

Why GAO Did This Study

In November 2010, the Department of Defense (DOD) Inspector General (IG) issued a disclaimer of opinion on the Department of the Navy's financial statements because of pervasive, long-standing material internal-control weaknesses, including Fund Balance with Treasury (FBWT). In the federal government, an agency's FBWT account is similar in concept to a corporate bank account. The difference is that instead of a cash balance, FBWT represents unexpended spending authority in appropriations. Because DOD relies heavily on budget information for day-to-day management decisions, in August 2009, the DOD Comptroller designated the Statement of Budgetary Resources (SBR) as an audit priority. FBWT will need to be auditable in order for the SBR to be reliable. GAO was asked to determine whether the Navy and the Marine Corps have implemented effective FBWT reconciliation processes. To assess these processes, GAO analyzed Navy and Marine Corps policies and procedures for FBWT reconciliations, and met with Navy, Marine Corps, and Defense Finance and Accounting Service (DFAS) officials. GAO also tested nongeneralizable samples of FBWT transactions and adjustments and reviewed associated supporting documentation.

What GAO Recommends

GAO is making six recommendations to improve Navy and Marine Corps policies and procedures to guide the FBWT reconciliation process, provide training to communicate these policies and procedures to staff, and resolve system deficiencies. DOD concurred with GAO's recommendations.

View [GAO-12-132](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

DOD FINANCIAL MANAGEMENT

Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury

What GAO Found

Neither the Navy nor the Marine Corps have implemented effective processes for reconciling their FBWT. The *Treasury Financial Manual* and DOD's *Financial Management Regulation* require DOD components to perform monthly FBWT reconciliations and maintain detailed reconciliation worksheets and documentation to provide an adequate audit trail for the resolution of differences. GAO's *Standards for Internal Control in the Federal Government* states that the supervisory review and approval process is a key control activity for federal agencies. The Navy and the Marine Corps rely on the Defense Finance and Accounting Service located in Cleveland (DFAS-CL) to perform their FBWT reconciliation steps; however, GAO found numerous deficiencies in the FBWT process that impair the Navy's and the Marine Corps's ability to reconcile their FBWTs with Treasury records, including the following:

- The Navy and Marine Corps rely on the data from Defense Cash Accountability System (DCAS) to reconcile their FBWT to Treasury's records; however, they have not taken the necessary actions to ensure that the data are reliable. Specifically, DOD has not tested the application controls over DCAS since its implementation to determine if the system is processing data as intended. The Navy, the Marine Corps, and DFAS have identified a list of over 650 DCAS system change requests that needed to be addressed in order to correct DCAS data reliability and security problems or process required system updates; over 200 of these system change requests are deficiencies that affect audit readiness and 20 require immediate attention.
- DFAS did not maintain adequate documentation for the nongeneralizable sample of items GAO tested to enable an independent evaluation of its efforts to research and resolve differences. In addition, there was no evidence of supervisory review and approval.
- DFAS records forced-balance entries (plugs) to account for differences between Navy and Marine Corps appropriation balances and Treasury's.

DFAS is unable to reconcile the cash activity recorded in the Navy's general ledger accounting systems to that recorded in DCAS. DFAS officials stated they acquired the Business Activity Monitoring (BAM) tool to perform this reconciliation; however, after 4 years of effort and \$29 million, the BAM tool does not yet provide the information needed to identify and resolve the underlying causes of differences between DCAS and Navy general ledger systems. As of April 2011, there were more than \$22 billion unmatched disbursements and collections affecting more than 10,000 lines of accounting. DOD IG officials stated they were performing substantive testing to confirm the balance of the Marine Corps FBWT as part of their audit of the Marine Corps's Fiscal Year 2011 Statement of Budgetary Resources. This testing did not include internal control and did not provide assurance on the effectiveness of the Marine Corps' FBWT reconciliation process. Navy, Marine Corps, and DFAS-CL officials agreed existing FBWT policies and procedures are inadequate. DFAS-CL and Navy officials stated the base realignment and closure changes 2006–2008 resulted in loss of experienced DFAS-CL personnel and that remaining staff have not received needed training. The Navy is developing a plan of action and milestones (POAM) to address weaknesses in audit readiness.