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HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

Statement of

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before the

Subcommittee on Government Organization, Efficiency and Financial Management

House Committee on Oversight and Government Reform

and the

Subcommittee on Federal Financial Management

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Chairman Platts, Chairman Carper, Ranking Member Towns, Ranking Member Brown, and distinguished Members of both Committees, my name is Aaron Gillison. I am the Acting Director of the Defense Finance and Accounting Service (DFAS) Indianapolis site. Thank you for having this hearing that emphasizes the importance of the Army's military pay, especially in light of the Department's 2014 audit readiness goals.

I am pleased to be here today to discuss the DFAS-specific improvement actions completed or underway that address the United States Government Accountability Office (GAO) Report to Congressional Requesters titled, "*The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay*," (Draft GAO-12-406 Report Dated February 8, 2012). I would also like to thank Mr. Khan and the GAO for their hard work completing this study. The report confirms the Army and DFAS have more work to do to be ready for an Army military pay audit assertion.

Today, I will discuss the services DFAS provides to the Department; DFAS-specific improvements made and planned in support of an Army military pay audit; how DFAS is positioned to support our customers' audit readiness assertions; and work DFAS is performing in collaboration to support our customers audit readiness goals.

In terms of our mission, DFAS provides military and civilian payroll services; pays commercial vendors and travelers; and performs accounting and financial reporting services, to include the production of the summary-level financial reports Congress uses to monitor the Department's financial health. In addition, DFAS has expertise in the area of achieving a clean audit opinion as our Agency has maintained an unqualified audit opinion for twelve years. Our

challenge is to ensure audit readiness for our systems and processes supporting our customers and their mission. To support our customers in their audit readiness efforts, DFAS is applying the Department's Financial Improvement and Audit Readiness (FIAR) principles, which defines the Department's goals, strategy, and methodology for becoming audit ready; implementing control points; expediting improvement initiatives; addressing systems challenges; and moving closer to audit readiness goals established by the Department and Congress. To do this, we are actively leveraging senior leader support; educating our own employees; collaborating with our customers; and working to fully involve our process partners. These efforts put the Department on the right path to achieve military payroll audit readiness.

The DFAS military payroll mission is a significant component of the Department's auditability goals. As of fiscal year 2010, the active Army payroll accounted for $46.1 billion in Army resources or 20% of Army net outlays. In total, this included about 9.6 million Army military pay transactions over the course of 2010.

Recognizing Army military pay is not audit ready today, DFAS and the Army have made and identified improvements to achieve Army military pay audit readiness. As a process partner with Army, DFAS is engaged in and committed to executing the DFAS-owned actions identified in the Army's Financial Improvement Plan (FIP). The FIP provides a Department-wide standard that organizes and prioritizes the financial improvement efforts and provides a consistent, structured approach for measuring auditability progress. The actions identified in the FIP and those highlighted in the remainder of this testimony address GAO findings from this report and help to move us toward achieving audit readiness.

The GAO report did confirm that all active duty military members paid in fiscal year 2010 had an active duty personnel file. While we did pay these members correctly, we recognize

the need to improve the ability of all process partners to provide documentation within reasonable timelines for an audit that supports the validity of a military member's net pay.

The Army and DFAS are dedicated to implementing an efficient and effective process for providing supporting documents for Army military payroll. To do this, the Department will use as its source a system design and data query capability in the Master Military Pay Account (MMPA), which is the backbone of our Joint Military Pay System, Active Component (DJMS-AC). DFAS uses DJMS-AC to pay active Army, Air Force and Navy military members.

In addition, we'll work with all process partners responsible for creating, storing and retrieving source documents to get agreements in place to ensure substantiating documentation is provided to auditors within agreed upon timelines. Already, DFAS and the Army are developing a matrix of entitlements with locations of supporting documents and organizations responsible to aid in more timely retrieval. This document will facilitate the necessary conversations and subsequent agreements required between all process partners (e.g., Army Personnel; Army Financial Management; National Archives and Records Administration; Defense Management Data Center; and DFAS) to ensure clarity of roles, responsibilities, and acceptable standard retrieval timelines. Further, the reinvigoration of Army Personnel efforts to establish use of the Interactive Personnel Electronic Records Management System (iPERMS) as the document repository of personnel actions will assist in providing substantiating documents to auditors in a timely manner. We also will be reviewing the Department's current financial records retention regulation of six years and three months as we forge ahead toward audit readiness.

To complement our long-standing weekly reconciliation of Army military pay directly to the Army's personnel systems, DFAS now has an effective and repeatable process for identifying and reconciling Army active duty payroll records to its accounting system. Beginning with

October 2011 data, DFAS implemented monthly military payroll reconciliations tracing the active duty Army military payroll data from DJMS to the accounting system and incorporated the reconciliation of the DJMS summary to detail Social Security Account Number (SSAN) level data. In addition to extracting the Soldier level detail for all pay and allowance categories, we create a population (universe of transactions) for each payroll consisting of all unique SSAN records for the period. Generated each month (beginning with October 2011) and archived for potential future sampling, the population can be extracted for a single payroll period (month) or combined to create a population for a broader time period. Since the population is archived each month, DFAS can provide transaction data with a minimal turn-around time, which is vital to the audit community's ability to sample transactions. We plan to replicate this capability for other Military Services paid using DJMS.

DFAS is positioned to support our customers' audit readiness activities and to further improve future audit results. The Agency has established a Senior Executive as Director of Audit Readiness who provides enterprise-wide oversight and guidance for DFAS' support to the Department of Defense audit readiness goals and has:

- Incorporated audit readiness goals into all DFAS senior executive performance plans.
- Established audit readiness teams at each DFAS central site charged with ensuring all audit readiness efforts are effectively coordinated and executed. At DFAS Indianapolis, 15 of the 35 Audit Readiness Team members are Certified Public Accountants.

In addition, DFAS is:

- Applying the overarching Department's FIAR methodology to ensure audit readiness in DFAS's day-to-day activities by documenting processes, key controls and risks to and identify and remediate gaps.
- Conducting, in collaboration with process partners, the necessary systems reviews using the GAO Federal Information System Controls Audit Manual.
- Preparing for and conducting the American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements Number 16 (SSAE16) audits of DFAS's common processes, such as civilian pay, military pay, and contract pay. The SSAE16 is a cost-effective approach to provide our customers a level of assurance the DFAS processes, systems and controls are operating as intended across the Department and other federal agencies.
- Incorporating lessons learned from on-going audits to proactively implement process and control improvements in response to audit findings and to reduce or eliminate the recurrence of the same audit findings in future audits.
- Designating a senior leader to proactively manage audits from inception to issuance of a final report to ensure auditor requests are met and, if necessary, to escalate issues to the respective Senior Executive.
- Establishing and executing a training strategy to provide external auditors with shortened two to three day training programs focused on interpreting military pay account activity.
- Establishing and executing a training strategy across DFAS to inculcate audit readiness everyday into the DFAS culture.

While the GAO report confirms Army military pay is not auditable today, it provides opportunities that will help the Department successfully achieve audit readiness. DFAS employees are committed to working with our customers to take positive action on the recommendations presented in this report. By identifying the universe of transactions and using a timely document retrieval capability, Army military payroll processing will achieve audit readiness. We are making progress, managing responsibly and successfully moving toward financial auditability. The support of our senior leaders, involvement of every employee in the process, and the continued collaboration with our customers are all keys to our success.

Chairman Platts, Chairman Carper, Ranking Member Towns, Ranking Member Brown and distinguished Members: Thank you for your time today. I look forward to your questions.