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DOD FINANCIAL MANAGEMENT

Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury

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Why GAO Did This Study

In November 2010, the Department of Defense (DOD) Inspector General (IG) issued a disclaimer of opinion on the Department of the Navy's financial statements because of pervasive, long-standing material internal-control weaknesses, including Fund Balance with Treasury (FBWT). In the federal government, an agency's FBWT account is similar in concept to a corporate bank account. The difference is that instead of a cash balance, FBWT represents unexpended spending authority in appropriations. Because DOD relies heavily on budget information for day-to-day management decisions, in August 2009, the DOD Comptroller designated the Statement of Budgetary Resources (SBR) as an audit priority. FBWT will need to be auditable in order for the SBR to be reliable. GAO was asked to determine whether the Navy and the Marine Corps have implemented effective FBWT reconciliation processes. To assess these processes, GAO analyzed Navy and Marine Corps policies and procedures for FBWT reconciliations, and met with Navy, Marine Corps, and Defense Finance and Accounting Service (DFAS) officials. GAO also tested nongeneralizable samples of FBWT transactions and adjustments and reviewed associated supporting documentation.

What GAO Recommends

GAO is making six recommendations to improve Navy and Marine Corps policies and procedures to guide the FBWT reconciliation process, provide training to communicate these policies and procedures to staff, and resolve system deficiencies. DOD concurred with GAO's recommendations.

View [GAO-12-132](#). For more information, contact Asif A.Khan at (202) 512-9869 or khana@gao.gov.

DOD FINANCIAL MANAGEMENT

Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury

What GAO Found

Neither the Navy nor the Marine Corps have implemented effective processes for reconciling their FBWT. The *Treasury Financial Manual* and DOD's *Financial Management Regulation* require DOD components to perform monthly FBWT reconciliations and maintain detailed reconciliation worksheets and documentation to provide an adequate audit trail for the resolution of differences. GAO's *Standards for Internal Control in the Federal Government* states that the supervisory review and approval process is a key control activity for federal agencies. The Navy and the Marine Corps rely on the Defense Finance and Accounting Service located in Cleveland (DFAS-CL) to perform their FBWT reconciliation steps; however, GAO found numerous deficiencies in the FBWT process that impair the Navy's and the Marine Corps's ability to reconcile their FBWTs with Treasury records, including the following:

- The Navy and Marine Corps rely on the data from Defense Cash Accountability System (DCAS) to reconcile their FBWT to Treasury's records; however, they have not taken the necessary actions to ensure that the data are reliable. Specifically, DOD has not tested the application controls over DCAS since its implementation to determine if the system is processing data as intended. The Navy, the Marine Corps, and DFAS have identified a list of over 650 DCAS system change requests that needed to be addressed in order to correct DCAS data reliability and security problems or process required system updates; over 200 of these system change requests are deficiencies that affect audit readiness and 20 require immediate attention.
- DFAS did not maintain adequate documentation for the nongeneralizable sample of items GAO tested to enable an independent evaluation of its efforts to research and resolve differences. In addition, there was no evidence of supervisory review and approval.
- DFAS records forced-balance entries (plugs) to account for differences between Navy and Marine Corps appropriation balances and Treasury's.

DFAS is unable to reconcile the cash activity recorded in the Navy's general ledger accounting systems to that recorded in DCAS. DFAS officials stated they acquired the Business Activity Monitoring (BAM) tool to perform this reconciliation; however, after 4 years of effort and \$29 million, the BAM tool does not yet provide the information needed to identify and resolve the underlying causes of differences between DCAS and Navy general ledger systems. As of April 2011, there were more than \$22 billion unmatched disbursements and collections affecting more than 10,000 lines of accounting. DOD IG officials stated they were performing substantive testing to confirm the balance of the Marine Corps FBWT as part of their audit of the Marine Corps's Fiscal Year 2011 Statement of Budgetary Resources. This testing did not include internal control and did not provide assurance on the effectiveness of the Marine Corps' FBWT reconciliation process. Navy, Marine Corps, and DFAS-CL officials agreed existing FBWT policies and procedures are inadequate. DFAS-CL and Navy officials stated the base realignment and closure changes 2006–2008 resulted in loss of experienced DFAS-CL personnel and that remaining staff have not received needed training. The Navy is developing a plan of action and milestones (POAM) to address weaknesses in audit readiness.

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Abbreviations

ADS	Automated Disbursing System
BAM	Business Activity Monitoring
DCAS	Defense Cash Accountability System
DCRM	Defense Check Reconciliation Module
DDRS-B	Defense Departmental Reporting System- Budgetary
DFAS	Defense Finance and Accounting Service
DFAS-CL	Defense Finance and Accounting Service- Cleveland
DOD	Department of Defense
DSSN	Disbursing Station Symbol Number
FBWT	Fund Balance with Treasury
FIAR	Financial Improvement and Audit Readiness
FMO	Office of Financial Operations
FMR	Financial Management Regulation
GOALS	Government On-Line Accounting Link
GWA	Government-Wide Accounting
IEEE	Institute of Electrical and Electronics Engineers
IG	Inspector General
IPAC	Intra-Governmental Payment and Collections
NDAA	National Defense Authorization Act
NERP	Navy Enterprise Resource Planning
NSMA	Navy Systems Management Activity
POAM	Plans of Action and Milestones
RFA	Accounting and Financial Systems Branch
SABRS	Standard Accounting, Budgeting, and Reporting System
STAR	Central Accounting System
STARS-FL	Standard Accounting and Reporting System-Field Level
STARS-HCM	Standard Accounting and Reporting System- Headquarters Level
SOP	standard-operating procedure
TCIS	Treasury Check Information System
UVT	User Validation Testing

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United States Government Accountability Office
Washington, DC 20548

December 20, 2011

Congressional Requesters:

In November 2010, the Department of Defense (DOD) Inspector General (IG) issued a disclaimer of opinion¹ on the Department of the Navy's fiscal year 2010 general fund² financial statements because of pervasive long-standing material internal-control weaknesses, including Fund Balance with Treasury (FBWT).³ In the federal government, an agency's FBWT account is similar in concept to a corporate bank account. The difference is that instead of a cash balance, FBWT represents remaining spending authority in appropriations.⁴ The DOD IG reported deficiencies associated with FBWT that included unmatched collections and disbursements,⁵ undistributed disbursements, and the Department of the Navy's inability to reconcile its fund records to the Department of the Treasury's records. The Navy and the Marine Corps, both of which are armed services that are components of the Department of the Navy, disclosed that they made unsupported reconciling adjustments to balance their FBWT records to Treasury's records.

In August 2009, the DOD Comptroller designated the Statement of Budgetary Resources as an audit priority because DOD relies heavily on budget information for day-to-day management decisions. In May 2010,

¹ In a disclaimer of opinion, the auditor does not express an opinion on the financial statements. A disclaimer of opinion is appropriate when the audit scope is not sufficient to enable the auditor to express an opinion, or when there are material uncertainties involving a "scope limitation"—a situation where the auditor is unable to obtain sufficient appropriate audit evidence.

² General Fund accounts in the U.S. Treasury holding all federal money not allocated by law to any other fund account.

³ A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

⁴ An appropriation provides an agency with budgetary authority to incur obligations and make payments from the Treasury for specified purposes.

⁵ Unmatched collections and disbursements are transactions that have been received and accepted by an accounting office, but have not been matched to the correct detail obligation or appropriation.

DOD revised its Financial Improvement and Audit Readiness (FIAR) plan⁶ to focus the department's efforts on two priorities, one of which is to improve the reliability of budgetary information and processes to obtain unqualified (clean) opinions on the Statement of Budgetary Resources. The Statement of Budgetary Resources is designed to provide information on authorized budgeted spending authority as outlined in the Budget of the United States Government (President's Budget), including budgetary resources, availability of budgetary resources, and how budgetary resources have been used.⁷ Assurance over the reliability of FBWT transactions and the resulting balances will be necessary in order for the Statement of Budgetary Resources to be auditable. Effective reconciliation of the FBWT account with Treasury accounts—a process similar in concept to a checkbook reconciliation—represents a key control over the reliability of FBWT.

In May 2011, the Navy reported that it will have the capability to conduct FBWT reconciliations by the fourth quarter of fiscal year 2012, in anticipation for having its Statement of Budgetary Resources audit ready in the first quarter of fiscal year 2013. However, the DOD IG's first-ever audit of the Marine Corps's General Fund Fiscal Year 2010 Combined Statement of Budgetary Resources resulted in a disclaimer of opinion for several reasons, including the DOD IG's inability to audit FBWT because of the Marine Corps's inability to provide supporting documentation for accounting transactions and disbursements. Because the reliability of FBWT is a very basic element of effective and reliable financial management information, the DOD IG's findings raise concerns about whether DOD will be able to validate [certify] that its consolidated financial statements are ready for audit by September 30, 2017, as required by the National Defense Authorization Act (NDAA) for Fiscal Year 2010.⁸

⁶ The FIAR Plan, which was first prepared in 2005, is DOD's strategic plan and management tool for guiding, monitoring, and reporting on the department's financial-management improvement efforts. As such, the plan communicates incremental progress in addressing the department's financial management weaknesses and achieving financial statement auditability.

⁷ Budgetary resources include the amount available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority (including direct spending authority provided in existing statute and obligation limitations) and unobligated balances of budget authority provided in previous years.

⁸ Pub. L. No. 111-84, § 1003(a),(b), 123 Stat. 2190, 2439-40 (Oct. 28, 2009).

This report responds to the request that we determine whether the Navy and the Marine Corps have implemented effective reconciliation processes for FBWT. To perform our assessment, we analyzed Navy and Marine Corps policies and procedures, and met with officials from the Navy, the Marine Corps, and the Defense Finance and Accounting Service (DFAS). To further understand the effect of identified design control weaknesses, we selected several nongeneralizable samples and reviewed supporting documentation. Because the Marine Corps is currently undergoing an audit of its fiscal year 2011 Statement of Budgetary Resources and the DOD IG plans to test its FBWT, we did not test the Marine Corps's reconciliation of FBWT transactions to its general ledger. We conducted our performance audit from October 2010 through October 2011 in accordance with generally accepted government-auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides further details on our scope and methodology.

Background

The United States Navy and the United States Marine Corps are both armed services and components of the Department of the Navy. The Navy's mission is to maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas. The Marine Corps performs a multifaceted mission of air, land, and sea support to the Navy and across all U.S. joint forces. The Department of the Navy reported \$225.6 billion in fiscal year 2010 total budgetary resources and \$165.3 billion in net outlays (spending).⁹ The amounts reported include Marine Corps's budgetary resources of \$37.5 billion and \$32.1 billion in net outlays.¹⁰ The Navy and Marine Corps disbursing offices¹¹ are responsible for collecting and disbursing funds on

⁹ Department of the Navy, Fiscal Year 2010 Department of the Navy Annual Financial Report, Statement of Budgetary Resources (November 2010).

¹⁰ U.S. Marine Corps, Financial Report, Fiscal Year 2010, Statement of Budgetary Resources (November 2010).

¹¹ The disbursing offices are identified by a unique four-digit disbursing station symbol number (DSSN), which is assigned by the Department of the Treasury. The disbursing offices utilize the DSSN identification to report its collections and disbursements data to DFAS.

behalf of the Department of the Navy as well as obtaining, maintaining, and providing sufficient supporting documentation for such transactions. Disbursing offices also are responsible for reporting disbursements and collections to the paying center—the Defense Finance and Accounting Service located in Cleveland, Ohio, (DFAS-CL). DFAS-CL provides accounting, disbursing, and financial reporting services and performs the FBWT reconciliation for the Navy and the Marine Corps.

Navy and Marine Corps Accounting Process

FBWT account reflects the available budget spending authority of federal agencies. Collection and disbursement activity increase or decrease the balance in this account. Navy and Marine Corps accounting processes for collections and disbursements are complex, involving a large volume of transactions that are handled by several disbursing and accounting offices and DFAS personnel. The accounting process for collections and disbursements begins when military commanders or other unit managers or their designees deposit collected funds or authorize a payment. These personnel submit deposit tickets to their disbursing offices to prepare collection vouchers for collections, such as fees collected by military hospitals. For disbursement transactions, payment authorization information is entered by the program and operations personnel into the appropriate DOD entitlement system, such as STARS-One Pay for Navy vendor payments. The entitlement system certifies the payment files and passes the information to the appropriate Disbursing System, such as the DOD's Automated Disbursing System (ADS). The Disbursing System initiates the payment via the Federal Reserve Bank and produces a daily statement of accountability. The disbursing officers input the daily statement of accountability and the collections and disbursements transaction level data daily into the Defense Cash Accountability System (DCAS), which feeds this information into the Navy's and the Marine Corps's general ledger accounting systems.¹² At month-end, DFAS-CL generates the Statements of Transactions (Standard Form 1220) and Statement of Accountability (Standard Form 1219) reports from DCAS and provides them to the Department of Treasury to report Navy and

¹² The Navy has four general ledger accounting systems: the Standard Accounting and Reporting System—Field Level (STARS-FL), the Standard Accounting and Reporting System—Headquarters Level (STARS-HCM), the Navy Enterprise Resource Planning (NERP) system, and the Navy Systems Management Activity (NSMA). The Marine Corps's general ledger accounting system is the Standard Accounting, Budgeting, and Reporting System (SABRS).

Marine Corps cash collections and disbursements, which the Treasury uses to generate the Statements of Differences by itemizing differences between their records and the information reported by the agencies. The Statement of Differences is then used by the agencies as part of their FBWT reconciliation.

FBWT Reconciliation Process

Reconciling FBWT activity records with Treasury records—a process similar to reconciling a check book to a bank statement—helps determine amounts spent as well as unexpended balances and is important to funds control. DOD's *Financial Management Regulation (FMR)* notes that reconciliation is a key control for maintaining the accuracy and reliability of the entity's FBWT records.¹³ The FMR defines reconciliation as a process that compares two sets of records (usually the balances of two accounts) and identifies, and explains the differences between the records or account balances. Differences, or reconciling items, may be caused by the timing of transactions, an invalid line of accounting, or insufficient detail. The FMR states that reconciliation is not complete until all differences are identified, accountability is assigned, differences are explained, and appropriate adjustments are made to records.¹⁴ Effective reconciliations are also important in preventing entity disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available budgetary resources.¹⁵

DFAS–CL executes the following five steps to perform the Navy and the Marine Corps monthly FBWT reconciliations:

1. Defense Cash Accountability System (DCAS) To Treasury's Forms.¹⁶ This reconciliation step is intended to ensure that the transaction-level detail for cash activity recorded in DCAS (i.e., collections and disbursements) and reported on the Statement of Transactions (Standard Form 1220) is in balance with the summary-level cash activity

¹³ DOD Financial Management Regulation 7000.14R (FMR), Volume 4, Chapter 2, Accounting for Cash and Fund Balances with Treasury, Section 020701 (Dec. 2009).

¹⁴ DOD FMR, Vol. 4, Ch. 2, Sec. 020102.B.7.

¹⁵ DOD FMR, Vol. 4, Ch. 2, Sec. 020701.

¹⁶ DCAS is the central repository of DOD cash activity that is reported to the Department of Treasury.

data reported on the Statement of Accountability (Standard Form 1219). DFAS-CL relies on an automated control in DCAS to ensure that the 1219 and 1220 Statements are in balance before transmitting the forms to Treasury.

2. DCAS to Treasury's Governmentwide Accounting (GWA) System. This reconciliation step is intended to ensure that the cash activity records are reliable (i.e., complete and accurate). DFAS-CL accesses Treasury's GWA and downloads the Agency Location Code Activity Report, which provides comparable transaction information to the Standard Form 1220 by line of accounting.¹⁷ DFAS-CL compares the Treasury report to the Standard Form 1220 generated in the first step of the reconciliation process to identify differences, if any, that will require resolution.

3. Defense Departmental Reporting System–Budgetary (DDRS–B)¹⁸ to GWA System. This reconciliation step is intended to ensure that the appropriation balances are reliable. DFAS-CL accesses DDRS-B and generates the Standard Form 133, Report on Budget Execution and Budgetary Resources (which contains appropriation and fund account summary data).¹⁹ DFAS-CL accesses Treasury's GWA system and downloads the Account Statement Report, which provides the balance for each line of accounting. DFAS-CL compares the reports to identify differences, if any, that will require resolution.

4. Statement of Differences Resolution. This reconciliation step is intended to resolve differences identified by Treasury between the military services (i.e., Navy and the Marine Corps), and financial institutions' and other agencies' reporting for checks issued,²⁰ deposits-in-transit,²¹ and

¹⁷ DOD uses a line of accounting to accumulate appropriation, budget, and management information, such as (1) department code, and (2) fiscal year and appropriation account.

¹⁸ DDRS-B is a Web-based application that replaced many of the legacy departmental budgetary reporting systems.

¹⁹ The Standard Form 133 Report on Budget Execution and Budgetary Resources fulfills the requirement in 31 U.S.C. §§ 1511-1514 that the President review federal expenditures at least four times a year. An agencywide Standard Form 133 should generally agree with an agency's Statement of Budgetary Resources.

²⁰ Checks-issued differences are discrepancies between the check-issued data from the financial institutions and the check-issued detail information submitted by the Navy and the Marine Corps to Treasury through the Defense Check Reconciliation Module (DCRM) system, and the Navy's and Marine Corps's Standard Form 1219.

Intra-Governmental Payment and Collections (IPAC).²² Treasury mails DFAS-CL a hard copy of the Statement of Differences for checks issued. DFAS-CL accesses the Government On-Line Accounting Link System (GOALS)²³ and downloads the Statement of Differences for the deposits-in-transit and IPAC transactions. DFAS-CL coordinates with the various Navy and Marine Corps disbursing offices, which are responsible for researching and resolving any differences identified. The Disbursing Offices are also responsible for maintaining all supporting documentation.

5. DCAS to General-Ledger Accounting Systems. This reconciliation step is intended to ensure that the cash activity at the transaction level recorded in DCAS has been captured in the general-ledger accounting systems. For the Navy, DFAS-CL uses the Business Activity Monitoring (BAM) tool²⁴ to upload and compare cash collections and disbursements recorded in DCAS and the general-ledger accounting systems by line of accounting. DFAS-CL uses BAM to research and resolve identified differences, if any. The Marine Corps's Accounting and Financial Systems Branch (RFA) runs a query in the general-ledger system—Standard Accounting, Budgeting, and Reporting System (SABRS)—that generates a report that identifies differences between the daily cash activity recorded in DCAS and SABRS. The Marine Corps forwards the report to DFAS-CL to research and resolve any identified reconciliation differences.

Figure 1 provides an overview of the Navy and Marine Corps FBWT reconciliation processes.

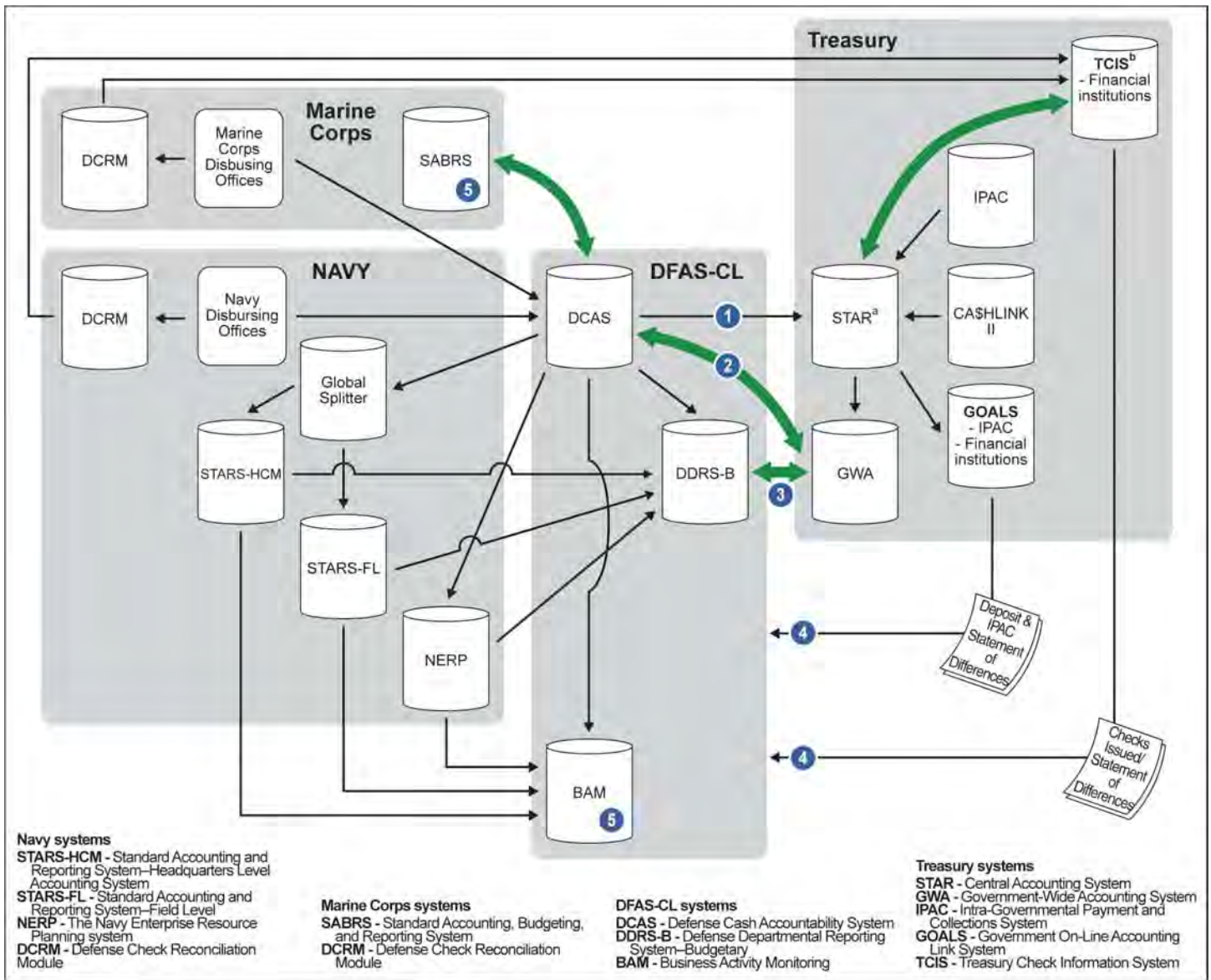
²¹ Deposits in transit differences are discrepancies between the deposit information on the Navy's and Marine Corps's Standard Form 1219 and the deposit data reported by the financial institutions to Treasury through the CA\$HLINK II system.

²² IPAC differences are discrepancies between the data on the Navy's and Marine Corps's Standard Forms 1219 and 1220, and the interagency transactions reported by other federal agencies to Treasury through the IPAC system.

²³ GOALS is the governmentwide network that provides automated financial reporting directly to the Financial Management Services, within the Department of Treasury and the Office of Management and Budget. GOALS also provides agencies with reports on collection and disbursement activity and FBWT transactions.

²⁴ The BAM tool will be used to monitor and reconcile the Navy's general fund transactions. However, since NSMA contains classified information, DFAS-CL has not determined if it will use the BAM tool to reconcile this information.

Figure 1: Overview of the Navy and the Marine Corps FBWT Reconciliation Processes



→ Reports
 ↔ Reconciliation

Source: GAO analysis of DFAS-CL, Navy, Marine Corps, and Treasury information.

^aSTAR—Treasury’s accounting and reporting system—is used to record cash collections and disbursements activity reported by the Navy and Marine Corps, deposit transactions reported by financial institutions via CASHLINK II, and interagency transactions reported through the IPAC system.

Navy and Marine Corps Processes for Reconciling FBWT Are Ineffective

^bTCIS is used to record all U.S. Treasury checks issued by the Navy and Marine Corps, and the clearance of those checks by the financial institutions.

Neither the Navy nor the Marine Corps have implemented effective processes for reconciling their FBWT. We found numerous deficiencies in the 5-step process that impair their abilities to reconcile their FBWT with Treasury records. DOD's *Financial Management Regulation (FMR) and the Treasury Financial Manual* require every Defense component with FBWT accounts to perform detailed monthly reconciliations at a level of detail sufficient for specific identification of differences to establish that the entity's FBWT general ledger accounts and the Treasury control totals are accurately stated.^{25, 26} The FMR further requires DOD components to ensure that written standard-operating procedures are put into place to direct and document that a detailed FBWT reconciliation process is operating effectively.²⁷ The FMR also states that a "forced-balance entry"²⁸ is not an adequate reconciliation and requires DOD components to maintain detailed reconciliation worksheets and documentation to provide an adequate audit trail.²⁹ Further, the GAO's *Standards for Internal Control in the Federal Government* state the supervisory review and approval process is a key control activity for federal agencies.³⁰ Without effective reconciliations of FBWT collection and disbursement activity, the amount of funds available for expenditure may contain material misstatements; related accounting information may also be

²⁵ DOD FMR, Vol. 4, Ch. 2, Sec. 0207, and Treasury Financial Manual, Volume I, Part 2, Chapter 5100, Reconciling Fund Balance with Treasury Accounts (Oct. 18, 1999).

²⁶ DOD, FMR, Vol. 4, Ch. 2, Sec. 020705.

²⁷ DOD, FMR, Vol. 4, Ch. 2, Sec. 020708.

²⁸ A "forced-balance entry" represents any amount posted, usually at a summary level, to eliminate differences between the component agency's general ledger balance and the Treasury's control total.

²⁹ DOD FMR, Vol. 4, Ch. 2, Sec. 020706, and 020102, B.4 and B.5.

³⁰ GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

misstated, and the Department of the Navy is at increased risk of Antideficiency Act violations.³¹ Specifically, we found that:

- The Navy and Marine Corps rely on the data from DCAS to reconcile their FBWT to Treasury's records; however, they have not taken the necessary actions to ensure that the data are reliable. Specifically, DOD has not tested the application controls over DCAS since its implementation to determine if the system is processing data as intended.
- DFAS-CL did not maintain adequate documentation for the nongeneralizable sample of items we tested to enable an independent evaluation of its efforts to research and resolve differences. There was also no evidence of supervisory review and approval.
- DFAS-CL currently records forced-balance entries to account for any differences between the Navy's and Marine Corps's appropriations balances to those reported by Treasury. These types of adjustments, made without supporting documentation but to force items into balance, are commonly referred to as "plugs" and can mask much larger problems in the accounting data.
- DFAS-CL is currently unable to reconcile the cash activity recorded in the Navy's general-ledger accounting systems to that recorded in DCAS. The DOD IG officials stated that they were performing substantive testing to confirm the balance of the Marine Corps's FBWT as part of the fiscal year 2011 audit of the Marine Corps's Statement of Budgetary Resources. However, this testing did not include internal control and did not provide assurance on the effectiveness of the Marine Corps's FBWT reconciliation process.

We also found that existing policies and procedures did not contain detailed information on the roles and responsibilities of organizations and personnel and the process for identifying, researching, and resolving discrepancies, including the required supporting documentation. The policies and procedures also did not require supervisory review and approval of reconciliation efforts and results. Further, with the exception

³¹ An Antideficiency Act violation occurs when one or more of the following happens: (1) overobligation or overexpenditure of an appropriation or fund account (31 U.S.C. § 1341(a)); (2) entering into a contract or making an obligation in advance of an appropriation, unless specifically authorized by law (31 U.S.C. § 1341(a)); (3) acceptance of voluntary service, unless authorized by law (31 U.S.C. § 1342); or (4) overobligation or overexpenditure of (a) an apportionment or reapportionment, or (b) amounts permitted by the administrative control of funds regulations (31 U.S.C. § 1517(a)).

of the recently issued Marine Corps procedures,³² there was no evidence that the policies and procedures being followed had been reviewed and approved by management.

Navy, Marine Corps and DFAS-CL officials agreed that existing policies and procedures are inadequate. DFAS-CL and Navy officials also stated that the base realignment and closure changes in 2006 through 2008 resulted in a loss of experienced DFAS-CL personnel and that the remaining staff have not received the needed training. The standards for internal control state that training is key for management to ensure that staff maintain a level of competence that allow them to accomplish their assigned duties. Officials from the Department of the Navy's Office of Financial Operations (FMO) stated that they are currently developing a Plans of Action and Milestones (POAM) to address weaknesses that affect the Navy's audit readiness, including reconciling the Navy's FBWT records. FMO officials stated that they plan to include in the POAM a requirement for the components to develop needed policies and procedures for the reconciliation of FBWT. The Navy expects to complete the initial version of its POAM by December 2011. With regard to DCAS testing and problems, DFAS-CL officials stated that the DOD Inspector General was reviewing the system as part of its audit of the Marine Corps Statement of Budgetary Resources. However, the IG stated that it was only focused on the design of the system and documented policies and procedures. As a result, its work would not be sufficient to assess the reliability of the system's controls and whether they are operating as intended.

The following paragraphs provide more detail about the deficiencies we found in the 5-step FBWT reconciliation process.

Step 1: DCAS. The Navy's and the Marine Corps's ability to effectively reconcile their FBWT accounts is dependent upon the reliability (i.e., completeness and accuracy) of the data in DCAS. However, the reliability of the data in DCAS is questionable due to the lack of system testing and extensive system deficiencies. The Navy, the Marine Corps and DFAS rely upon the application controls in DCAS to ensure that the data are reliable. Although changes have been made to the system, the

³² Marine Corps and DFAS, Fund Balance with Treasury (FBWT) Reconciliation Process (July 22, 2011).

application controls³³ in DCAS have not been tested since the system was implemented. Therefore, the Navy, the Marine Corps, and DFAS do not have reasonable assurance that the system controls they are relying on to ensure that the data in DCAS are reliable and are working as intended. In addition, as of April 2011, the Navy, the Marine Corps, and DFAS had identified a list of 672 system change requests that needed to be addressed in order to correct DCAS' data reliability and security problems or process required system updates; 362 of which were submitted by the Marine Corps and DFAS-CL. Navy and DFAS officials stated that over 200 of the identified system change requests are deficiencies that affect audit readiness and identified the top 20 deficiencies that required immediate attention. For example, DCAS currently allows certain users to modify the dollar amount of previously posted transactions and other users to post transactions to invalid or closed appropriation accounts, and these transactions are being forwarded to Treasury for processing. In addition, DCAS users' roles and responsibilities have not been defined thus resulting in segregation-of-duties issues. However, the officials stated that a time frame for addressing the top 20 issues had not yet been established.

Step 2: DCAS to Treasury's GWA System. Our review of 3 reconciliation worksheets for October through December 2010 identified several deficiencies. For example, we found that the reconciliation spreadsheets showed the wrong journal voucher number for 2 of the adjustments and did not provide the journal voucher numbers for another 6 adjustments. From these reconciliation worksheets, we selected 15 journal vouchers that were created by DFAS-CL to resolve reconciliation differences and reviewed the related supporting documentation. Of the 15 journal vouchers, we found that only 2 were adequately supported. For the 13 unsupported journal vouchers, we found that:

- Ten journal vouchers did not have underlying support justifying the adjustment made to correct disbursement transactions. In one instance, it was initially determined that the correction may have caused an Antideficiency Act violation, which must be investigated

³³ Application controls, sometimes referred to as business controls, are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of data during application processing and reporting. For example, a system edit used to prevent or detect a duplicate entry is an application control.

and the results of the investigation documented.³⁴ DFAS-CL officials stated that they performed an investigation and determined that this was an accounting error, not an Antideficiency Act violation. However, DFAS-CL officials were unable to provide adequate documentation supporting their conclusions or that the required investigation was performed.

- Three journal vouchers were made to comply with Treasury's guidance to clear transactions recorded in suspense accounts within 60 business days.³⁵ DFAS-CL employees told us that they routinely transfer disbursement transactions from suspense to canceled or invalid appropriation accounts to meet the 60-day metric and then transfer them back to suspense accounts the following month until such time as the issue is actually resolved.

Step 3: DDRS-B to Treasury's GWA System. DFAS-CL posts unsupported adjustments when differences occur in order to make balances agree. During fiscal year 2010, DFAS-CL processed a total of \$22.1 million in disbursement adjustments and \$952.6 million in collection adjustments to force Navy account balances in DDRS-B to agree with Treasury GWA system balances. Also during fiscal year 2010, DFAS-CL processed \$32.1 million in disbursement adjustments and \$22.9 million in collection adjustments to force Marine Corps account balances in DDRS-B to agree with GWA system balances. DFAS-CL officials stated that the discrepancies usually result from timing differences related to the posting of the transactions. However, these officials also stated that they do not confirm whether these were timing differences or actual errors.

Step 4: Statement of Differences Resolution. The supporting documentation maintained by DFAS-CL and Navy and Marine Corps disbursing offices does not provide a clear audit trail as to the cause and resolution of the differences identified by Treasury. DFAS-CL officials stated that there is no supervisory review and approval of the work

³⁴ Department of Defense, Financial Management Regulation, 7000.14R, Volume 14, Chapter 3, "Preliminary Reviews of Potential Violations" (November 2010).

³⁵ Department of Treasury, Treasury Financial Manual, Bulletin No. 2007-07, "Suspense 'F' Account Discontinuance and Waiver Policy" (June 20, 2007). As of June 15, 2011, this bulletin was rescinded and replaced with an updated bulletin, which retains the 60 business days deadline. Department of Treasury, Treasury Financial Manual, Bulletin No. 2011-06, "Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Governmentwide Accounting (GWA) Reporter" (June 15, 2011).

performed to research and resolve the differences. For example, DFAS-CL maintains reconciliation worksheets; however, these reconciliation worksheets do not provide detailed information on the underlying cause of the differences or the actions taken to resolve the differences as required by the DOD FMR.³⁶ DFAS-CL does not obtain from the Navy and Marine Corps disbursing officers the initial documents (e.g., copies of canceled checks or deposit tickets) that resulted in the original transaction to complete its records. Instead, DFAS-CL primarily maintains email correspondence from the disbursing officers stating that the differences were resolved or will be resolved in the next month's Standard Form 1219 report by processing an adjustment. Based on our field work at five disbursing offices, we also found that the disbursing offices lack an adequate trail for the resolution of the statement of differences. While the disbursing officers generally maintained the original documents (e.g., copies of canceled checks or deposit tickets), they did not maintain documentation showing the underlying causes and the actions taken to resolve the differences.

Step 5: DCAS to General Ledger Accounting System(s). The Navy has not been able to reconcile the data in its general ledger accounting systems to DCAS. DFAS officials stated that they acquired the Business Activity Monitoring (BAM) tool to reconcile the Navy's FBWT. DFAS-CL is in the process of implementing the first phase³⁷ of the BAM tool to reconcile collection and disbursement information by appropriation from DCAS to the general ledger information uploaded to the BAM tool for three of the four general ledger accounting systems.³⁸ DFAS officials stated that after 4 years of effort, they had spent nearly \$29 million to modify BAM, including about \$13 million to facilitate Navy's FBWT reconciliations. DFAS officials stated that there have been schedule delays in implementing the BAM tool, which have affected the

³⁶ DOD FMR, Vol. 4, Ch. 2, Sec. 020701 and 020706.

³⁷ DFAS officials told us that they were planning to implement the BAM tool in two phases; however, DFAS has not yet defined the system requirements for the second phase or developed an implementation schedule. DFAS has reported that the second phase of the BAM tool implementation will automate the Navy's DCAS and DDRS-B reconciliations to the GWA system as well as other reconciliation capabilities.

³⁸ The three systems being addressed in the first phase are the Standard Accounting and Reporting System-Field Level (STARS-FL), the Standard Accounting and Reporting System-Headquarters Level (STARS-HCM), and the Navy Enterprise Resource Planning (NERP).

functionality currently provided by the tool. For example, as of April 2011, there were over \$22 billion of unmatched transactions that were either collections or disbursements affecting more than 10,000 lines of accounting identified in the BAM tool without the information needed to identify and resolve the underlying causes of the differences between DCAS and the Navy's general-ledger accounting systems.

In our efforts to evaluate the implementation of the BAM tool, we found that DFAS did not have documentation of the system³⁹ and user validation⁴⁰ testing of the BAM tool. DFAS officials stated that they performed system and user validation testing of the BAM tool to help ensure that it would provide the required reconciliation functionality; however, they did not maintain supporting documentation for the testing plan, design, procedures, or results, as recommended by the Institute of Electrical and Electronics Engineers (IEEE).⁴¹ The standards for internal control also require agencies to clearly document significant events and have the documentation readily available for examination.⁴² Because of the lack of supporting documentation, DFAS does not have evidence that an adequate testing methodology was designed and followed and that any deficiencies identified during testing were addressed. In addition, we found that the approved BAM tool system requirements cannot be traced to the system requirements that were tested during user validation testing. The BAM tool program manager agreed and stated that DFAS will need to develop a requirements-traceability matrix to map approved system requirements to the requirements tested. Because of the lack of traceability, DFAS-CL does not have reasonable assurance that all the BAM tool system requirements were tested and that the tool will function as intended.

³⁹ System testing is a testing conducted on a complete, integrated system to evaluate the system's compliance with its specified requirements.

⁴⁰ User Validation Testing (UVT) is a process to obtain confirmation that a system meets mutually agreed-upon requirements. The results of these tests give confidence to the users as to how the system will perform in production.

⁴¹ IEEE, Standard for Software Verification and Validation, IEEE Std 1012TM-2004. The IEEE is a nonprofit, technical professional organization that develops standards for a broad range of global industries, including the information technology and information assurance industries, and is a leading source for defining best practices.

⁴² [GAO/AIMD-00-21.3.1](#)

As stated earlier, DOD IG reported during the fiscal year 2010 Statement of Budgetary Resources audit effort that it was not able to audit the Marine Corps's FBWT because of the lack of a FBWT reconciliation. DOD IG officials stated that they were performing substantive testing to confirm the balance of the Marine Corps's FBWT as part of the fiscal year 2011 Statement of Budgetary Resources audit. However, this testing did not include internal control testing and did not provide assurance on the effectiveness of the Marine Corps's FBWT reconciliation process.

Conclusions

The Navy and the Marine Corps recognize the importance of reconciling their FBWT to improve their budgetary information and obtain an audit opinion on their Statement of Budgetary Resources, which is one of the main priorities of DOD's current audit readiness strategy. However, the lack of (1) an effective FBWT reconciliation process, (2) adequate policies and procedures to guide the FBWT reconciliation processes, and (3) assurance over the reliability of the data in DCAS, all increase the risk that misstatements could occur in Navy and Marine Corps FBWT accounts and other related financial information and not be timely detected and addressed. These deficiencies also increase the risk of Antideficiency Act violations. Specifically, as of April 2011, the Navy and DFAS officials stated that they had identified over 200 deficiencies in DCAS related to audit-readiness problems. Navy officials stated that they are developing a plan to address the deficiencies affecting the Navy's ability to achieve audit readiness, including reconciling their FBWT. Considering the deficiencies identified in this report can help inform these officials as they develop and implement their plan. If the Navy and the Marine Corps are unable to effectively reconcile their FBWT, the Department of the Navy's ability to assert audit readiness for its Statement of Budgetary Resources by the first quarter of fiscal year 2013 could be jeopardized.

Recommendations

We are making six recommendations to the Secretary of Defense to implement processes to reconcile the Navy's and the Marine Corps's FBWT.

To help ensure that the Navy and Marine Corps implement effective FBWT reconciliation processes, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) and the Secretary of the Navy to take the following actions

-
- develop and implement policies and standard-operating procedures to guide the FBWT reconciliation process—including the assignment of specific roles and responsibilities, supervisory review and approval, and documentation requirements—and
 - develop and implement a training curriculum for staff performing FBWT reconciliations to communicate the policies and procedures.

To ensure that the data in DCAS are reliable, we recommend that the Secretary of Defense direct the Director of the Defense Logistics Agency to

- perform periodic testing of the system and timely address any deficiencies identified; and
- prioritize the known deficiencies and address those that affect audit readiness, including the ability to reconcile FBWT accounts.

To ensure that the BAM tool system and user validation testing are adequately documented, we recommend the Under Secretary of Defense (Comptroller) direct the Director of the DFAS to

- maintain supporting documentation for the BAM tool system requirements and user-validation testing—including the methodology, performance, and detailed results of the testing—and
- develop and maintain a traceability matrix to track approved BAM tool system requirements to those tested by the contractor to ensure that all requirements are tested.

Agency Comments and Our Evaluation

We received written comments from the DOD Deputy Chief Financial Officer, which are reprinted in appendix II. In commenting on the report, the Deputy Chief Financial Officer concurred with the six recommendations in our draft report and also stated the view that the Marine Corps is further ahead in its Fund Balance with Treasury (FBWT) reconciliation process than the report suggests. Specifically, he commented that the independent auditors found the FBWT reconciliation process and universe of transactions to be satisfactory and began testing the balance for fiscal year 2011.

During fiscal year 2011, the Marine Corps demonstrated some progress on its FBWT reconciliation, as recognized in our report and in the Deputy Chief Financial Officer's letter. For example, the Marine Corps developed a standard-operating procedure (SOP) for its FBWT reconciliation. However, as discussed in our report, we found that the SOP lacked certain key reconciliation controls, such as the documentation required to support the resolution of differences. We also reported deficiencies in the

Marine Corps reconciliation, such as the lack of reliability of the DCAS system, which is used for recording daily cash activity, and deficiencies in documentation supporting the reconciliation steps.

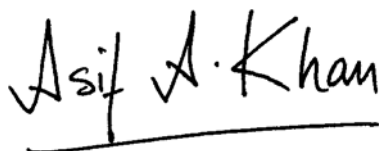
As part of the Marine Corps fiscal year 2011 audit of the Statement of Budgetary Resources, the auditor reported that it was comfortable with the completeness of the universe of FBWT transactions and so could begin detailed testing. However, as discussed in our report, the auditor could not test the effectiveness of the FBWT reconciliation controls due to the inadequate procedures and lack of documentation.

On November 22, 2011, the DOD IG issued a disclaimer of opinion for the Marine Corps fiscal year 2011 Statement of Budgetary Resources because of the lack of relevant and timely supporting documentation.

We are encouraged by the Department of the Navy's efforts to develop a plan to address weaknesses related to the audit readiness and its projection that it will achieve FBWT auditability by fiscal year 2013.

We are sending copies of this report to the Secretary of Defense, the Under Secretary of Defense (Comptroller/Chief Financial Officer), the Secretary of the Navy; the Assistant Secretary of the Navy for Financial Management and Comptroller; the Commandant of the Marine Corps; Assistant Deputy Commandant, Programs and Resources Department of the Marine Corps; the Directors of DFAS, DFAS-Cleveland, DFAS-Indianapolis; and appropriate congressional committees. In addition, the report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-9869 or khana@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Asif A. Khan". The signature is written in a cursive style and is underlined with a single horizontal line.

Asif A. Khan
Director, Financial Management and Assurance

List of Congressional Requesters

The Honorable Thomas R. Carper
Chair
The Honorable Scott P. Brown
Ranking Member
Subcommittee on Federal Financial
Management, Government Information,
Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Claire McCaskill
Chair
Subcommittee on Contracting Oversight
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Coburn
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable John McCain
United States Senate

The Honorable Todd Platts
Chairman
The Honorable Edolphus Towns
Ranking Member
Subcommittee on Government Organization,
Efficiency and Financial Management
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Objective, Scope, and Methodology

To determine whether the Navy and the Marine Corps have effective Fund Balance with Treasury (FBWT) reconciliation processes, we analyzed Navy and Marine Corps policies and procedures using relevant criteria, including the Department of Defense's (DOD) Financial Management Regulation, the Department of the Treasury's Financial Manual, and GAO's *Standards for Internal Control in the Federal Government*.¹ To further understand the effect of identified design control weaknesses, we selected several nongeneralizable samples from the Department of the Navy's FBWT transactions and adjustments, and reviewed supporting documentation, such as journal vouchers, copies of canceled checks, and deposit tickets. Because the Marine Corps was undergoing an audit of its fiscal year 2011 Statement of Budgetary Resources and the DOD IG planned to test its FBWT, we did not test the Marine Corps's reconciliation of FBWT transactions to the general ledger. Specifically, we obtained and reviewed

- the reconciliation worksheets for October through December 2010 for the Defense Cash Accountability System (DCAS) to Treasury's Government-Wide Accounting System reconciliation step (Based on our review of the reconciliation worksheets, we selected five journal vouchers related to adjustments from each month and requested supporting documentation. We focused on the first 3 months of fiscal year 2011 since the IG had recently conducted an audit of the Department of the Navy's fiscal year 2010 financial statements.);
- the reconciliation worksheets and journal vouchers for September 2010 fiscal year-end and February 2011, which was the most recently completed reconciliation at the time of our walkthrough for the Defense Departmental Reporting System-Budgetary to Treasury's Government-Wide Accounting System reconciliation step. (Because the Defense Finance and Accounting Service (DFAS) resolves identified differences by posting forced-balance entries (plugs), we did not review reconciliation spreadsheets and journal vouchers for additional months.); and

¹ DOD Financial Management Regulation 7000.14R (FMR), Volume 4, Chapter 2, "Accounting for Cash and Fund Balance with Treasury" (December 2009); Department of the Treasury, Treasury Financial Manual, vol. 1, part 2, chap. 5100, "Reconciling Fund Balance with Treasury Accounts (October 18, 1999); "and GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

- the Statement of Differences reports for the months of October 2010 through March 2011 because of aged differences identified by Treasury for checks issued and the large volume of transactions for deposits. We selected and reviewed available supporting documentation maintained by DFAS located at Cleveland (DFAS-CL) for discrepancies identified for 45 checks issued and 10 deposits. Because DFAS-CL officials informed us that the supporting documentation was maintained by the Navy and Marine Corps disbursing offices, we selected and reviewed available supporting documentation for an additional 27 checks issued and 61 deposits for the same period from five disbursing offices. We selected the three Navy disbursing offices located at DFAS-CL (disbursing location 8522) and Norfolk, Virginia, (disbursing locations 6870 and 8371) because, according to the Navy Disbursing Officer in Norfolk, these three disbursing offices accounted for approximately 93 percent of the Navy's disbursements and collections. In addition, we selected two Marine Corps disbursing offices located at DFAS-CL (disbursing location 6102) and Camp LeJeune, North Carolina, (disbursing location 6092) because they are two of the four largest Marine Corps disbursing stations.

To determine if the application controls² over the DCAS³ were operating as intended, we interviewed Business Transformation Agency⁴ officials—the system owner—to obtain an understanding of the DCAS application controls related to the Treasury reporting operations and the extent to which DOD has tested these controls. In addition, we obtained and reviewed the system change requests to determine whether any of the problems identified would significantly affect DFAS' ability to reconcile the Navy's and Marine Corps's FBWT records.

² Application controls, sometimes referred to as business controls, are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of data during application processing and reporting. For example, a system edit used to prevent or detect a duplicate entry is an application control.

³ Defense Cash Accountability System is the department's central repository for cash collections and disbursement activity reported to the Treasury.

⁴ The Business Transformation Agency was recently disestablished, and its responsibilities as the DCAS system owner were reassigned to the Defense Logistic Agency.

To determine the implementation status of the Business Activity Monitoring tool,⁵ we obtained and reviewed the managed services contract, Functional Requirements Document, and Initial Operating Capability⁶ reports, and available documentation on user validation tests.⁷ We interviewed DFAS officials located in Cleveland and Indiana, including the Business Activity Monitoring program manager regarding the implementation status, the scope and results of user validation tests, and limitations in the tool's functionality.

We met with Navy, Marine Corps, and DFAS officials throughout our work to assess FBWT reconciliation processes. We conducted our performance audit from October 2010 through October 2011 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁵ DFAS-CL is implementing the Business Activity Monitoring tool to facilitate its reconciliation of the Defense Cash Accountability System to the Navy's general ledger accounting systems.

⁶ Initial operational capability is achieved when a system is implemented with some minimal capabilities and additional capabilities are planned before the system is determined to have reached full operational capability.

⁷ User Validation Testing (UVT) is a process to obtain confirmation that a system meets mutually agreed-upon requirements. The results of these tests give confidence to the users as to how the system will perform in production.

Appendix II: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

DEC 6 2011

Mr. Asif A. Khan
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Khan:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report GAO-12-132, "DoD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury," released November 2, 2011 (GAO Code 198658). Our responses to the recommendations and our additional detailed comments are enclosed with this letter. The Department is already implementing many of the actions noted in our response.

While we agree with the recommendations in your draft report, the U.S. Marine Corps (USMC) is further ahead in its Fund Balance with Treasury reconciliation process than the report suggests. The USMC is able to account for all appropriations balances in the accounting system and all reconciling items with Treasury.

We appreciate the opportunity to provide comments and trust you will consider them in developing your final report. We look forward to your continued cooperation and dialogue toward our common goal of improving financial management and systems throughout the Department of the Navy, and ultimately throughout the Department of Defense. My point of contact for this effort is Mr. Joseph Quinn. He can be reached at 571-256-2678 or at joseph.quinn@osd.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton
Deputy Chief Financial Officer

Enclosures:
As stated

cc:
Assistant Secretary of the Navy for Financial Management and Comptroller
Director, Defense Finance and Accounting Service

GAO DRAFT REPORT DATED NOVEMBER 02, 2011
GAO-12-132 (GAO CODE 198658)

“DOD FINANCIAL MANAGEMENT: ONGOING CHALLENGES WITH
RECONCILING NAVY AND MARINE CORPS FUND BALANCE WITH
TREASURY”

DEPARTMENT OF DEFENSE RESPONSES
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: That the Secretary of Defense direct the Secretary of the Navy to take the following actions: develop and implement policies and standard operating procedures to guide the FBWT reconciliation process, including the assignment of specific roles and responsibilities, supervisory review and approval, and documentation requirements.

DoD RESPONSE: Concur. On behalf of the Secretary of Defense, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) directed the U.S. Marine Corps (USMC) to develop Fund Balance with Treasury (FBWT) policies and standard operating procedures (SOPs) to guide the current reconciliation process for the USMC that are in use today. The USMC policies, SOP, and FBWT reconciliation process were evaluated and accepted by Grant Thornton (GT), the Independent Public Auditor (IPA) firm supporting the Department of Defense Inspector General audit of the USMC Fiscal Year (FY) 2011 Statement of Budgetary Resources (SBR). The USMC policies and operating procedures include the assignment of specific roles and responsibilities, supervisory review and approval, and document requirements.

The USMC demonstrated to the independent auditors an effective process for FBWT reconciliation and has delivered the detailed universe of transactions to validate the financial statement amounts. The auditors found the FBWT reconciliation and universe of transactions to be satisfactory and commenced sample testing of the balance for FY 2011.

The Department of the Navy (DON) and the Defense Finance and Accounting Service (DFAS), its service provider, are working to implement a fully automated FBWT reconciliation process and associated SOPs leveraging the successes achieved by the USMC through the FY 2011 SBR audit engagement. The DON projects achieving an independently auditable DON FBWT reconciliation process, in coordination with DFAS, by the second quarter of FY 2013. The DON will leverage the documentation developed by the USMC to prepare and strengthen DON-wide policies and SOPs to guide the FBWT reconciliation process, including the assignment of specific roles and responsibilities, supervisory review and approval, and documentation requirements. The DON expects to have this completed by the second quarter FY 2013. The DON integrated Plan of Actions and Milestones (POAM) identifies action items to ensure these requirements are addressed.

Enclosure 1

RECOMMENDATION 2: That the Secretary of Defense direct the Secretary of the Navy to take the following actions: develop and implement a training curriculum for staff performing FBWT reconciliations to communicate the policies and procedures.

DoD RESPONSE: Concur. On behalf of the Secretary of Defense, the USD(C)/CFO has directed the DON to work closely with DFAS, its principal service provider, to assure proper training for staff across the DON, its Commands, and its service providers at each level of the fund execution recording and reporting processes. The DON projects completion for the development and implementation of a training curriculum for staff performing DON FBWT reconciliations, in coordination with DFAS, by the third quarter of FY 2013. The DON integrated POAM identifies action items to ensure these requirements are addressed and support a sustainable and independently auditable business process.

RECOMMENDATION 3: That the Secretary of Defense direct the Director of the Defense Logistics Agency to perform periodic testing of the system and timely address any deficiencies identified.

DoD RESPONSE: Concur. On behalf of the Secretary of Defense, the USD(C)/CFO has directed the Defense Logistics Agency (DLA) to perform periodic testing of the system and timely address any deficiencies identified. Testing will be in place in time for the Defense Cash Accountability System (DCAS) business enterprise information system to support the Secretary of Defense's accelerated audit readiness of the General Fund Statement of Budgetary Resources by the end of FY 2014.

RECOMMENDATION 4: That the Secretary of Defense direct the Director of the Defense Logistics Agency to prioritize the known deficiencies and address those that affect audit readiness, including the ability to reconcile FBWT accounts.

DoD RESPONSE: Concur. On behalf of the Secretary of Defense, USD(C)/CFO has directed DLA to follow the GAO's recommendation and review the system enhancements cited in the audit. DLA identified 20 system enhancements with audit readiness impacts versus the 200 identified in the report. DFAS is verifying the audit impacts and recommending prioritization of System Change Requests (SCRs) to the Configuration Control Board (CCB) to mitigate the potential audit issues. The CCB has DFAS representation for each military service and Defense agency and assigns priorities to the DCAS project management office (PMO). This process will continue to be employed in reviewing all future system deficiencies and/or SCRs to ensure prioritization is placed on those having audit readiness impact. In addition, an effort is currently underway by the DCAS PMO to address the maintenance release process and increase the number of SCRs that are implemented with each release. This will allow for a greater volume of SCRs to be prioritized and for audit- and FBWT-related discrepancies to be more expeditiously addressed. The expected results are efficiencies gained through:

- Aligning and consolidating similar SCRs addressing the same subsystem into each release, thereby reducing the number of releases and test events for a given subsystem;

- More focused development and testing based on specific configuration items; and
- Reducing coding and testing efforts for each release.

Based on action taken to date, the current February 2012 maintenance release has been rescheduled for implementation in December 2011.

RECOMMENDATION 5: That the Under Secretary of Defense (Comptroller) direct the Director of the DFAS to maintain supporting documentation for the BAM tool system requirements and user validation testing, including the methodology, performance, and detailed results of the testing.

DoD RESPONSE: Concur. On behalf of the Secretary of Defense, the USD(C)/CFO has directed DFAS to maintain supporting documentation for the Business Activity Monitoring tool system requirements and user validation testing, including the methodology, performance, and detailed results of testing. DFAS recognizes the need for more stringent quality assurance procedures and is in the process of implementing such procedures. Formal test scripts will identify test conditions and expected outcomes for each requirement. The Requirements Traceability Matrix will tie each requirement to a test condition, ensuring 100% coverage. Test results and any associated activity (code changes, retesting, requirements change) will be documented for each test condition. The DFAS estimated completion for required actions is April 2012.

RECOMMENDATION 6: That the Under Secretary of Defense (Comptroller) direct the Director of the DFAS to develop and maintain a traceability matrix to track approved BAM tool system requirements to those tested by the contractor to ensure that all requirements are tested.

DoD RESPONSE: Concur. On behalf of the Secretary of Defense, the USD(C)/CFO has directed DFAS to recognize the need for more stringent quality assurance procedures. The Office of the Under Secretary of Defense (Comptroller) is in the process of implementing such procedures concurrently with the DON audit readiness assertion timeline to achieve audit confidence for the reconciliation of FBWT across the DON. The requirements and any modifications to the quality assurance procedures are being controlled by a configuration management process and an automated tool. Formal test plans, test scripts, and a requirements traceability matrix will be used. Test results and final reports will be thoroughly documented and archived. The DFAS estimated completion for required actions is April 2012.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Asif A. Khan, (202) 512-9869 or khana@gao.gov

Staff Acknowledgments

In addition to the contact named above, Nabajyoti (Naba) Barkakati, Chief Technologist; Katherine Lenane, Assistant General Counsel; William (Tyler) Benson; Vanessa Estevez; Jason Kirwan; Richard D. Mayfield; Carol T. Nguyen; Omar V. Torres, Auditor in Charge; and Yiming I. (Ivy) Wu made key contributions to this report.

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