

Why GAO Did This Study

The Defense Finance and Accounting Service-Indianapolis (DFAS-IN) reported that fiscal year 2010 active Army military payroll totaled \$46.1 billion. However, for several years, GAO and others have reported continuing deficiencies with Army military payroll processes and controls, raising questions about the validity and accuracy of reported Army military pay and whether it is auditable. The Department of Defense (DOD) has recently accelerated its Statement of Budgetary Resources audit readiness goal by 3 months to 2014 and is required to achieve audit readiness for a full set of DOD financial statements by 2017. GAO performed basic audit procedures for the Army's active duty military payroll to assess the Army's ability to (1) identify a valid population of payroll transactions and (2) test a sample of payroll transactions for validity and accuracy. GAO reviewed applicable laws and regulations, analyzed DOD and Army policies and procedures, drew a statistical sample of payroll transactions to test their accuracy and validity, and met with DOD, DFAS-IN, Army, and Defense Manpower Data Center officials.

What GAO Recommends

GAO is making four recommendations to help the Army develop the processes and controls necessary to achieve financial statement audit readiness, including identifying and validating the population of military payroll transactions and obtaining and retaining necessary pay-affecting documents. The Army concurred with GAO's four recommendations and noted actions it is taking.

View [GAO-12-406](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

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DOD FINANCIAL MANAGEMENT

The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay

What GAO Found

The Army could not readily identify the population of Army military payroll accounts given its existing procedures and systems. The Army and DFAS-IN did not have an effective, repeatable process for identifying the population of active duty payroll records. For example, it took 3 months and repeated attempts before DFAS-IN could provide a population of service members who received active duty Army military pay in fiscal year 2010. Further, because the Army does not have an integrated military personnel and payroll system, it was necessary to compare the payroll file to active Army personnel records. However, the Defense Manpower Data Center (DMDC), DOD's central repository for information on DOD-affiliated personnel, did not have an effective process for comparing military pay account files with military personnel files to identify a valid population of military payroll transactions. It took DMDC over 2 months and labor-intensive research to compare and reconcile the total number of fiscal year 2010 active duty payroll accounts to its database of personnel files. DOD's *Financial Improvement and Audit Readiness (FIAR) Guidance* states that identifying the population of transactions is a key task essential to achieving audit readiness. Without effective processes for identifying the population of Army military pay records and comparing military pay accounts to personnel records, the Army will have difficulty meeting DOD's 2014 audit readiness goal for the Statement of Budgetary Resources.

In addition, the Army does not have an efficient or effective process or system for providing supporting documents for Army military payroll. For example, DFAS-IN had difficulty retrieving and providing usable Leave and Earnings Statement files and the Army was unable to locate or provide supporting personnel documents for GAO's statistical sample of fiscal year 2010 Army military pay accounts. GAO's *Standards for Internal Control in the Federal Government* and DOD's FIAR Guidance provide that audited entities document transactions and events and assure that supporting documentation can be identified, located, and provided for examination. Although the Army deployed the Interactive Personnel Management System (iPERMS) as the Army's Official Military Personnel File in 2007, it had not consistently or completely populated iPERMS with personnel records. At the end of September 2011, 6 months after receiving GAO's 250 statistical sample items, the Army and DFAS-IN were able to provide complete documentation for 2 of GAO's sample items and provided partial documentation for 3 items, but provided no documentation for 245 of GAO's 250 sample items.

The Army has begun several military pay audit readiness efforts that, if successfully implemented, could help increase the likelihood of meeting DOD's 2014 Statement of Budgetary Resources audit readiness goal and the 2017 mandate for audit readiness on a complete set of DOD financial statements. These efforts include documenting and testing payroll system application controls, documenting Army military pay business processes, identifying the range of supporting documents for military pay, and developing an integrated military personnel and payroll system. Most of these efforts are not yet documented and, therefore, there is no assurance that they will be implemented timely and effectively.