RECORD VERSION

STATEMENT BY

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BEFORE THE

HOUSE OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY, AND FINANCIAL MANAGEMENT
AND
SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT

SECOND SESSION, 112TH CONGRESS

ON ARMY PAYROLL "THE ARMY FACES SIGNIFICANT CHALLENGES IN ACHIEVING AUDIT READINESS FOR ITS MILITARY PAY"

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HOUSE COMMITTEE ON OVERSIGHT & GOVERNMENT REFORM

Chairmen Platts and Carper, Ranking Members Towns and Brown, Members of the Committees, thank you for the opportunity to testify regarding the Army's audit readiness for military pay. Secretary of the Army McHugh, Army Chief of Staff General Odierno, Under Secretary Dr. Westphal, the Army's Chief Management Officer (CMO), Assistant Secretary of the Army (Financial Management & Comptroller) Dr. Matiella, and I are committed to achieving auditability of the Army's military personnel pay business process. Military pay represents a material aspect of the Army's General Fund Statement of Budgetary Resources, which Secretary of Defense Panetta has required to be audit ready by Fiscal Year (FY) 2014. The Army is executing a sound, comprehensive audit readiness plan and has begun to demonstrate progress toward Secretary Panetta's 2014 milestone.

I thank the Government Accountability Office (GAO) for their audit and recommendations. We concur with their findings that the Army faces challenges in achieving audit readiness for military pay. The majority of the GAO's findings are consistent with the corrective actions already identified in the Army's Financial Improvement Plan (FIP). The FIP provides a detailed schedule of all corrective actions that must be completed to establish audit readiness, including those related to military pay. GAO's findings confirmed our understanding of required corrective actions and provided additional insights into actions that must be completed to assert audit readiness of military pay.

For example, the Army is working with the Defense Finance and Accounting Service (DFAS) to develop and document an effective and repeatable process for identifying the population of active duty military payroll accounts each fiscal year. This

represents our highest priority. In fact, the Army and DFAS implemented a new process in October 2011 that includes a monthly reconciliation of all detailed military personnel pay statements to the summary financial reporting records. This process improvement represents a significant accomplishment that advances the Army's military personnel pay audit readiness.

In addition, we are mapping military personnel and payroll business processes, identifying the key pay-related substantiating documents and procedures for maintaining these documents. As part of this effort the Army and DFAS are working together to create a matrix that outlines the relevant substantiating documents and points of retention of those documents for each payroll entitlement. We are also documenting business processes and internal control activities associated with each detailed military payroll transaction. The business process maps and document retention criteria, which were not available during the GAO audit, will inform the financial statement auditors of how payroll entitlements are processed and how to obtain supporting documentation.

Finally, we are reviewing all policies governing the storage and retention of key personnel and payroll-related documents. Specifically, we are revising Army Regulation 600-8-104, Military Personnel Information Management/Record, to require key personnel and pay-related documents supporting military payroll transactions be centrally located and retained in the service member's Official Military Personnel File. These revisions will require human resource managers to periodically review and confirm that Office Military Personnel File records in master personnel record systems are consistent and complete to support financial statement audit requirements. The

review will ensure policies, processes, and supporting business systems enable timely access to substantiating documentation in a cost-effective manner.

Our goal for Army military pay audit readiness is to ensure controls are in place to continue paying Soldiers the right entitlements, in the right amounts, at the right time, and to accurately report these transactions on the financial statements. Together, the Army and DFAS are working to meet the FY 2014 Statement of Budgetary Resources (SBR) assertion deadline. As a part of the Department of Defense (DoD) audit readiness strategy, we are documenting the military pay processes and control environment, testing the key internal controls, developing and implementing corrective actions to address gaps and deficiencies, and establishing a process for recurring control testing to sustain the auditable environment.

I want to highlight the excellent working relationship between the Army and DFAS, and collaborative and coordinated effort to address these issues. Additionally, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Improvement and Audit Readiness Directorate continues to be a valuable partner in this effort, as the DoD Financial Improvement and Audit Readiness (FIAR) Guidance serves as the Army's roadmap to achieve audit readiness of military pay.

The Army leadership is committed to this intensive audit readiness effort. Leadership support of these efforts is visible and contributing to a culture of change and accountability within the Army. The message is clear—we are accountable for managing the Army's resources and supporting audit readiness efforts. We are making great progress because of the commitment from Army senior leaders and business

process owners. I look forward to working with the members of these Committees and GAO to ensure the Army's continued financial improvement.

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