



October 2017

DOD FINANCIAL MANAGEMENT

Additional Actions Needed to Complete the Army's Analyses of Unsupported Accounting Entries for Its General Fund

GAO Highlights

Highlights of [GAO-18-27](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) remains on GAO's High-Risk List in part because of its long-standing financial management deficiencies, which have prevented it from having auditable financial statements. One of the contributing factors is the billions of dollars of unsupported JVs within DOD's accounting systems, with the largest portion attributable to the Army's general fund. Because the National Defense Authorization Act for Fiscal Year 2014 required that DOD submit audit results to Congress for fiscal year 2018, a Working Group was established to address the Army's unsupported JVs, including analyzing root causes and developing corrective action plans.

This report examines to what extent the Working Group, as of March 2017, has performed analyses and developed corrective action plans to address identified root causes. GAO reviewed and analyzed relevant documentation and interviewed agency officials and members of the Working Group.

What GAO Recommends

GAO recommends that the Army (1) ensure that the entire population of unsupported JVs is identified and analyzed and (2) develop metrics that sufficiently monitor the extent to which the Working Group has identified root causes and determine the extent to which unsupported JVs are being reduced based on the implemented corrective actions. The Army concurred with GAO's recommendations and provided information on actions it has taken or plans to take to address them.

View [GAO-18-27](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

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What GAO Found

Since February 2015, the Journal Voucher Working Group (Working Group), which is comprised of Department of the Army (Army) and Defense Finance and Accounting Service personnel, has been actively working toward implementing new processes to address inadequate support for journal vouchers (JV) in the Army's general fund. JVs are accounting entries manually entered or system generated to record corrections or adjustments in an accounting system. From October 2016 to March 2017, the Working Group identified more than 121,000 unsupported JVs totaling \$455 billion in one of its reporting systems, Defense Departmental Reporting System-Budgetary (DDRS-B).

In the May 2017 Financial Improvement and Audit Readiness Plan Status Report, the Army stated that it had completed its root cause analyses for all JVs. However, GAO found that the Working Group had conducted the analyses on only a small percentage of the total number of unsupported JVs that existed as of March 2017. Specifically, as of March 2017, the Working Group had been focusing on manual JVs processed in DDRS-B, which only represent 10 percent of the dollar value and 3 percent in the total number of unsupported JVs in that system alone. Therefore, the analyses cannot be considered complete because the Working Group had not yet analyzed the remainder of the population, including those in other systems. Members of the Working Group indicated that in March 2017, the Working Group began including system-generated JVs in its analyses, which made up 90 percent in dollar value and 97 percent in total number of unsupported JVs processed in DDRS-B as of March 2017, but had not yet begun identifying any root causes. Members of the Working Group stated that these efforts will be an ongoing, iterative process because of anticipated new challenges that continually arise from new business processes or programs.

As of March 2017, the Working Group reported that it had developed 38 corrective action plans to address all of the identified root causes of unsupported manual JVs in DDRS-B for the Army's general fund. According to members of the Working Group, 18 of the 38 have been implemented. However, the Working Group is unable to determine how many more corrective action plans will need to be developed to resolve the unsupported JV issue until the root cause analyses are complete. Further, GAO found that the Working Group's monitoring of corrective action plan implementation does not include a method that sufficiently identifies the progress toward fully addressing the issue of unsupported JVs or to what extent each implemented corrective action plan has reduced unsupported JVs. Members of the Working Group stated that the Working Group uses monthly JV metrics reports to monitor its implemented corrective actions, but the reports are not designed to provide the level of detail necessary to sufficiently monitor whether root causes identified are resolved through corrective action plans. Therefore, the metrics cannot demonstrate to what extent the Working Group has reduced unsupported JVs and how much more effort is required to fully address the issue and help ensure that the Army's financial statements are auditable for fiscal year 2018.

Contents

Letter		1
	Background	3
	The Working Group Has Identified Some Root Causes but Has Not Started Analyses of the Majority of Unsupported Journal Vouchers	8
	The Working Group Has Developed Corrective Action Plans for All Identified Root Causes but Is Not Sufficiently Monitoring Implementation	12
	Conclusions	14
	Recommendations for Executive Action	14
	Agency Comments	15
Appendix I	Objectives, Scope, and Methodology	17
Appendix II	Comments from the Department of the Army	19
Appendix III	GAO Contact and Staff Acknowledgments	22
Figures		
	Figure 1: Transaction Flow for the Department of the Army's General Fund	6
	Figure 2: Focus of the Department of the Army General Fund Unsupported Journal Voucher Analyses as of March 2017	9
	Figure 3: Status of the Root Cause Analyses of the Department of the Army General Fund's Population of Journal Vouchers as of March 2017	11

Abbreviations

Army	Department of the Army
ASA(FM&C)	Assistant Secretary of the Army for Financial Management and Comptroller
BMAC	Business Mission Area Champions
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System-Audited Financial Statements
DDRS-B	Defense Departmental Reporting System-Budgetary
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
ELECTRA	Electronic Error Correction and Transaction Analysis
FIAR	Financial Improvement and Audit Readiness
GCSS	Global Combat Support System
GFEBs	General Fund Enterprise Business System
JV	journal voucher
NDAAs	National Defense Authorization Act
OIG	Office of Inspector General
Working Group	Journal Voucher Working Group

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October 20, 2017

Congressional Committees

The Department of Defense (DOD) has been on GAO's High-Risk List since 1995 in part because of long-standing, uncorrected deficiencies with its financial management systems, business processes, financial manager qualifications, and material internal control and financial reporting weaknesses.¹ These deficiencies prevent DOD from having auditable financial statements, which is one of the three major impediments preventing us from expressing an opinion on the consolidated financial statements of the U.S. government.² According to DOD, one of the contributing factors to its inability to produce auditable financial statements is the billions of dollars of unsupported journal vouchers (JV) within its accounting systems, with the largest portion attributed to the Department of the Army's (Army) general fund.³ JVs are accounting entries to record corrections or adjustments to a business transaction in an accounting system. While the use of JVs is a common accounting practice, they should be fully supported with detailed information to appropriately justify the accounting entries. Without such support, management and auditors are unable to assess the validity of the accounting entries, and to the extent that the unsupported JVs are material to the financial statements, the auditors would be unable to complete their audit. When financial statements are not prepared with supported accounting entries, there is a risk that DOD and Army

¹GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017).

²The other two impediments preventing us from rendering an opinion on the federal government's accrual-based consolidated financial statements are (1) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities and (2) the federal government's ineffective process for preparing the consolidated financial statements. See GAO, *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government*, [GAO-17-283R](#) (Washington, D.C.: Jan. 12, 2017).

³The Army's funds are organized into two reporting entities: a general fund and a working capital fund. The general fund includes appropriated funding for personnel, operation and maintenance, research and development, procurement, and construction accounts. The working capital fund is self-sustaining and intended to generate sufficient resources to cover the full cost of its operations, which include financing inventories of common supplies and providing working capital for common services within or among DOD entities, and to operate on a break-even basis over time by charging customers for the full cost of supplies and services provided.

management cannot rely on the Army's accounting system data when making management and resource decisions.

The National Defense Authorization Act (NDAA) for Fiscal Year 2014 required that the Secretary of Defense ensure that a full audit is performed on DOD's fiscal year 2018 financial statements and that the results be submitted to Congress no later than March 31, 2019.⁴

Therefore, with oversight from the Office of the Assistant Secretary of the Army for Financial Management and Comptroller (ASA(FM&C)), personnel from the Army and the Defense Finance and Accounting Service (DFAS),⁵ the Army's service provider, formed a Journal Voucher Working Group (Working Group) in February 2015 to address the inadequate support of JVs affecting the Army's financial statements. The Working Group has been tasked to actively work toward reducing the number of unsupported JVs for the Army's general fund.⁶ Specifically, one of the main focuses of the Working Group is to determine the root causes of unsupported JVs and to develop corrective action plans for the identified root causes.⁷ The Working Group conducts biweekly meetings to discuss current initiatives, any outstanding issues, and progress toward its goals. Additionally, ad hoc meetings are scheduled as needed.

This audit was initiated as part of the mandate that requires GAO to audit the U.S. government's consolidated financial statements, which cover all accounts and associated activities of the executive branch agencies, including DOD, because of the significance of the military services'

⁴Pub. L. No. 113-66, § 1003, 127 Stat. 671, 842 (Dec. 26, 2013), *codified at* 10 U.S.C. § 2222 note.

⁵DFAS was established in 1991 to standardize, consolidate, and improve accounting and financial functions throughout DOD. DFAS's responsibilities include paying servicemembers, employees, vendors, and contractors; providing business intelligence and finance and accounting information to DOD decision makers; preparing annual financial statements; and consolidating, standardizing, and modernizing finance and accounting requirements, functions, processes, operations, and systems for DOD.

⁶In order to fulfill its responsibilities, the Working Group analyzes all JVs, supported and unsupported, to identify ways of reducing the number of unsupported JVs or eliminating JVs that are deemed unnecessary, whether supported or unsupported.

⁷According to the *Implementation Guide for Office of Management and Budget Circular A-123, Management's Responsibility for Internal Control: Appendix A, Internal Control over Financial Reporting*, corrective action plans are developed by management to present the procedures that an agency plans to follow to resolve its deficiencies. The Implementation Guide recommends including measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle.

financial statements to the audit of the consolidated financial statements of the U.S. government.⁸ Our objectives were to report the extent to which the Working Group, as of March 2017, (1) performed analyses to determine the root causes of unsupported JVs for the Army's general fund and (2) developed and monitored the implementation of corrective action plans to address identified root causes of unsupported JVs.

To address our first objective, we reviewed various Army, DFAS, and DOD financial reporting guidance; performed walk-throughs of the JV process; and interviewed agency officials to gain an understanding of the processes for recording JVs and analyzing causes of unsupported JVs. We also reviewed documentation provided and interviewed the Working Group members to determine the extent to which root cause analyses have been performed and completed as of March 2017 and whether the population of accounting entries used for analyses included all unsupported JVs. To address our second objective, we obtained documentation of and inquired about the development and monitoring of the implementation of the Working Group's corrective action plans to address the root causes identified as of March 2017. We also obtained and analyzed monthly JV metrics reports (metrics) produced by DFAS. Members of the Working Group use the metrics as their primary source for monitoring progress. We inquired about any limitations or challenges that prevented the Working Group from fully implementing any developed corrective action plans. Further details on our scope and methodology are provided in appendix I.

We conducted this performance audit from December 2015 to October 2017 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 provided a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The federal government began preparing and we began auditing the consolidated financial statements of the U.S. government in fiscal year 1997. However, we have been unable to render an opinion on them in part because of serious financial management problems at DOD that

⁸31 U.S.C. § 331(e)(2).

have prevented its financial statements from being auditable. Pursuant to the NDAA for Fiscal Year 2010, DOD developed and has updated a Financial Improvement and Audit Readiness (FIAR) Plan. The FIAR Plan includes the specific actions to be taken and costs associated with (1) correcting the financial management deficiencies that impair DOD's ability to prepare complete, reliable, and timely financial management information and (2) ensuring that DOD's financial statements are validated as ready for audit by September 30, 2017.⁹ Further, the NDAA for Fiscal Year 2014 mandated that the Secretary of Defense ensure that an audit is performed on DOD's fiscal year 2018 financial statements and that the results are submitted to Congress no later than March 31, 2019.¹⁰

DOD has undertaken several financial management improvement initiatives over the years to address deficiencies in business systems, processes, and controls through its FIAR Plan and financial management reform methodology contained in its FIAR Guidance.¹¹ In its April 2016 FIAR Guidance, DOD identified seven critical capabilities that are necessary to achieve auditability. One of the seven critical capabilities identified is the ability to support or eliminate certain material JVs and other adjustments made to financial transactions, trial balances, and financial statements.¹² As of September 2015, DOD determined that the largest portion attributable to the billions of dollars of unsupported JVs relates to the Army's general fund. In 2015, DOD created the Working Group, made up of both Army and DFAS personnel, to develop solutions to reduce the number of required JVs and reduce or eliminate the number of unsupported JVs that affect the Army's general fund.

⁹Pub. L. No. 111-84, § 1003(a), 123 Stat. 2190, 2439-40 (Oct. 28, 2009), *codified* at 10 U.S.C. § 2222 note.

¹⁰Pub. L. No. 113-66, § 1003, 127 Stat. 671, 842 (Dec. 26, 2013), *codified* at 10 U.S.C. § 2222 note.

¹¹DOD's FIAR Guidance provides a standard, multiphased methodology that DOD components should follow to assess their financial management processes and controls and in developing and implementing financial improvement plans. These plans, in turn, are intended to provide a framework for planning, executing, and tracking essential steps and related supporting documentation needed to achieve auditability.

¹²The other six capabilities DOD identified as critical are related to the ability to (1) produce a universe of transactions; (2) reconcile fund balance with Treasury; (3) validate the existence, completeness, rights, and obligations of its assets; (4) establish processes to manage and value its assets correctly; (5) establish an auditable process for estimating and recording environmental and disposal liabilities; and (6) implement critical information technology controls for its financial systems.

In July 2016, DOD's Office of the Inspector General (OIG) released a report indicating that about 90 percent of the dollar value and number of the Army general fund JVs the OIG tested, which were defined by the Army as "supported," were in fact unsupported because the JVs either (1) forced account balances to agree with other data sources without reconciling the differences or determining which data sources were correct, (2) corrected errors or reclassified amounts to other accounts without adequately documenting why the JVs were needed, or (3) changed ending balances of accounts without adequate documentation to support the JVs.¹³

DOD acknowledged in its November 2016 FIAR Plan Status Report that it still faces a significant challenge in reducing the number and amount of unsupported JVs.¹⁴ The November 2016 FIAR Plan Status Report also set a December 2016 completion date for the Army to (1) perform JV root cause analyses for all financial statements for all JVs and (2) implement corrective action plans and verify successful implementation of DFAS's corrective actions.

Army's Financial Systems

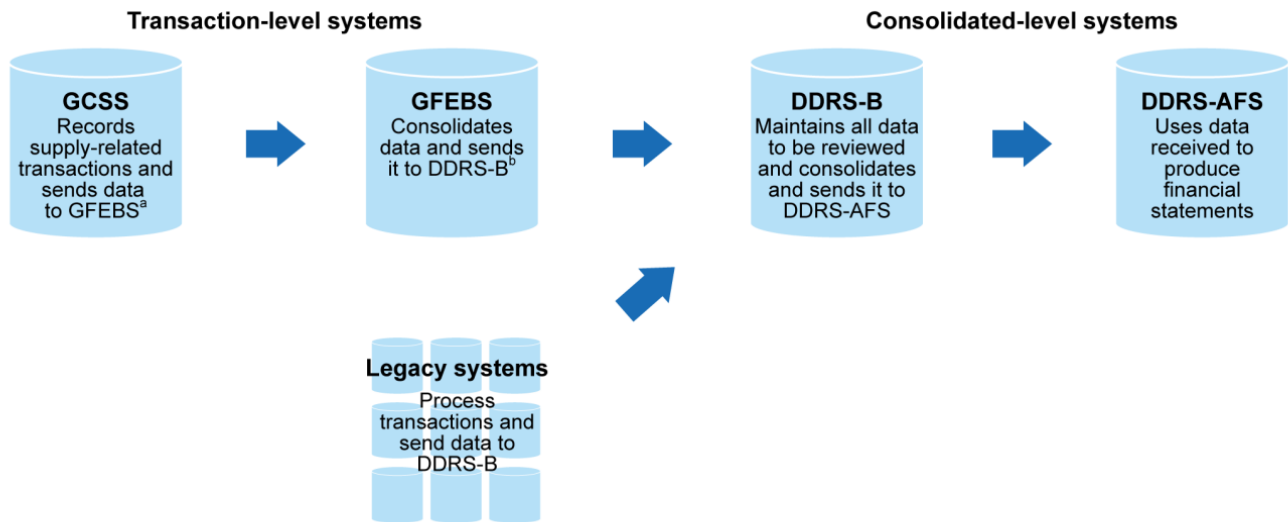
As shown in figure 1, the Army uses multiple systems to document, record, and report activities at the transaction level, which are then consolidated and uploaded into DOD's reporting system known as the Defense Departmental Reporting System (DDRS). JVs can be used to record accounting entries and make any necessary corrections or adjustments within any of these systems at the transaction level or consolidated level. JVs can also be manually entered or system generated in the accounting systems. Manual JVs are those prepared by DFAS personnel to adjust errors identified during financial statement compilation, to record necessary accounting entries caused by system limitations or timing differences, and to prepare required month- and year-end closing accounting entries. System-generated JVs are those

¹³The DOD OIG selected two sets of sample transactions from fiscal year 2015 data, one from third quarter data and one from fourth quarter, or year-end data, and reported its findings based on the sample transactions tested. See Department of Defense, Office of Inspector General, *Army General Fund Adjustments Not Adequately Documented or Supported*, DODIG-2016-113 (Alexandria, Va.: July 2016).

¹⁴The 2010 NDAA required that DOD provide recurring, semiannual reports to the congressional defense committees no later than May 15 and November 15 through the department's FIAR Plan Status Reports.

automatically generated based on system change requests and without manual involvement by DFAS personnel.

Figure 1: Transaction Flow for the Department of the Army's General Fund



DDRS-AFS: Defense Departmental Reporting System-Audited Financial Statements
 DDRS-B: Defense Departmental Reporting System-Budgetary
 GCSS: Global Combat Support System
 GFEBS: General Fund Enterprise Business System

Source: GAO analysis of the Department of the Army's transaction data flow information. | GAO-18-27

^aGCSS data are sent directly to a secondary module within GFEBS where all transaction-level data are maintained and consolidated for submission to DDRS-B.

^bThe Army's daily accounting entries are recorded into a module within GFEBS that is interfaced with the secondary module used to consolidate all the transaction data from GCSS's and GFEBS's daily activity for submission to DDRS-B.

The General Fund Enterprise Business System (GFEBS) is the Army's primary accounting system used to record the majority of the Army's activities, including budget execution, procurement, civilian pay, collections, and disbursements. The Army also has a separate accounting system for supply-related transactions called the Global Combat Support System (GCSS). Accounting entries for transactions recorded in GCSS are sent to GFEBS to consolidate all of the Army's transaction data into a

single accounting system.¹⁵ Then, at month's end, all the information in GFEBs is uploaded into the budgetary module of DDRS known as the Defense Departmental Reporting System-Budgetary (DDRS-B).

The Army also has several legacy systems that continue to process transactions but were not designed to interface with GFEBs as the accounting formats are not compatible. Therefore, at each month's end, the balances for the legacy systems are configured into a format that can be read by DDRS-B and crosswalks to the accounts within the DDRS-B accounting system before they are sent to DDRS-B. Once the balances have been uploaded, DDRS-B performs edit checks to identify any errors that may exist. DFAS personnel then pull the data into the Electronic Error Correction and Transaction Analysis (ELECTRA) application to review any errors identified during the edit checks and use ELECTRA to create a JV to be uploaded into DDRS-B that makes necessary corrections or adjustments.

After the Army has consolidated all information into DDRS-B from both GFEBs and legacy systems each month, DFAS personnel will review the information to determine whether any additional JVs are necessary to correct errors identified during the reconciliation process or to record any JVs that could not be processed prior to the upload into DDRS-B.

On a quarterly basis after all necessary corrections are made, all information in DDRS-B is consolidated and uploaded into a second module within DDRS known as the Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS), which is used to prepare the financial statements. At this level, additional JVs can be made if DFAS personnel determine that further corrections are necessary or if information is received subsequent to the upload from DDRS-B.

¹⁵GFEBs has two modules, one that is used to record Army's daily accounting entries and another that consolidates the accounting entries from GCSS's and GFEBs's daily activity to be uploaded as a single set of account balances into the Defense Departmental Reporting System-Budgetary.

The Working Group Has Identified Some Root Causes but Has Not Started Analyses of the Majority of Unsupported Journal Vouchers

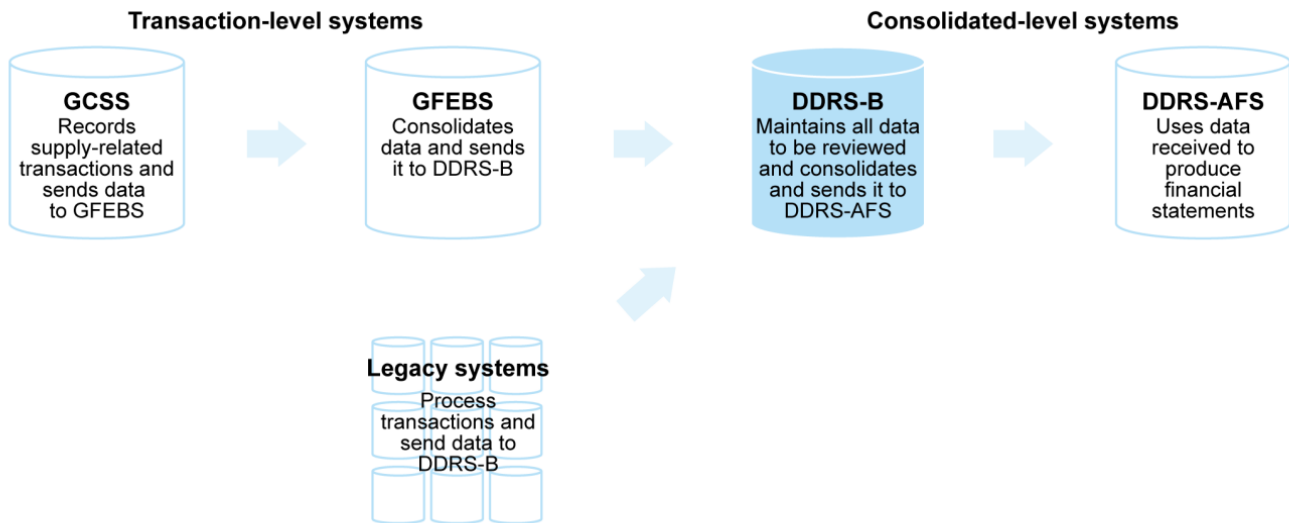
The Working Group has been actively working toward implementing new processes to support JVs and eliminate unsupported JVs in the Army's general fund. From October 2016 to March 2017, the Working Group, based on DFAS-produced metrics, reported that it had identified more than 121,000 unsupported JVs totaling \$455 billion.¹⁶

The Working Group prioritized its identifying of root causes of unsupported JVs based upon factors such as potential correction complexity, materiality, and volume. In the May 2017 FIAR Plan Status Report, DOD stated that the Army had completed its root cause analyses for all JVs. However, we found that the analyses have been performed on only a small percentage of the total number of unsupported JVs that existed as of March 2017 and cannot be considered completed for all unsupported JVs. In addition, members of the Working Group confirmed as of June 2017 that the Working Group has not yet performed all analyses necessary and stated that the Working Group's efforts will be an ongoing, iterative process because of anticipated new challenges that continually arise from new business processes or programs.

A critical capability to achieve auditability, described in the April 2016 FIAR Guidance, is that all material JVs be supported and the population of accounting entries reconcile with each financial statement line item as well as the originating system of the accounting entry. As highlighted in figure 2, the Working Group focused its efforts on manual JVs processed at the consolidated level within DDRS-B as these JVs were consistent with its prioritization method in conducting the analyses and getting the financial statements audit ready.

¹⁶This amount represents the total for DDRS-B manual unsupported JVs indicated on DFAS's October 2016 through March 2017 metrics, excluding any JVs that are repetitive or brought forward each month to avoid double counting of accounting entries. The amount also includes the total of all DDRS-B system-generated JVs for October 2016 through March 2017 shown as a cumulative amount in DFAS's March 2017 metrics.

Figure 2: Focus of the Department of the Army General Fund Unsupported Journal Voucher Analyses as of March 2017



DDRS-AFS: Defense Departmental Reporting System-Audited Financial Statements
 DDRS-B: Defense Departmental Reporting System-Budgetary
 GCSS: Global Combat Support System
 GFEB: General Fund Enterprise Business System

Source: GAO analysis of the Department of the Army's transaction data flow information. | GAO-18-27

In December 2015, DFAS began requiring a form to be attached to all manual DDRS-B JVs that serves as a checklist of all documents necessary to be included for a JV to be considered supported. However, as indicated on the metrics provided through March 2017, manual unsupported JVs were still being recorded in DDRS-B. Further, as of March 2017, the Working Group had not included in its root cause analyses (1) any unsupported JVs at the transaction level, such as within GFEB, which are mostly attributed to year-end closing accounting entries; (2) any unsupported JVs within DDRS-AFS, which are used to prepare the financial statements; or (3) system-generated JVs. As a result, a significant number of JVs still require analyses.

Our review of the population of unsupported JVs from October 2016 to March 2017 found that system-generated JVs made up 90 percent in dollar value and 97 percent in number of total unsupported JVs.¹⁷ In July

¹⁷These percentages were based on fiscal year-to-date 2017 totals that the Working Group includes in its monthly JV metrics reports.

2016, the DOD OIG similarly found that the Working Group had not been analyzing its system-generated JVs and recommended that the Working Group periodically review system-generated JVs to understand the reasons for the JVs and to verify the support for the JVs.¹⁸ Acting on the DOD OIG's recommendation, members of the Working Group indicated that in March 2017, the Working Group began including system-generated JVs in its population of JVs to analyze but had not yet begun its analyses or identified any root causes. In addition, members of the Working Group stated that in February 2017, the Working Group began planning a new initiative called the Business Mission Area Champions (BMAC) Initiative. This initiative is to expand the Working Group's analyses of root causes for JVs beyond those recorded at the consolidated level within DDRS-B and begin analyzing transaction-level JVs recorded in its systems that feed into DDRS-B before consolidation, such as GFEBS.¹⁹ However, as of May 2017, no details have been developed, such as planned actions or timelines. Therefore, because of the recent inclusion of the large population of system-generated JVs in the total population and because the BMAC Initiative is not yet under way, a significant amount of analyses remains to fully identify root causes and ultimately correct the Army's overall unsupported JV issue. Figure 3 summarizes the progress of the Working Group's root cause analyses of unsupported JVs as of March 2017.

¹⁸Department of Defense, Office of Inspector General, *Army General Fund Adjustments Not Adequately Documented or Supported*.

¹⁹The BMAC Initiative comprises senior Army management from the Office of the ASA(FM&C) and the project manager of the Working Group. As of May 2017, the initiative was still being designed.

Figure 3: Status of the Root Cause Analyses of the Department of the Army General Fund's Population of Journal Vouchers as of March 2017

	Transaction-level systems	Consolidated-level systems
Manual journal vouchers (JV)	<p>X Not started: Analysis of transaction-level manual JVs</p>	<p>✓ In progress: Analysis of DDRS-B manual JVs</p> <p>X Not started: Analysis of DDRS-AFS manual JVs</p>
System-generated JVs	<p>Not applicable: System-generated JVs only occur within the consolidated-level systems</p>	<p>✓ In progress: Inclusion of system-generated JVs in analysis in response to DOD OIG recommendation made in July 2016</p>

DDRS-AFS: Defense Departmental Reporting System-Audited Financial Statements
 DDRS-B: Defense Departmental Reporting System-Budgetary
 DOD OIG: Department of Defense's Office of Inspector General

Source: GAO analysis of Journal Voucher Working Group information | GAO-18-27

According to OMB Circular A-123,²⁰ agencies should perform a root cause analysis of the deficiencies to ensure that subsequent strategies and plans address the root cause of the problem and not just the symptoms. Identifying and developing an understanding of the root cause is management's responsibility. In addition, *Standards for Internal Control in the Federal Government* states that management should complete and document corrective actions to remediate control deficiencies on a timely basis.²¹ Because it has not yet performed root cause analyses on the majority of unsupported JVs, the Working Group has not been able to identify appropriate corrective actions to eliminate such unsupported JVs and ultimately help produce auditable financial statements for the Army's general fund.

²⁰Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123 (Washington, D.C.: July 15, 2016).

²¹GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

The Working Group Has Developed Corrective Action Plans for All Identified Root Causes but Is Not Sufficiently Monitoring Implementation

As of March 2017, members of the Working Group reported that the Working Group had developed 38 corrective action plans to address all of the identified root causes of unsupported manual JVs at the consolidated level in DDRS-B for the Army's general fund. According to these members, of the 38 corrective action plans developed, 18 have been implemented. In addition, because the root cause analyses have been limited, the Working Group has not yet been able to determine how many more corrective action plans will need to be developed to resolve the unsupported JV issue.

Further, we found that the Working Group's monitoring of corrective action plan implementation does not include a method that sufficiently identifies the progress that has been made toward fully addressing the issue of unsupported JVs or to what extent each implemented corrective action plan has reduced unsupported JVs. The April 2016 FIAR Guidance provides specific tasks for DOD reporting entities, including the Army, to complete so that DOD can achieve its audit readiness objective. One of these tasks specific to JVs is to describe plans for implementing corrective actions to address the root causes of unsupported JVs. In addition, the Implementation Guide for OMB Circular A-123 recommends that management identify measurable indicators to better assess progress and more rapidly make course corrections to ensure timely and effective resolution of identified issues. In order to monitor whether a corrective action plan was implemented effectively, members of the Working Group stated that the Working Group uses metrics to monitor implementation of corrective actions for unsupported manual JVs at the consolidated level in DDRS-B. DFAS creates monthly metrics reports of DDRS-B accounting entries that include all unsupported and supported JVs for the month.

The JVs used to create these metrics are the same JVs that the Working Group uses to conduct its JV root cause analyses. However, the metrics organize the JVs into broad categories that do not provide enough details to link to the categories that the Working Group uses. For example, the metrics use broad categories, such as data calls or correcting entries to classify the JVs, whereas the root cause analyses are conducted at a more detailed level, such as for a specific transaction. The Working Group was unable to demonstrate to us which metric category was affected by the corrective action plan implemented for each root cause identified. In addition, the Working Group's reported progress was based on an increase in the percentage of supported JVs in relation to the total population of JVs from October 2016 to March 2017 as reported in the

metrics. However, during this period, the metrics also show an increase in the actual number and dollar amount of manual unsupported JVs. Specifically, based on the Working Group's reporting method, the percentage of unsupported manual JVs decreased in relation to the total population of manual JVs from October 2016 to March 2017 by 8 percent in the number of JVs and 14 percent in the dollar value of JVs. However, the actual number and dollar value of the unsupported manual JVs reported on the October 2016 and March 2017 metrics increased from 329 to 462 and from a total of \$3.3 billion and \$7.0 billion, respectively.²² Because the metrics used to monitor corrective action plans do not clearly indicate which JVs are affected by a specific root cause identified, resolved JVs cannot be tied to an implemented corrective action plan. Therefore, the Working Group is unable to demonstrate to what extent it has moved closer to eliminating and reducing unsupported JVs and to what extent the Army's financial statements are becoming auditable for fiscal year 2018.

In addition, according to members of the Working Group as of March 2017, 16 of the 20 remaining corrective action plans developed are pending implementation because they require system changes, which need to be negotiated with the contractor selected to make the system changes. Therefore, the Working Group has developed temporary mitigating procedures to support those JVs required to be recorded until system changes are implemented. For example, one of the root causes that the Working Group identified was a JV recorded in DDRS-B related to the accounting entry to record a customer refund from a prior year purchase. When DFAS personnel record an accounting entry for a customer refund from a prior year purchase into GFEBs, the system erroneously records the transaction as a current year refund, through the reimbursements and other income earned—collected account, rather than as a current year obligation and outlay as required by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.²³ Until this system change is made to GFEBs so that it can differentiate between the return of a prior year purchase or a current year purchase, DFAS has to reverse each entry and record the current year obligation and outlay with an

²²A measurement of progress for system-generated JVs could not be determined as DFAS had not been including them in the monthly metrics reports until March 2017.

²³According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, section 20.10, "If you return a cash advance or other offsetting collection or special or trust fund receipts received in a prior fiscal year, you must record an obligation and an outlay in the current fiscal year."

additional JV into DDRS-B to correct the error made and include with the JV an explanation of the situation as well as detail level transactions to support the JV. DFAS considers this type of support to be a temporary solution; however, until system changes are made, the Working Group will be unable to implement the corrective action plans developed and resolve the root causes identified or determine whether the corrective action plan developed for this issue will be effective.

Conclusions

Since 2015, the Working Group has been analyzing manual unsupported JVs in DDRS-B to determine their root causes and to concentrate its efforts on getting the Army's financial statements audit ready. As of March 2017, the Working Group had not analyzed system-generated JVs that constitute 90 percent of the total dollar value or 97 percent of the total number of unsupported JVs because of the volume and potential correction complexity of these JVs. Also, the Working Group had not analyzed unsupported JVs at the transaction level or in DDRS-AFS. Although we recognize that these efforts will be an ongoing, iterative process, until the Working Group has identified and completed its analyses of root causes for all unsupported JVs, the Army will not be able to correct the overall unsupported JV issue.

As of March 2017, the Working Group had developed 38 corrective action plans and verified successful implementation of 18 corrective action plans to address the issue of unsupported JVs in the Army's general fund. However, because the Working Group's root cause analyses were limited to a small percentage of the total unsupported JVs, the development of corrective action plans was likewise limited. In addition, the metrics used to analyze JVs and monitor implemented corrective actions are not designed to provide the level of detail necessary to sufficiently monitor whether root causes identified are resolved through corrective action plans. As a result, the Army cannot determine to what extent it has reduced unsupported JVs in its general fund and how much more effort is required to fully address the issue and help ensure that the Army's financial statements will be auditable for fiscal year 2018.

Recommendations for Executive Action

We are making the following two recommendations to the Army:

The Assistant Secretary of the Army for Financial Management and Comptroller should ensure that the Working Group identifies and analyzes the full population of manual unsupported JVs at the transaction

level and in DDRS-AFS and determines the root causes for these JVs. (Recommendation 1)

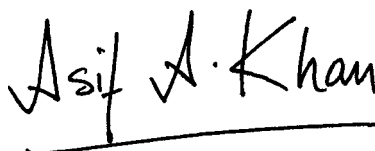
The Assistant Secretary of the Army for Financial Management and Comptroller should work with DFAS to enhance the monthly JV metrics report or develop another method to sufficiently monitor the extent to which the Working Group has identified the root causes of unsupported JVs and to determine the extent to which unsupported JVs are being reduced based on the implemented corrective actions. (Recommendation 2)

Agency Comments

We provided a draft of this report to the Army for review and comment. In its written comments, reprinted in appendix II, the Army concurred with our recommendations and provided information on actions it has taken or plans to take to address them.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller) and Chief Financial Officer, the Deputy Chief Financial Officer, the Director of Financial Improvement and Audit Readiness, the Secretary of the Army, and the Director of the Defense Finance and Accounting Service. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9869 or khana@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.



Asif A. Khan
Director
Financial Management and Assurance

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United States Senate

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The Honorable Trey Gowdy
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The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Our objectives were to report on the extent to which the Journal Voucher Working Group (Working Group) had, as of March 2017, (1) performed analyses to determine the root causes of unsupported journal vouchers (JV) for the Department of the Army's (Army) general fund and (2) developed and monitored the implementation of corrective action plans to address identified root causes of unsupported JVs.

To address our first objective, we reviewed our prior relevant reports and reports by the Department of Defense (DOD) and DOD's Office of Inspector General to gain an understanding of the nature of the issues identified related to the Army's unsupported JVs for its general fund and how they affect DOD's audit readiness as described in the Financial Improvement and Audit Readiness (FIAR) Guidance. We also reviewed various Army, Defense Finance and Accounting Service, and DOD financial reporting guidance; performed walk-throughs of the JV process; and interviewed agency officials to gain an understanding of the processes for recording JVs and analyzing causes of unsupported JVs, including (1) the various types of JVs recorded and reasons why the JVs are unsupported, (2) parties responsible for preparing and approving JVs, and (3) requirements for determining and documenting the root causes of unsupported JVs and monitoring such efforts.

Further, we obtained the Working Group's root cause analyses performed and completed as of March 2017. We analyzed the documentation provided and interviewed agency officials to determine the extent to which (1) root cause analyses have been performed for all unsupported JVs of the Army's general fund and (2) root causes had been identified to address the issue of unsupported JVs. We also reviewed documentation provided to determine whether the Working Group was including all unsupported JVs in the population used for analyses.

To address our second objective, we obtained the Working Group's documentation of corrective action plans developed and implemented as of March 2017 to address the root causes identified by the Working Group. We inquired about the development and the status and implementation of each corrective action plan. We also inquired about the steps the Working Group has taken to validate and monitor the effectiveness of corrective action plans that have been implemented to address root causes identified. We also inquired about how the Working Group measures its progress using the monthly JV metrics reports, which the Working Group identified as its primary source for monitoring progress, and analyzed the JV metrics reports from October 2016 to

March 2017. Further, we inquired of the reasons why corrective action plans had not been fully implemented.

We also interviewed members of the Working Group to confirm our understanding of any limitations or challenges identified during the root cause analyses. We obtained their views on these or other concerns and reviewed relevant documentation supporting their evaluation of the root causes, efforts to address the root causes, and the potential impact on the Army's financial management and future auditability.

We interviewed Army officials about efforts to monitor the effectiveness of the Working Group's corrective action plans to determine what actions, if any, the Army has taken to monitor the corrective action plans regarding deficiencies related to unsupported JVs. We considered whether the Working Group's efforts for developing and monitoring the implementation of corrective action plans addressing identified deficiencies followed the relevant criteria contained in internal control standards; Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*; and DOD FIAR Guidance.

We conducted this performance audit from December 2015 to October 2017 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.

Appendix II: Comments from the Department of the Army



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

September 20, 2017

Mr. Asif A. Khan
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Khan,

This is the Department of the Army response to the GAO Draft Report GAO-18-27, "DOD FINANCIAL MANAGEMENT: Additional Actions Needed to Complete the Army's Analyses of Unsupported Accounting Entries for Its General Fund," dated August 31, 2017 (GAO Code 100523).

Attached is Army's proposed response to the subject report. My point of contact is Ms. Anitra L. Akanbi who can be reached at 703 601-3988, or via email at anitra.l.akanbi.civ@mail.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "Wesley C. Miller", is positioned above the typed name.

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

Appendix II: Comments from the Department
of the Army



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

SAFM-FO

September 20, 2017

MEMORANDUM FOR U.S. Government Accountability Office, 441 G Street, NW
Washington, DC 20548

SUBJECT: Response to Government Accountability Office Draft Report, "Additional
Actions Needed to Complete the Army's Analyses of Unsupported Accounting Entries
for Its General Fund," October 2017 (GAO-18-27)

1. The Army response to the subject audit report is attached. The enclosure addresses and provides concurrence to Recommendations 1 and 2. These recommendations focus on reviewing the entire population of manual journal vouchers and developing effective metrics to monitor root causes of unsupported journal vouchers and associated corrective actions.
2. The point of contact for this action is Ms. Anitra L. Akanbi, who can be reached at (703) 601-0352, or e-mail: anitra.l.akanbi.civ@mail.mil.

Encl
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Wesley C. Miller
Deputy Assistant Secretary of the Army
(Financial Operations)

Enclosure 1

Response to Government Accountability Office Draft Report, "Additional Actions Needed to Complete the Army's Analyses of Unsupported Accounting Entries for Its General Fund," October 2017 (GAO-18-27)

Responses for Recommendations 1 and 2

Recommendation 1: The Assistant Secretary of the Army for Financial Management and Comptroller should ensure the Working Group identify and analyze the full population of manual unsupported JVs at the transaction level and in DDRS-AFS and determine the root cause for these JVs.

Management response: Concur. The Assistant Secretary of Financial Management and Comptroller (ASA(FM&C)), with Defense Finance and Accounting Service (DFAS), began implementing this recommendation in April 2017 by establishing a Journal Voucher (JV) review initiative as part of the Business Mission Area Champions (BMAC) project. The BMAC project was established as a supplemental senior leader oversight program to the Journal Voucher Working Group (JVWG). The BMAC initiative establishes a schedule for a monthly sample evaluation to determine applicable support, align adjustments to a root cause, and document any newly identified root causes. The initial JV review schedule, which incorporates all applicable Army and Department of Defense Army allocated appropriations, is targeted to be completed by June 2018. At a time in which additional resources become available or at the conclusion of the review cycle in fiscal year 2018, ASA(FM&C) along with DFAS will develop a plan to incorporate further adjustments into the monthly evaluations.

Recommendation 2: The Assistant Secretary of the Army for Financial Management and Comptroller should work with DFAS to enhance the monthly JV metrics report or develop another method to sufficiently monitor the extent the Working Group has identified the root causes of unsupported JVs and to determine the extent to which unsupported JVs are being reduced based on the implemented corrective actions.

Management response: Concur. ASA(FM&C) will partner with DFAS to reevaluate the JV metric report to monitor the identification of unsupported JV root causes and reduction more clearly. Journal voucher root cause analysis, reduction, and support will be an ongoing effort until JVs are significantly reduced, and as a result, ASA(FM&C) remains committed to working with DFAS to continue to lessen related financial statement audit risk. While select initiatives have been implemented since the audit engagement to attempt to improve metric reporting, the BMAC priority lead for JVs will establish a meeting with DFAS counterparts prior to December 2017 to identify additional means to enhance metric reporting and root cause monitoring.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Asif A. Khan, (202) 512-9869 or khana@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Lynda Downing (Assistant Director), Francine DeVecchio, Natasha Guerra, Cole Haase, Jason Kelly, and David Scouten.

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