



DEPARTMENT OF THE ARMY

U.S. Army Corps of Engineers  
WASHINGTON, D.C. 20314-1000

REPLY TO  
ATTENTION OF:

27 JAN 2003

CERM-F (37)

MEMORANDUM FOR ALL USACE COMMANDS (RESOURCE MANAGEMENT DIRECTORS/OFFICERS)

SUBJECT: Prior Period Adjustments

1. References:

a. Wiley Generally Accepted Accounting Principles 2001; Chapter 20 "Accounting Changes and Corrections of Errors", pp 844-846.

b. Statement of Federal Financial Accounting Standards Number 7 (SFFAS No. 7), *Accounting for Revenue and Other Financing Sources*, paragraph 74 "Prior Period Adjustments".

c. DoD Financial Management Regulation (DoDFMR) Volume 6A, Chapter 1, *General Reporting*, paragraph 0102, "Standards".

d. Directorate of Resource Management, Finance and Accounting Policy Division (CERM-F) Memorandum, 29 Sep 97, subject: Revised Capitalization Guidance for Civil Works Personal Property.

2. Recent Office of the Secretary of Defense (OSD) guidance will effect the way U.S. Army Corps of Engineers (USACE) records prior period adjustments. Prior period adjustments are made to correct errors in the proper period they occurred. The major criterion for determining whether to report corrections as prior period is that of materiality. The new guidance states the following:

*Prior period adjustments should be a tool used very infrequently to make material adjustments. Most adjustments are to be made within the current year transactions, i.e. as current year expenses. If you believe that a prior period adjustment is appropriate, send the following to Defense Finance and Accounting Service (DFAS) Arlington for approval:*

- a) Documentation, which should be substantive enough to support an audit.*
- b) Explain why the amount is material,*
- c) Explain what problem caused the prior period adjustment to be needed, what the effects are on the statements (both the erroneous and the correction), what the correct original transactional entries would have been*

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3. In the past Corps of Engineers Financial Management System (CEFMS) identified transactions, which effected prior periods and asked the user if a correction should be recorded as a prior period adjustment (PPA). This functionality has been removed from CEFMS and districts will not be able to record a PPA unless approved by OSD(C). Generally corrections will be recorded in the current period. Department of Defense Inspector General (DoDIG) has indicated that only errors having a material effect on financial statements should be prior period adjustments. DoDIG defined materiality as one percent of the total effected line or a correction that would cause an abnormal balance. Any request for prior period adjustments should be sent to CERM-F.
4. During FY 02 financial statement compilation the Finance Center identified \$245M in prior period adjustments made by the districts for corrections related to the Construction-In-Progress account (expenses moved from the CIP account and vice versa.) A possible result is assets are overstated and the expenses for the period are understated. This could result in abnormal balances in asset and expense general ledger accounts for the current fiscal year.
5. Districts will no longer be able to make prior period adjustments and must ensure capital costs are recorded in CIP accounts in a timely manner. Incorrect cost in the CIP and expense accounts appear to be a main issue requiring prior period corrections. The HQUSACE Command Management Review (CFO Self Assessment) has tracked the CIP clean up for the past four years and all Field Operating Activities reported green on this issue for FY 02. Thus I expect future correcting cost transfers between the CIP and expense accounts (for prior periods) will be greatly reduced. Prior period adjustments and CIP will be major DoDIG focus areas during the FY 02 and 03 audits.
6. If you have any questions please call Mike Walsh CERM-F (202) 761-5440.

FOR THE COMMANDER:

  
STEPHEN COAKLEY  
Director of Resource Management