

# GAO Highlights

Highlights of [GAO-15-658](#), a report to congressional requesters

## Why GAO Did This Study

DOD continues to work toward achieving auditability of its financial statements. As part of that effort, the Navy in March 2013 asserted audit readiness of its military payroll activity, which represents a significant portion of its expenditures. Based on its examination, an IPA found that the Navy's assertion, which focused in part on a 1-month schedule of military pay activity, was fairly stated.

GAO was asked to assess the Navy's military pay audit readiness efforts. This report examines the extent to which (1) the Navy was able to provide sufficient documentation to support a complete and valid population of detailed transactions reconcilable to its schedule of military pay activity for April 2013 and (2) the Navy's military pay assertion and validation efforts contribute to future audit readiness. GAO reviewed the IPA's audit documentation and analyzed documentation that the Navy provided to the IPA; reviewed documentation on identified military pay control deficiencies and the status of the Navy's actions to address them; and interviewed Navy, IPA, and DFAS officials.

## What GAO Recommends

GAO recommends that the Navy establish (1) milestones for assessing and implementing certain controls associated with payroll services provided by DFAS and (2) a policy to coordinate with auditors on providing required management representation letters in a timely manner. The Navy agreed with GAO's recommendations and described actions taken or under way to address them.

View [GAO-15-658](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

September 2015

## DOD FINANCIAL MANAGEMENT

### Additional Efforts Needed to Improve Audit Readiness of Navy Military Pay and Other Related Activities

## What GAO Found

Based on documentation provided by the Navy and the results of audit procedures, an independent public accountant (IPA) concluded that information reported on the Navy's schedule of military pay activity for April 2013 reconciled to a complete population of pay transactions that were adequately supported and valid. GAO reviewed the Navy's documentation and the IPA's related audit documentation. Nothing came to GAO's attention that raised concerns regarding the adequacy of the Navy's documentation beyond those the IPA identified and determined to be immaterial.

Both the IPA's examination and the Navy's assertion and validation efforts identified additional risks to the Navy's future audit readiness. For example, the IPA found that 14 of 34 military pay controls it examined were either not designed effectively or not operating effectively. Further, the Navy limited the scope of the IPA's examination to focus on 1 month of activity to address any deficiencies identified prior to the audit of its fiscal year 2015 Statement of Budgetary Activity, which is currently under way. However, because of the volume of transactions during a 12-month period, obtaining supporting documentation may be more challenging than supporting transactions limited to a 1-month period. In addition, the Navy identified extensive deficiencies in six personnel and other key systems it relies on to process and report military pay activity. Navy officials acknowledge that additional efforts are needed to fully address these deficiencies. Questions also exist regarding the audit readiness of certain related activities beyond the scope of the Navy's military pay activities—such as financial reporting controls related to reconciling the Navy's Fund Balance with Treasury—because of extensive deficiencies or because they have not been independently examined. Achieving audit readiness also requires coordination with the IPA, the Department of Defense (DOD) Office of Inspector General, and service providers; however, the Navy did not always effectively coordinate these activities. For example, GAO found that the Navy did not (1) establish milestones to assess the effectiveness of certain of its controls associated with payroll services provided by the Defense Finance and Accounting Service (DFAS) and (2) effectively coordinate efforts to ensure that the required management representation letter was provided to the IPA in a timely manner.

The audit of the Navy's fiscal year 2015 Schedule of Budgetary Activity, of which military pay activity represents a significant portion of reported obligations and outlays, is intended to help identify areas for additional focus, and facilitate efforts to achieve DOD's goal of financial statement auditability department-wide by September 30, 2017. However, without reliable controls and systems, auditors will likely need to perform additional, more costly procedures to obtain assurance in future audits, and the reliability of financial information for day-to-day decision making will remain at risk. GAO continues to stress the importance of addressing fundamental systems and control deficiencies, which will lead to lasting financial management improvements and, as a result, provide greater assurance of future audit readiness.