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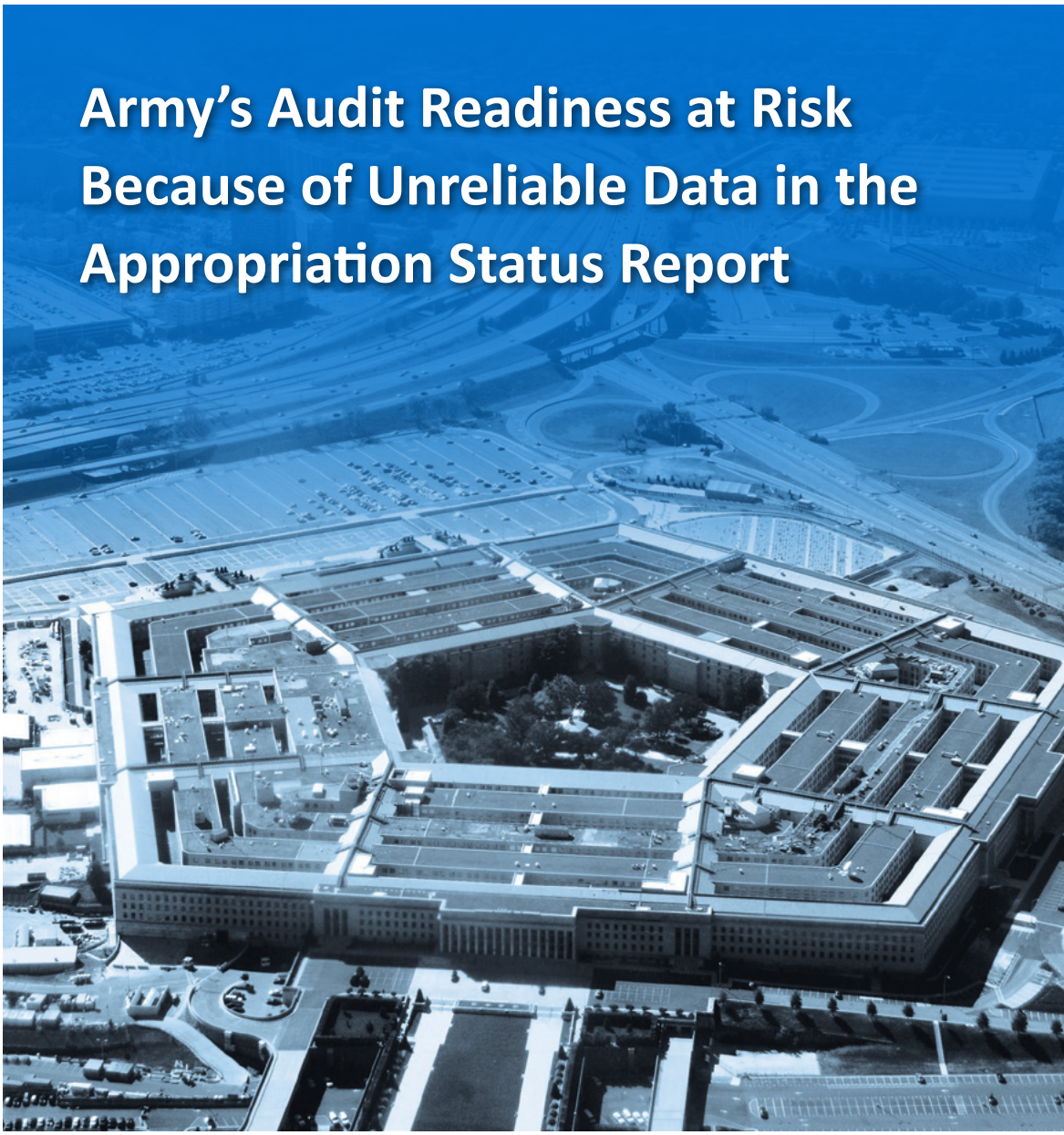
Inspector General

U.S. Department of Defense

JUNE 26, 2014

Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report



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Results in Brief

Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report

June 26, 2014

Objective

We performed the audit to assess the reliability of a nonstatistical sample of data reported in the Army General Fund's Accounting Report (Monthly) 1002, "Appropriation Status by Fiscal Year Program and Subaccounts Report," (Appropriation Status Report).

Findings

The Army's Appropriation Status Report was not reliable for data reviewed from the December 2012 report. Material differences existed between reported data from the General Fund Enterprise Business System (GFEBS) and our recalculation of reviewed Budget Line Items. This occurred because the documented processes used by Defense Finance and Accounting Service–Indianapolis (DFAS-IN) to prepare the Appropriation Status Report were insufficient. In addition, Army personnel did not provide documentation to support 28 of 34 financial transactions reviewed. This occurred because the Army did not have an adequate process to readily provide supporting documentation. Additionally, DFAS-IN personnel did not fully support 14 journal vouchers, totaling $83.9 billion. This occurred because the standard operating procedure used by DFAS-IN did not adequately describe the supporting documentation required for journal vouchers. As a result, users of the Appropriation Status Report may not be able to depend upon the data, and the Army's ability to achieve audit

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Findings (cont'd)

readiness for budget execution data by the end of FY 2014 is at increased risk.

DFAS-IN personnel used the Defense Departmental Reporting System–Budgetary to change GFEBS feeder data associated with $4.2 billion in FY 2013 Army transactions, without appropriate reviews or approvals. This occurred because GFEBS feeder data were not accurate for reporting and automatic adjustments were not properly controlled. As a result, the December 2012 Appropriation Status Report may be misstated, and the Army missed opportunities to improve input and submission processes and reduce costs associated with preparing budget execution reports.

Recommendations

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) establish a single entry point to support requests for supporting documentation for all accounting transactions, and along with the Director, Army Budget, collaborate with the Director, DFAS-IN, to develop a plan to eliminate these automatic adjustments. We recommend that the Director, DFAS-IN, collaborate with the Defense Departmental Reporting System–Budgetary system proponent to fully document the budget execution reporting audit trail. Further, we recommend the Director revise the standard operating procedure for supporting journal vouchers and require that these automatic adjustments be reviewed and approved in accordance with the governing regulation.

Management Comments and Our Response

Comments from the Army and DFAS-IN addressed all specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Deputy Assistant Secretary of the Army (Financial Operations)		A.1, B.1
Director, Army Budget		B.1
Director, Defense Finance and Accounting Service–Indianapolis		A.2.a, A.2.b, B.1, B.2

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

June 26, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report (Report No. DODIG-2014-087)

We are providing this report for review and use. The Army's Appropriation Status Report was not reliable for the data reviewed from the December 2012 report, and Defense Finance and Accounting Service–Indianapolis personnel processed $4.2 billion of automatic adjustments in Defense Departmental Reporting System–Budgetary that changed the lines of accounting associated with financial transactions. As a result, the Army's ability to produce an audit-ready Statement of Budgetary Resources in FY 2014 for General Fund activities is at an increased risk. Repeated attempts to obtain needed data contributed to delays in completing the audit. The report is still relevant because the compilation process for the Appropriation Status Report did not change significantly since the audit was initiated.

We considered management comments on a draft of this report when preparing the final report. Comments from the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Defense Finance and Accounting Service–Indianapolis, conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

Lorin T. Venable

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Assistant Inspector General
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INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

Introduction

Objective

The objective was to assess the reliability of the data reported in the Army General Fund's Accounting Report (Monthly) 1002, "Appropriation Status by Fiscal Year Program and Subaccounts Report," (Appropriation Status Report). Because of the increasing significance of the General Fund Enterprise Business System (GFEBS) to Army General Fund accounting, we focused our review on the processes used to compile the Army's Appropriation Status Report using GFEBS data and the reliability of that data. See Appendix A for a discussion of the scope and methodology and for prior audit coverage related to the objective.

Background

The U.S. Congress provides budget resources through appropriation legislation to finance the programs, missions, and functions of DoD and its components. Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) personnel are responsible for these resources and for the development and approval of DoD policy on reporting the status and uses of these resources. Their responsibilities include the policies and procedures for establishing the internal controls and audit trails governing information used to produce the budget execution reports and the preparation, approval, and review of journal vouchers.

According to DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD FMR) volume 6A, chapter 2, "Financial Roles and Responsibilities," the Army is responsible for ensuring the accuracy, completeness, timeliness, and documentary support for all data generated and input into finance and accounting systems for use in its budget execution reports. The Army is also responsible for reviewing all budget execution reports provided by the Defense Finance and Accounting Service–Indianapolis (DFAS-IN) to assess the accuracy of the information being reported.

In addition, DoD FMR, volume 6A, chapter 2, requires DFAS-IN personnel to establish procedures to ensure that data provided by the Army, including data input into finance and accounting systems by the Army, are recorded accurately; journal vouchers are supported by documentary evidence; and audit trails are maintained. Further, DFAS-IN must ensure that preparation of budget execution reports is consistent, timely, and auditable and controls are in place to provide for the accuracy of the reports.

The Army uses its budget execution reports to monitor its compliance with laws and regulations and review, analyze, and report the status of its funds to program managers and Army leadership. Army budget execution reports are also used by Congressional committees, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and OUSD(C) to assess program-level financial status and performance.

Importance of the Appropriation Status Report

The Appropriation Status Report is the principal program-level report used to manage and report on Army budget execution and presents budget execution data related to the authority to obligate funds by fiscal year for programs. The Appropriation Status Report presents data at a level of detail not available in other budget execution reports, such as the Standard Form (SF) 133, "Report on Budget Execution and Budgetary Resources," and the Statement of Budgetary Resources (SBR). For each U.S. Treasury Appropriation Fund Symbol,[1] the Appropriation Status Report lists appropriation status by fiscal year program and subaccounts (budget activity, subbudget activity, and Budget Line Item [BLI]). The BLI is the lowest classification level reported on the Appropriation Status Report, which includes funding levels, commitments, obligations, and disbursements. See Appendix B for more information on the format of the Appropriation Status Report and Appendix C for a flowchart that describes the main steps in the creation of the Appropriation Status Report and other budget execution reports.

Other Budget Execution Reports

The SF 133 reports the same budget execution data found on the Appropriation Status Report, but at a summary level. Reporting entities submit SF 133 data at the end of November, July, August, and each fiscal year quarter. Budget execution reports allow users to monitor the overall status of program funds, including determining whether or not the budgetary resources provided to programs have been obligated. Obligating or expending more funds than the amounts available for obligation may lead to an Antideficiency Act violation. The information within the various Army appropriation-level SF 133s should generally agree with the Army's SBR.[2] The SBR provides information on authorized budgeted spending

[1] A U.S. Treasury Appropriation Fund Symbol refers to the individual U.S. Treasury accounts established for each appropriation based on the availability of resources in the account. It is a combination of Federal account symbol and availability code, such as annual, multi-year, or no-year funds. For example, U.S. Treasury Appropriation Fund Symbol 021 2013 2013 2020 represents the Army's FY 2013, Operation and Maintenance appropriation.

[2] Minor differences between appropriation-level SF 133s and the SBR are explained in OMB Circular No. A-123, "Preparation, Submission, and Execution of the Budget," November 5, 2013.

authority reported in the Budget of the United States Government (President's Budget), including budgetary resources, availability of budgetary resources, and how obligated resources were used.

Army Audit Readiness

According to OUSD(C) in a memorandum dated August 11, 2009, auditable financial statements, as required by Public Law No. 101-576, the "Chief Financial Officer's Act of 1990," are needed to facilitate decision making and public reassurance that DoD personnel are good stewards of Government funds. Consistent with Congressional mandates, DoD plans to achieve audit readiness on the SBR for its General Fund activities by the end of FY 2014 and achieve full audit readiness for all DoD financial statements by FY 2017. In response to difficulties in preparing for an SBR audit, DoD's March 2013 Financial Improvement and Audit Readiness (FIAR) Guidance narrowed the scope of initial audits to current-year budget activity on a Schedule of Budgetary Activity. The auditability of the Army's financial statements is dependent on establishing an audit-ready systems environment that includes successfully deploying GFEBS and interfacing it with other business and financial systems. Within the Army, the Deputy Assistant Secretary of the Army (Financial Operations) is responsible for audit readiness and financial reporting.

The Army and other DoD Components use the FIAR methodology to achieve improved financial information and audit readiness. Components developed individual Financial Improvement Plans that, when summarized collectively, constituted DoD's FIAR Plan. The FIAR Plan priorities were established in August 2009 and required DoD Components to first focus on improving processes, controls, and systems supporting information most often used to manage the DoD. The FIAR priorities were budgetary information reporting, primarily the SBR, and mission-critical asset information. Within the Army, the Director, Army Budget, is responsible for budget formulation, execution policy, and funds control.

The Army's budget execution Financial Improvement Plan describes audit readiness milestones for assertions and examinations covering an increasing number of Army entities and business processes migrating from legacy systems into GFEBS. An independent public accounting firm, KPMG LLP, performed examinations of SBR business processes at Army activities using GFEBS. KPMG LLP provided two reports to the Army, both highlighting weaknesses in Army's audit readiness. The first report, issued November 22, 2011, noted that the Army

did not properly identify all key control objectives, risks of misstatement, and key control activities related to its processes. A second report from KPMG LLP, issued April 9, 2013, reported that the Army did not meet the FIAR guidance requirements for establishing sufficient information technology controls to protect GFEBS data and did not maintain controls over journal voucher processing within GFEBS, Defense Departmental Reporting System–Budgetary (DDRS-B), and DDRS–Audited Financial Statements. Furthermore, the Army did not meet the FIAR requirement for maintaining documentation to support control activities for GFEBS transactions.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the processes used by DFAS-IN to create the Appropriation Status Report. We were unable to recalculate a sampled portion of the Appropriation Status Report because the documented processes used by DFAS-IN to prepare the report were inadequate and DFAS-IN did not support journal vouchers properly because the "Budget Execution Journal Voucher Process" standard operating procedure used by DFAS-IN did not adequately describe the supporting documentation required for journal vouchers. In addition, DFAS-IN used an undocumented adjustment process to change accounting data without appropriate reviews or approvals by higher-level officials. Further, the Army could not provide documentation supporting the financial transactions input into GFEBS because the Army did not have a process to readily provide supporting documentation and GFEBS could not be used to identify a person who could produce the documents that could support the transactions.

We will provide a copy of the final report to the senior officials responsible for internal controls in the Army and DFAS.

Finding A

Appropriation Status Report Data Reviewed Were Not Reliable

The Army's Appropriation Status Report was not reliable for a nonstatistical sample of data reviewed from the December 2012 report. Specifically:

- Thirty material differences existed between what DFAS-IN officially reported from GFEBS in December 2012 and our recalculation of 180 values in a review of Appropriation Status Report data. The absolute value[3] of the differences totaled $662 million. This occurred because DFAS-IN was not able to provide the documentation for portions of the audit trail embedded within DDRS-B that were necessary for an independent recalculation of the reported values.

- Army personnel[4] did not support most of the sampled GFEBS financial transactions. Of the 34 financial transactions for which we requested supporting documents from a review of BLIs, Army personnel supported only 6 of the associated financial transactions. This occurred because the Army did not have an adequate process that was consistent with FIAR guidance to readily provide supporting documentation. In addition, GFEBS could not identify a person who could provide the supporting documentation for the transactions.

- DFAS-IN did not properly support sampled journal vouchers prepared within DDRS-B and other systems in the preparation of the Appropriation Status Report. Of the 15 journal vouchers reviewed, 14 vouchers, totaling $83.9 billion, did not contain supporting documentation to explain why the adjustments needed to be made. This occurred because the Journal Voucher Process Standard Operating Procedure #1066, August 31, 2012, used by DFAS-IN did not adequately describe the supporting documentation required for journal vouchers.

[3] The absolute value is the magnitude of a real number without regard to whether it is positive or negative.

[4] Army personnel were at Pacific U.S. Army Garrison, Picatinny Arsenal, U.S. Army Environmental Command, Redstone Arsenal, and Kingstowne GFEBS Operations and Sustainment. There may have been additional locations but we could not identify all Commands or other Army organizations using the GFEBS contact information.

Since the same budgetary data are used to compile the Appropriation Status Report and other budget execution reports, to include the SF 133 and SBR, users may not be able to depend upon budgetary reports for decision making or performance evaluation. This puts the Army's ability to achieve audit readiness for budget execution data by the end of FY 2014 at increased risk.

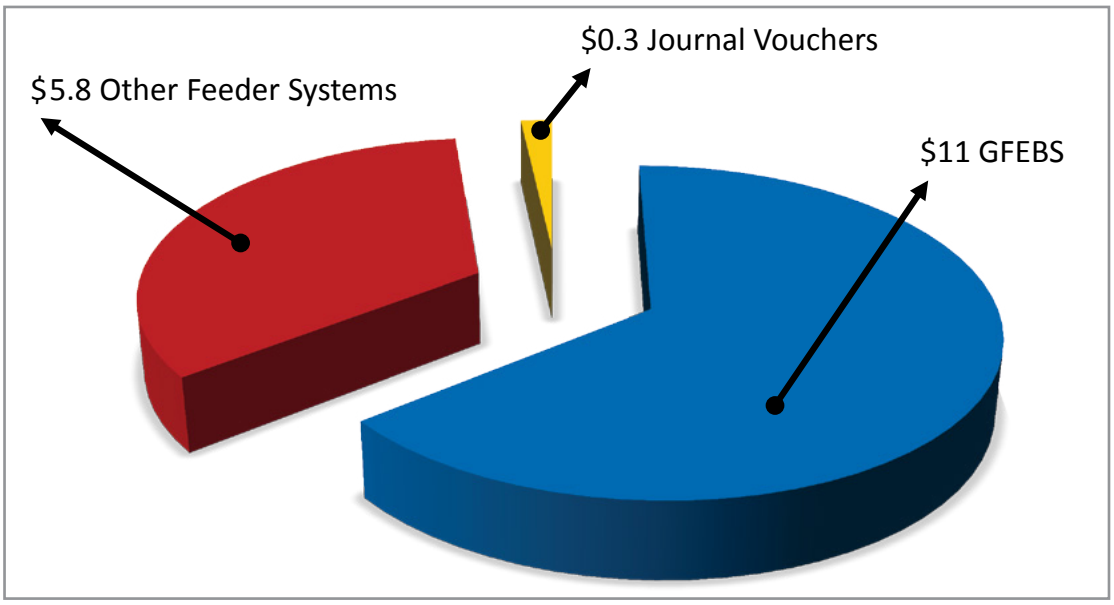
Report Values Could Not Be Recalculated

Material differences, with an absolute value of $662 million, existed between what DFAS-IN reported from GFEBS in December 2012 and our recalculation of the values in a sample of Appropriation Status Report data. After review, DFAS-IN personnel stated that these differences were due to the programming logic embedded within DDRS-B. Although DFAS-IN personnel used DDRS-B each month to prepare Appropriation Status Reports, they did not have documentation of the DDRS-B processes to substantiate the audit trail necessary to adequately support an independent recalculation of values reported in the Appropriation Status Report.

Differences Existed Between Recalculated and Reported Values

Material differences existed between what was officially reported for December 2012 in the 6 columns of the Appropriation Status Report for the 30 BLIs we reviewed and the report values that we recalculated. See Appendix B for more information on the format of the Appropriation Status Report. Following the methodology prescribed in DFAS-IN procedures for compiling the Appropriation Status Report, we recalculated the portion of each column that was comprised of GFEBS data and compared it to the GFEBS data that DFAS-IN reported in the Appropriation Status Report. According to DFAS-IN records, GFEBS data represented approximately $11 billion of the $17.1 billion (64 percent) reported in the Appropriation Status Report for the 30 BLIs. The source of the remaining data was the legacy systems and other feeder systems as well as journal vouchers. See the Chart for a summary.

Chart. Sampled Appropriation Status Report Information Analysis (in billions)



We initially had 55 values that were materially different than what DFAS-IN reported. After several discussions with DFAS-IN personnel, we determined that DFAS-IN personnel did not document some processes they used to prepare the Appropriation Status Report. For example, they could explain how they used a separate crosswalk[5] for each fiscal year appropriation data and an automatic adjustment process[6] for changing some data received, but neither process was clearly outlined in the flowcharts or standard operating procedures that they provided. See Finding B for further information on the control deficiencies with this automatic adjustment process. However, after taking into consideration these undocumented processes and discussions with DFAS-IN personnel, material differences still existed for 30 of the 180 values. For example:

- BLI 037 (Items less than $5 million). DFAS-IN personnel reported $3,767,000 for Column C, "Program Distribution of Total Amount Available for Obligation in Current Fiscal Year." Our calculation of this amount was $1,426,000 for an absolute value difference of $2,341,000.

[5] A report crosswalk lists the proper U.S. Standard General Ledger accounts and applicable attributes for each line and column on the report.

[6] Within DDRS-B, these automatic adjustments are technically referred to as "Disabling a Trial Balance." This process, hereafter referred to as the "automatic adjustment process" allows users with the Data Administrator role to establish rules that change lines of accounting that should not be reported on the Appropriation Status Report to lines of accounting that should be reported on the Appropriation Status Report.

- BLI 009 (Guided MRLS Rocket). DFAS-IN personnel reported $6,045,000 for Column E, "Obligation Transactions in Current Fiscal Year," while we determined the balance should have been $20,999,000, an absolute value difference of $14,954,000.

The absolute value of the material differences in the 30 values from the Appropriation Status Report totaled $662 million. The differences are presented in Appendix D.

Challenges in Using the Crosswalk

Material differences existed between what DFAS-IN reported from GFEBS in December 2012 and our recalculation of the values because the documented processes used by DFAS-IN to prepare the Appropriation Status Report were inadequate. Specifically, the crosswalk and process documentation provided by DFAS-IN personnel did not provide a clear or complete audit trail from GFEBS feeder data through DDRS-B to the Appropriation Status Report. DFAS-IN personnel could not resolve the 30 of the 55 material differences between our recalculated values and those reported in the sample values.

Insufficient Audit Trail

The audit trail from the Army's GFEBS budgetary data to the Appropriation Status Report was insufficient. DFAS-IN personnel could not reconcile differences with the reported values, and we had significant challenges in understanding and replicating the DDRS-B report compilation process because the "Departmental Reporting-Army Standard Operating Procedure #1068, Budget Execution Process," August 31, 2012, did not provide sufficient, actionable details of the creation of the Appropriation Status Report. Although this procedure stated that DDRS-B was used to produce monthly budget execution reports, neither this document nor the flowcharts recorded the numerous changes that could be made to the data during this process or how the changes were made. Further, DFAS-IN personnel could not provide a portion of the audit trail contained within DDRS-B that they said was necessary to produce budget execution reports. According to DoD FMR, volume 6A, chapter 2, DFAS must ensure that a complete and documented audit trail is maintained to support the reports it prepares.

The audit trail from the Army's GFEBS budgetary data to the Appropriation Status Report was insufficient.

Feeder Data From GFEBS Not in DDRS-B

The flowcharts and crosswalks resulted in specific instances in which GFEBS feeder data were not reported in the Appropriation Status Report. Nine of the 30 material differences, valued at $123.3 million, were a result of the DDRS-B processes that did not recognize GFEBS feeder data containing the Standard Financial Information Structure code "B5," "Major Acquisition Code," during the compilation of the Appropriation Status Report. For example, for BLI 014 (CH-47 Helicopter), DDRS-B output reported $10 million in each of three columns (B, C, and D)[7] in the Appropriation Status Report. GFEBS feeder data contained the $10 million that was reported as a debit in General Ledger Account Code 4119 (Other Appropriations Realized) but also contained a credit for this BLI for $10 million that did not flow through to the report. The only difference between the debit and the credit in GFEBS was that the credit contained data in the B5 indicator code. In compiling the report, DDRS-B processes should have been unaffected by the presence of the B5 indicator but the December 2012 Appropriation Status Report did not reflect the $10 million credit (reduction). DFAS-IN personnel could not explain why accounts that had the B5 indicator code were not included in the computation in order to match the crosswalk. To report the correct amounts on the Appropriation Status Report, DFAS-IN personnel prepared an adjustment that was equal to the amount that should have been processed automatically through the crosswalk from GFEBS.

Prior DoD IG Report Highlighted Feeder File Data Problems

The actions taken in response to recommendations in DoD Inspector General Report No. DODIG-2012-096, "Defense Departmental Reporting System-Budgetary Was Not Effectively Implemented for the Army General Fund," May 31, 2012, were not fully effective. The Acting Director of DFAS-IN agreed to collaborate with the Defense Logistics Agency to produce a DDRS-B end-to-end system process flow to comply with OMB Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004. DFAS-IN personnel provided the flowcharts and process narratives they developed to describe the DDRS-B end-to-end system process flows. However, the flowcharts and process narratives did not sufficiently document the processing of budget execution data. For example, poorly defined terms such as "preprocessing" were used to define a process where

[7] The three columns were B (Appropriated in Conference Report/Program Distribution of Total Amount Available for Obligation From Inception), C (Approved Program/Program Distribution of Total Amount Available For Obligation in Current Fiscal Year), and D (Revised Program/Apportioned or Otherwise Available for Obligation to the End of the Current Quarter).

information is prepared for DDRS-B. In addition, the process narratives referred to errors or exception reports that aid the processing personnel but did not include examples of the reports or explain the reasons for them.

To support the reliability of the Appropriation Status Report and other budgetary reports that are dependent on the same feeder data, these processes should be fully and clearly documented. Documenting the processes would both improve the understanding of this reporting process for DFAS-IN personnel, as well as demonstrate the reliability of the budget execution reports to those who depend on this information for program management and oversight. DFAS-IN should collaborate with the system proponent for DDRS-B to revise its budget execution reporting process flowcharts and narratives after conducting a comprehensive review of the processes from receipt of budget execution feeder file data through the publication of the Appropriation Status Report and other budget execution reports.

Army Did Not Support Accounting Transactions

Army personnel did not support most of the GFEBS financial transactions reviewed from the December 2012 Appropriation Status Report. DoD's March 2013 FIAR plan guidance requires Army management to establish an infrastructure to manage auditor requests. The infrastructure includes receiving document requests from auditors, coordinating with field personnel to collect and submit the documentation to the auditors, and responding to auditor questions about the documentation. DoD FMR, volume 4, chapter 2, "Accounting for Cash and Fund Balances with Treasury," requires that documentation must be available to provide auditors and management with an audit trail for proper oversight. Further, the Army's "Army Audit Readiness Strategy FY 2013," emphasizes the importance of source documentation and the ability to retrieve these documents from information management systems to support audit readiness and auditors' requests for these documents.

Army personnel did not support most of the GFEBS financial transactions reviewed from the December 2012 Appropriation Status Report.

Army Provided Limited Supporting Documentation

Despite efforts that began in April 2013 to obtain documentation supporting financial transactions reflected in the Appropriation Status Report for December 2012, Army personnel provided adequate support for only 6 of the

34 financial transactions we requested. Army personnel provided one document supporting funding ($34 million) and five documents supporting obligations ($9.8 million, absolute value) reported in the Appropriation Status Report. Unsupported transactions were valued at $237.3 million. Without supporting documentation from GFEBS, the Appropriation Status Report may not be reliable. See Appendix E for the sample of the documents we requested and the outcomes of our requests to the Army to provide the supporting documentation.

Inaccurate GFEBS Contact Information Created Delays

The initial contact information within GFEBS was incomplete or inaccurate for 21 of the 34 reviewed financial transactions. Specifically, GFEBS did not contain enough contact information for us to identify the points of contact or the contact information in GFEBS was incorrect. For example, one point of contact immediately responded and stated that he had view-only access of GFEBS, so he could not have input any transactions into GFEBS. He was part of the GFEBS deployment effort but was not responsible for inputting any information into GFEBS. Due to an error within GFEBS, he was incorrectly identified as the person responsible for input of numerous transactions into GFEBS. This lack of accurate information created delays in contacting responsible individuals.

Subsequently, we coordinated with personnel from DFAS-IN, Accounting Operations Directorate, Accounts Maintenance, and Control to obtain alternative contact information from GFEBS. The updated contact information was still incomplete or inaccurate, adding further delays in requesting and receiving supporting documentation. For example, we contacted an individual identified as the point of contact for 5 of the reviewed financial transactions and then submitted a second request for the documentation 5 days later. Nearly 2 weeks later, the point of contact responded, stating that he was not the person who had input these transactions but that he had forwarded our request to an audit liaison point of contact in his organization. However, we received no further responses regarding our requests for these documents.

After 3 weeks of communicating with individual contacts to request documentation to support the sampled financial transactions, the Army supported only 6 of the 34 financial transactions. As a result, we decided to discontinue direct contact with the individuals that were identified as responsible for input of the sampled transactions. Instead, we coordinated our efforts through the Director, Army General Fund Audit Readiness, in the Office of the Deputy Assistant Secretary of the Army

(Financial Operations), to gather the supporting documents. The Director agreed to assist using an established process for requesting supporting documentation for samples at Army installations and activities. However, although we provided detailed lists of documents we required and followed up frequently over several weeks, the requested documents were not provided.

Army's Process for Providing Supporting Documents Was Not Adequate

The Army did not have an adequate process for providing documentation supporting transactions recorded in GFEBS. In FY 2012, when personnel in the Army General Fund Audit Readiness Directorate (Audit Readiness personnel) started testing transactions, they recognized the need to develop an infrastructure for responding to requests for supporting documentation. The KPMG LLP report, dated April 9, 2013, covering SBR business processes identified a material weakness in requesting and receiving supporting documentation from the Army. The report stated that the Army did not have documentation available to support control activities related to certain transactions processed within GFEBS because the Army had not developed and implemented formal, standard policies on the definition and retention of proper documentation. The KPMG LLP report also stated that Army commands were inexperienced in responding to requests for documentation during the examination.

In its 3rd quarter, FY 2013 in-process review for the Army Financial Improvement Plan, Audit Readiness personnel emphasized the importance of providing complete supporting documentation upon auditor request. Monthly internal control testing of Army commands by Audit Readiness personnel and their contractors indicated that test failures were primarily due to the lack of documentation. Their June 2013 Corrective Action Plan for the Army's SBR Assessable Unit identified deficiencies resulting from monthly testing in the ability to readily provide supporting documentation from across all business processes. The Corrective Action Plan stated that these control deficiencies could increase the risk that the Army's financial statements would include a material misstatement. The Army identified an important corrective action that required its personnel to ensure all documentation related to identified business processes be maintained and readily available. Further, the plan stated that the Assistant Secretary of the Army (Financial Management and Comptroller) would collaborate with all Army commands to develop the ability to retain the appropriate supporting documentation and provide the documentation to auditors upon request. The target date for completion of corrective actions is September 2014.

Retention of supporting documentation by commands is critical to the success of achieving audit readiness. Auditors, whether from the Government or independent public accounting firms, should be able to request support and documentation from a single organization within the Army. It is not practical to expect an outside audit organization to interact individually and separately with numerous organizations below the Army-headquarter level for audits that are Army-wide or include more than one Army element. Once an audit has been formally announced and properly introduced to Army senior leadership, audit organizations should have a single accountable organization to which they may request documentation supporting financial transactions from all Army Commands and organizations. The Deputy Assistant Secretary of the Army (Financial Operations) should establish a single entry point for auditor support for all Army financial statement audits, examinations, and performance audits of Army audit readiness activities that include more than one Command or Army element to facilitate access to supporting documentation.

Journal Vouchers Were Not Supported

DFAS-IN personnel did not properly support journal vouchers prepared within DDRS-B and other systems in its preparation of the Appropriation Status Report for December 2012. In January 2013, DFAS-IN prepared 587 journal vouchers ($136.2 billion) prior to the preparation of the Appropriation Status Report for December 2012. Of the 587 journal vouchers, 224 vouchers ($115.1 billion) cited a GFEBS error as a reason for the adjustment. Fourteen of the 15 reviewed journal vouchers affecting budgetary execution data did not contain sufficient supporting documentation to explain why the adjustments were necessary. See Appendix F for the results of the journal voucher review.

Journal Voucher Supporting Documentation Was Insufficient

Of the 15 journal vouchers reviewed,[8] 14 vouchers, totaling $83.9 billion, did not have sufficient supporting documentation included in the journal voucher package to describe why the adjustments were necessary. Of the 14 vouchers, 13 were prepared to correct a GFEBS error.[9] However, the preparers for all 13 journal vouchers did not include information explaining how they knew that there was a GFEBS error or how the journal voucher would correct the original accounting information. For example, Journal Voucher No. 20131196213 changed budgetary

[8] Vouchers changed both proprietary and budgetary general ledger accounts.

[9] The remaining journal voucher eliminated the double–reporting of undistributed disbursements for Army funds being executed by the Marine Corps.

accounts by $1.8 billion and explained GFEBS was submitting information under BLI 000, which was invalid on the Appropriation Status Report. As a result, this journal voucher moved original feeder data to BLI 131. The journal voucher supporting documentation showed DDRS-B data before and after the change was made, but did not show that BLI 000 was invalid or how the accountant determined that the information should be moved to BLI 131.

DoD FMR, volume 6A, chapter 2, defines the roles and responsibilities in the preparation and issuance of financial reports for DoD Components. Specifically, the DoD FMR requires journal vouchers, which adjust financial accounts, to be adequately documented to support the validity and amount of the journal voucher transaction, determine whether it is proper and accurate, and identify whether the journal voucher entries are supported or unsupported. Proper supporting documentation includes the reason for the adjustment and the dollar amount of the adjustment. The support must include sufficient detail to provide an audit trail to the source transaction(s) that required the adjustments.

DFAS-IN Budget Execution Journal Voucher Standard Operating Procedure Needs Revisions

DFAS-IN's Budget Execution Journal Voucher Process Standard Operating Procedure (standard operating procedure) did not adequately describe the supporting documentation required for journal vouchers. The standard operating procedure stated that source documents should be included as a part of the supporting documentation for a journal voucher but did not specifically require this be done. The standard operating procedure also did not require that the source documents support the reason for the adjustment being made. An approver needs to review documentation that supports the reason why an adjustment is needed with the journal voucher, or it must be readily available for review to have assurance that the information in the adjustment is valid. Auditors need an audit trail to trace all financial data, including adjustments, back to their source and to demonstrate the accuracy, completeness, and timeliness of a transaction. More importantly, however, managers need supportable financial information, on which they can depend, to provide a basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

The KPMG LLP report, dated April 9, 2013, identified that the Army and DFAS did not properly implement controls over journal voucher processing within GFEBS and DDRS. The report stated that the journal voucher processing weakness

occurred because the Army and DFAS did not have policies and procedures in place related to journal vouchers and reconciliations, including those related to document retention requirements and evidence of supervisory review of the journal vouchers.

For the Army to be audit ready, it must produce appropriate source documentation for information that supports financial reports. Unsupported journal vouchers do not provide evidence of the validity and accuracy of the adjustments and reduce the reliability of budget execution reports. This increases the Army's risk of not achieving audit readiness for budget execution data by FY 2014. To improve the supportability of journal vouchers prepared by DFAS-IN personnel, the DFAS-IN standard operating procedure should be revised to require the supporting documentation of journal vouchers correcting GFEBS errors include information showing how it was determined that the feeder data were in error and how the information in the journal voucher was determined to be the correct information.

Ability to Achieve Audit Readiness is at Increased Risk

The ability of the Army to achieve audit readiness is at increased risk because of the control deficiencies we identified in compiling the Appropriation Status Report. Public Law 112-239, National Defense Authorization Act for FY 2013, requires the DoD SBR to be validated as audit ready by no later than September 30, 2014. Users of the Appropriation Status Report and other monthly budget execution reports depend upon the information in the reports for decision making and performance evaluations; however, data reviewed from the December 2012 Appropriation Status Report were not reliable. Because of the uncertainty regarding the reliability of the reported values in the Appropriation Status Report, users may not be able to depend upon data in the Appropriation Status Report or the related reports, such as the SF 133 and SBR. Unless these data reliability problems are corrected, there is a significant risk that the Army will not achieve its audit readiness for budget execution data by the end of FY 2014.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) establish a single entry point for auditor support for all Army financial statement audits, examinations, and performance audits of Army audit readiness activities that include more than one Command or Army element to facilitate access to supporting documentation for financial transactions recorded in accounting systems.

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Financial Operations) agreed, stating that the Directorate of Accountability and Audit Readiness has been established as the single entry point for auditor support for all financial statement audits, examinations, and performance audits of Army audit readiness activities.

Our Response

The Deputy Assistant Secretary of the Army (Financial Operations) addressed all specifics of the recommendation, and no additional comments are needed.

Recommendation A.2

We recommend that the Director of the Defense Finance and Accounting Service–Indianapolis:

a. Collaborate with the system proponent for the Defense Departmental Reporting System–Budgetary to conduct a thorough review and revise its budget execution reporting process flowcharts and narratives to provide a complete and detailed process flow for improved auditability of the budget execution reports.

Defense Finance and Accounting Service Comments

The Director, DFAS-IN, agreed, stating that he would work with the system proponent of DDRS-B to conduct a thorough review and revise budget execution reporting process flowcharts and narratives. The estimated completion date is November 30, 2014.

Our Response

The Director, DFAS-IN, addressed all specifics of the recommendation, and no additional comments are needed.

b. Revise the Budget Execution Journal Voucher Process Standard Operating Procedure to require the supporting documentation of journal vouchers correcting General Fund Enterprise Business System errors include information showing how it was determined that the feeder data were in error and how the information in the journal voucher was determined to be the correct information.

Defense Finance and Accounting Service Comments

The Director, DFAS-IN, agreed, stating that he would revise the Budget Execution Journal Voucher Process Standard Operating Procedure to require the supporting documentation of journal vouchers correcting GFEBS errors. The revision will include information showing how it was determined that the feeder data were in error and how the information in the journal voucher was determined to be the correct information. The estimated completion date is October 31, 2014.

Our Response

The Director, DFAS-IN, addressed all specifics of the recommendation, and no additional comments are needed.

Finding B

Automatic Adjustments Not Documented or Approved

For the December 2012 Appropriation Status Report, DFAS-IN personnel used DDRS-B to make undocumented changes to GFEBS feeder data associated with $4.2 billion in FY 2013 Army General Fund financial transactions, without appropriate reviews or approvals by higher level officials. This occurred because the GFEBS feeder data provided were not accurate for reporting purposes and automatic adjustment processes used by DFAS-IN were not properly controlled. As a result, the December 2012 Appropriation Status Report may be misstated and the Army missed opportunities to improve the GFEBS data input and submission processes and reduce costs associated with preparing budget execution reports.

Automatic Adjustments Changed Lines of Accounting

For the December 2012 Appropriation Status Report, DFAS-IN personnel changed 169 lines of accounting[10] citing FY 2013 Army appropriations, causing adjustments of $4.2 billion in DDRS-B. According to Army Budget Office personnel, in FY 2012, DFAS-IN personnel began using an automatic adjustment process within DDRS-B to change lines of accounting from GFEBS feeder data. During the preparation of the Appropriation Status Report, the GFEBS feeder data contained lines of accounting that DDRS-B could not process for reporting. When this occurred, DFAS-IN personnel provided these lines of accounting to personnel in the Army Budget Office, requesting the correct accounting information to replace the line of accounting in the original feeder file data. The Army Budget Office personnel used approved budget formulation tables and GFEBS information to determine how information should be reported. Using this automatic adjustment process within DDRS-B, the original line of accounting was then moved to the new line of accounting to enable the data to be reported on the Appropriation Status Report. Once created, automatic adjustments were permanently part of the DDRS-B report process for budget execution data. All of the automatic adjustments we reviewed in our sample of GFEBS feeder data for 30 BLIs changed the original BLIs. For example, automatic adjustments moved:

- $1.9 billion from BLI 7062AA0005 to 6772AA0005,

[10] Line of accounting includes the fiscal year, appropriation, and BLI.

- $199.3 million from BLI 2707AA6605 to 2706AA6605, and
- $20.6 million from BLI 9416E25500 to 6780E25500.

Time Constraints for Correcting Feeder Data Drove the Use of Automatic Adjustments

DFAS-IN personnel used the DDRS-B automatic adjustment process because GFEBS feeder data regularly contained errors. For example, 169 lines of accounting associated with financial transactions associated with FY 2013 appropriations had to be changed in order for DFAS-IN personnel to meet required report dates to issue the December 2012 Appropriation Status Report. Personnel who prepared the Appropriation Status Report stated that before the use of these automatic adjustments, they were preparing 600 to 1,000 journal voucher adjustments[11] each month to change incoming lines of accounting in order to prepare the report. DFAS-IN personnel said that they used these automatic adjustments as an available option to replace most of the journal vouchers because of the short timeframes to prepare monthly budget execution reports with limited resources.

DFAS-IN personnel used the DDRS-B automatic adjustment process because GFEBS feeder data regularly contained errors.

The Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget, should collaborate with DFAS-IN to complete an analysis to determine the cause of GFEBS feeder data adjustments, track and report trend data on the number and dollar value of these automatic adjustments made and the reasons for them, and develop a plan of actions and milestones to eliminate the need for these automatic adjustments within DDRS-B.

Automatic Adjustments Were Not Controlled

The use of DDRS-B automatic adjustments to change GFEBS feeder data was not properly controlled. These automatic adjustments can be created by any DDRS-B user with the data administrator role using a menu-driven set of choices but without review or approval from any other person and without any system

[11] DFAS-IN personnel stated that two journal vouchers were required for each automatic adjustment, one to remove it from a line of accounting and another to place it on the new line of accounting. In addition, a journal voucher only adjusts one line of accounting and journal vouchers would have been prepared for previously established automatic adjustments. DFAS-IN personnel did not provide a complete listing of all of the automatic adjustments created in FY 2012.

Documentation was not prepared to record the creation of the automatic adjustment, its purpose, or impact outside of DDRS-B.

control. In addition, documentation was not prepared to record the creation of the automatic adjustment, its purpose, or impact outside of DDRS-B. Six personnel in DFAS-IN Departmental Reporting had the data administrator role, which authorized them to create automatic adjustments to move feeder data received from one line of accounting to another. Neither DFAS-IN personnel nor Army Budget Office personnel retained documentation to support the changes made, so we could not review the adequacy of the adjustments. In addition, unlike journal vouchers, there was no higher-level review and approval for the creation of these automatic adjustments by either DFAS-IN or the Army. Furthermore, the complete extent of the use of automatic adjustments was not known because DFAS-IN personnel did not track these automatic adjustments prior to the start of FY 2013.

The requirement to prepare reports by deadlines does not reduce the need to adequately control the automatic adjustment process. If original feeder data must be changed before they are reported, the process for automatic adjustments should require the review, approval, and documentation at an appropriate level of oversight. As discussed in more detail in Finding A, journal voucher processes define the preparation, review, and approval requirements for adjustments and have clear requirements and a defined process for making changes to original data submitted for reporting. According to DoD FMR, volume 6A, chapter 2, any adjustments made in any reporting system or through an offline manual process in report preparation are classified as journal voucher adjustments. Reporting timeframes notwithstanding, the authorization, approval, and documentation of the automatic adjustments should have been made in compliance with the DoD FMR through the preparation of journal vouchers. The journal voucher process, if properly executed, shows approvers and other stakeholders why the journal vouchers are needed, the number produced each month, and assigns accountability to the journal voucher approver. Properly prepared journal vouchers provide important information to approvers of journal vouchers, allowing them to monitor the reasons for creating journal vouchers and the impact of implementation of these adjustments on financial data. Monitoring on a regular basis could provide information to management to track and report trends on the number and dollar value of these automatic adjustments made and the reasons for them. It also provides opportunities to design and implement process changes to reduce or eliminate

the need for journal vouchers over time by correcting data issues in the feeder files before the data are provided for report compilation. Therefore, automatic adjustments made routinely to correct GFEBS feeder data should be subject to the same requirements and controls as journal vouchers.

Until this automatic adjustment process is eliminated or system controls are established within DDRS-B, the Director of DFAS-IN should require that any adjustments to feeder data are approved and documented in accordance with DoD FMR, volume 6A, chapter 2.

Automatic Adjustments Increased Risk of Misstatements and Caused Missed Chances to Reduce Costs

Changing GFEBS budgetary execution data using DDRS-B automatic adjustments increased the risk that unsupported changes would be made or errors would occur in the creation of the automatic adjustments, increasing the potential for misstatement of reported budget execution data to the Appropriation Status Report, as well as the SF 133 and SBR. Because adjustments occurred automatically once established within DDRS-B, Army financial personnel were not aware of the number of GFEBS feeder data errors corrected. As a result, they missed opportunities to improve the quality of GFEBS data and reduce unnecessary costs associated with preparing Army budget execution reports. In addition, because of the uncertainty regarding the reliability of the reported values in the Appropriation Status Report, users may not be able to depend upon data in the related budget execution reports. Unless these data reliability problems are corrected, there is an increased risk that the Army will not achieve its audit readiness for budget execution data by the end of FY 2014.

Conclusion

DFAS-IN personnel used an undocumented and uncontrolled automatic adjustment process in DDRS-B to make changes to GFEBS budgetary execution data for FY 2013 Army General Fund appropriations rather than the approved and defined process of preparing journal vouchers. Further, using the automatic adjustment process in DDRS-B eliminated the visibility of these data adjustments, and the information that could have been used to improve the GFEBS data input and submission processes was not captured. As a result of these control deficiencies, budgetary data in the Appropriation Status Report and other budget execution

reports, such as the SF 133 and SBR, may be misstated, increasing the risk that the Army will not achieve audit readiness by the end of FY 2014. In addition, information is not retained that could be used by management to improve the GFEBS data input and submission processes, and the Army lost opportunities to reduce the costs associated with preparing reports.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget, in collaboration with the Director of the Defense Finance and Accounting Service–Indianapolis, complete an analysis to determine the cause of the significant number of adjustments required each month in order for General Fund Enterprise Business System data to be reported in the Appropriation Status Report, track and report trend data on these automatic adjustments, and develop a plan of actions and milestones to eliminate the need for this automatic adjustment process within the Defense Departmental Reporting System–Budgetary.

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Financial Operations) agreed, stating that he and the Director, Army Budget, would work with DFAS-IN Departmental Reporting and the system proponent of DDRS to address the root causes of the adjustments related to the Appropriation Status Report. By September 30, 2014, they will hold a workshop to identify root causes and develop a plan of actions and milestones to address GFEBS and DDRS systems changes and identify Army and DoD policies that need changed. He also stated that they will add additional information to the journal voucher metrics to ensure completion of planned actions and a reduction in journal voucher activity.

Our Response

The Deputy Assistant Secretary of the Army (Financial Operations) addressed all specifics of the recommendation, and no additional comments are required.

Defense Finance and Accounting Service Comments

The Director, DFAS-IN, agreed, stating that he would collaborate with the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget, to complete the analysis, track and report data, and develop a plan of actions and milestones to eliminate the need for the automatic adjustment process within DDRS-B. The estimated completion date is February 28, 2015.

Our Response

The Director, DFAS-IN, addressed all the specifics of the recommendation, and no additional comments are required.

Recommendation B.2

We recommend that the Director of the Defense Finance and Accounting Service–Indianapolis require that these automatic adjustments be approved and documented in accordance with DoD Financial Management Regulation, volume 6A, chapter 2, "Financial Roles and Responsibilities."

Defense Finance and Accounting Service Comments

The Director, DFAS-IN, disagreed, stating that the recommendation did not address the root cause of the problem, and a joint effort and corrective action from the Army are necessary to correct the GFEBS systems issues that result in the invalid lines of accounting. However, he agreed that regulatory guidance would require each automatic adjustment be approved and documented, which would result in extraordinary costs. He stated he understood the spirit of the recommendation and provided an alternative action. He agreed to document evidence of supervisory reviews and separation of duties by printing a listing of all the automatic adjustments monthly and having it signed by the preparer and the supervisor. The estimated completion date is October 31, 2014.

Our Response

As an interim measure, the alternative action provided by the Director, DFAS-IN, meets the intent of this recommendation. The printed monthly list of the automatic adjustments should also be coordinated with the Office of the Deputy Assistant Secretary of the Army (Financial Operations). We agree with this joint effort. When accomplished in coordination with the actions completed in Recommendation B.1, the invalid lines of accounting should be addressed. No additional comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from December 2012 through April 2014 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed DoD and DFAS guidance related to the submission, compilation, processing, and reporting of budgetary execution data to gain an understanding of the process for compiling and reporting budgetary execution data. We interviewed DoD, Army, and DFAS-IN personnel to obtain an understanding of the process related to the creation of the Appropriation Status Report. We obtained standard operating procedures and flowcharts from DFAS-IN personnel documenting the process and associated controls for creating the Appropriation Status Report from original budgetary execution feeder data.

To assess the reliability of the data reporting in the Army General Fund's December 2012 Appropriation Status Report, we obtained GFEBS trial balance feeder file for December 2012, and using the DDRS-B crosswalk provided by DFAS-IN, we recalculated the Appropriation Status Report values for December 2012 for our nonstatistical sample items. We compared our recalculated values with the GFEBS values as reported in DDRS-B for the same 30 BLIs in the Appropriation Status Report. We requested DFAS-IN personnel assistance to reconcile the differences between our recalculated sampled values and the GFEBS values used to compile the Appropriation Status Report. Working with them, we reduced the 55 differences we initially calculated. Additionally, we obtained information through discussions with DFAS-IN and Army Budget Office personnel about the automatic adjustment process they used to correct GFEBS information submitted by Army field activities.

Then, we totaled the number of differences between our recalculated values and the reported values in the Appropriation Status Reports. Because each BLI had 6 possible values (6 columns for each BLI), and we sampled 30 BLIs, there were 180 potential values with which we could compare our recalculated values to the reported values to determine whether they were equivalent. For this analysis,

we set a materiality threshold of an absolute value of $100,000 for each potential comparison. For example, if a current year obligation for a BLI had a reported value of $250,000, and our recalculated value was $100,000, the absolute value difference would be $150,000 and counted as a material difference. We performed these analyses to determine the adequacy of DFAS-IN crosswalks and documented processes for computing GFEBS Appropriation Status Report information. Appendix D identifies unresolved differences between reported and recalculated balances.

We also requested supporting documentation for a nonstatistical sample of GFEBS transactions to assess the adequacy of the documentation and the Army's capability to provide this documentation in a timely manner. Furthermore, we reviewed the support for a nonstatistical sample of journal vouchers prepared by DFAS-IN to determine whether DFAS-IN personnel prepared and approved journal vouchers in accordance with DoD FMR, volume 6A, chapter 2.

To determine if journal vouchers were prepared in accordance with established guidance, we selected and reviewed a nonstatistical sample of 15 journal vouchers, valued at $85.3 billion, from the universe of 587 journal vouchers, valued at $136.2 billion, prepared by DFAS-IN in support of the December 2012 Appropriation Status Report. We selected 13 journal vouchers in the high-dollar range (those over $500 million) from DDRS-B and the 2 highest valued journal vouchers from the feeder file adjustment log. See Appendix F for key information about the 14 journal vouchers (of the 15 reviewed) that were not properly supported.

Use of Computer-Processed Data

We used the December 2012 budget execution feeder files from GFEBS, Army legacy systems, and the Corps of Engineers Financial Management System. We focused our audit on assessing the reliability of the GFEBS data reported in the Appropriation Status Report. To assess the reliability of the GFEBS data, we:

- reviewed existing information known about this GFEBS data;
- recalculated sampled GFEBS values by verifying completeness and accuracy of processes used by DFAS-IN in preparing Appropriation Status Reports; and
- requested supporting documents to trace feeder data records to source documents.

The data reliability issues we identified are discussed in the findings. We believe the computer-processed data we used were sufficiently reliable to support the findings and conclusions in this report.

Use of Technical Assistance

During the audit, we requested and received technical assistance from the DoD OIG Quantitative Methods Division (QMD). QMD personnel assisted us with designing nonstatistical samples of GFEBS data.

Prior Coverage

During the last 5 years, GAO, DoD IG, and KPMG LLP issued 5 reports discussing Army budgetary accounting reporting. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm. The KPMG LLP reports are not available over the Internet.

GAO

Report No. GAO-13-123, "Ineffective Risk Management Could Impair Progress toward Audit-Ready Financial Statements," August 2, 2013

Report No. GAO-12-642T, "Challenges in Attaining Audit Readiness and Improving Business and Systems," April 18, 2012

DoD IG

Report No. DODIG-2012-096, "Defense Departmental Reporting System–Budgetary Was Not Effectively Implemented for the Army General Fund," May 31, 2012

KPMG LLP

"Independent Accountants' Report," April 9, 2013

"Independent Accountants' Report," November 22, 2011

Appendix B

Appropriation Status Report Format

The Appropriation Status Report has 10 displayed columns, 9 of which contain numeric data. Each of the 10 columns is identified on the Appropriation Status Report by a letter, beginning with Column A and ending with Column J. Column A, "Fiscal Year Program Activity, and/or Project," the first column on the Appropriation Status Report, identifies the activity, project name, and BLI, but it contains no numeric data. Column H, "Gross Unpaid Obligations End of Period," and Column I, "Total Unobligated Balance," do not contain original numeric values because they are calculated by standard formulas from other Appropriation Status Report data within the same program activity line. Column F, "Gross Unpaid Obligations Brought Forward/Transferred," shows balances brought forward from the prior year. We performed an analysis of the numerical values reported in 6 of the 10 columns (B, C, D, E, G, and J) on the Appropriation Status Reports for December 2012 for two major categories of Army General Fund appropriations (Operation and Maintenance, and Procurement). The Table describes the information reported in those six columns.

Table. Appropriation Status Report Columns Reviewed

Report Column	Title*	Values Reported
B	Appropriated in Conference Report/ Program Distribution of Total Amount Available for Obligation From Inception	Congressional program authorization in the annual DoD Appropriations Act
C	Approved Program/Program Distribution of Total Amount Available For Obligation in Current Fiscal Year	Congressionally approved program and reprogramming actions, fiscal-year-to-date
D	Revised Program/Apportioned or Otherwise Available for Obligation to the End of the Current Quarter	Program as affected by reprogramming permitted by DoD
E	Obligation Transactions in Current Fiscal Year	Obligations incurred during the current fiscal year, plus any included adjustments of prior year obligations
G	Gross Disbursements in Current Fiscal Year	Payments made during the current fiscal year
J	Commitments Outstanding	Administrative reservations of program funds

* Columns B-D contained different titles in the Appropriation Status Reports for Operation and Maintenance, Army (OMA) and Procurement appropriations. Where two titles are displayed, separated by a "/", the first title represents OMA and the second title represents procurement.

Appendix C

Appropriation Status Report Compilation Process

Sources for Budget Execution Data

The Army and DFAS-IN used a number of accounting and reporting systems for budgetary reporting. Army accountants generally recorded budgetary events into original entry accounting systems using transaction documents, such as Treasury warrants, OMB apportionment forms, purchase orders, receiving documents, invoices, disbursement vouchers, checks, and Electronic Funds Transfers. GAO's "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1) states that a basic internal control is that all transactions need to be clearly documented and the documentation should be readily available for examination. Budget execution data for the Army used to compile the Appropriation Status Report came from a mix of older systems and recently deployed enterprise resource planning systems, including GFEBS.

GFEBS is the Army's new web-enabled financial reporting, asset, and accounting management system that standardizes, streamlines, and shares critical data across the Active Army, Army National Guard, and Army Reserve. GFEBS is an enterprise resource planning system that will replace numerous legacy systems, to include the Standard Finance System. GFEBS maintained a user's Common Access Card information[12] for all transactions executed within the system.

GFEBS completed full deployment in July 2012. The Army's audit readiness strategy is heavily reliant on GFEBS. Effective October 1, 2012, with some specific exceptions, all new financial transactions were required to be entered into GFEBS at activities at which GFEBS had been fielded. As of June 18, 2013, the last scheduled date that a system was to be replaced by GFEBS was December 31, 2016. GFEBS currently has more than 53,000 users at 227 locations worldwide.

[12] A Common Access Card is an identification card that is also used for computer access by active-duty military personnel, selected Reserve, DoD civilian employees, and eligible contractor personnel. GFEBS records the Common Access Card numbers of personnel who create transactions and the system maintains a database of users by Common Access Card numbers.

Defense Departmental Reporting System–Budgetary

DFAS-IN provides finance and accounting support to the Military Departments and Defense agencies. DFAS-IN's Accounting Operations Directorate, Departmental Reporting, is responsible for compiling accurate and timely budget execution reports in compliance with the DoD FMR. DFAS-IN uses the web-based DDRS-B to facilitate and standardize the DoD reporting process for budget execution data. DDRS-B incorporates reporting requirements from OMB, the Department of the Treasury, and OUSD(C).

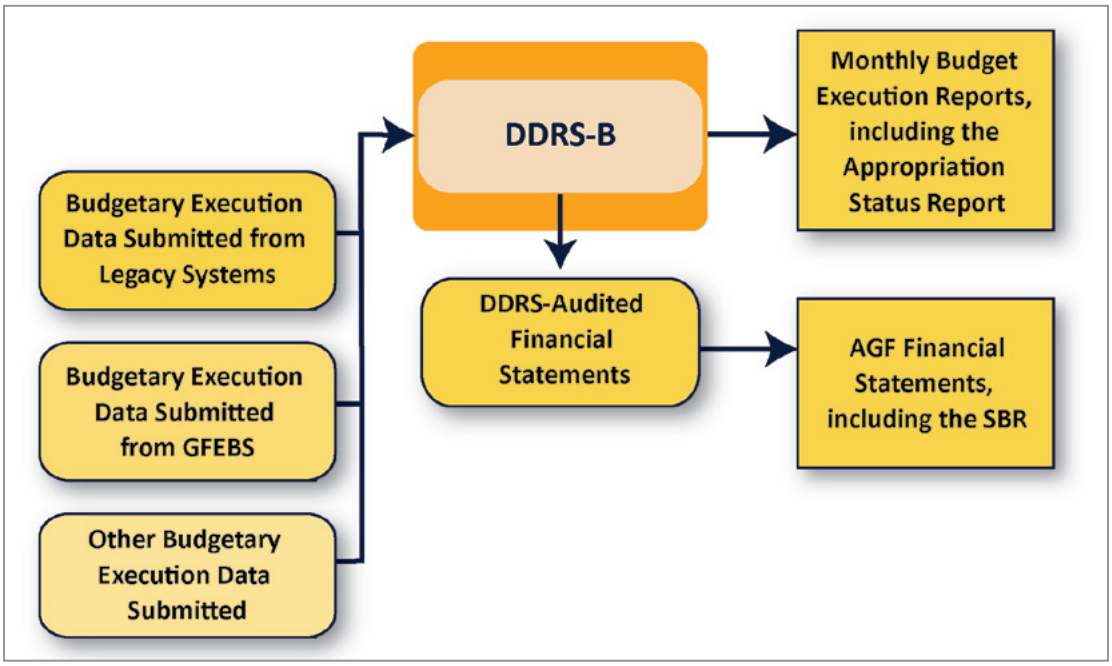
Reporting entities, such as the Army, consolidate budgetary resource information and budget execution data as reported in their respective feeder systems and these data are submitted to DFAS-IN for processing by DDRS-B. Before processing the data in DDRS-B, DFAS-IN personnel make adjustments to the data, to include the use of journal vouchers. DDRS-B then creates various export files that are the basis of the application's budget execution reports, to include the Appropriation Status Report. For December 2012, DFAS-IN personnel prepared the Appropriation Status Report related to the 55 Army General Fund appropriations, containing approximately 14,200 BLIs.

DDRS-B also creates an export file that is submitted to DDRS-Audited Financial Statements after processing DFAS-initiated adjustments to the DDRS-B data. DDRS-Audited Financial Statements produces the required quarterly and annual financial statements, to include the SBR. As of December 31, 2012, the Army reported $145.8 billion in budgetary resources on its 1st quarter, FY 2013 General Fund SBR.

Army personnel in various roles located in Army field activities input financial data, including budget execution information, into various financial systems. The primary financial system used by the Army is GFEBS, but numerous legacy systems continue to be a source of budgetary execution data. This data flows on a monthly basis into DDRS-B. DFAS-IN uses DDRS-B for processing Army financial data and to produce monthly budgetary reports, including the Appropriation Status Report and the Report on Budget Execution and Budgetary Resources (SF 133). DFAS-IN adjusts the financial data, through automatic adjustments, journal vouchers, and other adjustments. Monthly budgetary execution reports display the total financing provided to programs and the amounts still available for expenditure.

The same data are used by DFAS-IN for analysis, summarization, and preparation of the financial reports. Then, DFAS-IN produces the SBR using DDRS-Audited Financial Statements. A process flowchart for compiling the Army General Fund's Appropriation Status Report and other budget execution reports is depicted in the Figure.

Figure. Monthly Flow of Budgetary Data



Appendix D

Unresolved Differences Between Reported and Recalculated Values

We reviewed 30 BLIs from the Appropriation Status Report for December 2012. Using the GFEBS trial balance feeder for the same period, we recalculated the Appropriation Status Report values in 6 columns of the Appropriation Status Report for those 30 BLIs, for a total of 180 values. We compared the recalculated values with those reported by DFAS-IN personnel and summed the absolute values of each of the differences by column for each BLI to determine the magnitude of the differences. After several meetings with DFAS-IN personnel, differences continued to exist in the reported data. The following Table identifies the values of the unresolved differences.

Table. Unresolved Differences in Report Values

Appropriation	Period(s) of Funding Availability (Fiscal Years)	Budget Line Item Number	Column	Absolute Value of Reported Differences (in thousands)
OMA	2013	493	C	$279,679
APA	2012 through 2014	014	B	10,000
APA	2012 through 2014	014	C	10,000
APA	2012 through 2014	014	D	10,000
MPA	2012 through 2014	009	B	28,548
MPA	2012 through 2014	009	C	13,593
MPA	2012 through 2014	009	D	1,361
MPA	2012 through 2014	009	E	14,954
MPA	2011 through 2013	005	B	304
MPA	2011 through 2013	005	C	304
MPA	2011 through 2013	005	D	304
W&TVA	2012 through 2014	001	B	30,000

Appropriation	Period(s) of Funding Availability (Fiscal Years)	Budget Line Item Number	Column	Absolute Value of Reported Differences (in thousands)
W&TVA	2012 through 2014	001	C	26,712
W&TVA	2012 through 2014	001	D	23,453
W&TVA	2012 through 2014	001	E	3,260
W&TVA	2011 through 2013	032	B	28,736
W&TVA	2011 through 2013	032	C	7,140
W&TVA	2011 through 2013	032	D	14,203
W&TVA	2011 through 2013	032	E	21,344
PAA	2013 through 2015	6780E25500	E	30,878
PAA	2013 through 2015	6780E25500	J	8,524
PAA	2012 through 2014	028	B	33,686
PAA	2012 through 2014	028	C	3,091
PAA	2012 through 2014	028	D	28,817
PAA	2012 through 2014	028	E	25,727
PAA	2012 through 2014	037	B	2,118
PAA	2012 through 2014	037	C	2,341
PAA	2012 through 2014	037	D	583
PAA	2012 through 2014	037	E	1,310
PAA	2012 through 2014	037	J	1,016
Total				**$661,987**

Legend

OMA Operation and Maintenance, Army
APA Aircraft Procurement, Army
MPA Missile Procurement, Army
W&TVA Procurement of Weapons and Tracked Vehicles, Army
PAA Procurement of Ammunition, Army

Appendix E

Requests for Supporting Documentation

Using the 30 BLIs as a basis, we determined the ability of the Army to support 34 GFEBS financial transactions. The following Table provides information about the 34 financial transactions, including the status of the Army's ability to provide supporting documentation.

Table. Status of Requests for Supporting Documentation

Type of Transaction	Budget Line Item	Amount ($)	Status
Disbursement[1]	493	$224,245	Point of contact could not be determined
Disbursement	471	-61,902	Point of contact could not be determined
Disbursement	009	518,000	No response to requests for document
Disbursement	213	49,704	No response to requests for document
Disbursement	331	1,010,608	No response to requests for document
Disbursement	032	3,560	No response to requests for document
Disbursement	415EP2500	200,000	No response to requests for document
Disbursement	433	134,441	No response to requests for document
Disbursement	99660000000	911,000	Point of contact could not be determined
Disbursement	471	59,616	Point of contact could not be determined
Funding[2]	1284GZ2300	34,000,000	Supported transaction
Funding	415EP2500	1,365,000	No response to requests for document
Funding	9675A00010	5,999,000	No response to requests for document
Funding	8980D04003	19,954,000	No response to requests for document
Funding	2706AA6605	53,469,000	No response to requests for document
Funding	032	28,735,650	No response to requests for document
Funding	6780E25500	53,905,000	No response to requests for document
Obligation[3]	009	-365,678	Unsupported transaction
Obligation	2706AA6605	-1,160	Point of contact could not be determined
Obligation	493	8,697,737	Supported transaction
Obligation	415EP2500	143,416	No response to requests for document
Obligation	415EP2500	143,416	No response to requests for document
Obligation	415EP2500	200,000	No response to requests for document
Obligation	2706AA6605	-49,833,614	No response to requests for document
Obligation	331	1,450,102	No response to requests for document

Type of Transaction	Budget Line Item	Amount ($)	Status
Obligation	331	8,052,126	No response to requests for document
Obligation	032	777,000	Supported transaction
Obligation	415EP2500	150,000	Supported transaction
Obligation	1284GZ2300	423,365	No response to requests for document
Obligation	1284GZ2300	9,367,597	No response to requests for document
Obligation	1284GZ2300	647,426	No response to requests for document
Obligation	114	192,143	Supported transaction
Obligation	493	80,000	Document received did not support transaction
Obligation	2706AA6605	-247	Supported transaction

[1] A disbursement is a payment to an individual or organization for goods furnished or services rendered.
[2] Funding provided by Congress through the annual Defense Appropriations Act is needed to incur obligations and make payments.
[3] An obligation is a legally binding agreement or action that will result in disbursements, immediately or in the future.

Appendix F

Results of the Journal Voucher Review

Journal Voucher Number	Journal Voucher Did Not Have Adequate Supporting Documentation	Journal Voucher Specified as GFEBS Error Correction
20131219889	X	X
20131257594	X	X
20131301116	X	X
20131300748	X	X
20131196251	X	X
20131196234	X	X
20131196232	X	X
20131196231	X	X
20131196230	X	X
20131196225	X	X
20131196214	X	X
20131196213	X	X
20131196209	X	X
20131196090	X	
20131195874		
Total	**14**	**13**

Management Comments

Department of the Army

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FO

MAY 19 2014

MEMORANDUM FOR The Assistant Inspector General for Audit, Department of Defense Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Army's Audit readiness at Risk Because of Unreliable Data in the Appropriation Status Report (Project No. D2013-D000FI-0060.000)

1. Enclosed please find our response to recommendations in the subject draft report.

2. The Army point of contact for this action is [redacted] She can be reached by telephone at [redacted] or by e-mail at [redacted]

Encl

James J. Watkins
Deputy Assistant Secretary Army
(Financial Operations)

Department of the Army (cont'd)

Enclosure: Official Comments

Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report
Project No.– D2013-D000FI-0060.000

Recommendation

A-1. We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) establish a single entry point for auditor support for all Army financial statement audits, and examinations and performance audits of Army audit readiness activities that include more than one Command or Army element to facilitate access to supporting documentation for financial transactions recorded in accounting systems.

Army Response: Concur. The Deputy Assistant Secretary of the Army (Financial Operations) has established a single entry point for auditor support for all Army financial statement audits, and examinations and performance audits of Army audit readiness activities. This entry point is the Directorate of Accountability and Audit Readiness (SAFM-FOA). This action taken streamlines the process in cases where more than one Command or Army element are involved in a response and will better facilitate access to supporting documentation for financial transactions recorded in accounting systems.

B-1. We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget, in collaboration with the Director of the Defense Finance and Accounting Service–Indianapolis, complete an analysis to determine the cause of the significant number of adjustments required each month in order for General Fund Enterprise Business System data to be reported in the Appropriation Status Report, track and report trend data on these automatic adjustments, and develop a plan of actions and milestones to eliminate the need for this automatic adjustment process within the Defense Departmental Reporting System–Budgetary.

Army Response: Concur. The Deputy Assistant Secretary of the Army (Financial Operations and Army Budget) will work with DFAS-Indianapolis Departmental Reporting and PM DDRS to address the root causes of the adjustments related to the Appropriation Status Report. First steps, by 30 September 2014, will be to hold a JV workshop to identify the root causes and identify corrective actions. The outcome will be a POAM with milestones that address GFEBS and DDRS system changes and identifying Army and DoD policies needing change. By February 2014,we will add additional information to JV metrics to ensure we track POAM actions to completion and that JV activity is decreasing.

Defense Finance and Accounting Service

DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

MAY 1 9 2014

DFAS-JBK/IN

MEMORANDUM FOR Inspector General U.S. Department of Defense

SUBJECT: Inspector General U.S. Department of Defense draft report for the audit of "Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report" (Project No. D2013-D000FI-0060.000)

The Defense Finance and Accounting Service Indianapolis is providing management comments to recommendations A.2.a, A.2.b, B.1 and B.2 of the subject draft report.

My point of contact for this action is [redacted] who can be reached at [redacted]

Aaron P. Gillison
Director, DFAS-IN

Attachment:
As stated

Defense Finance and Accounting Service (cont'd)

Army's Audit Readiness at Risk Because of Unreliable Data in the Appropriation Status Report – D2013-D000FI-0060.000

Director, DFAS Indianapolis should:

Recommendation A.2.a: Collaborate with system proponent for the Defense Department Reporting System – Budgetary to conduct a thorough review and revise its budget execution reporting process flowcharts and narratives to provide a complete and detailed process flow for improved auditability of the budget execution reports.

Management Comment: Concur. Director, DFAS Indianapolis agrees to collaborate with system proponent for the Defense Department Reporting System – Budgetary (DDRS-B) to conduct a thorough review and revise its budget execution reporting process flowcharts and narratives to provide a complete and detailed process flow for improved auditability of the budget execution reports.

Estimated Completion Date (ECD): November 30, 2014

Recommendation A.2.b: Revise the Budget Execution Journal Voucher Process Standard Operating Procedure to require the supporting documentation of journal vouchers correcting General Fund Enterprise Business System errors include information showing how it was determined that the feeder data was in error and how the information in the journal voucher was determined to be correct.

Management Comment: Concur. Director, DFAS Indianapolis agrees to revise the Budget Execution Journal Voucher Process Standard Operating Procedure to require the supporting documentation of journal vouchers correcting General Fund Enterprise Business System (GFEBS) errors include information showing how it was determined that the feeder data was in error and how the information in the journal voucher was determined to be correct.

Estimated Completion Date (ECD): October 31, 2014

Defense Finance and Accounting Service (cont'd)

Recommendation B.1: We recommend that the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget, in collaboration with the Director of the Defense Finance and Accounting Service-Indianapolis, complete an analysis to determine the cause of the significant number of adjustments required each month in order for General Fund Enterprise Business System data to be reported in the Appropriation Status Report, track and report trend data on these automatic adjustments, and develop a plan of actions and milestones to eliminate the need for this automatic adjustment process within the Defense Departmental Reporting System-Budgetary.

Management Comments: Concur. Director, DFAS Indianapolis agrees to collaborate with the Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget, to complete an analysis to determine the cause of the significant number of adjustments required each month in order for GFEBS data to be reported in the Appropriation Status Report; track and report trend data on these automatic adjustments; and develop a plan of actions and milestones to eliminate the need for this automatic adjustment process within the DDRS-B. The estimated completion date is based upon dates communicated by Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Army Budget.

Estimated Completion Date (ECD): February 28, 2015

Recommendation B.2: Require that these automatic adjustments be approved and documented in accordance with DoD Financial Management Regulation: volume 6A, Chapter 2, "Financial Roles and Responsibilities."

Management Comment: Non-concur with the DoDIG recommendation as resolution of this issue requires additional corrective action. This recommendation does not address the root cause. A joint effort and corrective action from the Army customer is necessary to address GFEBS system issues that result in invalid lines of accounting. With regard to the base recommendation, the incurred cost far exceeds the benefit of implementation. Prescribed regulatory guidance requires approval and documentation for each change (defined as a journal voucher by auditors). Due to the volume of changes, extraordinary cost would result. However, the Director, DFAS Indianapolis understands the spirit of the recommendation to require that automatic adjustments be approved and documented in accordance with DoD Financial Management Regulation: volume 6A, Chapter 2, "Financial Roles and Responsibilities." Further, he provides alternative action by agreeing to point invalid lines of accounting to valid lines (disable feature of DDRS-B) as determined by Army Budget Office Input, the Department of Defense Federal Management Regulation (DoDFMR), and the DFAS 37-100 XX. As evidence of supervisory review and separation of duties, Departmental Reporting will print the report of all disables monthly to ensure transparency and will ensure the report is signed by the preparer and the supervisor.

Estimated Completion Date (ECD): October 31, 2014

Acronyms and Abbreviations

BLI	Budget Line Item
DDRS-B	Defense Departmental Reporting System–Budgetary
DFAS-IN	Defense Finance and Accounting Service–Indianapolis
DoD FMR	DoD Financial Management Regulation
FIAR	Financial Improvement and Audit Readiness
FMR	Financial Management Regulation
GAO	Government Accountability Office
GFEBS	General Fund Enterprise Business System
OMB	Office of Management and Budget
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
SBR	Statement of Budgetary Resources

INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

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U.S. Department of Defense

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