



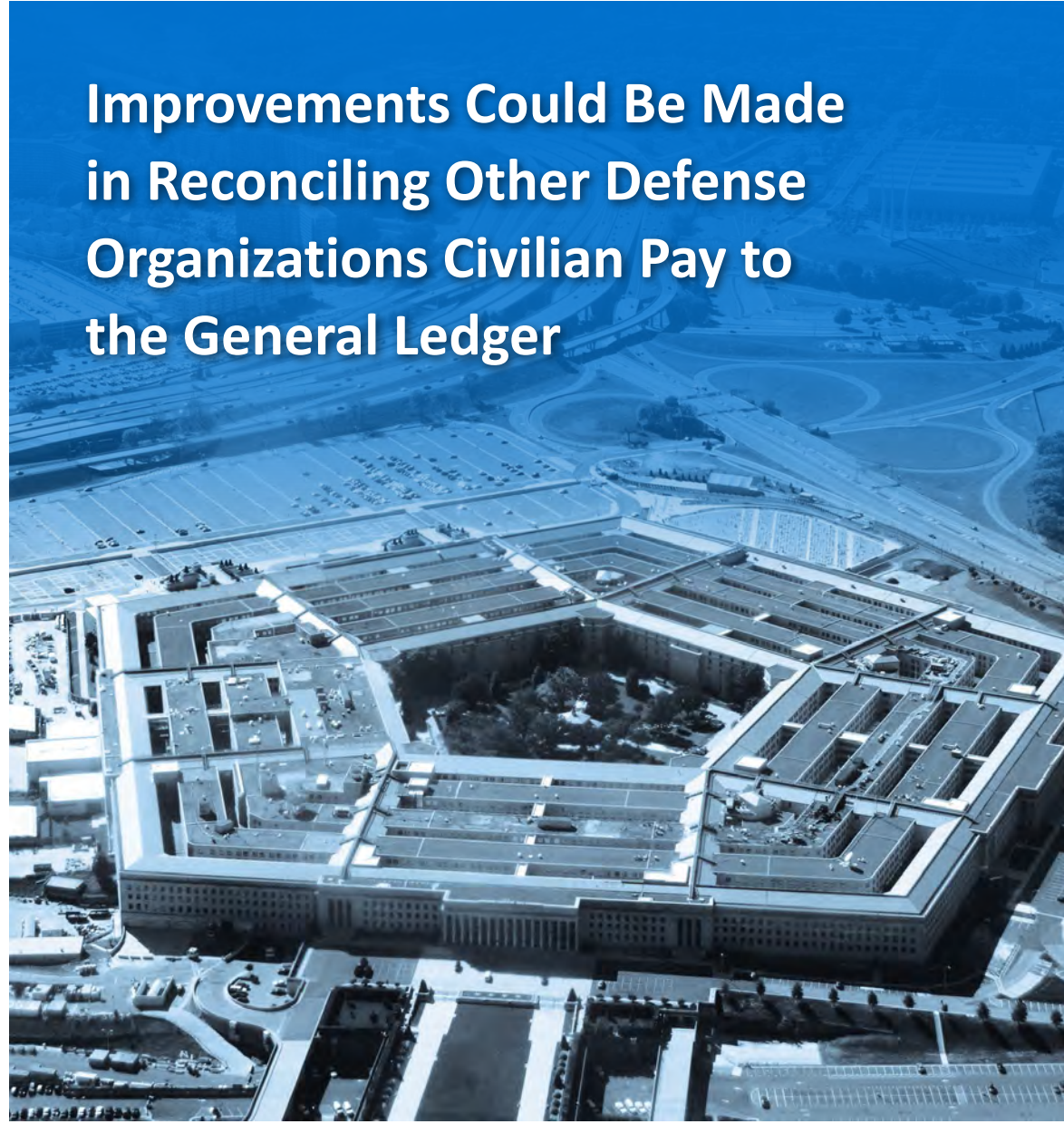
# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 25, 2016



## Improvements Could Be Made in Reconciling Other Defense Organizations Civilian Pay to the General Ledger



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# Results in Brief

## *Improvements Could Be Made in Reconciling Other Defense Organizations Civilian Pay to the General Ledger*

March 25, 2016

### Objective

We determined whether selected Other Defense Organizations (ODO) properly reconciled civilian pay reports to their general ledger in FY 2014. This included whether civilian pay was properly accrued and employer contributions were recorded.

### Finding

Defense Finance and Accounting Service (DFAS) properly performed civilian pay reconciliations to the general ledger for 18 of 33 ODOs totaling \$6.6 billion of \$11.1 billion in civilian pay. In addition, DFAS properly accrued civilian pay for the 12 ODOs that used the Defense Agencies Initiative or the Defense Business Management System general ledgers. Furthermore, DFAS Agency-wide Audited Financial Statement team properly calculated employer contributions for 28 of the 33 ODOs. However, DoD officials did not reconcile civilian pay records or review reconciliations to the general ledger for 15 of the 33 ODOs reviewed, which totaled \$4.5 billion of the approximate \$11.1 billion of the civilian pay amount. Specifically:

- DFAS Indianapolis, DFAS Columbus, or ODO officials did not reconcile civilian pay records for 8 of 33 ODOs reviewed, totaling \$2.3 billion; and
- DFAS Indianapolis did not review the reconciliations performed by 7 of 33 ODOs reviewed, totaling \$2.2 billion, to ensure that the reconciliations were accurate and supported by transaction detail.

### Finding (cont'd)

In addition, DFAS Indianapolis officials could not identify a complete universe of ODOs that paid civilian employees with general funds.

This occurred because DFAS did not have a formal plan to reconcile civilian pay for ODOs that paid civilians with general funds. In addition, DFAS Indianapolis did not have a process narrative, process map, or adequate standard operating procedures on the civilian pay reconciliation process. Additionally, the reconciliation of ODO's civilian pay was decentralized within DFAS.

ODOs civilian pay represented 5.85 percent of the FY 2014 DoD Combined Statement of Budgetary Resources for ODO General Funds. If DFAS cannot identify a complete universe of ODOs that paid civilian employees with general funds and does not have a plan to reconcile or review that civilian pay reconciliations are performed for the 15 ODOs that remain, DoD may not achieve audit readiness by the statutory deadline of September 30, 2017. Furthermore, if civilian pay reconciliations for ODOs are not performed on a regular basis, significant testing and larger sample sizes will be required in future audits at an excessive amount of time and cost.

### Recommendations

We recommend that the Director, DFAS Indianapolis identify the universe of ODOs. In addition, we recommend the DFAS Directors at Indianapolis and Columbus develop a formal plan to reconcile or review the civilian pay reconciliations for the remaining 15 ODOs. The Director, DFAS Indianapolis should develop a process map and process narrative, and prepare standard operating procedures that clearly describe the civilian pay reconciliation process. The Director should also centralize the ODOs civilian pay reconciliation process, and coordinate with the Financial Improvement Audit Readiness Directorate to ensure there is an accurate assessment of the audit readiness of the ODO General Fund financial statements.



# Results in Brief

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## *Improvements Could Be Made in Reconciling Other Defense Organizations Civilian Pay to the General Ledger*

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

The Director, Enterprise Solutions and Standards concurred with all the recommendations and addressed the specifics of the recommendations except for Recommendations 1.b.(1), and 1.b.(2). We request that the Director provide additional comments on Recommendations 1.b.(1), and 1.b.(2) by April 25, 2016. Please see the Recommendations Table on the following page.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Defense Finance and Accounting Service Indianapolis Director	1.b.(1), 1.b.(2)	1.a., 1.c., 1.d.(1), 1.d.(2), 1.d.(3), 1.d.(4), 1.e., and 1.f.
Defense Finance and Accounting Service Columbus Director	None	2.a.(1), and 2.a.(2)





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

March 25, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTRROLLER)/  
CHIEF FINANCIAL OFFICER, DOD  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Improvements Could Be Made in Reconciling Other Defense Organizations Civilian  
Pay to the General Ledger (Report No. DODIG-2016-066)

We are providing this report for review and comment. DoD officials did not reconcile civilian pay records or review reconciliations to the general ledger for 15 of the 33 Other Defense Organizations (ODOs) reviewed, which totaled \$4.5 billion of the approximate \$11.1 billion of the civilian pay amount. ODOs civilian pay represented 5.85 percent of the FY 2014 DoD Combined Statement of Budgetary Resources for ODO General Funds. If civilian pay reconciliations for ODOs are not performed on a regular basis, significant testing and larger sample sizes will be required in future audits at an excessive amount of time and cost. 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. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Director, Enterprise Solutions and Standards, responding for the DFAS Directors at Indianapolis and Columbus, addressed all the specifics of Recommendation 1.a., 1.c., 1.d.(1), 1.d.(2), 1.d.(3), 1.d.(4), 1.e., 1.f., 2.a.(1), and 2.a.(2) and conformed to the requirements of DoD Instruction 7650.03. However, the Director's comments did not address the specifics of Recommendations 1.b.(1), and 1.b.(2). We request additional comments on Recommendations 1.b.(1), and 1.b.(2) by April 25, 2016.

Please send a PDF file containing your comments to [audfmr@dodig.mil](mailto:audfmr@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/symbol in place of the actual signature.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

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 selected Other Defense Organizations (ODOs)<sup>1</sup> properly reconciled civilian pay reports to their general ledger in FY 2014. This included whether civilian pay was properly accrued and employer contributions were recorded for ODOs because these processes are used to record civilian pay in the general ledger, which support the financial statements. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

## Background

DoD paid approximately \$73.8 billion<sup>2</sup> to 754,000 civilian employees in 2014. Table 1 below shows the biweekly gross pay amount for DoD Components, which include both general funds and working capital funds.

*Table 1. Biweekly Gross Pay Amount for DoD Components*

Component	Gross Pay* (in millions)	Percent of Total
Army	\$616	22
Navy	444	15
Air Force	480	17
Corps of Engineers	134	5
ODOs	1,164	41
<b>Total</b>	<b>\$2,838</b>	<b>100</b>

\* Amounts from the Defense Civilian Payroll System for the pay period ending August 23, 2014.

We identified 33 ODOs that paid civilian employees with general funds. See Appendix B for a list of the 33 ODOs. These 33 ODOs paid approximately \$11.1 billion<sup>3</sup> in civilian pay in 2014. These 33 ODOs civilian pay represented 5.85 percent of the FY 2014 DoD Combined Statement of Budgetary Resources for ODO General Funds.

The civilian payroll process begins when an employee enters time and attendance information into a time and attendance system such as the Automated Time Attendance and Production System. Supervisors review the information to ensure

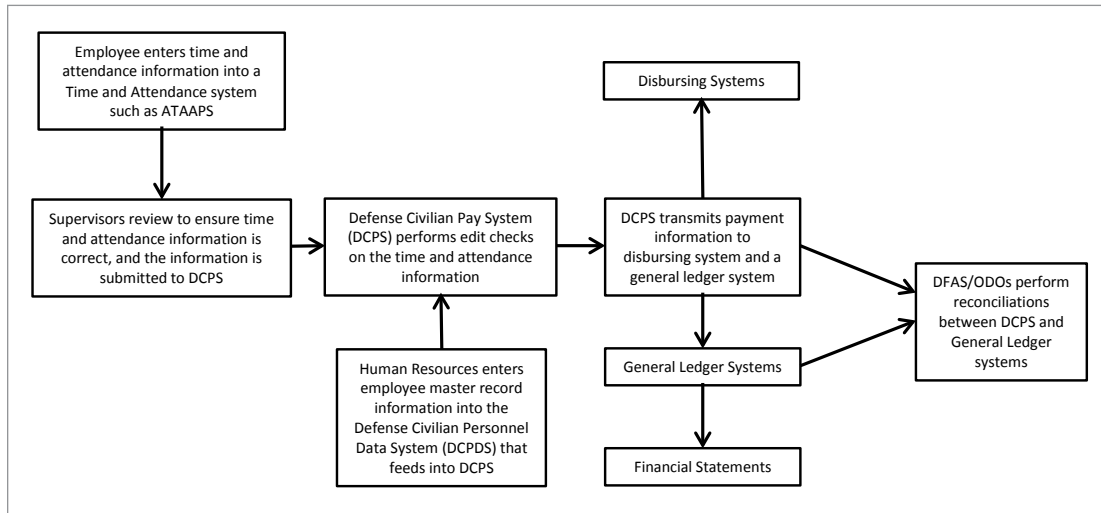
<sup>1</sup> ODOs include Defense Agencies, Defense-wide appropriations/programs, and trust funds.

<sup>2</sup> We used the gross pay amount of \$2.8 billion from the pay period ending August 23, 2014, to determine the approximate gross pay amount for 2014. We calculated the 2014 civilian pay because DFAS does not prepare an annual report that summarizes civilian pay by DoD component.

<sup>3</sup> We determined the 33 ODOs approximate gross pay amount for 2014 by multiplying the gross pay amount of \$428.7 million from the pay period ending August 23, 2014, by 26 pay periods.

that time and attendance information is correct. If the information is correct, the information is submitted to a pay system. The Defense Finance and Accounting Service (DFAS) uses the Defense Civilian Pay System (DCPS)<sup>4</sup> to process the biweekly civilian pay. DCPS validates the time and attendance information and transmits payment information to the disbursing system and a general ledger system. See Figure below for a complete illustration of the civilian pay process.

*Figure. The Civilian Pay Process*



Source: DoD OIG

DFAS<sup>5</sup> or the ODOs reconcile the DCPS gross pay file to the ODOs general ledger system. In addition, DFAS general ledger systems accrues payroll biweekly or monthly. Specifically, at DFAS Indianapolis, the Defense Agencies Initiative (DAI) general ledger system, automatically reverses the last pay period's accrual entry every pay period and then makes an accrual entry for the remainder of the month. At DFAS Columbus, the Defense Business Management System (DBMS) general ledger system automatically reverses the prior months' accrual entry and then makes an accrual entry at the end of the month for the remaining days in the month. Furthermore, a separate process is performed to properly report employer contributions for health insurance, life insurance, and retirement quarterly. The DFAS Agency-wide Audited Financial Statements (AFS) team extracts DCPS payroll data, calculates the employer contribution amount, and sends the information to Departmental Reporting accountants at both DFAS Indianapolis and DFAS Columbus for inclusion in the quarterly financial statements.

<sup>4</sup> DCPS is a pay processing system used to pay DoD civilian employees, as well as employees at several other Federal entities, including the Broadcasting Board of Governors, the Executive Office of the President, the Department of Energy, the Department of Veterans Affairs, and the Human and Health Services Department.

<sup>5</sup> Throughout the remainder of the report, DFAS refers to both DFAS Indianapolis and DFAS Columbus.

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSDC)/CFO Financial Improvement Audit Readiness (FIAR) Directorate directed reporting entities to focus their financial improvement efforts on the Statement of Budgetary Resources.<sup>6</sup> One of the entities' first actions was to determine the processes and systems that generate material auditable amounts (assessable units). The FIAR Directorate identified civilian pay as an assessable unit in its May 2010 FIAR Status Report.

FIAR staff performed a "mock audit"<sup>7</sup> of U.S. Treasury Index 97<sup>8</sup> civilian pay and issued a report on December 3, 2013. As part of that mock audit, FIAR staff reviewed reconciliations between the DCPS gross pay amounts and ODOs' general ledgers to ensure that all DCPS civilian pay expenditures were recorded in the general ledgers. FIAR staff found that 24 of the 25 sampled ODOs' reconciliations were not clearly documented, and that this condition prevented management from having assurance that DCPS civilian pay expenditures were being completely and accurately recorded in the ODOs' general ledgers. Additionally, FIAR staff reported that they had difficulty in understanding the reconciliations without significant knowledge of the processes performed. After the FIAR "mock audit", many ODOs took corrective action and either began performing civilian pay reconciliations or asserted that their civilian pay assessable units were audit ready. The Missile Defense Agency (MDA) and the Defense Contract Management Agency (DCMA) were among those ODOs that asserted their civilian pay assessable units were audit ready.

## Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses related to DFAS not reconciling civilian pay records or reviewing reconciliations for some ODOs. In addition, we identified internal control weaknesses in which DFAS Indianapolis officials could not provide a universe of ODOs. We will provide a copy of the report to the senior official responsible for internal controls at DFAS.

<sup>6</sup> The FIAR Directorate's November 2013 FIAR Guidance and FIAR Plan Status Report both state the date for achieving audit readiness for the Statements of Budgetary Resources General Fund is September 30, 2014.

<sup>7</sup> A "mock audit" is a review performed by FIAR Directorate staff using audit-like procedures and programs to help ODOs understand what independent audits or examinations will entail.

<sup>8</sup> ODOs are included in U.S Treasury Index 97, an aggregate account that does not provide identification of the separate ODOs sharing the U.S. Treasury account.

## Finding

### Improvements Could Be Made in Reconciling Other Defense Organizations Civilian Pay to the General Ledger

DFAS properly performed civilian pay reconciliations to the general ledger for 18 of the 33<sup>9</sup> ODOs that totaled \$6.6 billion of \$11.1 billion<sup>10</sup> in civilian pay. DFAS also properly accrued civilian pay for the 12 ODOs that use the DAI or the DBMS general ledger systems.<sup>11</sup> In addition, the DFAS Agency-wide AFS team properly calculated employer contributions for 28 of the 33 ODOs.

However, DFAS and ODO officials did not reconcile civilian pay records or review reconciliations to the general ledger for 15 of the 33 ODOs reviewed, which totaled \$4.5 billion of the approximate \$11.1 billion of the civilian pay amount. Specifically, DFAS Indianapolis, DFAS Columbus, or ODO officials did not reconcile civilian pay records for 8 of 33 ODOs reviewed, totaling \$2.3 billion. DFAS Indianapolis also did not review the reconciliations performed by 7 of 33 ODOs reviewed, totaling \$2.2 billion, to ensure that the reconciliations were accurate and supported by transaction detail. In addition, DFAS Indianapolis officials could not identify a complete universe of ODOs that paid civilian employees with general funds.

This occurred because DFAS did not have a formal plan to reconcile or review civilian pay reconciliations for ODOs that paid civilians with general funds. In addition, DFAS Indianapolis did not have a process narrative, process map, or adequate standard operating procedures (SOPs) on the civilian pay reconciliation process. Specifically, the SOPs did not identify the DFAS Indianapolis components involved in the reconciliation process, define these component roles and responsibilities, provide the general ledger accounts involved in the reconciliation process, provide adequate procedures to reconcile ODO civilian pay, and provide procedures for checking the payroll accrual calculation. Additionally, the reconciliation of ODO's civilian pay was decentralized within DFAS.

<sup>9</sup> We identified 33 ODOs from the FY 2014 ODO General Fund Consolidated Balance Sheet that paid civilian employees with general funds.

<sup>10</sup> We determined the gross pay amount for these 33 ODOs from DD Form 592, "Payroll for Personal Services Certification and Summary," for the pay period ending August 23, 2014, and then multiplied that amount by 26 pay periods to calculate the annual pay amount of \$11.1 billion.

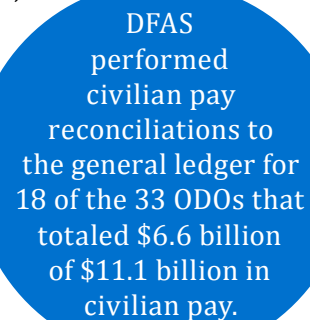
<sup>11</sup> We did not review the accrual process for the remaining 21 ODOs that did not use the DAI or DBMS general ledger systems.

If DFAS cannot identify a complete universe of ODOs that paid civilian employees with general funds and does not have a plan to reconcile or review that civilian pay reconciliations are performed for the 15 ODOs that remain, DoD may not achieve audit readiness by the statutory deadline of September 30, 2017. In addition, the OUSD(C)/CFO FIAR Directorate may not have an accurate assessment on the audit readiness of the ODO financial statements. Furthermore, if ODO civilian pay reconciliations are not performed on a regular basis, significant testing will be required in future audits at an excessive amount of time and cost.

## DFAS Reconciled Civilian Pay for Some ODOs

DFAS performed civilian pay reconciliations to the general ledger for 18 of the 33 ODOs that totaled \$6.6 billion of \$11.1 billion in civilian pay. In addition, DFAS properly accrued MDA and DCMA civilian pay. Furthermore, the DFAS Agency-wide AFS team properly calculated employer contributions.

DFAS Indianapolis performed civilian pay reconciliations for 11 ODOs that totaled \$4.1 billion, and DFAS Columbus performed reconciliations for 7 ODOs that totaled \$2.5 billion. See Appendix C for the list of ODOs in which DFAS performed civilian pay reconciliations.



DFAS performed civilian pay reconciliations to the general ledger for 18 of the 33 ODOs that totaled \$6.6 billion of \$11.1 billion in civilian pay.

At DFAS Indianapolis, we reviewed the civilian pay reconciliation process for MDA and determined that DFAS Indianapolis properly reconciled the MDA gross pay file to the MDA general ledger system.<sup>12</sup> DFAS Indianapolis officials stated that they followed the same civilian pay reconciliation procedures for all the ODOs that used DAI. Therefore, after obtaining and checking the civilian pay reconciliations we concluded that DFAS Indianapolis properly reconciled the civilian pay for the nine ODOs that used the DAI general ledger system. For the two ODOs<sup>13</sup> that did not use the DAI general ledger system, we obtained the civilian pay reconciliations and determined that DFAS Indianapolis personnel performed the reconciliations. We determined the differences for the two ODOs were under 0.01-percent and immaterial.

<sup>12</sup> MDA and eight ODOs used the DAI general ledger system. The ODOs were the Defense Advanced Research Projects Agency; Defense Health Agency—Financial Operations Division; Defense Health Agency—Uniformed Services University of the Health Sciences; Defense Media Activity; Defense Prisoner of War/Missing Persons Office; Defense Threat Reduction Agency; Defense Technology Security Administration; and Office of Economic Adjustment.

<sup>13</sup> The Chemical Biological Defense Program and Service Medical Activity—Army.

At DFAS Columbus, we reviewed the civilian pay reconciliation for DCMA and determined that DFAS Columbus properly reconciled the DCMA gross pay file to the DCMA general ledger system. DCMA and two other ODOs<sup>14</sup> in our sample used the DBMS general ledger system. DFAS Columbus officials stated that they followed the same reconciliation procedures for all the ODOs that use DBMS. Therefore, after obtaining and checking the civilian pay reconciliations we concluded that DFAS Columbus properly reconciled the civilian pay for the three ODOs in our sample that used the DBMS general ledger system. For the remaining four ODOs<sup>15</sup> that did not use the DBMS general ledger system, we obtained the civilian pay reconciliations and determined that DFAS Columbus personnel performed the reconciliations. We determined the amounts were reconciled for three ODOs and for one ODO the difference was under 0.01-percent and immaterial.

### ***DFAS Properly Accrued Civilian Pay***

DFAS Indianapolis properly calculated MDA's civilian pay accrual<sup>16</sup>. Every pay period, DAI automatically reverses the last pay period's payroll accrual and performs an accrual entry for the remaining working days in the month. The payroll accrual was calculated by dividing the payroll amounts from the most recent pay period by 10 days (the number of working days in a pay period) to obtain the average payroll amount per day. This amount was then multiplied by the number of working days remaining in the month to obtain the payroll accrual.<sup>17</sup>

For the next pay period, the DAI general ledger system reversed the payroll accrual and calculated the new payroll accrual for the remaining working days in the month. We reviewed the MDA reversal entry and the payroll accrual entry for the pay period that ended February 7, 2015. During our review we found a minor difference of \$58,000. The difference occurred due to the delay in the payroll data available to generate the payroll accrual. DFAS Indianapolis used the same accrual and reversal procedures for all ODOs that use the DAI general ledger system. Because this is a recurring process, we concluded that DFAS Indianapolis properly accrued civilian pay for the nine ODOs that used the DAI general ledger system.

DFAS Columbus properly accrued DCMA civilian pay. Specifically, at DFAS Columbus, DBMS calculates a monthly accrual by determining the number of unpaid days remaining in the month and accruing the payroll based on the prior

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<sup>14</sup> The Defense Contract Audit Agency and Defense Human Resources Activity.

<sup>15</sup> The four ODOs were the Defense Information Systems Agency—General Fund; Defense Logistics Agency—General Fund; Defense Security Service; and Defense Technical Information Center.

<sup>16</sup> A payroll accrual is a payroll expense that has been incurred but not yet paid.

<sup>17</sup> The DAI general ledger system accrues estimated payroll expenses for items such as regular pay, sick leave, health benefits, life insurance, and retirement.

biweekly pay period. For the next pay period, DBMS automatically reverses the last pay period's payroll accrual. DFAS Columbus staff then review the accrual amount based on an estimated biweekly salary amount for DCMA to determine if it was reasonable.

We reviewed the DCMA payroll accrual entry for the month of August 2014 and the reversal entry. During our review, we determined that the amounts in the journal vouchers were properly calculated, and the \$605,300 difference (2.69 percent of the \$23.1 million accrual) was within the acceptable tolerance range, as determined by DFAS Columbus SOP. The DFAS Columbus SOP considered any difference within 10 percent as reasonable. Since DBMS is a legacy system and does not provide a break out of the payroll amount used to calculate the accrual<sup>18</sup>, DFAS Columbus staff developed a manual process to estimate what the payroll accrual should be based on the approximate DCMA bi-weekly payroll amounts. If the accrual amount generated by DBMS is within 10 percent of the manual estimate, the DFAS Columbus SOP finds the difference reasonable. Since the accrual amount is a manual estimate, we also consider a difference within 10 percent as reasonable. DFAS Columbus used the same accrual and reversal procedures for all ODOs that use the DBMS general ledger system. Because this is a recurring process, we concluded that DFAS Columbus properly accrued civilian pay for the three ODOs that used the DBMS general ledger system.

Overall, DFAS properly accrued civilian pay for 12 ODOs. Specifically, DFAS Indianapolis properly accrued civilian pay for the nine ODOs that used the DAI general ledger system and DFAS Columbus properly accrued civilian pay for the three ODOs that used the DBMS general ledger system.

### ***DFAS Properly Calculated Employer Contributions***

In consultation with the Office of Personnel Management, DFAS Agency-wide AFS team<sup>19</sup> used quarterly data from DCPS to determine and reconcile the employer's contributions for health insurance, life insurance, and retirement for each ODO. Specifically, DFAS Indianapolis:

- verified the accuracy of the information;
- resolved any variances; and
- sent the employer contribution amounts to the various Departmental Reporting accountants.

<sup>18</sup> The gross pay file amounts include items that are not accrued, such as overtime. Therefore, DFAS Columbus staff can't use the gross pay file amounts to calculate the accrual.

<sup>19</sup> The DFAS Agency-wide AFS Team determines the employer share of employee benefits for each ODO based on payroll files extracted from DCPS.

The Departmental Reporting accountants compared the information they received from DFAS Agency-wide AFS team to their respective ODO trial balance and prepared journal vouchers to adjust their ODO trial balance within the Defense Departmental Reporting System–Budgetary to reflect the Employee Benefits expense for their ODO. We reviewed these procedures and the journal vouchers used for DCMA and MDA, and did not identify any variances. Because this is a recurring process, we concluded the DFAS Agency-wide AFS team properly calculated employer contributions for 28 of the 33 ODOs.<sup>20</sup>

## DoD Did Not Reconcile Civilian Pay Records or Review Reconciliations for Some ODOs

DFAS and ODO officials did not reconcile civilian pay records or review

DFAS and ODO officials did not reconcile civilian pay records or review reconciliations to the general ledger for 15 of the 33 ODOs reviewed that totaled \$4.5 billion of \$11.1 billion of the civilian pay amount.

reconciliations to the general ledger for 15 of the

33 ODOs reviewed that totaled \$4.5 billion of

\$11.1 billion of the civilian pay amount. DoD

Financial Management Regulation (FMR)<sup>21</sup>

states that DFAS needs to have procedures in

place to ensure all general ledger balances

are reconciled with the amounts contained

in the supporting records, including original

source data. In addition, the November 2013

FIAR Guidance<sup>22</sup> requires that civilian pay

reconciliations be performed timely and accurately.

The FIAR Guidance also states that unsuccessful

reconciliation of the general ledger to transaction detail

would prevent entities from demonstrating audit readiness.

DFAS and ODO officials did not reconcile the civilian pay records for 8<sup>23</sup> of 33 ODOs that totaled \$2.3 billion of \$11.1 billion in civilian pay.

Specifically, DFAS Indianapolis did not reconcile<sup>24</sup>:

- DoD Education Activity (DoDEA) - \$1.1 billion
- U.S. Special Operations Command (USSOCOM) (Army) - \$227.9 million
- Defense Acquisition University - \$112.8 million

<sup>20</sup> DFAS's Agency-wide AFS team database calculated employer contributions for 28 of the 33 ODOs.

<sup>21</sup> The specific guidance is DoD FMR Volume 6A, Chapter 2, "Financial Roles and Responsibilities."

<sup>22</sup> The April 2015 FIAR Guidance provides strategy and guidance for achieving audit readiness for a full financial statement audit and does not supersede the November 2013 Guidance.

<sup>23</sup> We determined that USSOCOM has two T1-97 limits - DFAS Indianapolis is responsible for reconciling USSOCOM's Army limit, and DFAS Columbus is responsible for reconciling USSOCOM's Air Force limit; however, we count them as only one ODO.

<sup>24</sup> DFAS representatives stated they would start performing civilian pay reconciliations for DoDEA and Defense Acquisition University in November 2015. However, as of January 7, 2016, these reconciliations have not been completed.



- National Defense University (NDU) - \$64.6 million
- Defense Security Cooperation Agency - \$49.8 million
- Defense Legal Service Agency - \$37.1 million
- Defense Test Resource Management Center - \$4.4 million

DFAS Columbus did not reconcile:

- Service Medical Activity (SMA)–Air Force - \$446.6 million
- USSOCOM (Air Force) - \$248 million

In addition, DFAS Indianapolis did not review the reconciliations performed by 7 of 33 ODOs that totaled \$2.2 billion of \$11.1 billion in civilian pay to ensure the reconciliations were accurate and supported by transaction detail. DFAS Indianapolis representatives stated that they did not know if anyone within DFAS Indianapolis reviewed the civilian pay reconciliations for these seven ODOs.

Specifically,

- four<sup>25</sup> ODOs, totaling \$1.7 billion in civilian pay, asserted they performed their own civilian pay reconciliations; and
- three<sup>26</sup> ODOs, totaling \$548.8 million in civilian pay, Washington Headquarters Service asserted they performed civilian pay reconciliations for the ODOs.

## DFAS Indianapolis Could Not Identify a Complete Universe of ODOs With Civilian Pay

Of the 33 ODOs with civilian pay, DFAS Indianapolis only provided a list of 13 ODOs that paid civilians with general funds and stated that these ODOs were included in the FY 2014 ODO General Fund Consolidated Balance Sheet. To respond to our data request, DFAS Indianapolis personnel used the DD Form 592<sup>27</sup> to develop the list. The form is a DCPS payroll certification report that is generated on a biweekly basis to show the gross disbursements by appropriation and limit.<sup>28</sup> DFAS Indianapolis personnel used the limits to identify ODOs that had civilian pay. To verify the information, we re-performed DFAS Indianapolis' procedures and identified 33 ODOs that were included in the FY 2014 ODO General Fund Consolidated Balance Sheet,<sup>29</sup> not 13 ODOs as DFAS originally reported. We used the 33 ODOs as the basis of this audit.

<sup>25</sup> The DoD Office of Inspector General; Office of the Chairman of the Joint Chief of Staff; SMA–National Capital Region; and SMA–Navy (U.S. Navy Bureau of Medicine and Surgery).

<sup>26</sup> The Office of the Secretary of Defense; U.S. Court of Appeals of the Armed Forces; and Washington Headquarters Services.

<sup>27</sup> DD Form 592, "Payroll for Personal Services Certification and Summary," September 1970.

<sup>28</sup> The limits are numbers that follow an appropriation and are used to identify ODOs.

<sup>29</sup> Our list identified an additional 20 ODOs (33 minus 13) that were not included on the DFAS Indianapolis list.

## DFAS Did Not Have a Civilian Pay Reconciliation Plan

DFAS did not have a formal plan to identify all the ODOs that paid civilian employees. As discussed above, DFAS Indianapolis personnel generated a list of

In addition, DFAS did not have a formal plan to reconcile civilian pay records or review reconciliations for 15 of the 33 ODOs reviewed.

ODOs, but they did not identify all the ODOs. Specifically, DFAS Indianapolis personnel only identified 13 of the 33 ODOs that paid civilian employees with general funds. In addition, DFAS did not have a formal plan to reconcile civilian pay records or review reconciliations for 15 of the 33 ODOs reviewed. For example, DoDEA representatives stated they would have the capability to reconcile their civilian pay after they migrate to the DAI general ledger system in early FY 2016. However,

DoDEA did not know who would perform its civilian pay reconciliation. DoDEA representatives also stated that they did not discuss the roles and responsibilities on civilian pay reconciliations with DFAS Indianapolis and did not agree on additional services DFAS Indianapolis would provide<sup>30</sup>.

Furthermore, DFAS did not have a formal plan to reconcile all the general ledger accounts involved in the civilian pay reconciliation process. At the time of our audit, DFAS was only reconciling budgetary account 4902, “Delivered Order-Obligations, Paid.” DFAS Indianapolis representatives stated they followed the FIAR Directorate’s guidance by focusing resources on reconciling Net Outlays, which were reported on the Statement of Budgetary Resources. DFAS Indianapolis representatives stated that they would reconcile all the other general ledger accounts<sup>31</sup> involved in the civilian pay process in the future, but have no formal plan for reconciling these other general ledger accounts. DFAS Columbus representatives stated that since DBMS was a legacy system, they did not have the capability to reconcile any other general ledger accounts, and they did not have plans to reconcile other general ledger accounts at this time. The DFAS Indianapolis Director should identify the universe of ODOs that pay civilian employees with general funds. The DFAS Indianapolis and DFAS Columbus Directors should develop a formal plan to reconcile or review civilian pay reconciliations for the remaining 15 ODOs. The plan should include a time line for starting the civilian pay reconciliations, and define the roles and responsibilities of DFAS and the ODOs.

<sup>30</sup> DFAS representatives stated they would start performing civilian pay reconciliations for DoDEA and Defense Acquisition University in November 2015. However, as of January 7, 2016, these reconciliations have not been completed.

<sup>31</sup> Other accounts include U.S. Standard General Ledger Account (USSGL) 2213—Employer Contributions and Payroll Taxes Payable, USSGL 6100—Operating Expenses/Program Cost, and USSGL 6400—Benefit Expense.

## DFAS Indianapolis Did Not Have Adequate Processes and Procedures

DFAS Indianapolis personnel did not have a process narrative, process map, or adequate SOPs on their civilian pay reconciliation processes. DFAS policy<sup>32</sup> requires the creation of a “process narrative” and “process map.”

- Process narrative:
  - breaks down processes into individual, granular control activities, focusing on identifying controls within those activities; and
  - provides a basis for the graphic representation of a process map.
- Process map:
  - uses a flowchart of a process, depicting inputs, activities, and output processes; and
  - visualizes a function, understanding associated workflow events and communications within the DFAS business environment.

In addition, the DoD FMR requires DFAS to have procedures in place to ensure all general ledger balances are reconciled with the amounts contained in the supporting records, including original source data. Specifically, the SOPs did not:

- identify the DFAS Indianapolis components involved in the reconciliation process;
- define these components roles and responsibilities;
- provide the general ledger accounts involved in the reconciliation process;
- provide adequate procedures for reconciling ODO civilian pay; and
- procedures for checking the payroll accrual calculation.

For example, the SOPs did not identify the DFAS Indianapolis components responsible for reconciling ODOs civilian pay and calculating and reviewing the ODOs payroll accrual and employer contributions. Adequate SOPs would assist DFAS management in determining whether the ODOs civilian pay assessable unit is audit ready.

DFAS Indianapolis SOPs did not define the roles and responsibilities of each ODO they serviced and DFAS Indianapolis components involved in the civilian pay reconciliation process. For example, NDU stated that it is was not aware of a requirement

The SOPs did not identify the DFAS Indianapolis components responsible for reconciling ODOs civilian pay and calculating and reviewing the ODOs payroll accrual and employer contributions.

<sup>32</sup> DFAS, “Managers’ Internal Control Program Policy,” October 30, 2012.

to perform civilian pay reconciliations, and DFAS Indianapolis representatives stated that the reconciliation of NDU's civilian pay was the responsibility of the Joint Chief of Staff. However, Joint Chief of Staff officials stated that they did not reconcile and were not responsible for reconciling NDU's civilian pay. As a result, the civilian pay reconciliation for NDU was not performed.

Based on the Mission Work Agreement between DFAS Indianapolis and NDU, we determined that DFAS Indianapolis was required to perform civilian pay reconciliation for NDU. Adequate SOPs would have identified that DFAS Indianapolis was required to perform civilian pay reconciliation for NDU.

In addition, the DFAS Indianapolis SOPs did not include all the budgetary and proprietary general ledger accounts used to prepare the ODOs civilian payroll journal entry. For example, the SOPs mentioned account, 4902-Delivered Orders/Obligations, Paid, but it did not provide a description of this account or why this account was the only account being reconciled. The SOPs also did not mention other important civilian payroll accounts, such as:

- 4610 Allotments/Realized Resources,
- 4901 Delivered Orders /Obligations, Unpaid,
- 2210 Accrued Funded Payroll and Leave, and
- 6100 Operating Expenses/Program Costs.

SOPs should include the general ledger accounts that were used to record civilian pay to demonstrate compliance with the Department of Treasury's accounting requirements or explain why they were not used. For example, when asked why civilian payroll accruals were not performed for U.S. Standard General Ledger (USSGL) 2213, DFAS Indianapolis explained that DAI could not record a journal entry to this account. DFAS Indianapolis provided us with a System Change Proposal dated April 17, 2014, which proposed a system change to DAI to permit journal entries to USSGL 2213 that was implemented in October 2015. However, DFAS Indianapolis should not have allowed a System Change Proposal to be delayed in the "evaluation stage" for over 17 months because DAI has been designated as the general ledger system for many ODOs. In addition, the FIAR Directorate has mandated that ODOs be audit ready and DAI is critical to achieving ODO audit readiness for the civilian pay assessable unit.

Further, the DFAS Indianapolis SOPs did not provide adequate procedures to reconcile ODO civilian pay. For example, the SOPs were not always clear and required a significant amount of additional explanations by DFAS personnel. In

addition, the SOPs did not discuss how DFAS Indianapolis calculated the ODOs payroll accrual or how it was reconciled. Furthermore, as discussed above, we identified a \$58,000 difference of the \$20.7 million accrual when we recalculated the payroll accrual, which DFAS Indianapolis could not explain. Specifically, DFAS Indianapolis personnel could not explain the difference and stated that they were not aware of this difference because they did not test the accuracy of the payroll accrual calculation<sup>33</sup>. The SOP should have discussed the reconciliation of the payroll accrual and described how to address any differences in the recalculation of the payroll accrual. As a result, IPAs may spend significant resources to understand the ODOs civilian pay reconciliation processes. The DFAS Indianapolis Director should develop a process narrative and process map of the civilian pay reconciliation process and disseminate to personnel involved in civilian pay at DFAS and ODOs. The Director should also revise the SOPs to include the components involved in the reconciliation process, the components roles and responsibilities, the general ledger accounts involved in the reconciliation process, and procedures for checking the payroll accrual calculation.

## **DFAS Civilian Pay Reconciliations Process Was Decentralized**

The reconciliation of ODO's civilian pay was decentralized between and within DFAS Service Centers. Civilian pay reconciliations were performed at DFAS Indianapolis and DFAS Columbus and by different components within DFAS Indianapolis. For example, the DFAS Indianapolis Audit Assertion Team performed the civilian pay reconciliations for the nine ODOs it serviced. A different group, the DFAS Agency-wide AFS team, calculated and verified the accuracy of the employer contribution for health insurance, life insurance, and retirement for all ODOs. At DFAS Columbus, the Accounts Maintenance and Control team performed the civilian pay reconciliations for the seven ODOs it serviced. During our site visits to DFAS Indianapolis and DFAS Columbus, representatives from both DFAS Service Centers were not aware that the DFAS Agency-wide AFS team calculated the ODOs' share of the employer contribution for health insurance, life insurance, and retirement. In addition, seven ODOs performed their own civilian pay reconciliations and DFAS Indianapolis did not review these reconciliations as required by the DoD FMR. After several attempts, DFAS Indianapolis personnel confirmed that they did not receive and review these seven ODOs civilian pay reconciliations.

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<sup>33</sup> We received an explanation for the difference from the DAI program management office.

This inefficient and decentralized process could have a significant impact on the ODOs' audit readiness. If DFAS could not clearly describe their civilian pay reconciliation processes for ODOs, Independent Public Accountants (IPAs) may conclude when they perform the ODOs financial statements audits that comprehensive civilian pay reconciliations were not being performed. As a result, IPAs may spend significant resources to understand the ODOs civilian pay reconciliation processes. The DFAS Indianapolis Director should consider centralizing the civilian pay reconciliation processes.

## DoD and ODOs May Not Achieve Audit Readiness

The FIAR Directorate states civilian pay is an assessable unit. Our universe of ODOs civilian payroll represented 5.85 percent of the gross outlays (disbursements) of \$190.5 billion on the FY 2014 DoD Combined Statement of Budgetary Resources for ODO General Funds.

However, a material portion of the civilian pay assessable unit for ODO general funds may not be audit ready because:

- DFAS did not reconcile civilian pay records for 8 of 33 ODOs that totaled \$2.3 billion of \$11.1 billion in civilian pay; and
- DFAS Indianapolis did not review reconciliations performed by 7 of 33 ODOs totaling \$2.2 billion of \$11.1 billion in civilian pay.

If ODO civilian pay reconciliations are not performed on a regular basis, significant testing and larger sample sizes will be required in future audits at an excessive amount of time and cost. In addition, without adequate SOPs or a centralized civilian pay reconciliation process, ODO's financial statement audits will require more time and resources to explain processes and larger sample sizes. DFAS needs to reconcile civilian pay records and develop adequate SOPs for DoD to achieve audit readiness for all financial statements by September 30, 2017. The DFAS Indianapolis Director should coordinate with the FIAR Directorate to ensure they have an accurate assessment of the audit readiness of the ODO General Fund financial statement.

If ODO civilian pay reconciliations are not performed on a regular basis, significant testing and larger sample sizes will be required in future audits at an excessive amount of time and cost.

## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

**We recommend that the Defense Finance and Accounting Service Indianapolis, Director:**

- a. Identify the universe of Other Defense Organizations that pay civilian employees with general funds.**

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

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Indianapolis, Director, agreed, stating that DFAS Indianapolis is supporting the Deputy Chief Financial Officer/Deputy Chief Information Officer (DCFO/DCIO) Big Data Platform Initiative. This initiative will obtain and reconcile data from all financial management systems within DoD including civilian payroll reconciliations for all ODOs that use TI-97 general funds. However, since this is a long-term initiative, DFAS will manually identify ODO civilian customers through a data call. Completion date is June 30, 2016.

#### *Our Response*

Comments from the Director addressed all the specifics of the recommendation, and no further comments are required.

- b. Develop a formal plan to reconcile civilian pay records or review reconciliations for the 14 of 15 of the remaining Other Defense Organizations they service. At a minimum, the plan should:**
  - (1) provide a time line for starting these civilian pay reconciliations, and**
  - (2) define the roles and responsibilities of Defense Finance and Accounting Service Indianapolis and the Other Defense Organizations.**

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

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Indianapolis, Director, agreed, stating that DFAS Indianapolis is supporting the DCFO/DCIO Big Data Platform Initiative. This initiative will obtain and reconcile data from all financial management systems within DoD including civilian payroll reconciliations for all ODOs that use TI-97 general funds. However, since this is a long-term initiative, DoD will continue to reconcile civilian payroll for current and future ODOs that use the DAI or DBMS general ledger systems. Completion date is September 30, 2017.

### *Our Response*

Comments from the Director did not address all specifics of the recommendation. The Director did not discuss DFAS Indianapolis plans to reconcile the civilian pay records for those ODOs that currently do not use or do not plan to use the DAI or DBMS general ledger systems. In addition, the Director did not discuss whether DFAS Indianapolis will define roles and responsibilities of DFAS and the ODOs. Therefore, we request that the Director provide additional comments in response to the final report identifying a specific plan to reconcile civilian pay records for those ODOs that currently do not use or do not plan to use the DAI or the DBS general ledger systems, and define roles and responsibilities of DFAS and the ODOs.

- c. Develop a Process Narrative and Process Map of the civilian pay reconciliation process and disseminate to personnel involved in civilian pay at the Defense Finance and Accounting Service and Other Defense Organizations.**

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

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Indianapolis, Director, agreed, stating that DFAS will develop a process map and narrative for existing civilian pay reconciliations and will disseminate to personnel informed in civilian pay at DFAS and ODOs. Completion date is June 30, 2016.

### *Our Response*

Comments from the Director addressed all the specifics of the recommendation, and no further comments are required.

- d. Revise existing Standard Operating Procedures to clearly describe the civilian pay reconciliation process. At a minimum, the Standard Operating Procedure should:**
  - (1) identify all the components involved in the reconciliation process,**
  - (2) define the roles and responsibilities of components involved in the Other Defense Organizations civilian pay reconciliations,**
  - (3) provide the general ledger accounts (budgetary and proprietary) that are used in the reconciliation processes, and**
  - (4) establish procedures to check the accuracy of the system generated payroll accrual entry in the Defense Agency Initiatives general ledger system.**



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

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Indianapolis, Director, agreed, stating that DFAS will expand its existing SOP to include the identification of all the components involved in the reconciliation process; define roles and responsibilities of all the components involved in the ODOs civilian pay reconciliations; provide the general ledger accounts used in the reconciliation process; and establish procedures to check the accuracy of the system generated payroll accrual entry in the DAI general ledger system. Completion date is June 30, 2016.

### *Our Response*

Comments from the Director addressed the specifics of the recommendation, and no further comments are required.

- e. Centralize the Other Defense Organizations civilian payroll reconciliations processes.**

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

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Indianapolis, Director, agreed, stating that DFAS Indianapolis is supporting the DCFO/DCIO Big Data Platform initiative. This initiative will obtain and reconcile data from all financial management systems within DoD including civilian payroll reconciliations for all ODOs that use TI-97 general funds. Completion date is September 30, 2017.

### *Our Response*

Comments from the Director addressed the specifics of the recommendation, and no further comments are required.

- f. Coordinate with the Financial Improvement and Audit Readiness Directorate to ensure they have an accurate assessment of the audit readiness of the Other Defense Organizations General Fund financial statements.**

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

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Indianapolis, Director, agreed, stating that DFAS engages the FIAR Directorate on many audit readiness initiatives impacting DoD and the ODOs General Fund financial statement, on a daily basis. The Director also stated that in August 2015, DFAS created a TI-97 Project Management Office within DFAS Corporate Audit Readiness to provide dedicated support to TI-97 audit readiness issues.

*Our Response*

Comments from the Director addressed the specifics of the recommendation, and no further comments are required.

**Recommendation 2**

**We recommend that the Defense Finance and Accounting Service Columbus, Director:**

- a. **develop a formal plan to reconcile civilian pay records or review reconciliations for 2 of 15 of the remaining Other Defense Organizations they service. At a minimum, the plan should:**
  - (1) provide a time line for starting these civilian pay reconciliations, and**
  - (2) define the roles and responsibilities of Defense Finance and Accounting Service Columbus and the Other Defense Organizations.**

*Defense Finance and Accounting Service–Columbus Comments*

The Director, Enterprise Solutions and Standards, responding for the Defense Finance and Accounting Service Columbus, Director, agreed, stating that DFAS Columbus has a higher level civilian payroll reconciliation and will perform a reconciliation for U.S. Special Operations Command and Service Medical Activity–Air Force. Once reconciliations are completed DFAS Columbus will forward them to the customers to acknowledge. Completion date is August 15, 2016.

*Our Response*

Comments from the Director addressed the specifics of the recommendation, and no further comments are required.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from November 2014 through February 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit focused on the reconciliation of civilian pay between DCPS civilian pay reports and ODOs general ledgers. We did not examine the processes used to prepare DCPS civilian pay reports. Our audit also focused on whether civilian pay was properly accrued for the ODOs selected for review and whether employer contributions were recorded for ODOs.

We used DCPS pay data from the pay period ending March 8, 2014, to calculate the gross pay for 33 ODOs in the DCPS ODO payroll data file. We then used this data to determine the ODOs percentage of the total ODOs civilian pay amount. We then selected the three ODOs with the largest percentage that:

- asserted audit readiness for their civilian pay assessable unit;
- did not have a financial statement audit in FY2014;
- did not have classified payroll information; and
- paid their employees using general funds.

Based on our criteria, we selected the following ODOs to determine whether their civilian pay was reconciled to their general ledger, civilian pay was properly accrued, and employer contributions were recorded: DCMA, DoDEA, and MDA. However, during our entrance conference with DoDEA, we were informed that DoDEA did not assert audit readiness for their civilian pay assessable unit and did not reconcile its civilian pay records. Therefore, we did not perform any additional work with DoDEA. We informed the FIAR Directorate and they corrected their latest status report.

To determine whether DFAS properly accrued civilian pay for the ODOs, we performed a detailed review of the accrual and reversal process for the DAI and DBMS general ledger systems, which are the general ledger systems used by MDA and DCMA, respectively. Since the accrual and reversal process is a repeatable process, we were able to make conclusions on the other ODOs that use the DAI or the DBMS general ledger systems. We did not review the processes used by other

legacy general ledger systems because almost all of the ODOs will be migrating to the DAI general ledger system. In addition, to determine whether DFAS properly recorded employer contributions, we verified the process used by DFAS to record employer contributions for MDA and DCMA. Since they use the same process for 28 of the 33 ODOs, we were able to make conclusions on these other ODOs.

We obtained and reviewed copies of the following documentation related to DFAS Columbus and DFAS Indianapolis ODOs civilian pay reconciliation processes.

- organizational charts;
- civilian pay flowcharts;
- SOPs for reconciling civilian pay; and
- Mission Work Agreements with DCMA and MDA.

We reviewed civilian pay reconciliation documentation against applicable criteria including:

- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 6A, chapter 2, “Financial Roles and Responsibilities;”
- DFAS Manual 5100.8-M, “DFAS Accounting Operations’ Mission and Functions,” December 16, 2009;
- November 2013 FIAR Guidance;
- Department of Treasury Financial Manual;
- GAO, “Standards for Internal Control in the Federal Government,” November 1999; and
- OMB Circular No. A-136, “Financial Reporting Requirements,” September 18, 2014.

We visited DFAS Columbus and DFAS Indianapolis to review the civilian pay reconciliations for DCMA and MDA respectively. At DFAS Columbus, we interviewed the following personnel who were involved in the ODOs civilian pay reconciliation process:

- Audit Readiness;
- Department 97 Reconciliation and Reporting Tool Team;
- Accounts Maintenance and Control;
- Accounts Payable; and
- Departmental Reporting.

At DFAS Indianapolis, we interviewed personnel from:

- Agency-Wide Audited Financial Statement Reporting and Analysis;
- Defense Agencies Client Executive Liaison;
- Accounts Maintenance and Control;
- ODO Audit Assertion Team; and
- Systems Support Team.

At DFAS Columbus and DFAS Indianapolis, we conducted walkthroughs of the ODO civilian pay reconciliation process to understand the process and procedures. We then observed DFAS Columbus and DFAS Indianapolis re-performance of DCMA's and MDA's August 2014 civilian pay reconciliations, respectively. We also re-performed DFAS Columbus and DFAS Indianapolis DCMA and MDA civilian pay reconciliations for the pay period ending May 17, 2014.

We used the DD Form 592 generated from DCPS and the FY 2014 ODOs General Funds Consolidating Balance Sheet to identify the 33 ODOs that paid civilians with general funds. We then determined whether DFAS Columbus or DFAS Indianapolis reconciled ODOs civilian pay records to their general ledger for the ODOs they service. In addition, we submitted a data call to these ODOs to determine whether they reconciled their civilian pay records to their general ledger. For those ODOs that had civilian pay reconciliations performed, we obtained their August 2014 civilian pay reconciliation to confirm reconciliations were conducted.

We also met with representatives from the FIAR Directorate to understand their role in reviewing ODOs audit readiness assertions for their civilian pay assessable unit.

## Use of Computer-Processed Data

We used computer processed data from DCPS to calculate the annual gross pay for 33 ODOs that paid their civilians with general funds. We also used data from DCPS to confirm the accuracy of DFAS Columbus and DFAS Indianapolis civilian pay reconciliations for DCMA and MDA, respectively. To assess the reliability of the data, we reviewed the Statement on Standards for Attestation Engagements (SSAE) 16 reports for DCPS.<sup>34</sup> DCPS received unmodified opinions for the periods October 1, 2013, through June 30, 2014, and October 1, 2014, through June 30, 2015.

<sup>34</sup> Report on the Defense Finance and Accounting Service Federal Civilian Pay Service's Description of its System Supporting the Delivery of Payroll Processing Service and the Suitability of the Design and Operating Effectiveness of its Controls for the periods from October 1, 2013, through June 30, 2014, and October 1, 2014, through June 30, 2015.

We obtained DCPS data from DFAS and re-performed DFAS Columbus and DFAS Indianapolis civilian pay reconciliations for DCMA and MDA, respectively, for the pay period ending May 17, 2014. Specifically, we reconciled the civilian pay amounts recorded in DCPS to the civilian pay amounts recorded in DBMS and DAI general ledger systems for DCMA and MDA, respectively. We then reconciled these amounts to the Department 97 Reconciliation and Reporting Tool and the Defense Cash Accountability System financial reporting systems. Therefore, we concluded that the data was sufficiently reliable for our purposes.

## Prior Coverage

During the past 5 years, the Department of Defense Office of Inspector General (DoD IG), DFAS, and DLA issued nine reports relevant to reconciling civilian pay. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfmm>. We obtained the DFAS and DLA reports from various DoD sources; however, these reports are not publicly available.

### **DoD IG**

Report No. DODIG-2014-122, “Independent Auditor’s Report on the Agreed-Upon Procedures for Reviewing the FY 2014 Civilian Payroll Withholding Data and Enrollment Information,” September 26, 2014

Report No. DODIG-2013-139, “Independent Auditor’s Report on the Agreed-Upon Procedures for Reviewing the FY 2013 Civilian Payroll Withholding Data and Enrollment Information,” September 25, 2013

Report No. DODIG-2013-070, “Defense Agencies Initiative Did Not Contain Some Required Data Needed to Produce Reliable Financial Statements,” April 19, 2013

Report No. DODIG-2012-144, “Independent Auditor’s Report on the Agreed-Upon Procedures for Reviewing the FY 2012 Civilian Payroll Withholding Data and Enrollment Information,” September 28, 2012

Report No. D-2011-118, “Independent Auditor’s Report on the Agreed-Upon Procedures for Reviewing the FY 2011 Civilian Payroll Withholding Data and Enrollment Information,” September 30, 2011

Report No. D-2010-089, “Agreed-Upon Procedures for Reviewing the FY 2010 Civilian Payroll Withholding Data and Enrollment Information,” September 30, 2010

**DFAS**

“Report on the Defense Finance and Accounting Service Federal Civilian Pay Service’s Description of its System Supporting the Delivery of Payroll Processing Services and the Suitability of the Design and Operating Effectiveness of its Controls For the period October 1, 2014 to June 30, 2015,” dated August 14, 2015 (This report is For Official Use Only)

“Report on the Defense Finance and Accounting Service Federal Civilian Pay Service’s Description of its System Supporting the Delivery of Payroll Processing Services and the Suitability of the Design and Operating Effectiveness of its Controls For the period October 1, 2013 to June 30, 2014,” dated August 15, 2014 (This report is For Official Use Only)

**DLA**

“Report on the Description of the DLA DAI System and the Suitability of the Design and Operating Effectiveness of Controls (SSAE 16 SOC 1 Type 2 Report) For the Period January 1, 2014 to June 30, 2014,” July 31, 2014 (This report is For Official Use Only)

## Appendix B

### List of ODOs that Paid Civilian Employees with General Funds

Table 2.

Other Defense Organizations
Chemical Biological Defense Program
Defense Acquisition University
Defense Advanced Research Projects Agency
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Health Agency - Financial Operations Division
Defense Health Agency - Uniformed Services University of the Health Sciences
Defense Human Resources Activity
Defense Information Systems Agency, General Fund
Defense Legal Services Agency
Defense Logistics Agency, General Fund
Defense Media Activity
Defense Prisoner of War/Missing Persons Office
Defense Security Cooperation Agency
Defense Security Service
Defense Technical Information Center
Defense Technology Security Administration
Defense Threat Reduction Agency
Department of Defense Education Activity
Department of Defense Office of Inspector General
Department of Defense Test Resource Management Center
Missile Defense Agency
National Defense University
Office of Economic Adjustment
Office of the Chairman, Joint Chiefs of Staff
Office of the Secretary of Defense
Service Medical Activity - Air Force (Air Force Medical Service)
Service Medical Activity - Army (U.S. Army Medical Command)



*Table 2. (cont'd)*

<b>Other Defense Organizations</b>
Service Medical Activity - National Capital Region
Service Medical Activity - Navy (U.S. Navy Bureau of Medicine and Surgery)
U.S. Court of Appeals, Armed Forces
U.S. Special Operations Command
Washington Headquarters Services

## Appendix C

### List of ODOs for which DFAS Indianapolis and DFAS Columbus are Performing Civilian Pay Reconciliations

Table 3.

Defense Finance and Accounting Service—Indianapolis	Other Defense Organizations
1.	Chemical Biological Defense Program
2.	Defense Advanced Research Projects Agency
3.	Defense Health Agency—Financial Operations Division
4.	Defense Health Agency—Uniformed Services University of the Health Sciences
5.	Defense Media Activity
6.	Defense Prisoner of War/Missing Persons Office
7.	Defense Technology Security Administration
8.	Defense Threat Reduction Agency
9.	Missile Defense Agency
10.	Office of Economic Adjustment
11.	Service Medical Activity—Army (U.S. Army Medical Command)
Defense Finance and Accounting Service—Columbus	Other Defense Organizations
1.	Defense Contract Audit Agency
2.	Defense Contract Management Agency
3.	Defense Human Resources Activity
4.	Defense Information Systems Agency, General Fund
5.	Defense Logistics Agency, General Fund
6.	Defense Security Service
7.	Defense Technical Information Center

# Management Comments

## Defense Finance and Accounting Service



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

**MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING**

**SUBJECT: Management Comments to DODIG Draft Audit Report "Improvements Could Be Made in Reconciling Other Defense Organizations Civilian Pay to the General Ledger", Project Number D2015-D000FP-0072.000, dated February 1, 2016**

The Defense Finance and Accounting Service is providing management comments to recommendations 1a, 1b, 1c, 1d, 1e, 1f, and 2 of the subject draft report.

My point of contact for additional information is [REDACTED]

GAW.MICHELE.A. [REDACTED]

Edna J. Knight  
Director, Enterprise Solutions & Standards

Attachment:  
As stated

[www.dfas.mil](http://www.dfas.mil)  
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## Defense Finance and Accounting Service (cont'd)

**Management Comments to DODIG Draft Audit Report “Improvements Could Be Made in Reconciling Other Defense Organizations Civilian Pay to the General Ledger”, Project Number D2015-D000FP-0072.000, dated February 1, 2016**

**Recommendation 1:**

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

a. Identify the universe of Other Defense Organizations that pay civilian employees with general funds.

**Current Management Comments:** Concur. DFAS is supporting the DCFO/DCIO Big Data Platform (BDP) initiative which will obtain and reconcile data from all financial management systems within the Department. Included in this initiative are civilian payroll reconciliations for all Other Defense Organizations (ODO's) utilizing TI-97 general funds. Data from DCPS will be included in the data sets and DFAS will be able to identify a population of all ODO's paying civilians with TI-97 general funds.

Since BDP is a Long-term initiative for the Department, DFAS will manually identify ODO civilian payroll customers through a data call.

**Estimated Completion Date: June 30, 2016**

b. Develop a formal plan to reconcile civilian pay records or review reconciliations for the 14 of 15 of the remaining Other Defense Organizations they service. At a minimum, the plan should: (1) provide a time line for starting these civilian pay reconciliations, and (2) define the roles and responsibilities of Defense Finance and Accounting Service Indianapolis and the Other Defense Organizations.

**Current Management Comments:** Concur. DFAS is supporting the DCFO/DCIO Big Data Platform (BOP) initiative which will obtain and reconcile data from all financial management systems within the Department. Included in this initiative are civilian payroll reconciliations for all Other Defense Organizations (ODO's) utilizing TI-97 general funds. Until BDP is fully deployed, DFAS will continue to reconcile civilian payroll for current and future ODO's that utilize DAI or DBMS.

**Estimated Completion Date: September 30, 2017**

c. Develop a Process Narrative and Process Map of the civilian pay reconciliation process and disseminate to personnel involved in civ pay at the Defense Finance and Accounting Service and Other Defense Organizations.

**Current Management Comments:** Concur. DFAS will develop a process map and narrative for existing civilian pay reconciliations and disseminate to personnel involved in civilian pay at DFAS and ODO's.

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

**Estimated Completion Date:** June 30, 2016

d. Revise existing Standard Operating Procedures to clearly describe the civilian pay reconciliation process. At a minimum, the Standard Operating Procedure should: (1) identify all the components involved in the reconciliation process, (2) define the roles and responsibilities of components involved in the Other Defense Organizations civilian pay reconciliations, (3) provide the general ledger accounts (budgetary and proprietary) that are used in the reconciliation processes, and (4) establish procedures to check the accuracy of the system generated payroll accrual entry in the Defense Agency Initiatives general ledger system.

**Current Management Comments:** Concur. DFAS will expand its existing SOP to: (1) identify all the components involved in the reconciliation process, (2) define the roles and responsibilities of components involved in the Other Defense Organizations civilian pay reconciliations, (3) provide the general ledger accounts (budgetary and proprietary) that are used in the reconciliation processes, and (4) establish procedures to check the accuracy of the system generated payroll accrual entry in the Defense Agency Initiatives general ledger system.

**Estimated Completion Date:** September 30, 2016

e. Centralize the Other Defense Organizations civilian payroll reconciliation processes.

**Current Management Comments:** Concur. DFAS is supporting the DCFO/DCIO Big Data Platform (BDP) initiative which will obtain and reconcile data from all financial management systems within the Department. Included in this initiative are civilian payroll reconciliations for all ODO's utilizing TI-97 general funds. Until BDP is fully deployed, DFAS will continue to reconcile civilian payroll utilizing existing processes (DAI/DBMS reconciliations and Agency Wide data calls).

**Estimated Completion Date:** September 30, 2017

f. Coordinate with the Financial Improvement and Audit Readiness Directorate to ensure they have an accurate assessment of the audit readiness of the Other Defense Organizations General Fund financial statements.

**Current Management Comments:** Concur. DFAS engages the FIAR office daily on many audit readiness initiatives impacting the Department and specifically, the ODO General Fund financial statements. In August 2015, DFAS created a TI-97 Project Management Office within DFAS Corporate Audit Readiness to provide dedicated support to TI-97 audit readiness issues.

**Estimated Completion Date:** Completed.

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

**Recommendation 2:**

We recommend that the, Defense Finance and Accounting Service Columbus, Director:

a. Develop a formal plan to reconcile civilian pay records or review reconciliations for 2 of 15 remaining Other Defense Organizations they service. At a minimum, the plan should:

- (1) Provide a time line for starting these civilian pay reconciliations, and
- (2) Define the roles and responsibilities of Defense Finance and Accounting Service Columbus and the Other Defense Organizations.

**Current Management Comments:** DFAS Columbus currently has a higher level Civilian Payroll Reconciliation. DFAS Columbus will perform a reconciliation for United States Special Operations Command (USSOCOM) (Air Force) and Service Medical Activity (Air Force) by reconciling from the Civilian Pay Accounting Bridge (CPAB) to General Accounting Finance System BQ (GAFS- BQ) while relying on Defense Civilian Pay System (DCPS) controls for DCPS to CPAB. The final step of the reconciliation is the detail transactions from GAFS-BQ to GAFS-R at the General Ledger Account Code (GLAC) level. Once completed the reconciliation will be forwarded to the customer for acknowledgment.

**Estimated Completion Date:** August 15, 2016

## Acronyms and Abbreviations

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<b>AFS</b>	Audited Financial Statements
<b>DAI</b>	Defense Agencies Initiative
<b>DBMS</b>	Defense Business Management System
<b>DCPS</b>	Defense Civilian Payroll System
<b>DCFO/DCIO</b>	Deputy Chief Financial Officer/Deputy Chief Information Officer
<b>DCMA</b>	Defense Contract Management Agency
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DLA</b>	Defense Logistics Agency
<b>DoDEA</b>	DoD Education Activity
<b>FIAR</b>	Financial Improvement and Audit Readiness
<b>FMR</b>	Financial Management Regulations
<b>IPA</b>	Independent Public Accountant
<b>MDA</b>	Missile Defense Agency
<b>NDU</b>	National Defense University
<b>ODO</b>	Other Defense Organization
<b>OUSD(C)/CFO</b>	Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD
<b>SMA</b>	Service Medical Activity
<b>SOP</b>	Standard Operating Procedure
<b>USSGL</b>	U.S. Standard General Ledger
<b>USSOCOM</b>	U.S. Special Operations Command





# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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