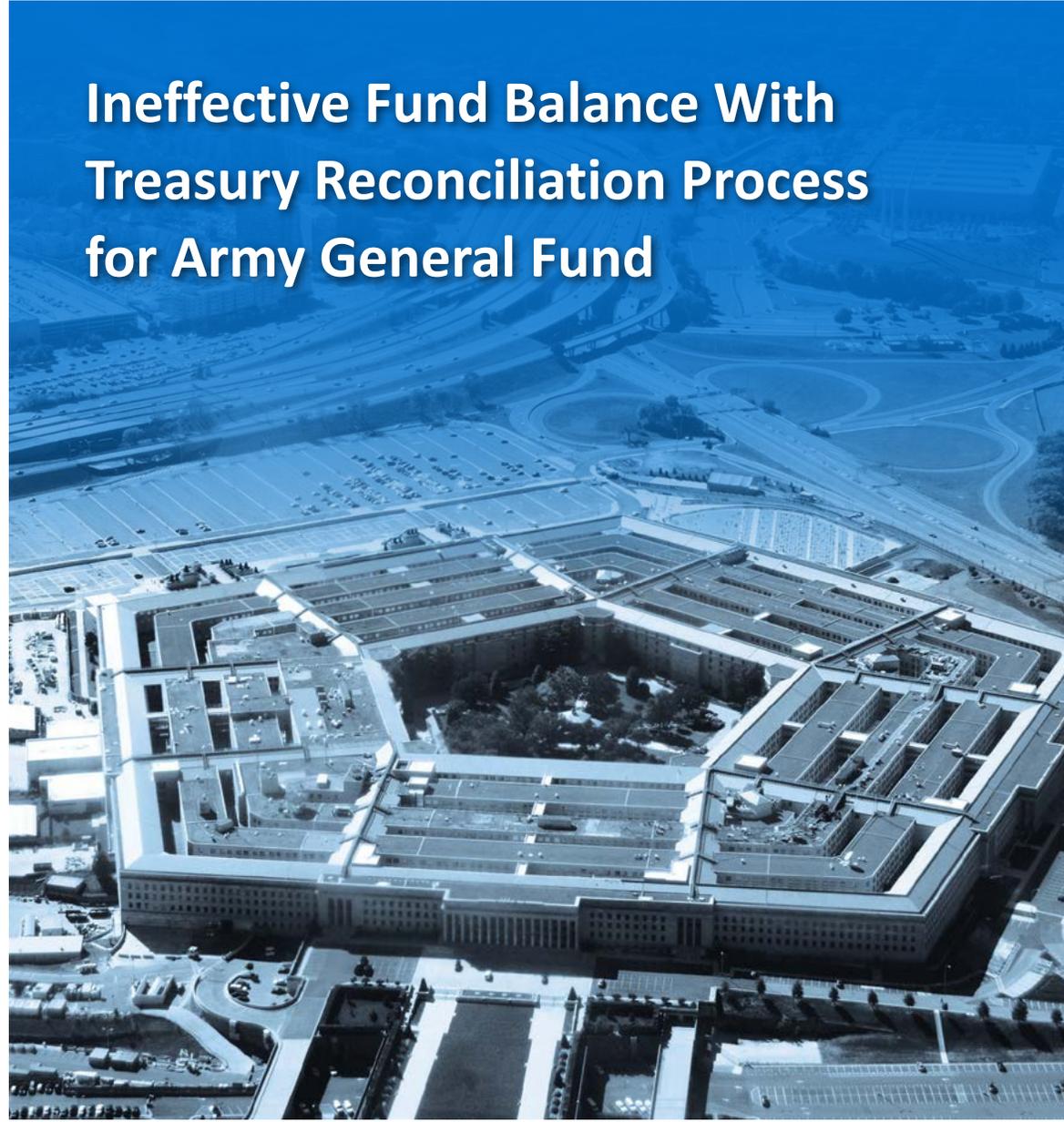




# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 23, 2017



## Ineffective Fund Balance With Treasury Reconciliation Process for Army General Fund

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# Results in Brief

## *Ineffective Fund Balance With Treasury Reconciliation Process for Army General Fund*

March 23, 2017

### Objective

We determined whether the Defense Finance and Accounting Service–Indianapolis (DFAS-IN), in coordination with the Army, effectively reconciled the Fund Balance With Treasury (FBWT) between the Army General Fund (AGF) and the Treasury records.

At the request of the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA[FM&C]) management, we limited our review to one AGF appropriation, the FY 2016 Army Reserve Operations and Maintenance (O&M) appropriation, which was 1.1 percent of the AGF FBWT balance as of March 31, 2016.

### Background

FBWT is an asset account that reflects a Federal agency's available spending authority. Appropriations and collections increase FBWT and disbursements reduce it. At the agency level, FBWT is similar to a corporation's cash account. The Army FBWT Reconciliation Tool identifies AGF FBWT differences between Army and Treasury records.

### Finding

OASA(FM&C) and DFAS-IN personnel did not have an effective AGF FBWT reconciliation process for the FY 2016 Army Reserve O&M FBWT Funds. OASA(FM&C) and DFAS-IN personnel improved the Reconciliation Tool by adding the capability to identify a universe of AGF FBWT differences between Army and Treasury records. However,

### Finding (cont'd)

based on the results of our statistical sample, OASA(FM&C) and DFAS-IN personnel did not identify and resolve all differences completely and timely with adequate support, as required by Federal and DoD guidance. This occurred because OASA(FM&C) and DFAS-IN personnel did not design their AGF FBWT reconciliation process to:

- identify, age,<sup>1</sup> assign accountability for, and explain all differences within 10 workdays of the end of the month;
- resolve a projected 7,789 of the 11,359 differences in records for FY 2016 Army Reserve O&M FBWT (or 68.6 percent) within 60 days;
- ensure standardized data is transmitted between the Army's accounting and financial systems; and
- prevent the creation of unsupported manual and system-generated AGF FBWT adjustments.

OASA(FM&C) and DFAS-IN personnel's inability to identify and resolve all AGF FBWT differences completely and timely with adequate support demonstrates the continuation of the Army's longstanding FBWT and unsupported adjustment material control weaknesses that Army first identified in FY 2008. These weaknesses increase the risk of materially misstated AGF FBWT financial statement disclosures and the Army not being audit ready by September 30, 2017.

### Recommendations

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and Director, DFAS-IN, reengineer the AGF FBWT reconciliation process to:

- meet the 10-workday requirement established by DoD regulation or coordinate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, to determine whether the requirement needs to be revised;

<sup>1</sup> The amount of time elapsed between when an activity identifies and resolves a record difference.



# Results in Brief

## *Ineffective Fund Balance With Treasury Reconciliation Process for Army General Fund*

### **Recommendations (cont'd)**

- correct system deficiencies known to cause FBWT differences;
- research and resolve all differences within 60 days, as required;
- document business rules that create system-generated adjustments; and
- support all AGF FBWT adjustments with transaction-level detail.

Additionally, we recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) develop and implement:

- system changes to ensure AGF FBWT transaction data are standardized for non-legacy accounting and financial systems;
- a methodology for standardizing data from legacy accounting and financial systems; and
- system functionality to demonstrate posting logic for all non-legacy accounting and financial systems.

### **Management Comments and Our Response**

The Deputy Assistant Secretary of the Army (Financial Operations) (DASA[FO]), responding on behalf of the Assistant Secretary of the Army (Financial Management and Comptroller), and Director, DFAS-IN, agreed with our finding and recommendations.

The DASA(FO) and Director, DFAS-IN, agreed to work with OUSD(C)/CFO personnel to review the number of days required to perform the AGF FBWT reconciliation and update the DoD regulation. Therefore, the recommendation is resolved but remains open. We will close this recommendation once we verify either

OASA(FM&C) and DFAS-IN personnel have complied with the current DoD regulation requirement to perform the AGF FBWT reconciliation within 10 workdays or OUSD(C)/CFO personnel have updated the DoD regulation. The estimated completion date is December 31, 2017.

The DASA(FO) and Director, DFAS-IN, agreed to identify root causes of the AGF FBWT differences between Army and Treasury records; identify corrective actions needed to resolve those differences within 60 days; and develop supporting documentation for system-generated adjustments, including system posting logic, applicable system change requests, oversight requirements, process details, and applicable controls. Therefore, the recommendation is resolved but remains open. We will close this recommendation once we verify that OASA(FM&C) and DFAS-IN personnel have documentation of an aging report showing that AGF FBWT differences were resolved within 60 days; business rules that create system-generated adjustments for differences between Army and Treasury records; and system-generated adjustments supported at the transaction-level, with causes identified. The estimated completion dates are between May 31, 2017, and October 31, 2018.

The DASA(FO) agreed to review system issues and identify system changes necessary to resolve differences between Army and Treasury records and review posting logic for all transaction types. Therefore, the recommendation is resolved but remains open. We will close this recommendation once we verify that OASA(FM&C) personnel have evidence that system changes to standardize data have been implemented and system posting logic has been documented. The estimated completion date is September 30, 2019.

Please see the Recommendations Table on the next page.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Assistant Secretary of the Army (Financial Management and Comptroller)	None	1, 2.a, 2.b, 2.c, 2.d, 3.a, 3.b, 3.c	None
Director, Defense Finance and Accounting Service–Indianapolis	None	1, 2.a, 2.b, 2.c, 2.d	None

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





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

March 23, 2017

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

SUBJECT: Ineffective Fund Balance With Treasury Reconciliation Process for Army  
General Fund (Report No. DODIG-2017-069)

We are providing this report for information and use. Office of the Assistant Secretary of the Army (Financial Management and Comptroller) and Defense Finance and Accounting Service-Indianapolis personnel did not have an effective Fund Balance With Treasury reconciliation process for the Army General Fund, increasing the risk of material misstatement and of not complying with the FY 2017, congressionally mandated, full financial statement audit-readiness requirement. We conducted this audit in accordance with generally accepted government auditing standards.

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), responding on behalf of the Assistant Secretary of the Army (Financial Management and Comptroller), and from the Director, Defense Finance and Accounting Service-Indianapolis, conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

*Lorin T. Venable*

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reportingg

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# Introduction

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## Objective

We determined whether the Defense Finance and Accounting Service–Indianapolis (DFAS-IN), in coordination with the Army, effectively reconciled the Fund Balance With Treasury (FBWT) between the Army General Fund (AGF) and the Treasury records. See Appendix A for the scope and methodology, and Appendix B for prior audit coverage.

This is the second audit of the AGF FBWT reconciliation process. The first audit, Report No. DODIG-2015-038, addressed the effectiveness of the Army FBWT Reconciliation Tool (AFT), which identifies AGF FBWT differences between Army and Treasury records.<sup>2</sup> For this audit, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA[FM&C]) management requested that we limit our review to one AGF appropriation, the FY 2016 Army Reserve Operations and Maintenance (O&M) appropriation, which was 1.1 percent of the AGF FBWT balance as of March 31, 2016.

## Background

FBWT is an asset account that reflects a Federal agency's available spending authority. Appropriations and collections increase FBWT and disbursements reduce it. At the agency level, FBWT is similar to a corporation's cash account.

## *Roles and Responsibilities*

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (OUSD[C]/CFO) publishes and updates the DoD Financial Management Regulation (FMR).<sup>3</sup> To implement the DoD FMR, OASA(FM&C) develops the Army's policies, procedures, programs, and systems pertaining to finance and accounting, including AGF FBWT reconciliation. DFAS-IN provides accounting and financial reporting services to the Army. Specifically, the following DFAS-IN operations play key roles in performing monthly AGF FBWT reconciliations.

- AFT Program Management Office (PMO) personnel operate AFT.
- Accounts Maintenance and Control (AM&C) personnel review the AFT-identified differences and ensure timely resolution.
- Departmental Reporting personnel also review and resolve AFT-identified differences and consolidate, adjust, and report information in the AGF Financial Statements.

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<sup>2</sup> Report No. DODIG-2015-038, "Additional Actions Needed to Effectively Implement the Army Fund Balance With Treasury Reconciliation Tool," November 20, 2014.

<sup>3</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation."

## ***FBWT Reconciliation Requirements***

Federal Accounting Standards require agencies to explain in their financial statement footnotes any FBWT differences between the agency's and the Treasury's records.<sup>4</sup> For AFT's FBWT reconciliation process, a record includes transactions with the same Line of Accounting, Document Voucher Number, and Reimbursable Designator. Agencies must reconcile any FBWT differences and resolve those not caused by timing differences between when the record is input in Army and Treasury systems before financial statements are prepared. While the Treasury Financial Manual (TFM) requires agencies to resolve all differences between their records and the Treasury's, it also requires that agencies not adjust their FBWT account until clearly establishing and properly documenting the causes of the differences.<sup>5</sup>

DoD FMR, volume 4, chapter 2, requires Army and DFAS-IN personnel to complete FBWT reconciliations within 10 workdays of the end of the month being reconciled.<sup>6</sup> This reconciliation compares the Army's detailed records with the Treasury's detailed records. According to the DoD FMR, a FBWT reconciliation is not complete until all differences are: (1) identified, (2) aged, (3) assigned accountability, and (4) explained. See Table 1 for definitions of identified, aged, assigned accountability, and explained.

*Table 1. Definitions of DoD FMR FBWT Reconciliation Criteria*

<b>DoD FMR FBWT Reconciliation Criteria</b>	<b>Definition</b>
Identified	The detection of a difference between Army and Treasury records.
Aged	The amount of time elapsed between when an activity identifies and resolves a record difference.
Assigned Accountability	The activity responsible for resolving the record differences.
Explained	The categorization of record differences into one of four categories: (1) in the Army's systems but not in the Treasury's system, (2) in the Treasury's system but not in the Army's systems, (3) in both systems but the dollar values do not match, or (4) in both systems with matching dollar values.

Source: Auditor-generated definitions based on support provided by OUSD(C)/CFO and DFAS-IN personnel.

<sup>4</sup> "Statement of Federal Financial Accounting Standards 1: Accounting for Selected Assets and Liabilities," March 30, 1993.

<sup>5</sup> "Fund Balance With Treasury Reconciliation Procedures: A Supplement to Treasury Financial Manual Volume 1, Part 2, Chapter 5100," March 2012.

<sup>6</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 4, "Accounting Policy," Chapter 2, "Accounting for Cash and Fund Balances With Treasury."

DoD FMR, volume 4, chapter 2, also requires the resolution of any FBWT reconciliation differences within 60 days. DoD FMR, volume 6a, chapter 2, requires that adjustments to the accounting records be supported with sufficiently detailed documentation to provide an audit trail to the source transactions.<sup>7</sup> The documentation must include: (1) the rationale and justification for making the adjustment, (2) detailed numbers and dollar amount of errors or conditions related to the transactions or records that are proposed for adjustment, (3) date of the adjustment, and (4) name and position of the individual approving the adjustment.

Public Law 111-84 requires the DoD to develop and maintain a plan that ensures its financial statements, which include the AGF financial statements, are validated as ready for audit by September 30, 2017.<sup>8</sup> Public Law 113-66 mandates an audit of FY 2018 DoD Agency-Wide Financial Statements and submission of the audit results to Congress by March 31, 2019.<sup>9</sup> For the Army and the DoD to become ready for audit, the Army must address its longstanding material weaknesses related to the inability to reconcile FBWT and support adjustments made to the Army's accounting records.<sup>10</sup>

To comply with Public Law 111-84, the DoD developed the Financial Improvement and Audit Readiness Guidance and Financial Improvement and Audit Readiness Plan Status Report, which together act as a roadmap to audit readiness with interim milestones to ensure the DoD remains on track to meet the audit-readiness requirement.<sup>11</sup> According to the May 2016 Plan Status Report, one of the Army's interim milestones is for the AGF FBWT to be audit ready by June 30, 2017.

### ***FBWT Reconciliation Process***

The Defense Departmental Reporting System–Budgetary (DDRS-B) receives and processes AGF summary-level financial data, including FY 2016 Army Reserve O&M appropriation data.<sup>12</sup> DDRS-B receives this data from a variety of Army and non-Army systems<sup>13</sup> that contain obligation, collection, disbursement, and funding data belonging in the AGF financial records. To balance Army and Treasury AGF FBWT

<sup>7</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 6a, "Reporting Policy," Chapter 2, "Financial Roles and Responsibilities."

<sup>8</sup> Public Law 111-84, "National Defense Authorization Act for Fiscal Year 2010," Section 1003, "Audit Readiness of Financial Statements of the Department of Defense," October 28, 2009.

<sup>9</sup> Public Law 113-66, "National Defense Authorization Act for Fiscal Year 2014," Section 1003, "Audit of Department of Defense Fiscal Year 2018 Financial Statements," December 26, 2013.

<sup>10</sup> Army personnel first identified these material weaknesses in FY 2008.

<sup>11</sup> "Financial Improvement and Audit Readiness Guidance," April 2016 and "Financial Improvement and Audit Readiness Plan Status Report," May 2016.

<sup>12</sup> DDRS-B financial reporting data flows to Defense Departmental Reporting System–Audited Financial Statements, which makes further adjustments before AGF Financial Statement preparation.

<sup>13</sup> Non-Army system owners include other agencies, such as the Treasury, Department of Agriculture, Department of Transportation, Marine Corps, Navy, Air Force, and Washington Headquarters Services.

records, OASA(FM&C) and DFAS-IN personnel make forced balance entries, which are unsupported manual and system-generated adjustments. For March 2016, DDRS-B processed \$1.9 billion in net adjustments, which are the total value of positive and negative transactions, to the AGF FBWT. Of this amount, \$5.7 million was the net adjustment for FY 2016 Army Reserve O&M FBWT.

AFT performs a transaction-level reconciliation of the AGF FBWT account using data received from Army and non-Army systems to reconcile the Army's FBWT records to the Treasury. Once transaction-level data is loaded into AFT, AFT categorizes each record into one of four categories: (1) in the Army's systems but not in the Treasury's system, (2) in the Treasury's system but not in the Army's systems, (3) in both systems but the dollar values do not match, or (4) in both systems with matching dollar values. For the three non-matching categories, (1) through (3) above, Table 2 presents by category the 11,359 differences between Army and Treasury records for FY 2016 Army Reserve O&M FBWT as of March 2016.

*Table 2. Categorization of FY 2016 Army Reserve O&M FBWT Differences*

Category	Quantity
In the Army's Systems But Not in the Treasury's System	4,750
In the Treasury's System But Not in the Army's Systems	5,281
In Both Systems But Dollar Value Mismatch	1,328
<b>Total</b>	<b>11,359</b>

Source: Based on documentation provided by DFAS-IN AFT PMO personnel as of March 2016.

When DFAS-IN AM&C personnel identify a system or process deficiency as the cause for differences, they prepare a resolution request for Army personnel and system administrators. The request may result in either system or process changes.

## Review of Internal Controls

DoD Instruction 5010.40 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.<sup>14</sup> We determined that FBWT reconciliation and unsupported adjustment material internal control weaknesses continued to exist. We will provide a copy of this report to the senior officials responsible for Army and DFAS-IN internal controls.

<sup>14</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### Improvements Needed in the Fund Balance With Treasury Reconciliation Process

OASA(FM&C) and DFAS-IN personnel did not have an effective reconciliation process for the FY 2016 Army Reserve O&M FBWT. OASA(FM&C) and DFAS-IN personnel improved the AGF FBWT reconciliation process. However, based on the results of our statistical sample, OASA(FM&C) and DFAS-IN personnel did not identify and resolve all differences between Army and Treasury records, as required by Federal and DoD guidance.<sup>15</sup> This occurred because OASA(FM&C) and DFAS-IN personnel did not design their FBWT reconciliation process to:

- identify, age, assign accountability for, and explain all differences within 10 workdays of the end of the month, as required by DoD FMR, volume 4, chapter 2;
- correct longstanding system and non-system deficiencies resulting in a projected 7,789 of the 11,359 (68.6 percent) FY 2016 Army Reserve O&M FBWT differences as of March 2016 within 60 days, as required by DoD FMR, volume 4, chapter 2;
- transmit standardized data between Army accounting and financial systems, as required by DoD FMR, volume 1, chapter 4;<sup>16</sup> and
- support manual and system-generated adjustments, as required by the TFM and DoD FMR, volume 6a, chapter 2.

The inability of OASA (FM&C) and DFAS-IN personnel to identify and resolve all AGF FBWT differences demonstrates the continuation of the Army's longstanding AGF FBWT reconciliation and unsupported adjustment material control weaknesses. These weaknesses increase the risk of materially misstated AGF FBWT financial statement disclosures and the Army not being audit ready by September 30, 2017.

<sup>15</sup> See Appendix C for the detailed sampling methodology and results.

<sup>16</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 1, "General Financial Management Information, Systems, and Requirements," Chapter 4, "Standard Financial Information Structure."

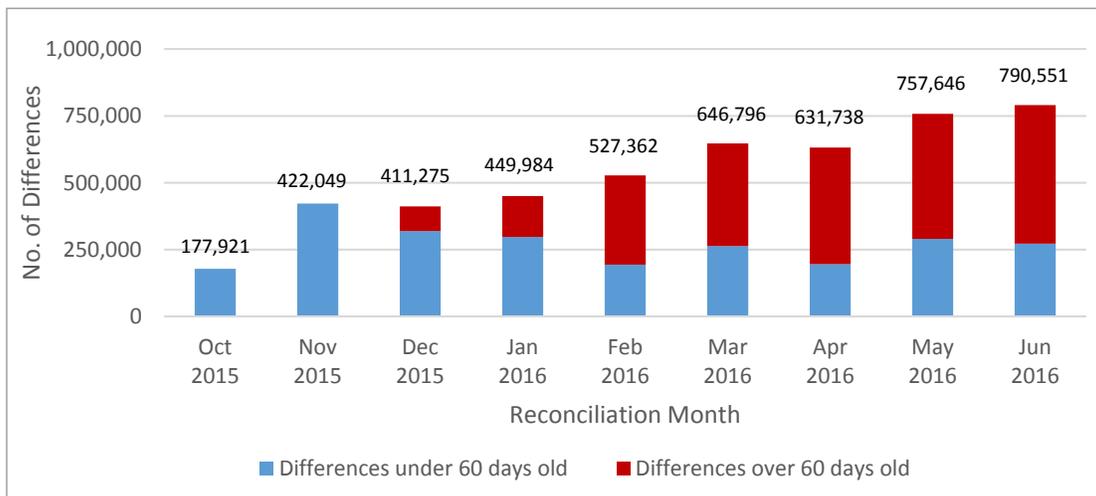
## Ineffective Reconciliation Process

OASA(FM&C) and DFAS-IN personnel did not have an effective reconciliation process for FY 2016 Army Reserve O&M FBWT. We found that OASA(FM&C) and DFAS-IN personnel had improved the AGF FBWT reconciliation process by adding the capability to identify a universe of differences between Army and Treasury records. However, OASA(FM&C) and DFAS-IN personnel made forced balance adjustments in DDRS-B, the AGF financial reporting system, to match Army and Treasury records. They were unable to support those adjustments with transaction-level detail identified by AFT. In addition, OASA(FM&C) and DFAS-IN personnel did not identify the causes for the AFT-identified AGF FBWT differences before processing adjustments to bring DDRS-B into agreement with the Treasury.

OASA(FM&C) and DFAS-IN personnel made forced balance adjustments in DDRS-B ... to match Army and Treasury records.

Under the ineffective AGF FBWT reconciliation process, the number of overall FY 2016 AGF FBWT differences identified increased from 177,921 in October 2015, to 646,796 in March 2016, and to 790,551 in June 2016, as shown in Figure 1.<sup>17</sup> The figure also depicts that, as of June 2016, OASA(FM&C) and DFAS-IN personnel did not resolve 518,312 overall FY 2016 AGF FBWT differences, each exceeding the DoD FMR 60-day difference resolution requirement.<sup>18</sup>

Figure 1. Number of Differences Between the Army and the Treasury for All FY 2016 AGF FBWT



Source: Based on transaction-level data and aging reports provided by DFAS-IN AFT PMO personnel as of June 30, 2016.

<sup>17</sup> AFT identified 94,491 overall AGF FBWT differences between June 2015, when AFT was implemented, and September 2015 that remained unresolved as of March 2016. These differences were not included in the total number of overall FY 2016 AGF FBWT differences.

<sup>18</sup> AFT identified 518,312 differences between October 2015 and April 2016 that remained as of June 2016.

## Reconciliations Not Performed Timely

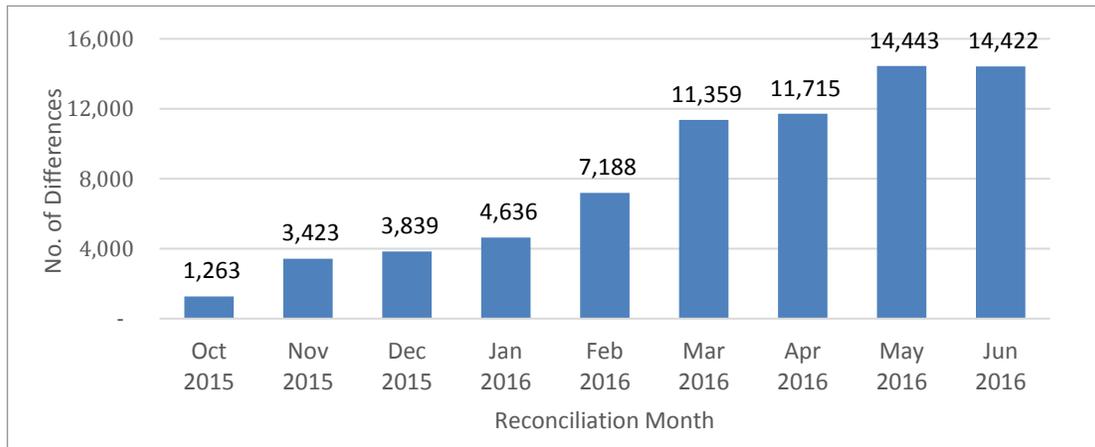
OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to identify, age, assign accountability for, and explain all differences between Army and Treasury records within 10 workdays following the end of the month (March 31, 2016), as required by DoD FMR, volume 4, chapter 2. According to DFAS-IN AFT PMO personnel, they could not complete the March 2016 AGF FBWT reconciliation process within the 10 workdays because AFT did not receive the DDRS-B data needed to perform the reconciliation until the 16th workday (April 22, 2016). Specifically, DFAS-IN Departmental Reporting personnel stated that they could not complete DDRS-B month-end processing until the 16th workday because the system required financial information from Treasury that caused the DDRS-B processing to not be completed until then. OASA(FM&C) and DFAS-IN personnel should reengineer their AGF FBWT reconciliation process to meet the 10-workday deadline or coordinate with the OUSD(C)/CFO to determine whether the DoD FMR, volume 4, chapter 2, requirement needs to be revised to increase the number of days for the reconciliation process.

## Resolution of Reconciliation-Identified Differences Not Resolved Timely

OASA(FM&C) and DFAS-IN personnel did not design their FBWT reconciliation process to resolve identified differences timely. Once the AGF FBWT reconciliation identifies differences, DoD FMR, volume 4, chapter 2, requires them to be resolved within 60 days. However, OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to resolve a projected 7,789 of the 11,359 (68.6 percent) FY 2016 Army Reserve O&M FBWT differences as of March 2016 within 60 days. As shown in Figure 2, due to differences not resolved within 60 days, the number of FY 2016 Army Reserve O&M FBWT outstanding differences increased from 1,263 differences in October 2015 to 11,359 in March 2016, and to 14,422 in June 2016.

OASA(FM&C) and DFAS-IN personnel did not ... resolve a projected 7,789 of the 11,359 (68.6 percent) FY 2016 Army Reserve O&M FBWT differences as of March 2016 within 60 days.

Figure 2. Differences Between the Army and the Treasury for FY 2016 Army Reserve O&M FBWT



Source: Based on transaction-level data and aging reports provided by DFAS-IN AFT PMO personnel as of June 30, 2016.

OASA(FM&C) and DFAS-IN personnel did not resolve a projected 5,108 AGF FBWT differences because of unresolved system deficiencies. OASA(FM&C) and DFAS-IN personnel also stated that they waited at least 60 days after the difference was identified to begin their research if the difference was not related to system deficiencies (causing 2,681 differences).

### **System Deficiencies Not Resolved**

OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to resolve a projected 5,108 of the 7,789 (65.6 percent) FY 2016 Army Reserve O&M FBWT differences related to system deficiencies. Of the 5,108 projected unresolved differences, 4,897 related to three longstanding system deficiencies:

- 2,173 unresolved differences related to Army systems incorrectly recording the Military Standard Requisitioning and Issue Procedure code<sup>19</sup> in the voucher field;
- 1,816 unresolved differences related to Army systems erroneously switching the Reimbursement Designator<sup>20</sup> from disbursement to collection or collection to disbursement; and
- 908 unresolved differences related to Army systems not generating or transmitting to the Treasury the required form to process transaction adjustments.

<sup>19</sup> The Military Standard Requisitioning and Issue Procedure code communicates critical information between maintenance and supply activities about what supplies are required and where the supplies need to go.

<sup>20</sup> Reimbursement Designator is a code assigned in accounting systems to identify whether the transaction is a collection or a reimbursement.

Our sample test results showed a projected 4,138 of the 5,108 unresolved differences related to system deficiencies that were older than 120 days. While DFAS-IN AM&C personnel submitted requests to the respective system administrators within the last year to resolve these system deficiencies, these system deficiencies were known when AFT was developed in FY 2013 and have yet to be resolved. Eliminating these system deficiencies may result in a substantial reduction of differences, allowing DFAS-IN AM&C personnel to concentrate resources on resolving differences not caused by known system deficiencies. OASA(FM&C) and DFAS-IN personnel should reengineer the AGF FBWT reconciliation process to correct system deficiencies known to cause FBWT differences.



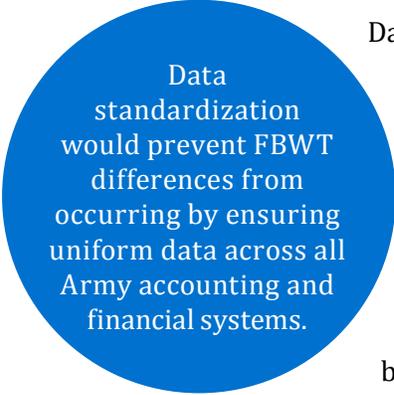
System deficiencies were known when AFT was developed in FY 2013 and have yet to be resolved.

### ***Inadequate Resolution of Differences Not Related to System Deficiencies***

OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to research and correct a projected 2,681 of the 7,789 (34.4 percent) FY 2016 Army Reserve O&M FBWT differences not related to system deficiencies. DFAS-IN AM&C procedures require DFAS-IN AM&C personnel to research differences based on the age and dollar value of the difference. DFAS-IN AM&C personnel stated that they began their research 60 days after AFT identified the differences to allow for timing differences to resolve themselves, resulting in fewer differences to research. However, waiting until differences are 60 days old to begin research does not result in much of a reduction of differences for personnel to research. Our review of AGF FBWT differences identified between October 2015 and June 2016 found that only 3.3 percent of the differences resolved themselves between 30 days and 60 days of identification. Therefore, OASA(FM&C) and DFAS-IN personnel should reengineer their business process to research and resolve all differences within 60 days.

### **Data Not Standardized**

OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to ensure that standardized data is transmitted between Army accounting and financial legacy and non-legacy systems. DoD FMR, volume 1, chapter 4, requires the data in non-legacy accounting and financial systems be standardized to ensure that FBWT data can be transmitted, processed, maintained, and accessed.



Data standardization would prevent FBWT differences from occurring by ensuring uniform data across all Army accounting and financial systems.

Data standardization would prevent FBWT differences from occurring by ensuring uniform data across all Army accounting and financial systems. Based on our review, the accounting and financial systems used by the Army for its FBWT reconciliation could not send and receive standardized data. For example, OASA(FM&C) and DFAS-IN personnel could have prevented the 1,816 unresolved differences caused by the Reimbursement Designator described above by transmitting and processing data in a standard format. If systems maintaining FBWT transactions transmitted data in a standard format, these differences may not have occurred.

To determine whether their non-legacy financial systems can process data in a standard format, OASA(FM&C) personnel must first identify each systems' general ledger posting logic, which is the logic behind how the systems record transactions to general ledger accounts. OASA(FM&C) management identified significant General Fund Enterprise Business System (GFEBS) posting logic problems resulting in differences between Army and Treasury FBWT records and are developing the GFEBS posting logic capability necessary to correct these problems. OASA(FM&C) personnel should develop and implement systems capabilities to identify posting logic for all non-legacy accounting and financial systems used to process AGF FBWT transactions to ensure that the Army properly records transactions in a standard format.

For legacy accounting and financial systems, DoD FMR, volume 1, chapter 4, did not require the Army to process, maintain, and access its data in a standard structure. However, DoD FMR, volume 1, chapter 4, requires the transmission of data into a standard structure before interfacing with another accounting and financial system.

While OUSD(C)/CFO personnel have initiatives to standardize DoD data, OASA(FM&C) personnel have not implemented data standardization across all non-legacy accounting and financial systems affecting AGF FBWT. OASA(FM&C) personnel should develop and implement system changes to ensure that AGF FBWT transaction data is transmitted, processed, maintained, and accessed in a standardized format for all non-legacy accounting and financial systems and develop and implement a methodology to standardize data from legacy accounting and financial systems.

## Defense Departmental Adjustments Not Supported

OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to support manual journal vouchers and system-generated adjustments. The TFM and DoD FMR, volume 6a, chapter 2, require OASA(FM&C) and DFAS-IN personnel to support all adjustments with adequate documentation when they are recorded. However, OASA(FM&C) and DFAS-IN personnel did not adequately support \$2.1 billion<sup>21</sup> in DDRS-B adjustments for the FY 2016 Army Reserve O&M FBWT that included:

OASA(FM&C) and DFAS-IN personnel did not design the AGF FBWT reconciliation process to support manual journal vouchers and system-generated adjustments.

- 635 system-generated adjustments totaling \$2,078,641,985 and
- 3 manual journal voucher adjustments totaling \$327,572.

OASA(FM&C) and DFAS-IN personnel could not provide sufficient documentation to support the manual journal voucher adjustments. OASA(FM&C) and DFAS-IN personnel should obtain sufficient support for AGF FBWT adjustments to clearly establish and properly document the cause of the difference requiring adjustment to comply with the TFM. In addition, DoD FMR, volume 6a, chapter 2, requires adjustments to accounting records be supported with an audit trail to the source transactions and an adjustment justification.

In an attempt to support the system-generated adjustments, OASA(FM&C) and DFAS-IN personnel provided written documentation of the current DDRS-B and AFT reconciliation processes.<sup>22</sup> However, OASA(FM&C) and DFAS-IN personnel did not provide written documentation of DDRS-B business rules in support of the 635 system-generated adjustments to match Army records with Treasury records for FY 2016 Army Reserve O&M FBWT as of March 31, 2016. OASA(FM&C) and DFAS personnel should prepare DDRS-B business rules to support AGF FBWT system-generated adjustments. Furthermore, they should support all DDRS-B adjustments related to AGF FBWT at the transaction level, as required by the DoD FMR, and should clearly establish and properly document the cause of the difference requiring adjustment to comply with the TFM.

<sup>21</sup> We calculated this amount using DoD Financial Reporting Guidance, which states that the adjustment total should include the absolute value of only one side (either debit or credit) of accounting adjustments. An absolute value is the value of a number without regard to its sign. If adjustments had different debit or credit totals, we counted only the side yielding the largest (absolute) total. The net adjustment to FY 2016 Army Reserve O&M FBWT was \$5.7 million. According to OASA(FM&C) and DFAS-IN personnel, the reason for the difference between the \$2.1 billion absolute value and the \$5.7 million net value was attributable to multiple system-generated adjustments recorded to replace Army records with Treasury records.

<sup>22</sup> Document titled "DFAS Departmental Reporting, DFAS-IN Defense Departmental Reporting – Budgetary (DDRS-B) Undistributed Cash Process And Accounting Systems Applications Support, DFAS-IN Army Fund Balance with Treasury Tool (AFT) Undistributed Reconciliation Report," October 14, 2016.

## Impact of Noncompliance on Overall Army General Fund

OASA(FM&C) and DFAS-IN personnel's inability to identify and resolve all AGF FBWT differences demonstrates the continuation of the Army's longstanding AGF FBWT reconciliation and unsupported adjustment material control weaknesses. These weaknesses caused the overall AGF FBWT audit-readiness assertion milestone presented in the semiannual Financial Improvement and Audit Readiness Plan Status Report to be delayed over the last 3 years, as depicted in Table 3.

*Table 3. AGF FBWT Assertion Date Delays Over the Last 3 Years*

Financial Improvement and Audit Readiness Plan Status Report Date	Expected AGF FBWT Validation Date
May 2014	September 30, 2014
May 2015	September 30, 2016
May 2016	June 30, 2017

Source: Based on DoD Financial Improvement and Audit Readiness Plan Status Reports.

These delays increase the risk of the AGF financial statements not being audit ready by the congressionally mandated September 30, 2017, deadline. Additionally, they prevent OASA(FM&C) and DFAS-IN personnel from closing a recommendation in Report No. DODIG-2015-038.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

**We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and Director, Defense Finance and Accounting Service–Indianapolis, reengineer their reconciliation process to meet the 10-workday deadline or coordinate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, to determine whether DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 2, needs to be revised to increase the number of days for the reconciliation process.**

### *Assistant Secretary of the Army (Financial Management and Comptroller) Comments*

The Deputy Assistant Secretary of the Army (Financial Operations) (DASA[FO]), responding on behalf of the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the recommendation and stated that

Army and DFAS-IN personnel will work with OUSD(C)/CFO personnel to review the number of days required to perform the AGF FBWT reconciliation and update the DoD FMR. The estimated completion date is December 31, 2017.

### *Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed with the recommendation and stated that DFAS-IN personnel will work with OUSD(C)/CFO personnel to remove the 10-workday deadlines from the DoD FMR. The estimated completion date is December 31, 2017.

### *Our Response*

Comments from the DASA(FO) and Director, DFAS-IN, were responsive. Therefore, the recommendation is resolved but remains open. We will close Recommendation 1 once we verify either OASA(FM&C) and DFAS-IN personnel have complied with the current DoD FMR, volume 4, chapter 2, requirement to perform the AGF FBWT reconciliation within 10 workdays or OUSD(C)/CFO personnel have updated the 10-workday requirement in the DoD FMR. We expect compliance with the current requirement or an update to the requirement by December 31, 2017.

## **Recommendation 2**

**We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and Director, Defense Finance and Accounting Service–Indianapolis, reengineer the Fund Balance With Treasury reconciliation process for the Army General Fund to:**

- a. **Correct system deficiencies known to cause Fund Balance With Treasury differences.**
- b. **Research and resolve all differences within 60 days, as required by DoD Financial Management Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 2.**
- c. **Document the Defense Departmental Reporting System–Budgetary business rules that create the system-generated adjustments.**
- d. **Support all Fund Balance With Treasury adjustments to the Army General Fund with transaction-level detail, as required by DoD Financial Management Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6a, chapter 2, and establish and properly document the cause of the difference requiring adjustment to comply with the Treasury Financial Manual.**

### *Assistant Secretary of the Army (Financial Management and Comptroller) Comments*

The DASA(FO), responding on behalf of the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the recommendation and stated that Army and DFAS-IN personnel will identify root causes of the AGF FBWT differences between Army and Treasury records and identify corrective actions needed to resolve those differences within 60 days. Additionally, he stated that DFAS-IN personnel will develop supporting documentation for DDRS-B adjustments pertaining to the system posting logic, applicable system change requests, oversight requirements, process details, and applicable controls. The estimated completion dates are between May 31, 2017, and October 31, 2018.

### *Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed with the recommendation and stated that DFAS-IN personnel will continue to work with Army personnel to correct known system deficiencies and resolve AGF FBWT differences within 60 days. Additionally, he stated that DFAS-IN personnel will document business rules for DDRS-B system-generated adjustments and support AGF FBWT adjustments. The estimated completion dates are between August 31, 2017, and October 31, 2018.

### *Our Response*

Comments from the DASA(FO) and Director, DFAS-IN, were responsive. Therefore, the recommendation is resolved but remains open. We will close Recommendation 2 once we verify OASA(FM&C) and DFAS-IN personnel have documentation of:

- an aging report showing that AGF FBWT differences were resolved within 60 days;
- DDRS-B business rules that create system-generated adjustments for differences between Army and Treasury records; and
- DDRS-B adjustments supported at the transaction-level, with causes identified.

### **Recommendation 3**

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) develop and implement:

- a. **System changes to ensure that Fund Balance With Treasury transaction data for the Army General Fund are transmitted, processed, maintained, and accessed in a standardized format for all non-legacy accounting and financial systems.**
- b. **A methodology for standardizing data from legacy accounting and financial systems.**
- c. **The system functionality to demonstrate posting logic for all non-legacy accounting and financial systems containing Fund Balance With Treasury transactions to ensure that the Army posts transactions in a standard format.**

#### *Assistant Secretary of the Army (Financial Management and Comptroller) Comments*

The DASA(FO), responding on behalf of the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the recommendation and stated that the FBWT Working Group, which includes DFAS-IN and OASA(FM&C) personnel along with systems managers, will review system issues and identify system changes necessary to resolve differences between Army and Treasury records. Additionally, he stated that OASA(FM&C) personnel will review posting logic for all transaction types and prepare system changes as needed. The estimated completion date is September 30, 2019.

#### *Our Response*

Comments from the DASA(FO) were responsive. Therefore, the recommendation is resolved but remains open. We will close Recommendation 3 once we verify evidence that OASA(FM&C) personnel implemented system changes to standardize data and documented system posting logic.

## Appendix A

### Scope and Methodology

We conducted this performance audit from June 2016 through December 2016 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.

As requested by OASA(FM&C) management, we reviewed the FY 2016 Army Reserve O&M FBWT as of March 31, 2016. While Table 4 depicts these funds as a small portion of the overall AGF FBWT, implementation of the recommendations contained in this report would improve the overall AGF FBWT.

*Table 4. Scope of This Audit Relative to FBWT*

	FY 2016 Army Reserve O&M	Total AGF
Lines of Accounting in FBWT	1	116
Net Outlays According to the Army	\$677,013,945	\$530,325,884,395
Net FBWT Difference Between the Army and the Treasury	\$5,736,638	\$1,929,621,574
FBWT Balance According to the Army	\$2,053,690,055	\$186,530,290,650

Source: Based on information provided by DFAS-IN AFT PMO personnel as of March 31, 2016.

To achieve our objective, we reviewed DoD FMR and Treasury guidance to determine whether the Army was in compliance with applicable guidance for reporting FBWT. We communicated with personnel from the OASA(FM&C), DFAS-IN Departmental Reporting, DFAS-IN AFT PMO, and DFAS-IN AM&C to understand their respective roles in the AGF FBWT reconciliation processes.

We identified a universe of 115,028 FY 2016 Army Reserve O&M FBWT records as of March 2016. Of those records, AFT identified 11,359 differences between Army and Treasury records. We tested a sample of those differences to determine the adequacy of the AGF FBWT reconciliation processes and controls. Specifically, we determined the status of the difference, reviewed available supporting documentation, obtained documentation of any research performed, and determined the age of the identified differences. Appendix C provides details

of our sample test procedures. In addition, we obtained and reviewed available documentation of the \$5.7 million in net forced balance adjustments made in DDRS-B to match Army and Treasury FBWT records.

### **Use of Computer-Processed Data**

To perform this audit, we used FY 2016 Army Reserve O&M FBWT reconciliation data, and we performed work during this audit to gain assurance on the reliability of the data in the system. We re-performed the AFT methodology used to match Army and Treasury records to validate the reliability of AFT data. We also compared the results of the DDRS-B and AFT FBWT reconciliations. We determined that the computer-processed data obtained were sufficiently reliable to support the findings and conclusions made in this report.

### **Use of Technical Assistance**

During the audit, we requested and received technical assistance from DoD Office of Inspector General (DoD OIG) Quantitative Methods Division personnel to design a random sample of March 2016 FY 2016 Army Reserve O&M FBWT reconciliation differences and project the results to the FBWT transaction population. See Appendix C for our sampling methodology and results.

## Appendix B

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### Prior Coverage

During the last 5 years, the DoD OIG issued six reports discussing the Army's FBWT reconciliations and related accounting systems. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

### **DoD OIG**

Report No. DODIG-2015-038, "Additional Actions Needed to Effectively Implement the Army Fund Balance with Treasury Reconciliation Tool," November 20, 2014

Army and DFAS-IN personnel did not design and implement AFT and corresponding processes to effectively reconcile the Army's FBWT account balance. As a result, the Army could not use AFT to support its reconciliation at the transaction level for \$173 billion of \$302 billion, or 57 percent, of net outlays for all appropriations. As a result, the Army is at risk of being unable to resolve its longstanding FBWT material weakness.

Report No. DODIG-2014-104, "Global Combat Support System–Army Did Not Comply With Treasury and DoD Financial Reporting Requirements," September 3, 2014

Army and Global Combat Support System–Army management did not field Global Combat Support System–Army with the proper functionality to comply with Treasury and DoD guidance, which is necessary to provide reliable financial information and support for audit-readiness requirements. As a result, the Army's inability to comply with applicable guidance raises doubt as to whether the \$725.7 million invested in Global Combat Support System–Army, as of February 2014, will result in a system that can comply with the Federal Financial Management Improvement Act of 1996 or assist the Army in:

- resolving the AGF Financial Management Systems material weakness,
- meeting the FYs 2014 and 2017 auditability deadlines, or
- obtaining a favorable audit opinion.

In addition, incorrect posting logic for three budgetary accounts, which the Army uses to prepare the Statement of Budgetary Resources, resulted in abnormal balances of \$703.7 million, or 23.5 percent, of the \$3.0 billion Global Combat Support System–Army fourth quarter FY 2013 Trial Balance.

Report No. DODIG-2014-090, "Improvements Needed in the General Fund Enterprise Business System Budget-to-Report Business Process," July 2, 2014

Army and GFEBS management did not implement the Budget-to-Report business process to properly support the AGF Statement of Budgetary Resources. Specifically, GFEBS personnel did not configure GFEBS to properly record at least \$6.3 billion to AGF Budget-to-Report transactions. As a result, the system contains unreliable Budget-to-Report data and the Army is at risk of not meeting National Defense Authorization Act for FY 2012 audit-readiness requirements. The GFEBS fourth quarter FY 2013 trial balance contained \$6.3 billion in abnormal balances related to budgetary General Ledger Account Codes. In addition, Defense Finance and Accounting Service personnel could not use the GFEBS budgetary trial balance data to prepare the FY 2013 AGF Statement of Budgetary Resources without making \$141.3 billion of adjustments to the GFEBS trial balance. Until the Army corrects the issues identified with the reliability of AGF data in GFEBS, it is at significant risk of not meeting the FY 2014 Statement of Budgetary Resources audit-readiness date.

Report No. DODIG-2013-130, "Army Needs to Improve Controls and Audit Trails for the General Fund Enterprise Business System Acquire-to-Retire Business Process," September 13, 2013

Army management had inadequate controls over the recording of accounting transactions for the Acquire-to-Retire business process in GFEBS. As a result, the Army will continue using inefficient legacy business processes and diminish the estimated benefits associated with business system modernization. In addition, the Army is at increased risk of not accomplishing the FY 2017 audit-readiness goal. Furthermore, GFEBS PMO did not maintain a verifiable audit trail for all land tracts reported in GFEBS.

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

DFAS-IN management did not effectively implement DDRS-B for processing accounting data used in preparing AGF budget execution reports and financial statements. As a result, DFAS-IN management did not have adequate controls over DDRS-B processing of AGF financial data to ensure compliance with DoD financial management requirements.

Report No. DODIG-2012-066, "General Fund Enterprise Business System Did Not Provide Required Financial Information," March 26, 2012

GFEBs did not contain accurate and complete FY 2010 U.S. Standard General Ledger and Standard Financial Information Structure information, as required by the Federal Financial Management Improvement Act of 1996 and DoD guidance. As a result, GFEBs did not provide DoD management with required financial information. In addition, GFEBs may not resolve the AGF's longstanding Financial Management Systems and Intragovernmental Eliminations material weaknesses, despite costing the Army \$630.4 million as of October 2011.

## Appendix C

### Sampling Methodology and Results

#### **Population**

We obtained a population of 115,028 records that consisted of four categories: (1) 103,669 matching records; (2) 4,750 records in the Army’s accounting systems but not in the Treasury’s system; (3) 5,281 records in the Treasury’s system but not in the Army’s accounting systems; and (4) 1,328 records were true dollar differences.

#### **Measures and Parameters**

For the 59 records sampled and reviewed from the three categories not containing matching records, we determined whether the controls over the FBWT reconciliation process between the AGF and the Treasury are effective. We used a 90 percent confidence interval. Additionally, we randomly selected 10 matching records for review outside of the stratified design.

#### **Sample Plan**

The DoD OIG Quantitative Methods Division designed a stratified sampling plan for the three categories not containing matching records, as shown in Table 5.

*Table 5. Stratified Population and Sample*

Stratum and Description	Sample	Population
In the Army’s Systems But Not in the Treasury’s System	25	4,750
In the Treasury’s System But Not in the Army’s Systems	25	5,281
In Both Systems But Dollar Value Mismatch	9	1,328
<b>Total</b>	<b>59</b>	<b>11,359</b>

Source: Based on documentation provided by DFAS-IN AFT PMO personnel as of March 31, 2016.

#### **Statistical Analysis and Interpretation**

Based on the audit results for the 59 records sampled and reviewed, we calculated the following statistical projections for the number of records where OASA(FM&C) and DFAS-IN personnel did not resolve differences timely to comply with DoD FMR, volume 4, chapter 2, as shown in Table 6. We are 90 percent confident that the number of differences not resolved timely was between 6,658 and 8,921, with a point estimate of 7,789.

*Table 6. Statistical Projections of Differences Not Resolved Timely*

	Lower Bound	Point Estimate	Upper Bound
Number	6,658	7,789	8,921
Percent	58.6%	68.6%	78.5%

In Table 7, we grouped the statistically projected number of errors into whether the errors were related to known system deficiencies. We are 90 percent confident that the number of errors caused by known system deficiencies was between 3,733 and 6,483, with a point estimate of 5,108, and that the number of differences not resolved timely unrelated to known system deficiencies was between 1,429 and 3,933, with a point estimate of 2,681.

*Table 7. Statistical Projections as to Whether Errors Related to Known System Deficiencies*

	Lower Bound	Point Estimate	Upper Bound
Number of Known System Deficiencies	3,733	5,108	6,483
Percent of Known System Deficiencies	32.9%	45.0%	57.1%
Number of Errors Unrelated to Known System Deficiencies	1,429	2,681	3,933
Percent of Errors Unrelated to Known System Deficiencies	12.6%	23.6%	34.6%

In Table 8, we grouped together the errors caused by the three main known system deficiencies. We are 90 percent confident that the numbers for these three deficiencies fell within the following ranges. For Military Standard Requisitioning and Issue Procedure code system deficiencies, the range was between 1,212 and 3,134, with a point estimate of 2,173. For Reimbursable Designator system deficiencies, the range was between 659 and 2,973, with a point estimate of 1,816. For the system deficiencies due to inadequate adjustment documentation, the range was between 65 and 1,750, with a point estimate of 908.

*Table 8. Statistical Projections of Type of Known System Deficiency Causing Error*

	Lower Bound	Point Estimate	Upper Bound
Number of Military Standard Requisitioning and Issue Procedure Code Deficiencies	1,212	2,173	3,134
Percent of Military Standard Requisitioning and Issue Procedure Code Deficiencies	10.7%	19.1%	27.6%
Number of Reimbursable Designator Deficiencies	659	1,816	2,973
Percent of Reimbursable Designator Deficiencies	5.8%	16.0%	26.2%
Number of Deficiencies Due To Inadequate Adjustment Documentation	65	908	1,750
Percent of Deficiencies Due To Inadequate Adjustment Documentation	0.6%	8.0%	15.4%

In Table 9, we projected the number of errors related to known system deficiencies that were greater than 120 days old. We are 90 percent confident that the number of known system deficiencies greater than 120 days old was between 2,716 and 5,560, with a point estimate of 4,138.

*Table 9. Statistical Projections of Known System Deficiencies Greater Than 120 Days Old*

	Lower Bound	Point Estimate	Upper Bound
Number	2,716	4,138	5,560
Percent	23.9%	36.4%	48.9%

## Management Comments

### Office of the Assistant Secretary of the Army (Financial Management and Comptroller)



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

2 March 2017

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

SUBJECT: Army Response to Draft Report Project No. D2016-D000FL-0168.000,  
Ineffective Fund Balance with Treasury Reconciliation Process for Army General Fund

1. This memorandum provides Army's response to recommendations 1-3 in the subject draft report, Ineffective Fund Balance with Treasury Reconciliation Process for Army General Fund.
2. The Department of Defense Inspector General (DoDIG) draft report D2016-D000FL-0168.000 recommends the Assistant Secretary of the Army (Financial Management & Comptroller) (ASA(FM&C)) and the Director, Defense Finance and Accounting Service – Indianapolis (DFAS-IN), reengineer the Army General Fund, Fund Balance with Treasury (FBwT) reconciliation process to meet the required reconciliation timelines established in Department of Defense regulation, correct system deficiencies that cause reconciling differences, document business rules that create system-generated adjustments, and support all FBwT adjustments with transaction-level detail.
3. Army's responses to each of the DoDIG recommendations are below.
  - a. Recommendation 1. The DoDIG recommends that the ASA(FM&C) and Director, DFAS-IN re-engineer their reconciliation process to meet the 10-workday deadline or coordinate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, to determine whether DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 2, needs to be revised to increase the number of days for the reconciliation process.
  - b. Response: Army concurs with the DoDIG recommendations. Army and DFAS-IN are working with the Office of the Under Secretary of Defense Comptroller to review the number of days required to reconcile the Army's Fund Balance with Treasury account on a monthly basis and update the DoD Financial Management Regulation to reflect the new reconciliation requirement. Estimated Completion date is December 2017.

## Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

SAFM-FO

SUBJECT: Army Response to Draft Report Project No. D2016-D000FL-0168.000, Ineffective Fund Balance with Treasury Reconciliation Process for Army General Fund

c. Recommendation 2. The DoDIG recommends the ASA(FM&C) and the Director, DFAS-IN reengineer the FBwT reconciliation process for the Army General Fund to: correct system deficiencies known to cause reconciliation differences; research and resolve differences within 60 days; document the business rules that create the system-generated adjustments; and support all FBwT adjustments with transaction level detail.

d. Response: Army concurs with the DoDIG recommendations. Army is working with DFAS-IN to research and identify root causes of the unreconciled transactions and identify the corrective actions to remediate the differences within 60 days. This includes preparing system change requests to update accounting system posting logic and updating business processes to ensure transactions are posted to the correct General Ledger accounts. As provided in recommendation 3, the estimated completion date for all system updates is 4<sup>th</sup> quarter, FY18. DFAS-IN will continue to implement additional Army Fund Balance with Treasury reconciliation tool logic to categorize systematically and age differences caused by known system deficiencies. The estimated completion date for this action is September 2017. DFAS-IN has been collaborating with DFAS Enterprise Solution Services Corporate Reporting Headquarters to develop standard white paper narratives for systemic adjustments to include the undistributed cash process. The narrative will include documentation pertaining to the posting logic, applicable system change requests, oversight requirements, process details, and applicable controls. The estimated completion date for completing standard narratives for DDRS-B system generated adjustments is May 2017. DFAS-IN is currently leveraging the Army Fund Balance with Treasury (AFT) Tool to support Fund Balance with Treasury adjustments with transactional level detail. In addition, Army and DFAS-IN are preparing an Undistributed Reconciliation Report, which aims to further demonstrate the connection between the undistributed adjustments in DDRS-B and the transactional level detailed support within AFT. The estimated completion date for this action is October 2018

e. Recommendation 3. The DoDIG recommends that the ASA(FM&C) develop and implement: system changes to ensure the FBwT transaction data for the Army General Fund are transmitted, processed, maintained, and accessed in a standardized format for all non-legacy accounting financial systems; a methodology for standardizing data from legacy accounting and financial systems; and the system functionality to demonstrate posting logic for all non-legacy accounting and financial systems containing FBwT transactions.

f. Response: Army concurs with the DoDIG recommendations. A Fund Balance with Treasury Working Group consisting of members from DFAS-IN, United States Army Financial Management Command (Financial Audit and Compliance), and PMs GFEBS and GCSS-Army, was established to review systemic issues causing large

## Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

SAFM-FO  
SUBJECT: Army Response to Draft Report Project No. D2016-D000FL-0168.000,  
Ineffective Fund Balance with Treasury Reconciliation Process for Army General Fund

numbers of unreconciled FBwT transactions and identify system change requests required to resolve the root cause of the unmatched transactions. System Change Requests are prepared and presented to the Functional Governance Board to be approved, prioritized and resourced. The estimated completion date for all system updates is 4th quarter, Fiscal Year (FY) 2018.

g. Posting logic review is one of the top DASA-FO priorities identified as a must fix before the Army can receive a favorable opinion on an audit. Resources have been identified to review the posting logic for all transaction types and System Change Requests are prepared for those system updates that must be made. The estimated timeline to complete the posting logic review is 4th quarter, FY 2019.

4. My point of contact for this action is [REDACTED] can be reached by e-mail at [REDACTED]

MILLER.WESLEY.C. Digitally signed by  
MILLER.WESLEY.C.

[REDACTED]  
Wesley C. Miller  
Deputy Assistant Secretary of the Army  
(Financial Operations)

## Defense Finance and Accounting Service–Indianapolis



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
8899 EAST 56<sup>TH</sup> STREET  
INDIANAPOLIS, IN 46249-0201

**MAR 1 2017**

DFAS-JBK/TN

MEMORANDUM FOR Inspector General U.S. Department of Defense

**SUBJECT:** DODIG draft report of the audit “Ineffective Fund Balance with Treasury Reconciliation Process of Army General Fund” (Project: D2016-D000FL-0168.000)

The Defense Finance and Accounting Service Indianapolis is providing management comments to recommendations 1, 2(a. & b.), and 2(c. & d.) in the above subject report.

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

Gregory L. Schmalfeldt  
Director, DFAS-IN

Attachment:  
As stated

[www.dfas.mil](http://www.dfas.mil)

## Defense Finance and Accounting Service–Indianapolis (cont'd)

### Management Comments to Draft Report – Ineffective Fund Balance With Treasury Reconciliation Process for Army General Fund (Project No. D2016-D000FI-0168.000)

**Recommendation 1:** We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Director, Defense Finance and Accounting Service–Indianapolis (DFAS-IN), reengineer their reconciliation process to meet the 10-workday deadline or coordinate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, to determine whether DoD Regulation 7000.14-R, “DoD Financial Regulation,” volume 4, chapter 2, needs to be revised to increase the number of days for the reconciliation process.

#### Management Comments:

Concur: DFAS is working with the Office of the Under Secretary of Defense Comptroller (OUSDC) to update the DoD Financial Management Regulation (DoD FMR) to remove the 10 workday deadlines to bring it in alignment with the Treasury Financial Manual (TFM), which states that the reconciliation must occur monthly. “TFM, Section 5130—Reconciliation of Agency USSGL FBWT Accounts Agencies must post all transactions that affect FBWT and are reported on their SOTs to a corresponding USSGL account 1010 in their internal general ledger. Monthly, they must reconcile the USSGL account 1010 balances for each fund symbol with FMS’s records (GWA Account Statement; Expenditure Transactions Report; and Available, Unavailable, and Unappropriated Receipt Account Reports).”

**Estimated Completion Date:** December 2017

**Recommendation 2:** We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Director, Defense Finance and Accounting Service–Indianapolis (DFAS-IN), reengineer their reconciliation process to:

- a. Correct system deficiencies known to cause Fund Balance with Treasury differences.
- b. Research and resolve all differences within 60 days, as required by DoD Financial Management Regulation 7000.14-R, “DoD Financial Regulation,” volume 4, chapter 2.
- c. Document the Defense Departmental Reporting System–Budgetary (DDRS-B) business rules that create the system-generated adjustments.
- d. Support all Fund Balance with Treasury adjustments to the Army General Fund with transaction-level detail, as required by DoD Financial Management Regulation 7000.14-R, “DoD Financial Regulation,” volume 4, chapter 2, and establish and properly document the cause of the difference requiring adjustment to comply with the Treasury Financial Manual.

## Defense Finance and Accounting Service–Indianapolis (cont'd)

**Management Comments to Draft Report – Ineffective Fund Balance With Treasury Reconciliation Process for Army General Fund  
(Project No. D2016-D000FI-0168.000)**

**Management Comments**

Concur: DFAS-IN concurs and will continue to work with Army to correct known system deficiencies (a) which would directly impact the ability of DFAS-IN to resolve differences within 60 days as required (b). DFAS-IN concurs with the recommendation and will document business rules for DDRS-B system generated adjustments (c). DFAS-IN concurs with the recommendation and will provide support for Fund Balance with Treasury adjustments to the Army General Fund (d).

**Estimated Completion Date:**

- (a) System Changes: TBD by Army
- (b) Research and Resolve within 60 days: SCR dependent on (a);
- (c) DDRS-B business rules: August 31, 2017
- (d) Adjustment Support and/or white papers: October 31, 2018

## Acronyms and Abbreviations

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<b>AFT</b>	Army Fund Balance With Treasury Reconciliation Tool
<b>AGF</b>	Army General Fund
<b>AM&amp;C</b>	Accounts Maintenance and Control
<b>DASA(FO)</b>	Deputy Assistant Secretary of the Army (Financial Operations)
<b>DDRS-B</b>	Defense Departmental Reporting System–Budgetary
<b>DFAS-IN</b>	Defense Finance and Accounting Service–Indianapolis
<b>FBWT</b>	Fund Balance With Treasury
<b>FMR</b>	Financial Management Regulation
<b>GFEB</b>	General Fund Enterprise Business System
<b>OASA(FM&amp;C)</b>	Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
<b>OUSD(C)/CFO</b>	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
<b>O&amp;M</b>	Operations and Maintenance
<b>PMO</b>	Program Management Office
<b>TFM</b>	Treasury Financial Manual

# **Whistleblower Protection**

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