

# GAO Highlights

Highlights of [GAO-14-10](#), a report to congressional committees

## Why GAO Did This Study

The National Defense Authorization Act for Fiscal Year 2013 mandated that DOD's FIAR Plan include the goal of validating that DOD's Statement of Budgetary Resources (SBR) is audit ready by no later than September 30, 2014. DOD identified contract pay as one of the key elements of its SBR. DFAS, the service provider responsible for the department's contract pay, asserted that its processes, systems, and controls over contract pay were suitably designed and operating effectively to undergo an audit.

DOD's FIAR Guidance provides a methodology DOD components are required to follow to develop and implement FIPs to improve financial management and assert audit readiness. The FIP is a framework for planning, executing, and tracking the steps and supporting documentation necessary to achieve auditability.

GAO is mandated to audit the U.S. government's consolidated financial statements, including activities of executive branch agencies such as DOD. This report discusses the extent to which DFAS implemented its contract pay FIP in accordance with the FIAR Guidance. GAO reviewed the FIP and related work products, such as process flowcharts, test plans, and test results, and interviewed DFAS and DOD officials.

## What GAO Recommends

GAO is making nine recommendations for DFAS to fully implement the requirements in the FIAR Guidance in the areas of planning, testing, and corrective actions. DOD concurred with the recommendations and described its actions to address them.

View [GAO-14-10](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

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## DOD FINANCIAL MANAGEMENT

### The Defense Finance and Accounting Service Needs to Fully Implement Financial Improvements for Contract Pay

## What GAO Found

The Defense Finance and Accounting Service (DFAS) is responsible for processing and disbursing nearly \$200 billion annually in contract payments (contract pay) for the Department of Defense (DOD). DFAS recognized the importance of implementing a Financial Improvement Plan (FIP) to improve its contract pay processes, systems, and controls, and performed steps required by DOD's Financial Improvement and Audit Readiness (FIAR) Guidance, such as performing testing of internal controls, and substantive processes. However, GAO found that DFAS did not fully implement the steps required by the FIAR Guidance. GAO found numerous deficiencies in the implementation of DFAS's contract pay FIP, including the following:

- DFAS did not adequately perform certain planning activities for its contract pay FIP as required by the FIAR Guidance. For example, DFAS did not assess the dollar activity and risk factors of its processes, systems, and controls, which resulted in the exclusion of three key processes from the FIP, including the reconciliation of its contract pay data to the components' general ledgers. *Standards for Internal Control in the Federal Government* states that control activities such as reconciliations are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. As result, DFAS did not obtain sufficient assurance that the contract disbursements are accurately recorded and maintained in the components' general ledgers, and that the status of DOD's contract obligations is accurate and up-to-date.
- DFAS did not adequately perform required testing of its contract pay controls, processes, and balances. For example, DFAS did not adequately validate the populations used to perform substantive and internal control testing as required by the FIAR Guidance. DFAS officials stated that they validated that the population that was tested; however, GAO found that the process followed by DFAS for validating the population did not include a reconciliation of the population to the components' general ledgers. As a result, additional deficiencies may exist in DFAS's contract pay controls and additional errors may exist in the recorded transactions activity and balances, which affects the components' ability to rely on DFAS's controls over contract pay.
- DFAS did not provide adequate documentation to support that it had remediated all of the identified control deficiencies that DFAS stated had been corrected. GAO's review of a nongeneralizable sample of 25 of these deficiencies found that in 3 instances, corrective actions had not been taken as required, and in 15 other instances, the documentation provided by DFAS did not sufficiently support that the identified deficiencies were remediated. DFAS had adequately developed and implemented the necessary corrective action plans for 7 of the deficiencies GAO reviewed.

Although DFAS has asserted audit readiness, until it corrects the deficiencies and fully implements its FIP in accordance with the FIAR Guidance, its ability to process, record, and maintain accurate and reliable contract pay transaction data is questionable. Therefore, DFAS does not have assurance that its FIP will satisfy the needs of the components or provide the expected benefits to department-wide audit readiness efforts.