



Fiscal Year 2016  
United States Army General Fund  
Schedule of Budgetary Activity  
Report

**Accountability & Audit Readiness:  
Sustaining Army's Strength**

Office of the Assistant Secretary of the Army  
(Financial Management & Comptroller) (OASA(FM&C))



## Introduction

The United States Army's goal is to achieve auditable financial statements by September 2017. To accomplish this goal, the Army is focused on achieving audit readiness and recently completed the independent audit of its Fiscal Year (FY) 2016 General Fund Schedule of Budgetary Activity (SBA). The FY16 SBA presents the activity for current year and FY15 appropriations.

This report reflects the outcome of the audit and contains the FY16 SBA and Related Notes, the Independent Auditors' Report on the SBA, and Army Management's Assessment of its financial reporting capability. The Army will undergo a Statement of Budgetary Resources (SBR) audit next year as part of its audit readiness strategy and is currently focused on addressing the independent auditors' findings with corrective actions.



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**United States Army General Fund**  
 Fiscal Year 2016 Combined Schedule of Budgetary Activity and Related Notes

**COMBINED SCHEDULE OF BUDGETARY ACTIVITY**  
**For the year ended September 30, 2016**

(\$ in Thousands)

	<b>2016</b>
<b>Budgetary Resources</b>	
Unobligated balance brought forward, Oct 1	\$ 12,526,822
Recoveries of prior year unpaid obligations	8,028,499
Other changes in unobligated balance (+ or -)	2,631,846
Unobligated balance from prior year budget authority, net	23,187,167
Appropriations (discretionary and mandatory)	147,253,666
Spending Authority from offsetting collections (discretionary and mandatory)	20,968,795
Total Budgetary Resources	\$ 191,409,628
<b>Status of Budgetary Resources:</b>	
New obligations and upward adjustments (Note 3)	\$ 175,614,996
Unobligated balance, end of year	
Apportioned, unexpired accounts	14,337,998
Unexpired unobligated balance, end of year	14,337,998
Expired, unobligated balance, end of year	1,456,634
Total unobligated balance, end of year	15,794,632
Total Budgetary Resources	\$ 191,409,628
<b>Change in Obligated Balance:</b>	
<b>Unpaid obligations:</b>	
Unpaid obligations, brought forward, Oct 1	\$ 50,921,303
New obligations and upward adjustments	175,614,996
Outlays (gross) (-)	(148,466,376)
Recoveries of prior year unpaid obligations (-)	(8,028,499)
Unpaid obligations, end of year	\$ 70,041,424
<b>Uncollected payments:</b>	
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(11,867,252)
Change in uncollected payments, Fed sources (+ or -)	(6,185,243)
Uncollected payments, Fed sources, end of year (-)	(18,052,496)
Obligated balance, start of year (+ or -)	39,054,051
Obligated balance, end of year (+ or -)	\$ 51,988,929
<b>Budget Authority and Outlays, Net:</b>	
Budget authority, gross (discretionary and mandatory)	\$ 168,222,461
Actual offsetting collections (discretionary and mandatory) (-)	(14,793,581)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(6,185,243)
Recoveries of prior year paid obligations (discretionary and mandatory) (+ or -)	10,028
Budget Authority, net (discretionary and mandatory)	\$ 147,253,665
Outlays, gross (discretionary and mandatory)	\$ 148,466,376
Actual offsetting collections (discretionary and mandatory) (-)	(14,793,581)
Outlays, net (discretionary and mandatory)	133,672,795
Agency Outlays, net (discretionary and mandatory)	\$ 133,672,795

The accompanying notes are an integral part of this schedule.



**Note 1. Significant Accounting Policies**

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1.A. Organization

The United States (U.S.) Department of the Army (the Army) mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission encompasses the intent of the Congress, as defined in Title 10 of the U.S. Code, to preserve the peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 241-year life of the Army, but the environment and nature of conflict have undergone many changes over that time, especially with overseas contingency operations. These contingency operations have required the Army to simultaneously transform the way it fights, trains, and equips its soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the nation’s domestic and international security obligations today and into the future.

1.B. Reporting Entity

The reporting entity is the Department of Army General Fund Schedule of Budgetary Activity (SBA). The fiscal year 2016 SBA includes the following for all Department of Army General Funds as defined by the Department of the Treasury Federal Account Symbols and Titles (FAST) Book I:

- a. Fiscal year 2016 budgetary activity associated with new (fiscal year 2016) annual and multi-year appropriations received in fiscal year 2016

021 1620 0720	Family Housing Construction, Army
021 1616 0725	Family Housing Operation and Maintenance, Army
021 1616 1004	Medicare-Eligible Retiree Health Fund Contribution, Army
021 1616 1005	Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army
021 1616 1006	Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army
021 1616 1805	Salaries and Expenses, Cemeterial Expenses, Army
021 1617 1805	Salaries and Expenses, Cemeterial Expenses, Army
021 1616 2010	Military Personnel, Army
021 1616 2020	Operation and Maintenance, Army
021 1617 2020	Operation and Maintenance, Army
021 1618 2031	Aircraft Procurement, Army
021 1618 2032	Missile Procurement, Army
021 1618 2033	Procurement of Weapons and Tracked Combat Vehicles, Army
021 1618 2034	Procurement of Ammunition, Army
021 1618 2035	Other Procurement, Army
021 1617 2040	Research, Development, Test, and Evaluation, Army
021 1616 2050	Military Construction, Army
021 1620 2050	Military Construction, Army
021 1616 2060	National Guard Personnel, Army
021 1616 2065	Operation and Maintenance, Army National Guard
021 1616 2070	Reserve Personnel, Army
021 1616 2080	Operation and Maintenance, Army Reserve
021 1620 2085	Military Construction, Army National Guard
021 1620 2086	Military Construction, Army Reserve
021 1617 2091	Afghanistan Security Forces Fund, Army
021 1618 2093	Joint Improvised Explosive Device Defeat Fund, Army
021 1617 2097	Iraq Training and Equipment Fund, Army



**FY 2016 Schedule of Budgetary Activity**  
 United States Army General Fund Fiscal Year 2016  
 Combined Schedule of Budgetary Activity and Related Notes– Unaudited

b. Fiscal year 2016 budgetary activity associated with the following fiscal year 2015 appropriations:

021 1519 0720	Family Housing Construction, Army
021 1515 0725	Family Housing Operation and Maintenance, Army
021 1515 1004	Medicare-Eligible Retiree Health Fund Contribution, Army
021 1515 1005	Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army
021 1515 1006	Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army
021 1515 1805	Salaries and Expenses, Cemeterial Expenses, Army
021 1516 1805	Salaries and Expenses, Cemeterial Expenses, Army
021 1515 2010	Military Personnel, Army
021 1515 2020	Operation and Maintenance, Army
021 1516 2020	Operation and Maintenance, Army
021 1517 2031	Aircraft Procurement, Army
021 1517 2032	Missile Procurement, Army
021 1517 2033	Procurement of Weapons and Tracked Combat Vehicles, Army
021 1517 2034	Procurement of Ammunition, Army
021 1517 2035	Other Procurement, Army
021 1516 2040	Research, Development, Test, and Evaluation, Army
021 1517 2050	Military Construction, Army
021 1519 2050	Military Construction, Army
021 1515 2060	National Guard Personnel, Army
021 1515 2065	Operation and Maintenance, Army National Guard
021 1515 2070	Reserve Personnel, Army
021 1515 2080	Operation and Maintenance, Army Reserve
021 1519 2085	Military Construction, Army National Guard
021 1518 2086	Military Construction, Army Reserve
021 1519 2086	Military Construction, Army Reserve
021 1516 2091	Afghanistan Security Forces Fund, Army
021 1517 2093	Joint Improvised Explosive Device Defeat Fund, Army
021 1516 2097	Iraq Training and Equipment Fund, Army

The fiscal year 2016 SBA excludes the following:

- a. No-year (“X-year”) appropriations (i.e., Fund symbols that begin with 21X)
- b. Multi-year appropriations appropriated prior to fiscal year 2015 (i.e., Fund symbol that begin with 2114, 2113, etc.)
- c. All Revolving Funds (including Working Capital Funds), Special Funds, Deposit Funds, and Trust Funds.

1.C. Basis of Accounting

The Army General Fund’s financial and non-financial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with U.S. generally accepted accounting principles (US GAAP). These systems were designed to collect and record financial information on a budgetary basis. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in certain cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

The Army General Fund SBA and supporting trial balances are compiled from the underlying financial data and trial balances of the Army General Fund’s general ledgers. The underlying data are budgetary transactions (obligations, disbursements, and collections), and accruals made for major items such as payroll expenses, accounts receivable, and accounts payable.

The Army General Fund SBA is a combined financial schedule that presents the fiscal year 2016 budgetary activity (i.e., appropriations, reimbursable authority, transfers, obligations incurred, collections, and outlays) for:



- a. New (fiscal year 2016) annual and multi-year appropriations received in fiscal year 2016
- b. New (fiscal year 2015) annual and multi-year appropriations received in fiscal year 2015

The SBA is not intended to be a complete presentation of the Army General Funds budgetary resources, status of budgetary resources, changes in budgetary resources, and outlays that would be presented in the Statement of Budgetary Resources for the year then ended.

The Army General Fund SBA has been prepared from the books and records of the Army General Fund based on US GAAP promulgated by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*.

#### 1.D. Budgetary Resources

The Army General Fund receives appropriations, spending authority and other funds as general funds. The Army General Fund uses these funds to execute its missions and subsequently report on resource execution.

The Army General Fund recognizes congressional appropriations when authorized by legislation. These general funds expire annually or on a multi-year basis. When authorized by legislation, these appropriations are supplemented by reimbursable authority associated with the sales of goods or services to other federal entities or the public. The Army General Fund recognizes reimbursable authority when a federal customer order is accepted or when an advance is received from the public.

The Army General Fund may receive unobligated balance transfers from prior year indefinite, multi-year, or annual appropriations when statutory authority permits. The transferred budgetary resources must be apportioned with the respective fiscal year appropriation prior to being available for use. Such transfers are presented as other changes in unobligated balance on the SBA and increase unobligated balance from prior year budget authority, net on the SBA.

#### 1.E. Status of Budgetary Resources

The Army General Fund records obligations incurred, for either delivered or undelivered orders, when the Army places an order, signs a contract, receives goods and services not associated with a contract, or takes other actions committing the Army General Fund to purchase goods and services from other entities.

Unobligated balances represent budgetary authority that has not been obligated. Unobligated expired annual budgetary authority is not available for new obligations, but only for adjustments to prior obligations, while unexpired multi-year budget authority is available for future obligations.

#### 1. F. Outlays and Offsetting Collections

The Army General Fund recognizes outlays when disbursed and offsetting collections when received.

#### 1.G. Use of Estimates

The Army General Fund has made certain estimates and assumptions relating to the reporting of reimbursable authority and obligations to prepare its SBA and related notes to its SBA. Actual results may differ from these estimates. It is possible that the reimbursable authority, obligations incurred, and changes in obligated balances may be affected in future periods by changes in the key assumptions underlying management's estimates.

#### 1.H. Contingencies

The Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events



occur or fail to occur.

The Army General Fund is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources.

**Note 2. Adjustments to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year**

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There were no adjustments to the unobligated balance brought forward for the Army General Fund SBA for fiscal year 2016.

**Note 3. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

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For the Year Ended September 30	2016 (\$ in Thousands)			
	Apportionment Category A	Apportionment Category B	Exempt From Apportionment	Total
New obligations and upward adjustments \$ – Direct	119,847,630	\$ 35,215,924	-	\$ 155,063,554
New obligations and upward adjustments – Reimbursable	<u>4,835,615</u>	<u>15,715,827</u>	-	<u>20,551,442</u>
Total New obligations and upward adjustments \$	124,683,245	\$ 50,931,751	-	\$ 175,614,996

The amounts of direct and reimbursable new obligations and upward adjustments against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment are presented above.

**Note 4. Undelivered Orders at the End of the Period**

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As of September 30	2016
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 65,995,092

Undelivered Orders presented in the Army General Fund SBA include Undelivered Orders-Unpaid for both direct and reimbursable funds.

**Note 5. Legal Arrangements Affecting the Use of Unobligated Balances**

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The Army General Fund had no legal arrangements affecting the use of unobligated balances for fiscal year 2016.



## **Note 6. Explanation of Differences Between the SBA and the Budget of the US Government**

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The Budget of the United States (also known as the President's Budget), with actual numbers for fiscal year 2016, was not published at the time that the Army General Fund SBA was issued. The President's Budget is expected to be published in February 2017 and will be available from the U.S. Government Printing Office.



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

November 14, 2016

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

SUBJECT: Transmittal of the Disclaimer of Opinion on United States Army General Fund  
Schedule of Budgetary Activity for FY 2016  
(Project No. D2016-D000FI-0086.000, Report No. DODIG-2017-021)

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to audit the Combined Schedule of Budgetary Activity relating to FY 2016 and FY 2015 appropriations of the United States Army General Fund for the year ended September 30, 2016 (the Schedule). The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency "Financial Audit Manual," July 2008. The independent auditor's report from KPMG is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG did not render an opinion on the Schedule because the Army could not provide sufficient appropriate audit evidence for, or make sufficient representations to, the facts and circumstances that support account balances and disclosures. KPMG's report includes "Material Weaknesses" (Exhibit I) and identified material weaknesses in these 10 areas:

1. Completeness
2. Evidential matter
3. General information technology controls
4. Service provider oversight
5. Financial reporting
6. Beginning year balances
7. Manual general ledger adjustments
8. Fund Balance With Treasury



9. Accrual estimation methodologies
10. Financial management improvements

Furthermore, KPMG's report on "Non-compliance with Laws and Regulations," November 14, 2016, (Exhibit II) discussed Army noncompliance with the Federal Financial Management Improvement Act, the Prompt Payment Act, and the Federal Managers' Financial Integrity Act, as well as information on two potential Antideficiency Act violations.

In connection with the contract, we reviewed the KPMG report and discussed the audit results with KPMG representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express, an opinion on the Schedule, conclusions about the effectiveness of internal control, conclusions as to whether the Army's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on whether the Army complied with laws and regulations. KPMG is responsible for the attached auditor's report, dated November 14, 2016, and the conclusions expressed in the report. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with GAGAS.

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

A handwritten signature in cursive script that reads "Lorin T. Venable".

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

Attachment: As stated



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Secretary of the Army  
Inspector General of the Department of the Defense

### Report on the Schedule

We were engaged to audit the accompanying Combined Schedule of Budgetary Activity Relating to Fiscal Year 2016 and 2015 Appropriations of the United States (U.S.) Department of the Army's (Army) General Fund (GF) for the year ended September 30, 2016 and the related notes (the schedule).

### Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a schedule that is free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on conducting the audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (No.) 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matter described in the Basis for Disclaimer of Opinion paragraph; however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for Disclaimer of Opinion

Management was unable to provide sufficient appropriate evidential matter to support the amounts in the schedule due to inadequate processes, controls, and records to support transactions. As a result, we were unable to determine whether any adjustments were necessary relating to the schedule and the related notes.

### Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the schedule.

### Emphasis of Matter

As described in Notes 1.B and 1.C to the schedule, the schedule presents certain budgetary activity relating to Fiscal Year 2016 and 2015 appropriations, to include budgetary resources, the status of those resources, changes in those resources, and related outlays, of the Army GF for the year ended September 30, 2016 and was prepared to assist Army management with its on-going audit readiness efforts. The schedule is not intended to be a complete presentation of the Army GF's budgetary resources, status of budgetary resources, changes in budgetary resources, and outlays that would be presented in the Army's GF Statement of Budgetary Resources for the year ended September 30, 2016.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



#### *Other Matters*

##### *Required Supplementary Information*

Management has omitted the budgetary information for each major budget account that the Federal Accounting Standards Advisory Board (FASAB) requires to be presented to supplement the budgetary information. Such missing information, although not a part of the schedule, is required by FASAB who considers it to be an essential part of financial reporting for placing the schedule in an appropriate operational, economic, or historical context.

##### *Other Information*

Our engagement was conducted for the purpose of forming an opinion on the schedule as a whole. The *Management Assessment of Fiscal Year 16 SBA Audit* is presented for purposes of additional analysis and is not a required part of the schedule. Such information has not been subjected to the auditing procedures applied in our engagement to audit the schedule, and accordingly, we do not express an opinion or provide any assurance on it.

##### *Restriction on Use*

This report is intended solely for the information and use of the management of the Army, the Department of Defense (DoD), the DoD Office of Inspector General, the Office of Management and Budget, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

#### *Other Reporting Required by Government Auditing Standards*

##### *Internal Control Over Financial Reporting*

In planning and performing our engagement to audit the schedule for the year ended September 30, 2016, we considered the Army's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of the Army's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be material weaknesses.



*Compliance and Other Matters*

As part of our engagement to audit the Army's schedule, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02, and which are described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, described in Exhibit II, in which the Army's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the schedule, other instances of noncompliance or other matters may have been identified and reported herein.

*The Army's Response to Findings*

The Army's responses to the findings identified in our engagement are described in Exhibits I and II. The Army's responses were not subjected to the auditing procedures applied in the engagement to audit the schedule, and accordingly, we express no opinion on the responses.

*Purpose of the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Army's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC  
November 14, 2016



Exhibit I – Material Weaknesses

A. Completeness

The United States (U.S.) Department of the Army (Army) did not design and implement controls to validate that information is transferred completely and accurately between feeder systems, from feeder systems to the general ledger systems/legacy financial accounting systems, and to the main financial accounting system of record and the financial reporting system as follows:

- The Army did not have effective general information technology controls (GITCs) and was unable to rely on GITCs for completeness and accuracy of information interfacing between systems. To mitigate these risks, the Army implemented manual reconciliations over certain entitlement and general ledger systems that did not have effective GITCs; however, we noted the following issues related to the manual reconciliations:
  - The reconciliations did not include all relevant feeder systems, general ledger systems, and U.S. Standard General Ledger (USSGL) accounts and were not performed over information interfaced between feeder systems.
  - The reconciliations that were performed did not include controls over completeness and accuracy of data, did not consistently include evidence of secondary review, included unresolved differences, and reconciliation supporting documentation was insufficient to determine whether reconciling differences required adjustments to the general ledger.
- The Army did not have controls in place related to the completeness, existence, and accuracy of relevant information related to personnel actions and entitlements entered into feeder systems, including requiring a secondary review of data entered into feeder systems.
- The Army did not design and implement controls over proper cut-off of financial transactions between accounting periods and that transactions were recorded to the correct appropriation and funding fiscal year.
- The Army did not design and implement controls to resolve suspense transactions, collection error report balances, missing time reports, and other reconciling items for inclusion if the schedule if necessary.
- The Army did not consistently perform timely, complete, and accurate reconciliations of transaction level detail to the general ledger to create a complete universe of transactions. Additionally, transaction level information did not always include relevant fields to allow for summarization and analysis.

The above conditions were primarily caused by the following:

- The Army did not have a policy to require monitoring and timely resolution of error reports, missing transaction reports, or reconciling items to determine if information should be included in the relevant system and resolve the issue. Researching and resolving differences may require coordination between multiple responsible parties. Additionally, Army did not have access to special or deposit accounts and inappropriately used suspense accounts to record transactions.
- The Army relied on ineffective interface controls, edit checks, and service providers for the complete and accurate transfer of data between systems. Army had not developed the necessary policies and procedures to implement a manual reconciliation process for all general ledger accounts and for all entitlement and feeder systems to be fully reconciled to all general ledger systems or require secondary review of reconciliations.
- The Army did not have the necessary unique data fields in the main financial accounting system of record or the legacy financial systems to identify, summarize, and reconcile transaction level detail to USSGL accounts for all activities. Additionally, the Army and its service provider were inexperienced in responding to requests for reconciliations and populations summarized by certain fields and were not able to respond to all requests in a timely manner.



Exhibit I – Material Weaknesses, continued

- The Army did not have policies and procedures that require personnel to reconcile between personnel forms, time and attendance data and payroll invoices. The Army also did not require a secondary review for personnel data entered into systems to determine that it was entered completely and accurately.

The criteria are the following:

- Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*
- The Office of Management and Budget (OMB), Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Department of Defense (DoD), Financial Management Regulations (FMR), Volume 4

Without adequate controls over the entry of information at the point of initiation, the flow of information between feeder systems to each other and to the general ledger systems increases the risk that the transactions supporting the balances in the Combined Schedule of Budgetary Activity Relating to Fiscal Year 2016 and 2015 Appropriations (schedule) are potentially incomplete, do not exist, or are not recorded accurately.

**Recommendations**

We recommend that Army management perform the following:

- Implement policies and procedures for manual reconciliations until GITC deficiencies are addressed. Policies and procedures should include that manual reconciliations: a) include all relevant feeder systems, general ledger systems, and USSGL accounts; b) include controls over the completeness and accuracy of inputs used to perform the reconciliations; c) resolve differences that relate to an under or overstatement of general ledger balances; and d) document review of reconciliations.
- Establish policies and procedures over the completeness, existence, and accuracy of personnel actions (hiring, promotion, separation, and leave) and entitlement elections entered into relevant systems, including reconciliations and secondary review.
- Continue to design, develop and implement policies and procedures to allow the timely correction of transaction processing errors for inclusion in the general ledger.
- Continue to design and implement data fields to allow for summarization and reconciliation of transaction level detail to general ledger systems.
- Design and implement effective controls over transactions occurring near year-end to determine that they are recorded in the correct fiscal year.



Exhibit I – Material Weaknesses, continued

**B. Evidential Matter**

The Army improved the timeliness of providing evidential matter and improved the extent and quality of evidential documentation provided as compared to the prior year. While the Army made progress from the prior year, the Army did not consistently have sufficient evidential matter readily available to demonstrate that contractual services, military payroll, civilian payroll, local national payroll, reimbursable authority, disbursement, and collection transactions were properly reported in the schedule. Additionally, the Army did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, evidential matter that we requested (a) was not readily available and provided for review by the agreed upon due date, (b) was provided for review but the amount on the evidential matter did not agree to the general ledger detail used to prepare the schedule, (c) was insufficient or could not be linked to the transaction recorded in the general ledger used to prepare the schedule, and/or (d) was inappropriately reviewed/approved by Army personnel and its service providers.

The Army relied on information produced by the system to support balances in the schedule; however, Army did not have effective GITCs over such systems and therefore did not have assurance that the evidential matter was reliable.

The criteria is OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and the GAO *Standards for Internal Control in the Federal Government*.

The Army and its service providers did not have evidential matter readily available due to the following reasons:

- The Army was inexperienced with some of the document requests and was unable to identify where the documents were maintained or how to obtain the documentation from the system.
- The Army did not have standard policies and procedures in place to maintain evidential matter and evidence of supervisory/management review.
- For systems with ineffective GITCs in which management relied upon such system controls, there was no documentation maintained outside of the system.

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur potentially leading to a misstatement in the schedule.

**Recommendations**

We recommend that Army management perform the following:

- Develop and implement policies and procedures to (1) define what constitutes sufficient key supporting documentation for the various types of transactions; (2) provide guidance to Army and service provider locations on maintaining evidential matter so that it is readily available for review and reconciles to the general ledger detail; and (3) communicate the evidential matter retention requirements to the Army and its service provider.
- Provide training on the evidential matter policies and procedures to Army and service provider locations.
- Prioritize efforts on correcting GITC failures for systems used to generate evidential matter supporting the amounts reported on the schedule.



Exhibit I – Material Weaknesses, continued

C. General Information Technology Controls

The Army and its service providers have made progress in addressing prior year GITC deficiencies with their systems. While the Army made progress from the prior year, the Army did not fully implement sufficient and effective GITCs to protect the Enterprise Resource Planning (ERP) and related feeder systems financial data. The conditions could affect the Army's ability to provide financial data that is complete, valid, and accurate. Our specific findings are summarized by the GAO *Federal Information System Controls Audit Manual (FISCAM)* information systems control review areas as follows:

- **Access Controls.** The Army and its service providers did not consistently implement operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end users, super users, and system administrative/backend support users, to include the removal of access for terminated or transferred employees and contractors and the periodic review of user accounts to determine the need for continued and appropriate access based on least privilege provisions. In addition, the Army and its service providers did not consistently implement operating system, database, and application audit logs, including the identification, tracking, evaluation, and response procedures. Further, Army and its service providers did not consistently implement application, database, and operating system user account and password security parameters in accordance with applicable requirements. In regards to physical access controls, the Army and its service providers were unable to provide documentation evidencing the individuals with authorized access to its data centers or periodic reviews of data center access were performed appropriately.
- **Segregation of Duties.** The Army and its service providers did not consistently establish a comprehensive process to identify, define, evaluate, restrict, document, and/or implement the combination of incompatible operating system, database, and/or application privileges. The Army did not consistently implement an effective process for restricting access to the system separation of duties risk rule set, when applicable, based on least privilege considerations. In cases where incompatible access privileges were required based on business need, the Army and its service providers did not consistently establish processes to monitor the activities of users in position of such privileges to assess if unauthorized activities were performed. As a result of the aforementioned matters, the Army and its service providers did not consistently segregate/monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.
- **Configuration Management.** The Army and its service providers did not consistently implement a comprehensive operating system, database, and application configuration change management process, to include timing for installation of critical patch updates and proper configuration of production settings to prevent direct changes from being made in the production environment. For implemented processes, the Army did not consistently maintain evidence to support the identification and tracking, testing and/or approval of operating system, database, and application changes/patches before migration into the production environment. Finally, the Army and its service providers did not consistently provide documentation evidencing the existence of separate development, test and production environments for the application, database, and operating system.
- **Security Management.** The Army did not consistently design and implement formal vulnerability management and assessment programs for the operating systems, databases, and/or applications. For implemented programs, the Army did not consistently track all known vulnerabilities and associated remediation activities.
- **Contingency Planning.** The Army did not consistently design and document effective operating system, database, and/or application backup procedures and/or maintain evidence of operating system, database, and/or application backups when performed for certain financial systems. Additionally, the Army and its service providers did not consistently implement a process to monitor application processing issues, to include the tracking of processing issues through resolution.



Exhibit I – Material Weaknesses, continued

The Army did not consistently develop and/or fully implement policies and procedures to comply with authoritative GITC system requirements as listed below. As a result, the weaknesses posed increased risks to the accuracy, integrity, validity, and availability of the systems and their financial data.

The criteria include the following:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- GAO *Standards for Internal Control in the Federal Government*
- DoD Instruction Number 8500.2, *Information Assurance Implementation*
- Army Regulation 25-2, *Information Assurance*, Chapter 4, Information Assurance Policy

**Recommendations**

We recommend that Army management strengthen its GITC systems environments for the operating system, database, and application layers by:

- Developing and implementing policies and procedures for GITCs;
- Establishing and applying access, segregation of duties, configuration management, security management, and/or contingency planning controls; and
- Directing its service providers to strengthen controls of service provider GITC environments or implement compensating controls at Army.



Exhibit I – Material Weaknesses, continued

**D. Service Provider Oversight**

The Army enhanced its communication with its service providers and requested its service providers improve the service organization control reports to provide more information to assist the Army in evaluating such reports. While the Army has improved service provider oversight over the prior year, the Army did not have policies and procedures to fully assess service providers that host and/or manage financial systems that support amounts reported on the Army's schedule. Specifically, the Army did not consistently perform and document the following for its service providers:

- Obtain an understanding of the service organization control (SOC) 1 reports to determine whether services, systems, the reporting period, control objectives and controls, and other elements of scope meet the Army's needs for obtaining assurance on service provider controls;
- Identify relevant risks of misstatement associated with Army's internal control over financial reporting that are mitigated by controls performed by third-party service providers;
- Work with its service providers to determine that the SOC 1 reports identify the specific interfaces, system generated reports, exception reports, and edit checks that support Army's control environment and are tested by the service organization auditors;
- Evaluate the complementary user entity controls (CUECs) for relevance to Army financial reporting processes and testing them to determine design and operating effectiveness;
- Evaluate subservice organizations used by its service providers for relevance to Army financial reporting processes and as appropriate, perform additional procedures to assess such subservice organizations;
- Evaluate test results included in the SOC 1 report and for exceptions noted, assess relevant risks and identify and test compensating controls to determine residual risk.

The criteria is the GAO *Standards for Internal Control in the Federal Government* and OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Due to a consideration of priorities and resources related to Army audit readiness efforts, Army management did not establish formalized policies, procedures or processes to assess third party service providers.

The Army's lack of a formal process to properly assess the SOC 1 reports increases the risk that they do not effectively monitor and assess the impact of services provided and related controls and thereby increasing the risk of control failures and misstatements.

**Recommendation**

We recommend that Army management design, develop and implement policies and procedures to establish a formal process to assess third-party service provider SOC 1 reports, evaluate CUECs, assess subservice organizations, and document their review of third-party service providers at least annually.



Exhibit I – Material Weaknesses, continued

E. Financial Reporting

The Army did not effectively implement internal controls over financial reporting. Specifically, improvements are needed in management's presentation of information related to the schedule and establishment of appropriate accounting policies for certain transactions as follows:

- The Army and its service provider did not identify the root causes of unreconciled expense variances with Federal trading partners. Rather, these variances were eliminated with an unsupported journal entry that reclassifies the amounts between Federal and non-Federal expenses.
- The Army and its service provider inaccurately presented anticipated amounts in quarterly budgetary activities and did not present disaggregated budget accounts as Required Supplementary Information (RSI) with the year-end schedule.
- The Army and its service provider did not effectively implement controls to identify, research, and resolve abnormal USSGL account balances and transactions.
- The Army did not collect in full and in advance of services performed, and recorded such collections as resources from non-federal customers without an advance (budgetary receivable) as opposed to recording a non-federal customer with an advance (budgetary advance).
- The Army recorded collections of unused travel advances as unmatched collections as opposed to reducing the original obligation and did not consider the fiscal year of the original obligation when recording such collections.
- The Army's service provider incorrectly recorded dining collections as negative disbursements as opposed to collections from non-Federal sources.
- Army recorded supply turn-ins as a negative disbursement as opposed to a reclassification with no impact on disbursements.
- Army recorded disbursement transactions based on Self-Military Interdepartmental Purchase Requests (MIPRs) which is not a valid business process nor is it authorized by regulation.

The above conditions were primarily caused by system limitations in the legacy, general ledger, and financial reporting systems that did not allow Army management or its service provider to summarize and present information in the schedule appropriately and a lack of appropriate policies and procedures for recording and reviewing certain transactions.

As a result of the deficiencies noted above, the potential exists that material misstatements would fail to be prevented, or detected and corrected in the schedule.

The criteria for the above include:

- OMB Circular No. A-136, *Financial Reporting Requirements*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix D*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standard (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*
- FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Treasury Financial Manual USSGL supplement



Exhibit I – Material Weaknesses, continued

- *GAO Standards for Internal Control in the Federal Government*
- *Public Law 104-208, Federal Financial Management Improvement Act of 1996*

**Recommendations**

We recommend that Army management work with its service provider to perform the following:

- Develop policies and procedures to properly map USSGL accounts to the schedule and all required information is presented, and policies and procedures are in place to prevent or detect and correct transactions and account mapping that results in abnormal balances.
- Develop, document and implement policies and procedures to:
  - Identify and correct variances between buyer-side and seller-side intragovernmental transactions in a timely manner.
  - Collect in advance of services for agreements with non-federal customers and perform a timely review of acceptance of non-federal agreements.
  - Identify and record non-federal advances, collections of unused travel advances, dining collections and supply turn-ins using the correct USSGL posting logic and/or post to the correct appropriation year.
  - Provide guidance for recording transactions related to "Self-MIPRs" to be in accordance with regulation and to assess the proper accounting treatment.



Exhibit I – Material Weaknesses, continued

F. Beginning Year Balances

Army management did not identify and correct misstatements that may have existed in the fiscal year (FY) 2015 closing general ledger balances that form the basis for the beginning of the FY 2016 general ledger balances. Additionally, Army management did not have controls in place to identify differences that existed between the FY 2015 ending balances and the FY 2016 opening balances.

The above conditions were primarily caused by the following:

- The audit of the FY 2015 schedule resulted in a significant number of deficiencies that required remediation to determine whether balances were complete, exist and were accurately recorded. Army did not fully remediate the FY 2015 deficiencies due to limited resources and the size and complexity of Army operations.
- Journal entries made for the FY 2015 schedule were not appropriately captured in the FY 2016 opening balances due to incomplete transmission of information between two financial reporting systems.

As a result, Army management did not determine whether the FY 2016 opening balances are complete, exist, accurately recorded, and consistently applied accounting policies across periods.

Due to differences between the FY 2015 closing and FY 2016 opening balances, both the opening balances and current year activity may be inaccurately presented.

The criteria are as follows:

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- GAO Standards for Internal Control in the Federal Government
- FASAB SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35.*

**Recommendations**

We recommend that Army management:

- Continue remediating the deficiencies to determine whether balances are complete, exist, and accurately recorded.
- Perform a manual re-calculation of opening balances by applying the closing rules to the prior year ending balances to determine that the current year system-calculated beginning balances are accurate.
- Implement policies and procedures to verify that beginning balances are not erroneously adjusted during the fiscal year.



Exhibit I – Material Weaknesses, continued

**G. Manual General Ledger Adjustments**

The Army had process and internal control deficiencies over journal vouchers (JVs) and other adjustments to the general ledger. Improvements are needed in management's processes to provide complete and timely populations of JVs and provide appropriate supporting documentation for manual adjustments as follows:

- The Army's service provider did not review and approve micro-application adjustments being processed into its financial reporting system and did not maintain readily available documentation to support the individual adjustments, including the purpose of the adjustment.
- The Army could not distinguish manual JVs from transactions entered through normal business processes in its main financial accounting system of record.
- The Army did not provide a population of manually entered or modified transactions, including manual JVs, cleared suspense transactions, and other adjustments manually entered into two legacy financial systems.
- The Army did not provide sufficient evidential matter to support certain JVs and did not establish effective controls over the recording of manual JVs made in the financial reporting system and the main financial system of record.

The above conditions were primarily caused by system limitations that require additional system conversions and manual processing, and the significant volume of JVs that need to be processed and reviewed within the compressed financial reporting timeline. As a result, the risk exists that a misstatement in the schedule and related note balances may occur.

The criteria is as follows:

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- GAO *Standards for Internal Control in the Federal Government*
- DoD FMR, Volume 6a

**Recommendations**

We recommend that Army management:

- Coordinate with the systems owners to identify and correct the root cause of errors in the files submitted to the financial reporting system and develop, implement procedures and controls over the completeness and accuracy of the information, and improve the information so that it contains the appropriate level of detail and reduces the need for JVs.
- Minimize the manual transactions processed in legacy systems to reduce the impact of system limitations in identifying manual adjustments.
- Maintain and make readily available the key supporting documentation for inspection, including the authorization document granting an individual the appropriate authority to prepare and review JVs.
- Define standard transaction codes that are part of normal business processes and subject to established controls and require individuals responsible for data entry to use standard transaction codes to significantly reduce the number of manual entries.
- Establish and communicate policies and procedures specifying the documents required to support each JV type recorded in the financial reporting system and main financial system of record to eliminate unsupported JVs.



**Exhibit I – Material Weaknesses, continued**

- Adhere to monitoring procedures that require a second individual to verify the financial reporting system  
JVs are appropriate, supported and properly recorded.



Exhibit I – Material Weaknesses, continued

H. Fund Balance with Treasury

The Fund Balance with Treasury (FBwT) reconciliation is a key control for supporting the existence, completeness, and accuracy of collections and outlays reported on the schedule. Although the Army made progress in addressing the prior year deficiencies, the monthly FBwT reconciliation was not properly designed as follows:

- Army's service provider recorded adjustments to clear differences between Army's unadjusted trial balance and the balances reported in the Treasury's Central Accounting and Reporting Service (CARS) prior to reconciling. As the adjustment is recorded at a summary level and not at the transactional level, Army and its service provider could not effectively research individual transactions making up the difference.
- Army did not consistently document the causes and corrective actions initiated to support that reconciling items were properly investigated and that the reconciliation was reviewed. In addition, differences are not consistently resolved within 60 days.
- Army relied on interfaces between systems that do not have effective GITCs and therefore did not have assurance that the information used to perform the reconciliation was complete and accurate.

The criteria is as follows:

- The Department of the Treasury's (Treasury's ), *Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual, I TFM 2-5100*
- Treasury Financial Manual
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- GAO *Standards for Internal Control in the Federal Government*
- DoD FMR, Volume 4

The above conditions were primarily caused by Army and its service provider not fully implementing an effective reconciliation and review process that included the documents necessary to perform the reconciliation, evidence of review, and demonstrating that reports used in the reconciliation were complete and accurate. Additionally, Army's service provider records an adjustment at the summary level before performing transaction level reconciliations to meet monthly Treasury reporting deadlines. Many transaction level differences are caused by timing and require coordination between Army and non-Army personnel to resolve, and as such, Army does not investigate differences until after 60 days.

The risk exists that outlay and collection transactions are incomplete, invalid, and inaccurate, and thus misstating spending authority from collections and outlays reported on the schedule. In addition, differences that are not resolved timely decrease management's assurance that gross outlays and spending authority from offsetting collections amounts are reliable.



Exhibit I – Material Weaknesses, continued

**Recommendations**

We recommend that Army management perform the following:

- Coordinate with its service provider to design, develop, and implement policies and procedures over the FBWT reconciliation process to maintain sufficient documentation and evidence of review, and make such documentation readily available.
- Implement manual controls to demonstrate the completeness and accuracy of information used in the reconciliation.



Exhibit I – Material Weaknesses, continued

I. Accrual Estimation Methodologies

The Army did not develop and implement accrual estimation methodologies to verify that the balances on the schedule reflect accrual transactions. Specifically, Army did not:

- Fully define methodology/assumptions to identify and record accruals for purchased or contracted goods or services, certain sales orders, and military payroll as of year-end.
- Perform a look-back analysis to determine that the methodology/assumptions provide for a reasonable accrued estimate for the military payroll and a legacy system's non-payroll transactions incurred by September 30, 2016 but not paid until FY2017.
- Record an accrual for goods/service received but not invoiced, including certain transactions for Prompt Payment Act interest, contract pay for a legacy system's activities, and year-end invoice errors resulting from interfacing with the general ledger system.
- Provide sufficient evidential matter to identify the civilian payroll accrual recorded in the general ledger system.

The criteria is as follows:

- FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- FASAB SFFAS No.7, *Accounting Standards for Revenue and Other Financing Sources*
- FASAB Statement of Federal Financial Accounting Concepts (SFFAC) No. 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- GAO *Standards for Internal Control in the Federal Government*
- DoD FMR, Volume 4, Chapter 9
- American Institute of Certified Public Accountants (AICPA), *Auditing Accounting Estimates*

The Army did not prioritize efforts to document methodology, policies and procedures to identify and record accruals and perform a look-back analysis over the completeness, validity and accuracy of the accruals.

By not properly recording or supporting accrual transactions in accordance with Generally Accepted Accounting Principles, the risk exists that balances on the schedule of budgetary activity are not complete, valid or accurate.



Exhibit I – Material Weaknesses, continued

**Recommendations**

We recommend that Army management perform the following:

- Prioritize efforts to perform an analysis over the procurement, revenue and payroll accrual processes to include defining methodology/assumptions for identifying and recording accruals, to perform a look-back analysis to determine that the accrued amount is complete, valid and accurate and to provide relevant evidential matter.
- Clearly define a process for recording applicable non-payroll related accruals including all system interface invoice errors and for which goods or services have been received but not yet invoiced.



Exhibit I – Material Weaknesses, continued

**J. Financial Management Improvements**

The Army has enhanced its financial management understanding and capabilities, increased the number of subject matter experts, and expanded its capabilities to respond to requests for support over the prior year. Although the Army made improvements from the prior year, Army did not fully establish an effective control environment over financial management. Army did not consistently develop and implement effective oversight of financial management and consistently establish effective financial management reporting structure and responsibilities. In addition, Army did not fully train and consistently hold those involved in initiating, processing and recording financial transactions accountable. As a result, Army was unable to consistently respond to requests to demonstrate that financial transactions were properly processed and recorded. In addition, certain documentation, including system-generated lists/reports, supporting such business processing, including transaction recording and IT execution, was not always readily available.

Army did not consistently identify or have sufficient subject matter experts available that could explain Army operations and provide documentation to demonstrate that controls were properly designed and implemented and that transactions were properly recorded in accordance with the accounting standards. As a result, Army did not schedule, or timely schedule by the final suspense date, all requested meetings with the control points of contact to demonstrate the design and implementation of manual and automated control activities and/or execution of business processes related to military payroll, financial reporting, revenue, procurement and IT systems as well as the existence and accuracy of recorded transactions.

Army did not have sufficient personnel resources focused on financial management. Still new to the audit process, Army did not have significant prior experience and knowledge to identify all appropriate points of contact or the location of supporting documentation by the final due dates. As a result, Army may not produce complete, accurate, and timely financial information for the schedule, which could ultimately result in a misstatement that may be material.

The criteria is OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and the GAO *Standards for Internal Control in the Federal Government*.

**Recommendations**

We recommend that Army work with its field sites and service providers to:

- Continue to provide training on financial management, including maintaining supporting documentation so that it is readily available.
- Focus additional and appropriate resources to respond to requests for support and explanations.
- Identify subject matter experts and key personnel responsible for providing supporting documentation and requested information for significant process areas.
- Be actively involved in meeting preparation and execution to confirm scheduled meetings occur as planned.
- Consistently hold individuals accountable for financial management.



**Exhibit I – Material Weaknesses, continued**

**Management's Response**

Army management concurs with the findings presented in Exhibit I. We will consider the proposed recommendations as we develop and execute corrective actions to remediate the root cause of each condition.



## Exhibit II – Non-compliance with Laws and Regulations

### A. The Anti-Deficiency Act (ADA)

Army management identified the following two potential violations with the requirements of 31 United States Code (U.S.C.) Section 1502 ("Anti-Deficiency Act" (ADA)) (a) ("Time provision") and Section 1517 (ADA (a)(2) ("Amount provision") through management's ADA compliance monitoring process:

- The Army obligated Operations and Maintenance appropriations for a contract related to system development in advance of legal availability, potentially violating the ADA time and amount provision.
- The Army allowed the vendor to perform work without a contract vehicle in place, potentially violating the ADA amount provision.

Army management is in the process of evaluating the potential violations and the outcome of the matters, including any resulting ramifications.

The criteria is 31 U.S.C. Sections 1502, *Balances Available* and 1517, *Prohibited Obligations and Expenditures*.

The Army procurement officials may not have fully understood or applied the requirements of the ADA purpose provision when procuring goods or services. As a result, the potential violations may be actual violations of the ADA purpose provision.

#### Recommendations

We recommend that Army management:

- Complete the evaluation of the potential violations to determine whether or not they are violations of the ADA time and amount provisions.
- Continue training Army procurement officials on the ADA requirements.



Exhibit II – Non-compliance with Laws and Regulations, continued

B. Federal Financial Management Improvement Act of 1996 (FFMIA)

The Army's financial management systems did not substantially comply with the following FFMIA requirements:

1. Federal Financial Management Systems Requirements. As discussed in Exhibit I - Material Weaknesses – C. General Information Technology Controls, Army and its service providers did not implement sufficient effective GITCs to protect the financial accounting, reporting and feeder systems data. As a result, Army did not substantially comply with the financial management systems requirements.
2. Federal Accounting Standards. As discussed in Exhibit I - Material Weaknesses, the Army's controls were not properly designed, implemented, and operating effectively, which affected the Army's ability to prepare the schedule and support the amounts reported on the schedule in accordance with the federal accounting standards. As a result, Army did not substantially comply with the federal accounting standard requirements.
3. U.S. Standard General Ledger. Certain Army financial systems and processes are not configured to comply with and Army did not provide support to demonstrate compliance with the USSGL requirements at the transaction level.

The criteria is FFMIA.

The Army did not meet the FFMIA requirements for the following reasons:

- The Army implemented its legacy financial accounting systems prior to the FFMIA requirements and has not upgraded or replaced these systems to meet the FFMIA requirements.
- Army personnel were inexperienced with obtaining the financial accounting system posting logic and thus were unable to respond timely.
- The main financial accounting and Army supply systems were unable to produce a complete system-generated listing of all posting combinations used to record transaction activity and were not properly configured to align with established USSGL guidance.
- Army personnel were not properly trained to record transactions to the proper USSGL account.

As a result, the legacy financial accounting, the main financial accounting and the Army supply systems are potentially non-compliant with the USSGL. As a result, the risk exists that transactions are incorrectly recorded and impacting the completeness, existence, and accuracy of the balances in the schedule.

**Recommendations**

We recommend Army management:

- Implement the recommendations discussed in Exhibit I - Material Weaknesses to support the compliance with the system and federal accounting standard requirements.
- Develop, document, and implement policies and procedures to minimize the transactions processed in their legacy financial accounting systems to reduce the impact of the system's FFMIA non-compliance with recording activity in USSGL accounts at the transaction level.
- Train personnel to record transactions in accordance with the USSGL and maintain and make readily available key supporting documentation for inspection, including support for posting logic.



**Exhibit II – Non-compliance with Laws and Regulations, continued**

- Develop, document, and implement policies and procedures for their main financial accounting system of record and supply system to produce a complete system generated list of all posting combinations to demonstrate compliance with the USSGL.
- Develop and implement a corrective action plan to configure the supply system to comply with the USSGL.



Exhibit II – Non-compliance with Laws and Regulations, continued

C. Prompt Payment Act (PPA)

The Army did not consistently have supporting documentation readily available to support that it complied with the PPA. Specifically, the Army did not:

- Consistently provide payment documentation to support that the PPA interest amount was properly calculated or calculated at all.
- Consistently provide invoice documentation to identify the PPA start date in order to support that the PPA interest amount was properly calculated or calculated at all.
- Consistently provide documentation to support whether the amount of PPA interest was properly paid and whether it was paid within 30 days.

The criteria is as follows:

- U.S. Code Title 31, Subtitle III, Chapter 39, *Prompt Payment Act*
- GAO *Standards for Internal Controls in the Federal Government*
- DoD FMR, Volume 4

The Army was unable to identify (due to a lack of a centralized process in place) where the documents were maintained and therefore not all sites were able to provide them in a timely manner. Army was unable to implement the corrective action steps due to resource constraints and competing priorities related to implementing other audit remediation efforts.

The risk exists that the Army potentially does not comply with the PPA and may have improperly applied prompt pay interest on payments to vendors.

**Recommendations**

We recommend Army management:

- Design, document, and implement a process to maintain and make readily available key supporting documentation for inspection, including proof of payment and invoice/good receipt documents. The process of maintaining documentation should be tested to determine that the proper documentation is readily available upon request.
- Continue to work with field sites on document retention requirements and the timeliness to respond to audit requests.



Exhibit II – Non-compliance with Laws and Regulations, continued

D. Federal Managers' Financial Integrity Act (FMFIA)

The Army performed an internal control assessment as required under the FMFIA. We noted the following non-compliance with FMFIA:

- The Army's assurance statement did not include an assessment of systems compliance for legacy and certain feeder systems that the Army uses to initiate, process, and record transactions.
- The Army's statement of assurance did not reflect updated guidance from the revised OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, updated July 15, 2016.
- The Army's internal control assessment process did not include an update to the initial statement of assurance to consider material weaknesses identified through the external audit. The Army did not identify a material weakness related to beginning balances in the self-assessment.

The criteria is OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

The Army did not have the resources to perform a full assessment of all systems. Additionally, the Army was unaware that they should update their June 30, 2016 internal control assessment for the revisions to OMB Circular No. A-123 that was issued in July 2016 and to consider the auditor's report for the year ended September 30, 2016.

Deficiencies in the internal control assessment program could result in deficiencies in internal control not being identified and remediated by management. By not considering the revised OMB Circular No. A-123 and preparing the statement of assurance to address the revision, the Army risks not complying with the revisions to OMB Circular No. A-123, specifically Section VI. Reporting on Internal Control.

**Recommendations**

We recommend that Army management perform the following:

- Perform an assessment of relevant systems as part of the Army's internal control assessment.
- Update the June 30 internal control assessment and assurance statement for guidance issued after June 30 but effective for the entire fiscal year. Further, issue updated guidance to direct reporting units and other participants in the internal control assessment process and monitor changes in the standards related to internal control assessments.
- Incorporate the material weaknesses identified through independent sources, such as the external audit, into an updated internal control assessment and assurance statement to cover the entire fiscal year.



**Exhibit II – Non-compliance with Laws and Regulations, continued**

**Management's Response**

Army management concurs with the findings presented in Exhibit II. We will consider the proposed recommendations as we develop and execute corrective actions to remediate the root cause of each condition.



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

November 14, 2016

SAFM-ZA

MEMORANDUM FOR RECORD

SUBJECT: Management Assessment of Fiscal Year 2016 Schedule of Budgetary Activity Audit

1. In Fiscal Year 2016 (FY16), the U.S. Army completed the second audit of its General Fund Schedule of Budgetary Activity (SBA) by an Independent Public Accounting (IPA) firm. The FY16 SBA presented budget activity for current year and FY15 appropriations; expanding the scope and complexity of the audit. This achievement was one of several critical milestones transforming the Army to better manage its resources and ultimately improve support for the Warfighter. Army progress is due to the steadfast commitment and hard work of Soldiers and Civilians across the organization. With the continued dedication of this workforce, the Army is on track to assert its readiness to produce auditable financial statements by the congressionally mandated date of 30 September 2017.
2. The Army was able to make notable achievements throughout FY16 attributable to its efforts to address findings from the FY15 audit, improved coordination with service providers, and close collaboration with the IPA firm. Army responded to nearly 24,500 audit samples and auditor requests during the audit. Notable improvements in the FY16 SBA audit compared to the prior year include higher pass rates for transaction sample tests, reduction in the number of requests for follow-up information, and improvements to information technology system controls.
3. The Army will maintain pressure to address high-risk areas and deficiencies highlighted by the IPA firm in its FY15 and FY16 audit. As noted above, the Army is already making improvements in the timely delivery of key supporting documentation. Additional auditor findings from the FY16 SBA audit emphasize the need for the Army to support beginning balances; provide certain data populations and reconciliations; improve documentation for accounting adjustments, and further enhance information technology system controls. The Army will gather invaluable lessons from these findings, and apply corrective actions to achieve auditable financial statements.
4. The Army continues to demonstrate its commitment to addressing findings identified by the auditor. The Army has emphasized strong partnerships to make progress in critical capability areas. For example, the Army is working closely with the Defense Finance and Accounting Service to identify the root causes for unsupported journal vouchers. The Army also established a capability to compile and reconcile financial data between source systems and general ledgers.



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5. The Army demonstrated its commitment to achieving audit readiness by implementing an enterprise-wide corrective action program focused on accountability and governance. Progress in completing corrective actions has been substantial in FY16 with the Army Audit Committee's new monthly meetings of Business Mission Area Champions providing oversight of corrective actions to address auditor-identified deficiencies. These corrective actions identify and mitigate the root causes of deficiencies. The successful execution and validation of these plans is a major focus of the Army. Since the FY15 SBA audit, the Army has developed over 300 corrective action plans, of those, 166 have been executed and undergone validation. The Army is now reviewing and analyzing findings from the FY16 SBA audit to resolve any new or remaining deficiencies.

6. The FY16 SBA audit provided invaluable insight into what the Army needs to accomplish. While the Army has made significant and demonstrable progress, considerable challenges must be overcome to meet the 30 September 2017 audit readiness goal. These challenges are not insurmountable, and the Army is committed to addressing them through its continued development of a fully trained, connected, and collaborative workforce which understands the criticality of complying with accounting standards. Army leadership is engaged at every level and are unwavering in support for accomplishing this complex and challenging endeavor.

  
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