0
Treasury Balance	($103,292)

NOTE 3. Cash, Foreign Currency and Other Monetary Assets: Not applicable.

NOTE 4. Investments: Not applicable.

NOTE 5. Accounts Receivable, Net:

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	($689)	$0	N/A	($689)
Governmental	0	0	N/A	0
B. Non-Entity Receivables:				
Intragovernmental	$0	$0	N/A	$0
Governmental	0	0	N/A	0

Accounts Receivables has an abnormal balance. The formula for net receivables includes undistributed collections. Since JLSC maintains no active accounts receivables, amounts recorded in undistributed collections causes an abnormal balance.

NOTE 6. Other Assets: Not applicable.

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable.

NOTE 8. Inventory, Net: Not applicable.

NOTE 9. Work in Process: Not applicable.

NOTE 10. Operating Materials and Supplies (OM&S), Net: Not applicable.

NOTE 11. Stockpile Materials, Net: Not applicable.

NOTE 12. Seized Property: Not applicable.

NOTE 13. Forfeited Property, Net: Not applicable.

NOTE 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable.

NOTE 15. Property, Plant and Equipment, Net:

	(1) Depreciation Method	(2) Service Life
Classes of Fixed Assets		
A. Land		
B. Structures, Facilities, & Leasehold Improvements	S/L	20
C. Military Equipment		
D. ADP Software	S/L	5
E. Equipment	S/L	5&10
F. Assets Under Capital Lease		
G. Other		
H. Natural Resources		
I. Construction-in-Progress		
Total		

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	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets			
A. Land	$0	$0	$0
B. Structures, Facilities, & Leasehold Improvements	0	0	0
C. Military Equipment	0	0	0
D. ADP Software	0	0	0
E. Equipment	2,776	(1,820)	956
F. Assets Under Capital Lease	0	0	0
G. Other	0	0	0
H. Natural Resources	0	0	0
I. Construction-in-Progress	1,592,919	0	1,592,919
Total	1,595,695	($1,820)	$1,593,875

*Keys:

Depreciation Methods	Range of Service Life	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

The depreciation method for equipment is straight line and the service life is 5 to 10 years.

JLSC does not own land, buildings or equipment. The organization is a tenant on Wright Patterson Air Force Base and occupies portions of Buildings 15 and 167. JLSC reimburses Wright Patterson AFB for maintenance, police protection, refuse collection, utilities, and miscellaneous other services.

DoD-IG Draft Report No. 7FJ-2027, 10 Nov. 97, states the JLSC financial statements will remain materially overstated, until systems development costs are properly transferred to the appropriate organizations. It further recommends that Under Secretary of Defense (Comptroller) should provide guidance to the JLSC on how to equitably allocate the costs of systems development currently appearing in plant, property and equipment (Line 1.k.) of the JLSC Statement of Financial Position).

NOTE 16. Debt:

The JLSC reported no debt liability. Its proportionate share of public debt and related expenses of the federal government are not included in the financial statements. Debt incurred by the federal government and related interest are not apportioned to federal agencies. Consequently, JLSC's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing.

NOTE 17. Other Liabilities: Not applicable.

NOTE 18. Leases: Not applicable.

NOTE 19. Pensions and Other Actuarial Liabilities:

A. Pensions:

This business area's civilian employees participate in the Civil Service Retirement System (CSRS), Federal Employee Retirement System (FERS), and Thrift Savings Plan (TSP), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS are also covered by Social Security. JLSC finances a portion of pension benefits under these retirement systems, but does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded liabilities of their employees. Reporting of these amounts is the responsibility of the Office of Personnel Management for CSRS, FERS, and TSP, and DoD for MRS. JLSC reports the revenue and expense for pensions (reference Notes 22 and 25).

B. Other Actuarial Liabilities:

Future workers' compensation figures are provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's, June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1997

6.24 % in year 1
5.82 % in year 2
5.60 % in year 3
5.45 % in year 4
5.40 % in year 5 and thereafter

The JLSC liability for FWC benefits is $1,804.

NOTE 20. Net Position:

	Revolving Funds	Trust Funds	Appro-priated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	1,615,241	0	0	1,615,241
C. Cumulative Results of Operations	(149,421)	0	0	(149,421)
D. Other	0	0	0	0
E. Future Funding Requirements	(1,804)	0	0	(1,804)
F. Total	$1,464,016	$0	$0	$1,464,016

G. Other Information:

(1) Unexpended appropriations are not accounted for at the component level. JLSC is funded via cash transfer method from the military component's Defense Working Capital Fund.

(2) Future Funding Requirements ($1,804) is a contra related to the amount in Pensions and Other Actuarial Liabilities. (Reference Note 19).

(3) Invested Capital. A breakout of this account is furnished as follows:

(a) Assets Capitalized	$ -0-
(b) Liabilities Assumed	-0-
(c) Transfers, Net	1,615,241
Total	$1,615,241
	=========

NOTE 21. Taxes: Not applicable.

NOTE 22. Other Revenues and Financing Sources:

		1997	1996
A. Other Revenues and Financing Sources:			
Imputed Pension and Other Retirement Benefits		$1,628	$0
(a) CSRS/FERS Retirement	$1,144	0	0
(b) Health Benefits	482		
(c) Life Insurance	2	0	0
Total		$1,628	$0

B. Other Information:

The $1,628 represents the imputed financing for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

NOTE 23. Program or Operating Expenses:

	1997	1996
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$7,713	$17,311
(2) Travel and Transportation	1,257	1,241
(3) Rental, Communication and Utilities	308	652
(4) Printing and Reproduction	0	0
(5) Contractual Services	14,802	12,460
(6) Supplies and Materials	3,652	6,330
(7) Equipment not Capitalized	1	0
(8) Grants, Subsidies and Contributions	0	0
(9) Insurance Claims and Indemnities	0	0
(10) Other (describe):		
(a) Depreciation	0	0
(b) Bad Debt Writeoffs	0	0
(c) Other Expenses	0	0
(11) Total Expenses by Object Class	$27,733	$37,994

NOTE 24. Cost of Goods and Services Sold: Not applicable.

NOTE 25. Other Expenses:

		1997	1996
A. Other Expenses::			
Imputed Pension and Other Retirement Benefits		$1,628	$0
(a) CSRS/FERS Retirement	$1,144	0	0
(b) Health Benefits	482		
(c) Life Insurance	2	0	0
Total		$1,628	$0

B. Other Information:

The $1,628 represents the imputed expense for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in their financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

NOTE 26. Extraordinary Items: Not applicable.

NOTE 27. Prior Period Adjustments: Not applicable.

NOTE 28. Non-Operating Changes - (Transfers and Donations):

A. Increases:	1997	1996
(1) Transfers-In:		
(a) Cash Transfer	$327,500	$0
(b)____________	0	0
(c)____________	0	0
(2) Unexpended Appropriations	0	0
(3) Donations Received	0	0
(4) Other Increases	0	372,719
(5) Total Increases	$327,500	$372,719

B. Decreases:	1997	1996
(1) Transfers-Out:		
(a)____________	0	$0
(b)____________	0	0
(c)____________	0	0
(2) Donations	0	0
(3) Other Decreases	(1,749)	0
(4) Total Decreases	(1,749)	$0
C. Net Non-Operating Changes (Transfers):	$325,751	$372,719

D. Other Information:

Line B.(3) Other Decreases includes ($1,804) for the changes in reported unfunded liability for worker's compensation.

NOTE 29. Intrafund Eliminations:

JLSC does not purchase from or sell to other DWCF organizations; therefore, there are no transactions being reported.

NOTE 30. Contingencies: Not applicable.

NOTE 31. Other Disclosures:

A. Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements:

Joint Logistics Systems Center Funds	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$3,664	$210	($3,454)	(94%)
Negative Unliquidated Obligations*	1,925	4,027	2,102	121%
Aged In-Transit Disbursements	0	3,714	3,714	Not reported in 1996
Totals	$5,589	$7,951	$2,362	27%

DFAS and customer making concerted effort to reduce problem disbursements.

B. Other Information:

A discrepancy exists between the AR(M)1307 and CFO Statements for Accrued Payroll and Benefits. The September AR(M)1307, Statement of Financial Position, Accrued Payroll and Benefits was overstated by $8,894 . (Salaries and Wages was overstated by $1,281, and Accrued Annual Leave was overstated by $7,613.) The overstatement was due to incorrect information given to the fund code manager. The CFO reflects the correct balances. The following lines on the CFO do not agree with the AR(M)1307 due to the overstatement:

	CFO	AR(M)1307	Difference
Statement of Financial Position:			
Line 4.b.(a) - Salaries and Wages	$ 211	$1,492	($1,281)
Line 4.b.(b) - Annual Accrued Leave	767	8,380	(7,613)
	978	9,872	(8,894)
Line 7.c. Cumulative Results of Operations	(149,421)	(158,315)	8,894
Statement of Operations and Changes in Net Position:			
Line 9 - Program or Operating Expenses	27,733	36,624	(8,891)
Statement of Cash Flows:			
Line 6 - Increase (Decrease) in Other Liabilities	(1,372)	5,717	(7,089)
Line 9 - Other Adjustments	(1,749)	53	(1,802)
	(3,121)	5,770	(8,891)

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JOINT LOGISTICS SYSTEMS CENTER

DEFENSE WORKING CAPITAL FUND

AUDIT OPINION

Audit Opinion

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

February 27, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND THE CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
COMMANDER, JOINT LOGISTICS SYSTEMS CENTER

SUBJECT: Disclaimer of Opinion on the Joint Logistics Systems Center Working Capital Fund Financial Statements for FY 1997 (Project No. 8FJ-2001)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibility of management and the auditors for the financial statements, internal controls, and compliance with laws and regulations. Preparation of the Joint Logistics Systems Center (JLSC) Working Capital Fund financial statements is the joint responsibility of JLSC and the Defense Finance and Accounting Service (DFAS). JLSC and DFAS are also responsible for establishing and maintaining an internal control structure and for complying with laws and regulations applicable to JLSC financial accounting and reporting. Our responsibility is to render an opinion on the financial statements based on our work, and to determine whether internal controls are adequate and whether management complied with laws and regulations.

Before FY 1992, the DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering an opinion on the DBOF Consolidated Financial Statements. In December 1996, the Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds, including the JLSC Working Capital Fund.

In September 1997, the Under Secretary of Defense (Comptroller) (the USD[C]) announced that JLSC would be terminated and directed JLSC to begin transferring its functions to the Military Departments on October 1, 1997.

Disclaimer of Opinion. We were unable to render an opinion on the FYs 1997 and 1996 JLSC Working Capital Fund Financial Statements because we did not perform sufficient work. We did not perform sufficient work because JLSC began terminating its operations in October 1997. However, our limited work indicated that because of significant deficiencies in the accounting systems and internal control structure, it was unlikely that the FYs 1997 and 1996 financial statements were reliable.

Accounting Principles. The DoD Consolidated Financial Statements for FYs 1997 and 1996 were to be prepared in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. These Bulletins incorporate the Statements of Federal Financial Accounting Concepts and Standards recommended by the Federal Accounting Standards Advisory Board, which are approved by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States. Footnote 1 of the DoD Consolidated Financial Statements discusses the significant accounting policies that DoD followed in preparing the financial statements. JLSC attempted to prepare its financial statements according to these standards.

Internal Controls. Internal controls were not adequate to ensure the accurate reporting of Property, Plant, and Equipment accounts, resulting in material overstatements on the FY 1997 JLSC Working Capital Fund Financial Statements. The JLSC inappropriately reported $1 billion in development costs for systems that were already in operation at various Working Capital Fund organizations, and $500 million in development costs for canceled systems. This occurred because the USD(C) did not provide adequate guidance to JLSC on how to equitably allocate the systems development costs to the depot maintenance and supply management organizations of the Working Capital Fund so that those organizations could capitalize and report the value of the assets received.

Compliance With Laws and Regulations. We identified one instances of noncompliance with regulations. JLSC did not fully comply with DoD accounting policy for capital assets. JLSC initially recorded systems development costs as Construction-in-Progress. However, when the systems were completed and installed, JLSC did not properly transfer the costs of development to the receiving Working Capital Fund organizations, as required by DoD policy.

Additional Report. This memorandum summarizes the major deficiencies affecting the portion of the FY 1997 JLSC Working Capital Fund Financial Statements we reviewed. A subsequent report will give more details on our work and the deficiencies identified.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing