



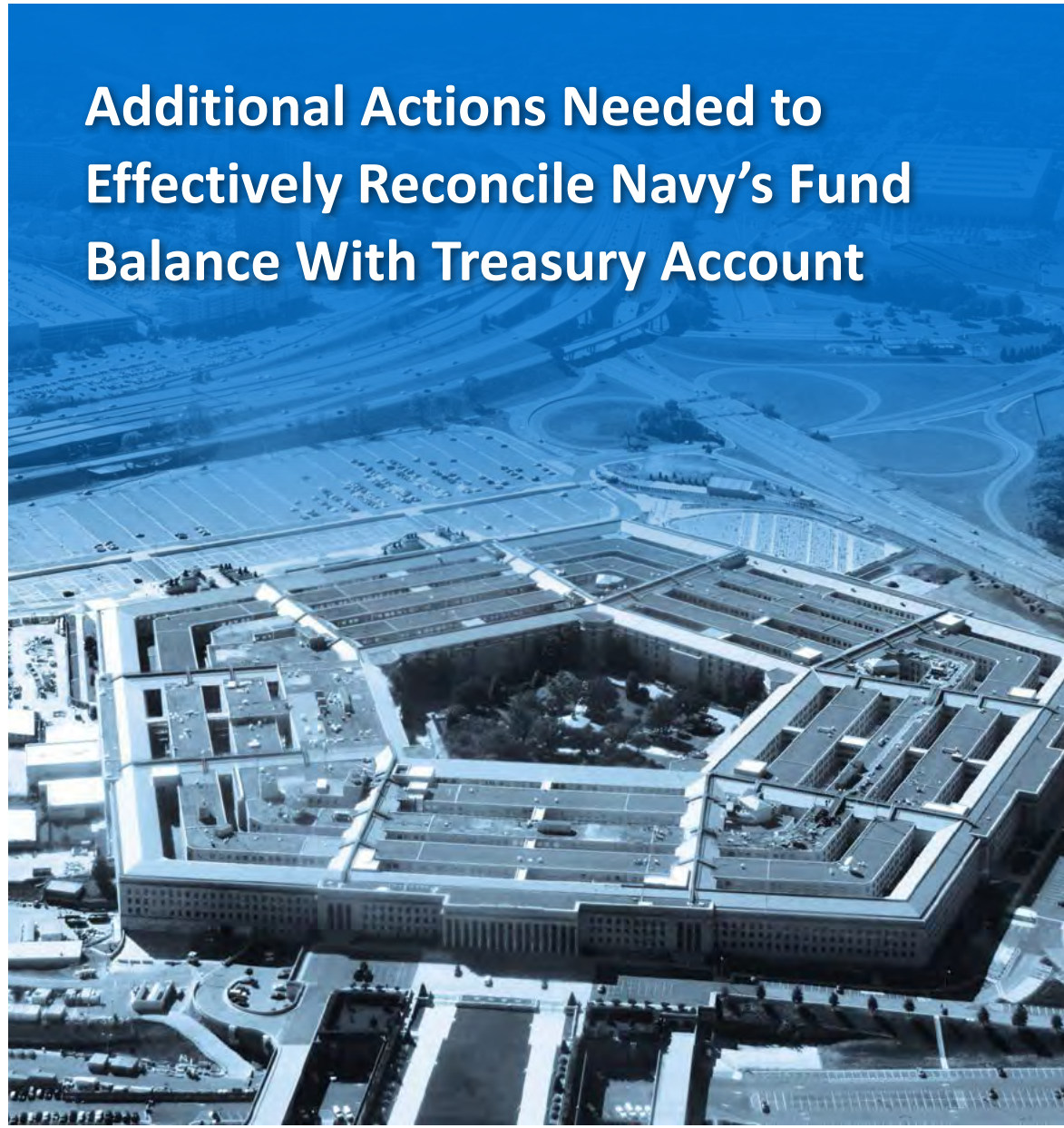
INSPECTOR GENERAL

U.S. Department of Defense

APRIL 3, 2015



Additional Actions Needed to Effectively Reconcile Navy's Fund Balance With Treasury Account



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Results in Brief

Additional Actions Needed to Effectively Reconcile Navy's Fund Balance With Treasury Account

April 3, 2015

Objective

Our objective was to determine whether the process used by the Department of the Navy (DON) to reconcile its Fund Balance With Treasury (FBWT) account was effective, providing reasonable assurance to support the accuracy, timeliness, and completeness of the account's audibility.

Finding

The DON FBWT reconciliation process was not effective. Specifically:

DON did not use general ledger detail as source data for FBWT reporting as required by Treasury regulations. Navy Office of Financial Operations (FMO) stated it used Program Budget Information System (PBIS) and Defense Cash Accountability System (DCAS) feeder data instead. As a result, DON could not identify a universe of transactions supporting its FBWT balance.

DON may have used unreliable computer-processed data as DCAS and PBIS had significant control deficiencies identified during Federal Information Systems Controls Audit Manual testing. In addition, DON did not identify compensating controls to ensure the reliability of the data. As a result, DON has no assurance that the FBWT amounts reported on its Financial Statements and Schedules are reliable for auditability and decision making purposes.

Navy FMO also did not have approved standard operating procedures. As a result, DON did not have a proven, repeatable process that can be extended to future periods.

Navy FMO personnel did not resolve \$226 million in net differences out of \$767 million in net activity between Treasury records for Navy

Finding (cont'd)

disbursements and Navy's detailed disbursement records for transactions processed by non-Navy disbursing offices. DON did not use the "Statement of Differences – Disbursements" reconciliation as a key control required by Treasury. As a result, Navy FMO could not determine whether these amounts were included in DON's general ledger supporting details and in its reports to Treasury. These unresolved differences compromise the integrity of FBWT balances and the reliability of published financial reports, which will include the Schedule of Budgetary Activity that is currently being audited.

In addition, DON has not demonstrated an effective FBWT transaction-level reconciliation. The inability to reconcile at the transaction level for current-year appropriations represents a significant obstacle the DON must overcome to show it has the controls in place to produce a complete universe of transactions for an auditable Schedule of Budgetary Activity.

Recommendation

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

- develop a reconciliation process that is based on detail-level transaction data from DON's general ledger systems to its financial statements;
- review the control weaknesses identified for DCAS and PBIS to minimize risk and reduce any weaknesses identified;
- review and approve current standard operating procedures; and
- design and implement controls within the end-to-end FBWT business process for resolving amounts reported on the "Statement of Differences – Disbursements."

Management Comments and Our Response

Comments from the Navy addressed all specifics of the recommendation, and no further comments are required. Please see the Recommendations Table on the back of this page.

Visit us at www.dodig.mil

Recommendations Table

| Management | Recommendations Requiring Comment | No Additional Comments Required |
|---|--------------------------------------|------------------------------------|
| Assistant Secretary of the Navy (Financial Management and Comptroller) | | 1, 2, 3, 4 |



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

April 3, 2015

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Additional Actions Needed to Effectively Reconcile Navy's Fund Balance
With Treasury Account (Report No. DODIG-2015-102)

We are providing this report for your information and use. The Department of the Navy (DON) Fund Balance With Treasury reconciliation process for first quarter FY 2014 did not provide reasonable assurance to support the accuracy, timeliness, and completeness of the account's auditability. 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 Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), 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).

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

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

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Introduction

Objective

Our objective was to determine whether the process used by the Department of the Navy (DON) to reconcile its Fund Balance with Treasury (FBWT) account was effective. Specifically, we determined whether the reconciliation process provided reasonable assurance to support the accuracy, timeliness, and completeness of the account's auditability. See the Appendix for a discussion of the scope and methodology and prior audit coverage.

Background

FBWT is an asset account that reflects the available budgetary spending authority of a Federal agency. At the agency level, FBWT is similar to a corporation's cash account. Appropriations and collections increase FBWT, and disbursements reduce FBWT. As of September 30, 2013, DON¹ reported \$142.7 billion in FBWT, which represented 26 percent of the \$543.1 billion in total assets reported on the DON's General Fund Balance Sheet.

Requirements for FBWT Reconciliation

Treasury and DoD established requirements for agencies to perform a FBWT reconciliation, a control that is key to ensuring the DON produces an auditable Statement of Budgetary Resources (SBR) and other financial reports. Performing a monthly reconciliation is a key control to ensure the accuracy of the FBWT account. The Treasury Financial Manual² requires agencies to reconcile³ their FBWT accounts to Treasury account statements on a regular basis to ensure the integrity and accuracy of their internal and Government-wide financial report data. The manual states that an agency may not arbitrarily adjust its FBWT account. If an agency must make material fund balance adjustments, the agency must maintain supporting documentation.

The DoD Financial Management Regulation⁴ further requires DoD components with FBWT accounts to perform detailed reconciliations of their FBWT accounts at least monthly to ensure the accuracy and reliability of DoD fund balance records and

¹ The Department of the Navy consists of two uniformed Services: the United States Navy and the United States Marine Corps. This audit was of the Navy FBWT accounting processes and excluded the Marine Corps FBWT transactions and processes.

² Treasury Financial Manual, volume 1, part 2, chapter 5100, "Reconciling Fund Balance With Treasury Accounts," March 29, 2012.

³ Reconciling FBWT activity records with Treasury records is similar to reconciling a check book to a bank statement.

⁴ DoD Regulation 7000.14-R, "DoD Financial Management Regulation", volume 4, chapter 2, "Accounting for Cash and Fund Balances With Treasury."

the integrity of the financial statements. It also specifies that DON must explain any discrepancies between FBWT in the DON's general ledger accounts and the balance in the Treasury's accounts and correct any errors. Unresolved differences compromise the reliability of FBWT reconciling amounts and Treasury's published financial reports. This, in turn, compromises the overall integrity and status of the Government's financial position.

Maintaining an accurate FBWT account is essential to producing an auditable SBR.⁵ Increases and decreases to the FBWT line item on the Balance Sheet directly relate to the receipt of appropriations, continuing resolutions, transfers, collections, and disbursements reported on SBR line items. An effective FBWT reconciliation ensures DON records remain in balance with Treasury and allow for auditability. The DoD SBR audit readiness strategy limits the scope of the first-year audit to the Schedule of Budgetary Activity, a report limited to current-year budget activity beginning with FY 2015 appropriations. The Navy's FY 2015 Schedule of Budgetary Activity is currently under audit.

FBWT Reporting and Reconciliation Process

DON used the following computer systems to perform its FBWT reconciliation and to prepare its financial statements:

- **Business Activity Monitoring (BAM)** is owned by the Defense Finance and Accounting Service (DFAS). DON used this system to reconcile its FBWT general ledger account to the Treasury-recorded transactions.
- **Defense Cash Accountability System (DCAS)** is a standard system owned by the Defense Logistics Agency (DLA),⁶ which improved the accuracy and timely processing of cash accountability transactions and Treasury reporting for DoD agencies. DCAS receives data daily for disbursement and collection transactions, and at month's end for financial reporting purposes. DCAS submits summary-level appropriation data to the Defense Departmental Reporting System (DDRS) so that its records are updated with the most current outlay data available to prepare accurate month-end budgetary statements. In addition, DCAS transmits detail-level disbursement and collection data to the field level accounting systems.
- **Navy Enterprise Resource Planning (ERP)** is a general ledger system owned by the Navy and developed to transform and standardize DON's business processes for key acquisition, financial, and logistics operations.

⁵ The SBR describes for the reporting entity how budgetary resources were made available as well as their status at the end of the period.

⁶ During FY 2014, DLA began transitioning the DCAS to DFAS.

- **Standard Accounting & Reporting System (STARS)** is owned by DFAS and is a general fund accounting and reporting system used by some DON major commands. The system records and executes budgetary and accounting events from funds allocation to disbursement. STARS is a primary reporting source of Navy funds status and execution for departmental reporting purposes. STARS consists of two major modules:
 - STARS HCM–Headquarters Claimant Module
 - STARS FL–Field Level Accounting
- **Program Budget Information System (PBIS)** is a budgeting system owned by the DON. DON uses PBIS to manage funding from Congress and forward funding documents to commands.
- **Defense Departmental Reporting System (DDRS)** is owned by the DLA⁷ and is the consolidated financial management and budgetary reporting system used by DoD. This system uses the:
 - DDRS-Audited Financial Statements module to produce the official audited financial statements;
 - DDRS-Budgetary (DDRS-B) module to produce budgetary reports; and
 - DoD Chart of Accounts and Standard Financial Information Structure elements to standardize the departmental reporting process.

DON commands entered funding, disbursement and collection amounts into the command-level general ledger accounting systems, which were then interfaced from the command feeder files to DDRS-B as DDRS-B used PBIS as official funding data, and DCAS as official disbursement and collection amounts.

DFAS used the BAM system on a monthly basis to perform a transactions-level reconciliation of the Trial Balance of STARS and Navy ERP to the DCAS file. In addition, DFAS used BAM to reconcile the Treasury balance to the balance in the general ledgers.

BAM has multiple workbenches (modules) to support different aspects of the FBWT reconciliation. The BAM Audit Assertion Workbench identifies the unsupported and supported differences. The Navy uses the BAM Audit Assertion Workbench to perform three reconciliations, which includes Marine Corps data, in support of audit readiness initiatives. The titles of the three reconciliations are:

1. Fund Balance [W]ith Treasury Summary to Detail Reconciliation;
2. GWA (Treasury) to DCAS Reconciliation; and
3. DCAS CHOOSE to DCAS Reconciliation.

⁷ During FY 2014, DLA began transitioning the DDRS to DFAS.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We found that DON did not have an effective FBWT reconciliation process in place. We will provide a copy of the final report to the senior official responsible for internal control in the DON.

Finding

DON Could Not Support FBWT Amounts

The DON FBWT reconciliation process was not effective. The reconciliation process did not provide reasonable assurance to support the accuracy, timeliness, and completeness of the account's auditability. Specifically,

- Navy Office of Financial Operations (FMO) personnel stated they prepared a reconciliation using DON's general ledger systems, however, the amounts used in the reconciliation and in its financial statements were not supported by detailed amounts. This occurred because Navy FMO officials did not consider DON's general ledger as source data, as required by DoD and Treasury regulations.
- DON may have used unreliable computer-processed data from DCAS for disbursement and collection activity and PBIS for budgetary resources activity. DCAS and PBIS had significant control deficiencies identified during testing. This occurred because DON officials did not develop a plan to mitigate the system control deficiencies identified during testing.
- Navy FMO did not have approved standard operating procedures (SOPs) for the processes used to reconcile its FBWT account.
- Navy FMO personnel did not resolve \$226 million in net differences out of the \$767 million in net activity between Treasury records for Navy disbursements made by non-Navy disbursing offices and Navy's detailed disbursement records. This occurred because Navy FMO officials did not identify and implement reconciling these Treasury-reported differences as a key control in their FBWT reconciliation process.

DON has not demonstrated an effective FBWT transaction-level reconciliation, a key requirement for assertion in the DoD Financial Improvement and Audit Readiness Guidance. The inability to reconcile at the transaction level for current-year appropriations represents a significant obstacle the DON must overcome to show it has the controls in place to produce a complete universe of transactions for an auditable SBR.

General Ledger Detail Not Used in FBWT Reporting

Navy FMO personnel prepared a reconciliation that indicated they used DON's general ledger systems to report the FBWT amount; however, the amounts used in the BAM reconciliation and in its financial statements were not supported by its general ledger detail amounts. According to the Treasury Financial Manual,⁸ agencies must post account transactions to its general ledger and must prepare an adjusted trial balance at least monthly to verify that debit and credit postings are equal and to validate the data. Agencies must also ensure that the balance in its FBWT general ledger account for each appropriation agrees with their internal supporting documents.

The FY 2014 Treasury records for the first quarter indicated the Navy had 19 appropriations that began in 2014. Navy FMO personnel stated they did not use its detailed general ledger amounts in the BAM Fund Balance With Treasury Summary to Detail Reconciliation and the DDRS-B unadjusted trial balance because Navy personnel did not consider the general ledger data as source data for reconciliation purposes. In total, Navy FMO personnel could not support the reconciliation of the Navy FBWT general ledger amounts for 7 out of 19 appropriations or 37 percent of the appropriations in the DDRS-B unadjusted trial balance.

Navy FMO personnel could not support the amounts in DON's general ledger because they did not consider the ledger as source data for reporting its appropriations, transfers, collections, and disbursements in their financial statements. Navy FMO personnel responsible for the FBWT reconciliation stated that they used PBIS and DCAS as source data for reconciling FBWT instead of the general ledger detail amounts. The funding amounts entered by Navy commands did not consistently match the actual funding amounts from DON's Financial Management-Budget personnel. Similarly, the disbursement and collection amounts entered by the commands did not always match the amounts recorded in the DCAS system. Therefore, DDRS-B received funding data from PBIS and disbursement and collection data from DCAS. The entries by Navy commands, combined with the imports from PBIS and DCAS, resulted in a double counting of funding, disbursement, and collection amounts in DDRS-B. To correct this duplication, DDRS-B was programmed to calculate a system-generated reversal of the funding, disbursement, and collection amounts posted by the command feeder files. As a result, DON could not identify the complete universe of transactions from its general ledger supporting its FBWT amount and therefore did not quantify the difference between its general ledger detail and the general ledger amounts reported in DDRS-B.

⁸ Treasury Financial Manual, volume 1, part 2, chapter 5100, section 5130.10, "Posting Agency Transactions to the USSGL," March 29, 2012.

The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]) should develop a FBWT reconciliation process based on detail-level transaction data from its general ledger systems. As part of this process, Navy should demonstrate how these detail-level transactions are used to prepare its financial statements. Once Navy can produce the detail-level transactions used in its general ledger and its financial statements, it should be able to produce a more reliable universe of transactions supporting the accuracy and completeness of their FBWT amount.

Untested and Ineffective System Controls

DON used data from DCAS and PBIS systems that failed or had untested Federal Information Systems Controls Audit Manual (FISCAM) controls. DON reported that DCAS had 56 percent of its FISCAM controls that failed or were untested and PBIS had 77 percent of system controls that failed testing. Specifically, there were failed or untested access and segregation of duties controls, potentially allowing unauthorized users access to the systems to make unauthorized transactions. Further, interface controls failed testing in both systems. These controls ensure the validity and completeness of transactions being processed from the feeder systems. In addition, DON officials had not identified compensating controls to ensure that DCAS and PBIS data were reliable. Therefore, DON may have used unreliable computer-processed data from DCAS and PBIS for the first quarter FY 2014 FBWT reconciliation.

Also, the DCAS system owner did not certify test results of controls that were tested. Even though the testing summary indicated there were corrective action plans for controls deemed ineffective, none of the test results were certified by system owners to indicate whether the system owner agreed with the results.

Based on the control deficiencies, DON did not have assurance that the FBWT amounts reported on its Financial Statements and Schedules were reliable. ASN(FM&C) should implement strategies to mitigate ineffective or untested DCAS and PBIS controls. When systems fail the control tests, auditors cannot rely on the controls, which results in the auditors performing substantive testing and larger sample sizes. By reducing ineffective or untested controls, DON will have more assurance that DCAS and PBIS data are reliable. This will provide assurance that the FBWT amounts reported on its Financial Statements and Schedules are accurate and complete for use in the reconciliation process and reduce testing sample sizes in future audits.

Unapproved and Inadequate Procedures

Navy FMO could not provide adequate supporting documentation for its FBWT reconciliation process. Navy FMO personnel provided multiple versions of spreadsheets to demonstrate the reconciliation process; however, they did not

update the SOPs. This occurred because Navy FMO management did not have approved SOPs for the FBWT reconciliation process. Instead, the DON used draft SOPs as sufficient assurance that personnel knew how to perform the functions necessary to reconcile FBWT. Additionally, Navy FMO personnel created new procedures to respond to audit data requests necessary for proving the FBWT reconciliation process.

Navy FMO personnel provided 26 SOPs and associated spreadsheets, as applicable, to support their FBWT reconciliation process. Although one SOP was approved by Navy FMO management, the remaining 25 SOPs were not. Following our request for the SOPs, 13 were provided that contained approval dates dated after our request and 12 SOPs were not yet approved. For the draft SOP verifying that general ledger detail-data files reconciled to the DDRS-B trial balance amounts, Navy FMO personnel provided three versions of the associated spreadsheets. However, using the SOP and associated spreadsheets they could not demonstrate how the general ledger accounts agreed with the DDRS-B trial balance and financial statements. There was no assurance that these were the SOPs used to reconcile DON's FBWT or that adequate procedures existed.

As a result, Navy FMO did not have a proven repeatable process that can be extended to future periods, additional appropriations, and nonappropriated funds. Informal policies and procedures lack the weight of authority provided by the written approval of senior Navy FMO management officials. Formal approval by management officials provides clear direction to employees and contractors that management is in agreement with the stated policies and procedures and that compliance is required. Therefore, ASN(FM&C) should review and approve current SOPs to ensure the FBWT reconciliation is completed according to Treasury and DoD policies, reconciliations are tested and proven to be a sustainable process. This will ensure that processes are repeatable and timely, as the reconciliation process may include additional appropriations in subsequent reporting years.

Identified Differences Not Resolved

Navy FMO did not resolve differences between Treasury records for Navy disbursements made by non-Navy disbursing offices and the Navy's detailed disbursement records. Treasury issued FBWT reconciliation procedures that require agencies to reconcile monthly cash receipt and disbursement transactions reported by Federal agencies to data reported by other entities. These reconciliations ensure the accuracy and financial integrity of the Government receipts and disbursements. According to the procedures, agencies must investigate all Treasury-reported differences and initiate, or report, or both, any necessary adjustments to their FBWT accounts.

The unresolved differences occurred because the Navy/DFAS FBWT team did not identify Treasury-required “Statement of Differences–Disbursements”⁹ reconciliations as a key control in the end-to-end FBWT business process. For first quarter FY 2014, the net value of DON’s differences was \$226 million of the \$767 million in net activity included in the Treasury-reported FBWT amount. Navy FMO personnel could not determine whether adjustments were required to Treasury reports or DON general ledgers. Until DON resolves the differences, the difference between the balances are likely to increase as DON processes more activity.

As a result, Navy FMO could not determine whether these amounts were included in DON’s general ledger supporting details and in its reports to Treasury. Unresolved differences compromise the reliability of FBWT balances and Treasury’s published financial reports. Since the Navy/DFAS FBWT team did not identify “Statement of Differences–Disbursements” reconciliations required by Treasury as a key control in the end-to-end FBWT business process, the ASN(FM&C) should design and implement controls within the end-to-end FBWT business process for resolving amounts reported on the statement. By designing and implementing these controls, Navy can determine whether these amounts are included in its general ledger supporting details and in its reports to Treasury. This should help provide DON reasonable assurance that its FBWT account is accurate and complete.

Recommendation, Management Comments, and Our Response

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

- 1. Develop a reconciliation process that is based on detail-level transaction data from Department of the Navy’s general ledger systems. As part of this process, the Department of the Navy needs to demonstrate how these detail-level transactions are used in the preparation of their financial statements.**

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed, stating that a remediation plan has been developed and will be

⁹ The Treasury “Statement of Difference–Disbursements” reports identify the differences between what is recorded as disbursed through Treasury and what was reported through the DON’s monthly detail reports submitted to Treasury.

implemented in March 2015 to demonstrate the traceability of the trial balances for the field level general ledger and transaction-level details directly to their presentation within the financial statement compilation system. Additionally, routine FBWT procedures now compare and evaluate the trial balances for the field level general ledger reported by BAM, DDRS-B, and field level general ledgers.

2. Review the control weaknesses identified for the Defense Cash Accountability System and Program Budget Information System during Federal Information System Controls Audit Manual testing and implement a plan to reduce ineffective or untested controls.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed, stating that they performed recurring reconciliations and analysis of PBIS and DCAS data used in the FBWT reconciliation process to ensure the validity and completeness of the data presented to DDRS-B. DON will maintain the controls designed to support the validity of information received and data entered into each of the systems and has drafted corrective action plans to mitigate ineffective PBIS controls and certify remediation activities. The Deputy Assistant Secretary also stated that DFAS identified a set of DCAS high-priority controls, and all but 14 of them have been certified as designed and operating effectively. DFAS continues to test the operating effectiveness of 13 of the 14 high-priority controls that an Independent Public Accounting firm validated as designed effectively. The Navy will take corrective actions if any control failures are identified. DFAS will fully implement a corrective action plan to mitigate the one remaining DCAS interface control identified as ineffective by June 30, 2015. All remaining DCAS system testing is expected to be completed by December 31, 2015.

3. Review and approve current standard operating procedures to ensure the Fund Balance With Treasury reconciliation is completed according to Treasury and DoD policies and reconciliations are tested and proven to be a sustainable and repeatable process.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed, stating that DON has refined and enhanced procedures it uses to perform FBWT reconciliations, and these SOPs have been approved by the Navy's FBWT

program manager. Additionally, DFAS execution procedures of FBWT business processes that support the end-to-end recording and reporting will be updated to cite the appropriate Treasury and DoD policies by April 30, 2015.

4. Design and implement controls within the end-to-end Fund Balance With Treasury business process for resolving amounts reported on the “Statement of Differences–Disbursements”.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Navy (Financial Operations), responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed, stating that DON is coordinating with DFAS to document and implement an internal control process to monitor and resolve amounts reported as “Statement of Differences–Disbursements” by March 2015. Additionally, the identified \$226 million in net differences between Treasury records and Navy’s detailed disbursements were remediated as of March 2015.

Our Response

The Deputy Assistant Secretary addressed all specifics of the recommendations, and no additional comments are needed.

Appendix

Scope and Methodology

We conducted this performance audit from March 2014 through January 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine if the FBWT reconciliation process was effective, we met with personnel at Navy FMO and DFAS-Cleveland to understand the FBWT reconciliation process used for first quarter FY 2014. We obtained DON FBWT reconciliations from its BAM system in addition to transaction-level detail and general ledger reported amounts. For appropriations with beginning fiscal years of FY 2014, we:

- compared the detail transaction data to the amounts used for financial reporting;
- compared the DCAS amounts to the Treasury amounts used in the FBWT reconciliation tool;
- reviewed the Treasury reported statements of differences; and
- reviewed the FISCAM test results for STARS, DCAS, Navy ERP, BAM, and PBIS.

Use of Computer-Processed Data

We assessed computer-processed data from DON's core accounting systems which were: STARS-FL, STARS-HCM, and Navy ERP, and BAM, DDRS-B, PBIS, DCAS, and Treasury. However, we determined that the data were unreliable as discussed in the finding in this report.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) issued two reports discussing DOD FBWT reconciliations. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

GAO

GAO-12-132 “DoD Financial Management: Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance [W]ith Treasury,” December 20, 2011

DoD IG

DODIG-2012-107 “Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations’ Fund Balance [W]ith Treasury,” July 9, 2012

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

MAR 11 2015

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE

SUBJECT: Additional Actions Needed to Effectively Reconcile Navy's Fund Balance
with Treasury Account

Reference: (a) DoDIG Draft Report (Project Number D2014-D000FS-0132.000)

In accordance with reference (a), the Office of Financial Operations has reviewed
the subject draft report and provided the following comments in (attachment 1).

If you have any questions or concerns my point of contact for this matter is

[REDACTED]

A handwritten signature in blue ink, reading "Karen L. Fenstermacher", is positioned above the typed name.

KAREN L. FENSTERMACHER
Deputy Assistant Secretary of the Navy
(Financial Operations)

Attachment:
As stated

cc:
OUSD(C)
DFAS

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT DATED 11 FEBRUARY 2015

PROJECT NUMBER D2014-D000FS-0132.000

“ADDITIONAL ACTIONS NEEDED TO EFFECTIVELY RECONCILE NAVY’S FUND BALANCE WITH TREASURY ACCOUNT”

1. The Department of the Navy (DON) has reviewed the draft report and the following comments are provided:

RECOMMENDATION 1: We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop a reconciliation process that is based on detail-level transaction data from Department of the Navy’s general ledger systems. As part of this process, the Department of the Navy needs to demonstrate how these detail level transactions are used in the preparation of their financial statements.

DON RESPONSE: CONCUR. The DON concurs with the recommendation and has implemented a remediation for the reconciliation process design gap identified by the DoD IG. The development and implementation of procedures for reconciling the field General Ledger (GL) trial balances to the financial statement compilation system (Defense Department Reporting System – Budgetary [DDRS-B]) unadjusted trial balance were incomplete at the time of the DoD IG’s examination. The Navy reconciled the transaction-level detail supporting the field GL trial balances to the transaction-level detail in the key Fund Balance With Treasury (FBWT) feeder systems (Defense Cash Accountability System [DCAS] and Program Budget Information System [PBIS]) which are used to support the amounts reported in the financial statements and trial balance in DDRS-B. Although the reconciliation of the field GLs to the FBWT feeder systems demonstrated the necessary link to the amounts reported in the financial statements, it did not demonstrate the traceability of the field GL trial balances and transaction-level details directly to their presentation within DDRS-B.

Additionally, the field GL trial balances as represented in DDRS-B were not compared to the field GL trial balance and requisite transaction-level detail processed by the Business Activity Monitoring (BAM), the DON’s FBWT transaction-level detail reconciliation tool. A comparison of the field GL trial balances reported by the BAM, DDRS-B and the field GLs are now evaluated as routine FBWT procedures.

The DON remediation will be implemented in March 2015 for the Fiscal Year (FY) 2015 Schedule of Budgetary Activity (SBA). Starting with the first execution of the reconciliation process in FY 2015, the DON will tie the unadjusted and adjusted trial balances in DDRS-B to the transaction-level details and reported trial balances from the field GLs in an updated reporting format. This process and resulting reports will serve as the basis for the FBWT reconciliation presented during the SBA and future examinations by providing the required reconciliation of field GL transaction-level details to the financial statements.

RECOMMENDATION 2: We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) review the control weaknesses identified for the Defense Cash Accountability System and Program Budget Information System during Federal Information System Controls Audit Manual testing and implement a plan to reduce ineffective or untested controls.

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT DATED 11 FEBRUARY 2015

PROJECT NUMBER D2014-D000FS-0132.000

"ADDITIONAL ACTIONS NEEDED TO EFFECTIVELY RECONCILE NAVY'S FUND BALANCE WITH TREASURY ACCOUNT"

DON RESPONSE: CONCUR. The DON concurs with the recommendation and has identified the corrective actions related to PBIS and DCAS. In order to support the amounts presented in the financial statements, the DON performed recurring reconciliations and analysis of the data within these systems in order to validate the accuracy and completeness of the FBWT compilation feeder file transactions and amounts. In addition to the continued analysis and reconciliation of the feeder files presented to DDRS-B, the DON will maintain the controls designed to support the validity of information received and data entered into each of the systems.

The DON has drafted corrective action plans to mitigate ineffective PBIS controls and as suggested, the DON will implement and certify remediation activities for control failures and perform testing over Federal Information System Controls Audit Manual (FISCAM) Information Technology (IT) General Controls and Business Process Application Controls relevant to the completeness and validity of PBIS output files transmitted to DDRS-B as part of the FBWT process. This will include remediating findings noted under FISCAM controls at the IT General Control layer required for effective application processing. This will also include remediating and re-assessing Interface Design (IN-1 control activities), Interface Processing (IN-2 control activities), and assessing Separation of Duties (SD-1 and SD-2 control activities). DON will also evaluate increasing the scope of the current assessment to include Data Output controls (BP-3 control activities) so as to provide greater assurance over the completeness and validity of the transaction output files being produced for DDRS-B. Where applicable, the DON will identify and assess any compensating controls that cover risks related to completeness and validity of interface file output and transmission.

The Defense Finance and Accounting Service (DFAS), as the DON's service provider, has identified a set of high priority controls as part of its DCAS FISCAM evaluation. These controls focus on Security Management, System Access, Configuration Management, Segregation of Duties control objectives and Interface controls. All but 14 of the high priority controls have been certified as designed and operating effectively by an Independent Public Accounting (IPA) firm. DFAS is implementing a corrective action plan to mitigate the one remaining DCAS interface control identified as ineffective. The corrective action will be fully implemented by June 30, 2015. DFAS is in the process of testing the operating effectiveness of 13 remaining controls which were validated as designed effectively by the IPA at the time of this report. In the event of control failures (for the outstanding, untested controls) relevant to the completeness and validity of DCAS output files generated for DDRS-B as part of the FBWT process, the Navy will initiate corrective action plans required to support remediation, allowing for effective application processing.

Lower priority IT General Controls and Business Process Application Controls will be evaluated during the next phase of the DCAS FISCAM evaluation and focus on the control objectives for input, processing and output. These controls will provide additional coverage for risks related to completeness and validity of interface file output and transmission. All remaining DCAS system testing is expected to be completed by December 31, 2015.

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT DATED 11 FEBRUARY 2015

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“ADDITIONAL ACTIONS NEEDED TO EFFECTIVELY RECONCILE NAVY’S FUND BALANCE WITH TREASURY ACCOUNT”

RECOMMENDATION 3: We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) review and approve current standard operating procedures to ensure the Fund Balance With Treasury reconciliation is completed according to Treasury and DoD policies and reconciliations are tested and proven to be a sustained and repeatable process.

DON RESPONSE: CONCUR. The DON concurs with the recommendation and has identified remediations for the FBWT Standard Operating Procedure (SOP) deficiencies. As of March 2015, the 26 SOPs noted by the DoD IG have been reviewed and disseminated to process owners for refinement. Of the 26 SOP’s, the 11 procedures related to recurring reconciliations have had a complete review. While under the period of audit, and applying lessons learned from the examination, the DON refined and enhanced the procedures used to perform FBWT reconciliations and have subsequently been approved by the Navy’s FBWT program manager. Sustainability for the updated procedures has been demonstrated subsequent to the period reviewed in the audit through execution of these reconciliations for the final three quarters of FY 2014 and the 1st quarter of the Schedule of Budgetary Activities in FY 2015.

The review and approval of the remaining procedures related to the DFAS execution of FBWT business processes that support the end-to-end recording and reporting of FBWT have been completed and documentation will be updated to cite the link to appropriate Treasury and DoD policies. This effort is expected to be completed by April 30, 2015.

RECOMMENDATION 4: We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) design and implement controls within the end-to-end Fund Balance with Treasury business process for resolving amounts reported on the “Statement of Differences– Disbursements”.

DON RESPONSE: CONCUR. The DON concurs with the recommendation and has coordinated with DFAS to document and implement an internal control process to monitor and resolve amounts reported as “Statement of Differences (SOD)– Disbursements” (TFM 2-5100; Report: SOD 512).

As of December 2014, DFAS implemented a monthly SOD – Disbursements reconciliation and control to comply with this recommendation and plans to develop the corresponding process and procedural documentation by March 2015. The identified \$226 million in net differences between Treasury records and Navy’s detailed disbursements has been remediated as of March 2015.

There are two sources for the disbursement differences. The first source of differences is related to disbursing office reporting which will be generated only as long as the applicable disbursing station reports to Treasury on a monthly basis; a process replacement to eliminate the monthly IPAC Treasury reporting requirement is expected to be completed in FY 2015 for the DON and DFAS through Treasury’s daily disbursing initiative. Therefore, as the Disbursing Station Symbol Numbers (DSSNs) which report through DFAS Cleveland transition to daily Treasury reporting, the SOD - Disbursements process will become nearly obsolete for DSSNs relative to the DON.

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

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“ADDITIONAL ACTIONS NEEDED TO EFFECTIVELY RECONCILE NAVY’S FUND BALANCE WITH TREASURY ACCOUNT”

The second source of SOD - Disbursements variances are Automated Standard Application (ASAP) for Payment Letters of Credit payments. Through continued development of Government-Wide Accounting (GWA) modernization, the ASAP Letters of Credit payments will no longer impact the Navy’s SOD report, as differences will be monitored by Treasury. DFAS-CL, on behalf of the DON, will maintain the control until all reported variances have been remediated and the aforementioned process replacements are fully implemented. Following implementation, the DFAS-CL will continue to monitor the report for variances.

Acronyms and Abbreviations

| | |
|----------------------|--|
| ASN(FM&C) | Assistant Secretary of the Navy (Financial Management and Comptroller) |
| BAM | Business Activity Monitoring |
| DCAS | Defense Cash Accountability System |
| DDRS | Defense Departmental Reporting System |
| DDRS-AFS | Defense Departmental Reporting System –Audited Financial Statements |
| DDRS-B | Defense Departmental Reporting System –Budgetary |
| DON | Department of the Navy |
| FBWT | Fund Balance With Treasury |
| FISCAM | Federal Information System Controls Audit Manual |
| FMO | Office of Financial Operations |
| GAO | Government Accountability Office |
| PBIS | Program Budget Information System |
| SBR | Statement of Budgetary Resources |
| SOP | Standard Operating Procedure |
| STARS | Standard Accounting & Reporting System |
| STARS-FL | Standard Accounting & Reporting System–Field Level |
| STARS-HCM | Standard Accounting & Reporting System–Headquarters Claimant Module |
| USSGL | United States Standard General Ledger |



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