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## The Difficulties Faced by the U.S. Army's Fund Balance with Treasury Account Reconciliation System

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THE DIFFICULTIES FACED BY THE U.S. ARMY'S FUND BALANCE WITH  
TREASURY ACCOUNT RECONCILIATION SYSTEM

by

Danielle Lelio

A Thesis Submitted in Partial Fulfillment  
of the Requirements for a Degree with Honors  
(Accounting)

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University of Maine

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## ABSTRACT

The U.S. Army's financial management system has been struggling with material weaknesses and problematic internal control failures for the past ten years. Within the Army General Fund, there have been 20 material weaknesses<sup>1</sup> uncovered via audit. These weaknesses indicate that there are financial management problems within these areas and there are problems within the Army's internal financial control and reporting systems. In order to navigate these problems, a series of plans were created to improve controls in the areas most prone to weakness in preparation for the fiscal year 2018 full Department of Defense audit.

One of the areas in which one can see the most material weaknesses is the Fund Balance with Treasury account, which is part of the General Fund. The issues present in the Fund Balance account mainly stem from problems surrounding the lack of standardization of data input, human error when transferring data between systems, and difficulty tracing summary-level numbers back to transaction-level details. Attempts to solve these weaknesses have included developing a universe of transactions to help trace information back to the transaction level, the creation of an automated tool to identify differences between account numbers when reconciling, and restructuring data reporting systems.

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<sup>1</sup> *Fiscal Year 2017 United States Army Annual Financial Report*(Rep.). (2017). Retrieved <https://media.defense.gov/2017/Nov/22/2001847637/-1/-1/1/DODIG-2018-013.PDF>

## TABLE OF CONTENTS

Table of Contents	
TABLE OF FIGURES.....	iv
BODY OF THESIS.....	1
THE NATURE OF THE PROBLEM.....	1
THE DoD’S PROPOSED SOLUTIONS.....	9
IMPLEMENTATION ISSUES .....	12
PROPOSED SOLUTIONS.....	18
CONCLUSION.....	25
BIBLIOGRAPHY .....	26
APPENDIX: GLOSSARY .....	28
AUTHOR’S BIOGRAPHY.....	29

## TABLE OF FIGURES

Table 1.....	5
Figure 1.....	7

## THE NATURE OF THE PROBLEM

The U.S Army is one of the largest organizations in the world and handles billions of dollars of funds each year to support domestic and overseas efforts. As a segment of the Department of Defense (DoD), the Army financial system is controlled by the Under Secretary of Defense (Comptroller) (USD(C))<sup>2</sup>. The USD(C) position is essentially a CFO position for the DoD as whole, and the USD(C) serves as a financial advisor to the Secretary of Defense. The USD(C) is the primary point of contact for all matters budgetary and fiscal for the Secretary of Defense, and this staff position is the central hub for finance-based directives that move down throughout the lower components of the military.

This centrally-focused system in the typical style of a military bureaucratic organization does have its flaws. As an entire organization, the DoD has struggled to maintain sound records and good reporting standards in the interest of financial transparency, and as a result has encountered issues with compiling annual financial statements and preparing for audits in accordance with the DoD established Financial Management Regulation. In response to these issues, the USD(C) has created a sub-department responsible for addressing and correcting the problems within the current DoD financial control system. This department is driven by the overarching need for a plan to improve financial management in order to bring the DoD systems up to par with

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<sup>2</sup> U.S Department of Defense. (2010). "Chief Financial Officer of the Department of Defense": Financial Management Regulation DoD 7000.14-R. Retrieved from [http://comptroller.defense.gov/Portals/45/documents/fmr/Volume\\_01.pdf](http://comptroller.defense.gov/Portals/45/documents/fmr/Volume_01.pdf)

organizational regulations as well as those outlined by the Governmental Accounting Standards Board (GASB).

The initial Financial Improvement and Audit Readiness (FIAR) plan created in 2005, sets a roadmap to achieve to improve the accuracy, reliability, and timeliness of financial information<sup>3</sup>. This initial plan has served as a comprehensive collection of all DoD financial improvement initiatives, and these focuses were subcategorized into more detailed plans for the Balance Sheet belonging to each of the following branches, like the Army, Navy, and Air Force. Since the creation of the FIAR Plan in 2005, the USD(C) has issued a FIAR Plan Status Report biannually that breaks down the short-term goals for each of the components, indicates any progress that has been made, and reports whether new implementations or changes have been successful.

Specifically within the Army component, FIAR efforts mainly revolve around financial difficulties that have been identified by audit departments and been reported within the financial statements. These problems and their impacts are categorized as “material weaknesses”, which indicate that they have the potential to cause material misstatement of the financial statements, as well as call into question the Agency’s ability to handle government and private funds. Material weaknesses in the Army have reached the extent to which the Army is incapable of receiving an unqualified audit report. That speaks volumes to the internal control weaknesses within the organization and the lack of transparency with the financial statements. An unqualified audit report means that the auditor deems the information as reported on the financial statements to be represented fairly without any material misstatement, and that the statements were prepared in

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<sup>3</sup> Financial Improvement and Audit Readiness (FIAR) Plan Status Report (Rep.). (2015). United States Department of Defense.

accordance with relevant regulations<sup>4</sup>. According to an assessment performed by the Army and reported in the Army Financial Report<sup>5</sup> fiscal year (FY) 2017, the U.S. Army has 31 material weaknesses identified across the two categories assessed.

Of these 31 material weaknesses, 20 are related to internal controls of the Army General Fund (AGF), which is one of two main funds within the Army financial system. As of 2017 financial reports, the AGF includes total assets of \$291.7 billion, comprised of the Fund Balance with the Treasury or FBWT (its available budget spending authority), as well as Inventory and General Property, Plant, and Equipment<sup>6</sup>. The amount of material weaknesses within the AGF has been problematic since 2005 when the original FIAR plan was created, and the area in which they have been most prevalent is the Fund Balance with Treasury (FBWT). The persistence of the material weakness issue in the FBWT area suggests that improvements in internal controls are not happening as quickly as the FIAR reports have indicated.

In order to understand the overall role of the FBWT account and the gravity of its weaknesses, it is essential to understand the flow of government funds through the Army system. The monetary resources for the AGF are maintained within U.S Treasury accounts, and as funds are needed, disbursing offices through the Army processes the cash collections, adjustments to the AGF, and disbursements as needed. Each disbursing office then issues a monthly report to the Treasury describing checks issued and any transfers or deposits. The Defense Finance and Accounting Service (DFAS), the

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<sup>4</sup> The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, PCAOB § AS 3101 (2017).

<sup>5</sup> *Fiscal Year 2017 United States Army Annual Financial Report*(Rep.). (2017). Retrieved <https://media.defense.gov/2017/Nov/22/2001847637/-1/-1/1/DODIG-2018-013.PDF>

<sup>6</sup> *Fiscal Year 2017 United States Army Annual Financial Report*(Rep.). (2017). Retrieved <https://media.defense.gov/2017/Nov/22/2001847637/-1/-1/1/DODIG-2018-013.PDF>

organization that processes accounting and financial functions for the DoD, also submits its own reports to the Treasury and reconciles the Army FBWT accounts to ensure it agrees with the amounts indicated in the U.S. Treasury Accounts<sup>7</sup>. One material weakness identified is the Army's inability to reconcile its records to those of the Treasury. As a result, there are discrepancies that must be reconciled between the two that are recorded in the yearly financial reports under the financial statement section. As can be seen from Table 1, the amount by which the FBWT account has to be adjusted in order to reflect the same amount represented by the Treasury has decreased significantly throughout the past five years as a result of FIAR efforts, but despite those changes the account is still considered a material weakness.

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<sup>7</sup> *Fiscal Year 2017 United States Army Annual Financial Report*(Rep.). (2017). Retrieved <https://media.defense.gov/2017/Nov/22/2001847637/-1/-1/1/DODIG-2018-013.PDF>

<b>USD Amounts in Thousands</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Fund Balance (Treasury)</b>	136,434,864	128,726,271	113,087,767	106,133,745	108,094,999
<b>Fund Balance (Army)</b>	132,379,727	128,695,911	113,051,240	106,100,483	108,094,630
<b>Reconciliation Amount</b>	4,055,137	3,809,102	36,527	33,262	369

Table 1: The Reconciliation Amounts From the U.S. Army Financial Reports for FBWT Over a Span of Five Fiscal Years

According to DoD guidance and the Treasury Financial Manual (TFM), each agency is required to reconcile their FBWT account on a monthly basis. The regulation also indicates that if material adjustments are made to the account in order to reconcile, adequate records and documentation must be provided along with the reconciliation<sup>8</sup>. These reconciliations are a team effort between the Army and DFAS, and according to DoD Regulation<sup>9</sup>, each has their own requirements for a proper and timely reconciliation to take place. DFAS is responsible for recording any transactions that take place through their disbursal stations and ensuring that information sent to the Treasury is accurate and matches what is reported to the DFAS Treasury. DFAS representatives also look into

<sup>8</sup> Lebryk, D. A. (2012, March 19). *Treasury Financial Manual*.

<sup>9</sup> Financial Management Regulation, IV Department of Defense § Accounting Policy (2016).

and resolve issues identified on the Statements of Differences, and reconcile FBWT appropriation accounts at several levels, including ensuring the FBWT universe of transactions for each Treasury Account Symbol recorded for all DoD funds is complete and fully reconciled to all of the individual appropriation account balances recorded at Treasury.

The last responsibility of DFAS in terms of FBWT accounts is in regards to service branch-specific accounts. DFAS reconciles DoD U.S. Standard General Ledger (USSGL) account at the Organization Unique Identifier Code limit level. What this means is that DFAS breaks down the Treasury's main account for each component into specific categories that can then be traced back to the transactional level. The individual components play a role in this as well, as they keep a log of individual transactions and disbursements that affect the Treasury account and compile them into a report. Because each component reports transactions to both DFAS and the Treasury itself, it is imperative that the records going to each level are the same, and this is an area where the reconciliation differences are most common. As indicated in the regulation, seamless teamwork between DFAS and the individual component is vital in order to identify, assign, age, track, research, and resolve reconciled differences<sup>10</sup>. Figure 1 shows the relationship between the different critical areas in which the Army faces risks when dealing with FBWT accounts and indicates visually how the disbursing systems interact with the greater organization back up to the Treasury<sup>11</sup>

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<sup>10</sup> Financial Management Regulation, IV Department of Defense § Accounting Policy (2016).

<sup>11</sup> Financial Management Regulation, IV Department of Defense § Accounting Policy (2016).

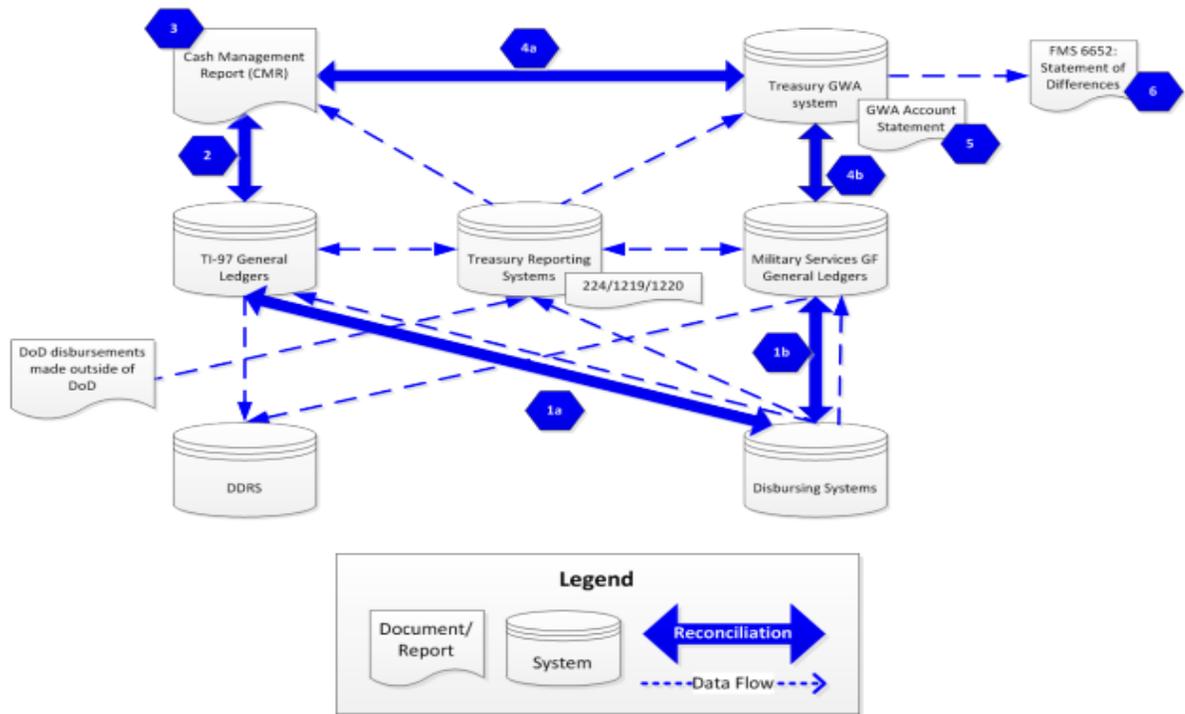


Figure 1: Critical Areas of Focus to Address FBWT Risks

As one can see from the reconciliation process, there are several areas that could be potential sources of material weakness. Data flows between two different ledgers into the treasury reporting systems, but reconciliations are only conducted between the disbursing systems and each ledger (1a) on that level. Because there's so much data flow and limited reconciliation in certain directions, there are openings for potential misstatement or opportunities to have lags in reporting, causing discrepancies. In response to some of these identified weak points in the system, a DoD study in 2012 on the FBWT reconciliation process used DFAS Indianapolis<sup>12</sup> as a test group to see what processes were the most and least effective, with a primary focus on the Cash Management Report (CMR). The study concludes that DFAS Indianapolis (DFAS-IN) did not have sufficient

<sup>12</sup> Defense Finance and Accounting Service Needs to Improve the Process for Reconciling the Other Defense Organizations' Fund Balance with Treasury (Rep. No. DODIG-2012-107). (2012, July 09). Retrieved <https://media.defense.gov/2012/Jul/09/2001712866/-1/-1/1/DODIG-2012-107.pdf>

processes for performing complete reconciliations for the FBWT accounts. Specifically, the insufficient processes included retrieving the records of the specific transactions on the CMRs matching the transactions on the reports to the transactions recorded in the accounting systems, and researching to trace any discrepancies between the two systems.

## THE DoD'S PROPOSED SOLUTIONS

To attempt to solve these issues, the DFAS-IN Director recommended developing a systems infrastructure to allow personnel to quickly retrieve transaction details that would be reconciled on the CMR. From this recommendation came a development team responsible for developing an Army FBWT tool (AFT). This tool would serve as a warehouse for all the detailed transactions and would therefore aid with the accounting and reconciliation of the FBWT. The original AFT design was an automated tool that would reconcile and balance the FBWT account on the transactional level, and works with data from both the Treasury and DFAS systems and conducts comparisons of data on four levels. As indicated in the report<sup>13</sup>, “The first compares the Treasury data with the Army’s summary-level FBWT (Tier 1). The second compares the Treasury data with the Army’s component-level reports submitted to Treasury (Tier 2A). The third compares the Army’s component-level reports with the detailed transactions the Army submitted to Treasury (Tier2B). The final comparison is between the detailed transactions Army reported to Treasury and the detailed transactions recorded in the Army accounting systems (Tier 3)”.

DFAS-IN finished the prototype of the AFT in 2014, and conducted another study to survey the success of its implementation and the likelihood that the tool could be used

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<sup>13</sup> *Additional Actions Needed to Effectively Implement the Army Fund Balance With Treasury Reconciliation Tool*(Rep. No. DODIG-2015-038). (2014, November 20). Retrieved <https://media.defense.gov/2014/Nov/20/2001713440/-1/-1/1/DODIG-2015-038.pdf>

on a larger scale. The study<sup>14</sup> indicated that, while the AFT was sound in theory, it was not implemented appropriately. DFAS-IN did not tailor its processes enough to effectively integrate AFT, and as a result the AFT did not accurately compare the FBWT balance with the Army's account balance. The details surrounding the implementation failures of the AFT mainly surround personnel and internal control systems. One of the key issues was that DFAS-IN personnel did not redesign their process for reconciliation to make optimal use of the AFT when identifying differences and tracing them back to transaction level detail. Part of this issue also stems from the fact that DFAS-IN personnel struggle to identify and resolve differences using AFT in the 10-day time window as required by regulation with accuracy.

There were also difficulties with informational support between tiers, as the tool itself was designed to support reconciliation on the tier 3 level, but not to the extent where the detail was able to be used to support a summary level (tier 1) reconciliation. In response to these implementation difficulties, the testing group recommended reengineering the FBWT reconciliation processes to better integrate AFT, as well as to conduct further assessments to determine whether to better integrate AFT by using the unadjusted trial balance data files from the Army source systems or to spend more time and effort documenting audit trails to ensure FBWT reconciliation is conducted in accordance with regulation.

Many of these recommendations and further areas for improvement were set to be done in the remainder of 2014 and 2015. In 2016, two additional reports were added to

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<sup>14</sup> *Additional Actions Needed to Effectively Implement the Army Fund Balance With Treasury Reconciliation Tool* (Rep. No. DODIG-2015-038). (2014, November 20). Retrieved <https://media.defense.gov/2014/Nov/20/2001713440/-1/-1/1/DODIG-2015-038.pdf>

the structure of AFT that enabled users to download complete data from suspense accounts. Those reports were predicted to allow users to obtain documents needed to trace transactions in suspense accounts back to the date of their original occurrence to better documentation within the reconciliation process<sup>15</sup>.

The latest developments in the AFT implementation process date as recently as December 2017. The most recent version of the AFT used a process that includes a record made up of transactions with the same Line of Accounting, Document Voucher Number, and Reimbursable Designator<sup>16</sup>. Any differences that AFT uncovers must be reconciled by DFAS and adjusted as necessary while maintaining appropriate documentation. According to the report, AFT processes transaction level data and sorts it into one of four categories: “(1) in the Army’s systems but not in the Treasury’s system, (2) in the Treasury’s system but not in the Army’s systems, (3) in both systems but the dollar values do not match, or (4) in both systems with matching dollar values”. Within the first three months of 2015, the AFT identified 11,359 records that fell under one of the first three categories, which shows that for the goal of identifying discrepancies early, it was an effective tool. However, one of the aspects that remains to be an issue is the timeliness of these reconciliations. This latest report recommends DFAS reengineer the reconciliation process in order to trace the transactions in a timelier manner so reconciliations can be completed within 10 days of month completion as required by regulation, a time window which has been difficult to achieve in the past.

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<sup>15</sup> *Improvements Needed in Managing Army Suspense Accounts*(Rep. No. DODIG-2016-103). (2016, June 27). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2016-103.pdf>

<sup>16</sup> *Ineffective Fund Balance With Report No. DODIG-2017-069 Treasury Reconciliation Process for Army General Fund*(Rep. No. DODIG-2017-069). (2017, March 23). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2017-069.pdf>

## IMPLEMENTATION ISSUES

As can be seen from all of these studies surrounding the implementation and use of AFT, it has the potential to greatly decrease material weakness within the FBWT accounts, and improve internal control in the Army's system. However, the AFT is not yet at a point where it can be utilized exclusively or on an Army-wide scale. With select changes and concepts to reengineer, it is possible that AFT can move beyond just as a testing phase product for DFAS-IN, and so to do so, careful adjustments need to be made to the AFT use process.

The most recent development for the AFT was reported in the 2017 report, as well as several of the periodic FIAR plan status reports. One of the key FBWT reconciliation improvement strategies was to develop a universe of transactions. Which means that the Army would be able to have a complete collection of activity at the transaction level. This supports any conclusions made during the final reconciliation, and this would allow an auditor to trace any numbers found in the financial statements or in the reconciliation back to the individual transactions.

In order to develop this universe of transactions, greater internal controls need to be in place when it comes to recording activity at the transaction level. This is where the Army has struggled in the past. According to the May 2017 FIAR Plan Status Report<sup>17</sup>, the initial development of this universe was completed for the General Fund and Working Capital Fund financial statements. In response to the initial Army audits in September of

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<sup>17</sup> *Financial Improvement and Audit Readiness (FIAR) Plan Status Report*(Rep.). (2017, May). Retrieved [http://comptroller.defense.gov/Portals/45/documents/fiar/FIAR\\_Plan\\_May\\_2017.pdf](http://comptroller.defense.gov/Portals/45/documents/fiar/FIAR_Plan_May_2017.pdf)

2017, the development of a universe of transactions was officially considered a financial statement area of focus for correcting weaknesses. One of those weaknesses was the FBWT weakness, and to respond to this eleven Corrective Action Plans were created, eight of which have been completed and closed. This universe is set to be complete by January 2019, and as of November 2017 was considered 81% complete. In order to actually make this universe as effective as it needs to be, there are stumbling blocks that need to be addressed. While having a set list of transactions to look to when making entries and reconciling accounts is helpful, it needs to be implemented in a specific way. Personnel from both the Army and DFAS need to be made aware of how the universe of transactions is set to be used, and this universe needs to be integrated in a standard way for all organizations involved.

While having this universe will be helpful, this alone will not be enough to ensure effectiveness of AFT. Incorrectly recorded vouchers and a lack of submission and record of the required paperwork to address transaction adjustments made during the reconciliation process have also been hampering the implementation of AFT. These issues are known deficiencies within the Army's financial internal controls and have been for a significant period of time. It is imperative that long standing issues with these topics be corrected so efforts can be directed to resolving differences in areas not caused by misuse of the system. AFT has been used primarily to find and trace differences between Treasury and DFAS data, but because of these systematic problems, the use of AFT will need to be reengineered. The focus should shift beyond the use of AFT to merely identify these differences, and should move toward correcting the deficiencies within the system that are making so many of these preventable differences occur. If

these deficiencies are corrected, the AFT can process more transactions and data without being bogged down by excess data from preventable issues.

Some of these deficiencies stem from systemic weaknesses, like not using AFT in favor of other, more familiar but also more time consuming practices. As discussed in the 2015 report<sup>18</sup>, integrating the AFT to the extent where it can actually make employee lives easier and make reconciliations more precise has not happened. DFAS-IN employees are utilizing the same FBWT reconciliation process as they had been before all the improvements, and are simply trying to add in the new tool. This incomplete implementation has not been effective, because it is not enabling the tool to complete reconciliations at Tier 1 and 2A.

Another issue that has come up in the FBWT reconciliation process is the lack of data standardization between the organizations. Processing data in a reconciliation requires numbers and transactions to be able to be sourced back at every level to understand where each organization has gotten their summary totals from. If the systems or recording methods are not standardized, that piece of the reconciliation process becomes exponentially more difficult. That lack of standardization is also a key area for differences to happen; differences that are easily preventable. For example, according to the 2017 report on the FBWT reconciliation process<sup>19</sup>, there were 1,816 unresolved differences uncovered in the reimbursement vs. collection designation area. These

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<sup>18</sup> *Additional Actions Needed to Effectively Implement the Army Fund Balance With Treasury Reconciliation Tool*(Rep. No. DODIG-2015-038). (2014, November 20). Retrieved <https://media.defense.gov/2014/Nov/20/2001713440/-1/-1/1/DODIG-2015-038.pdf>

<sup>19</sup> *Ineffective Fund Balance With Report No. DODIG-2017-069 Treasury Reconciliation Process for Army General Fund*(Rep. No. DODIG-2017-069). (2017, March 23). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2017-069.pdf>

differences could have been easily prevented had DFAS personnel and the Treasury personnel processed and transmitted data in a standardized format.

One can see the significance of the need for standardization through the prevalence of problem disbursements within the financial reports. Army regulation<sup>20</sup> defines a disbursement as an amount paid by a Federal agency to liquidate government obligations. When accounting for these payments, disbursements must be able to be matched to their corresponding obligations. Disbursements that are either recorded in a way that does not fit their obligation or recorded without an obligation at all are considered to be problem disbursements, and these are those that create problems during the reconciliation process. Disbursements can directly influence the summary of the FBWT account, and because of that are considered a “high risk” problem. A 2016 DoD report<sup>21</sup> on accounting issues encountered by DFAS discussed a lack of standardization as an issue when reporting these problem disbursements. The Army, when reporting to DFAS, had no set method for submitting this information so DFAS received data via email, shared drive, or downloads from various databases. This plethora of data sources keeps DFAS from being able to verify the source easily, and prevents the ability to verify the accuracy of the data submitted. This means that DFAS is unable to correct or trace problem disbursements due to the unstandardized submission methods.

Moving beyond standardization, other research efforts focus heavily on differences caused by systemic issues, and as a result created statistical projections for what percentages of differences were actually caused by the systems in place and their

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<sup>20</sup> Financial Management Regulation, IV Department of Defense § Accounting Policy (2016).

<sup>21</sup> *Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective* (Rep. No. DODIG-2016-064). (2016, March 28). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2016-064.pdf>

misuse. Based on that data, it was established that only about 23.6% of errors were unrelated to known system deficiencies. This means that it is going to be incredibly difficult to create any real change in the FBWT reconciliation process if these systemic weaknesses will still be in place.

In response to the difficulties encountered within the FBWT reconciliation process and use of AFT, a series of plans were made to reengineer the process to better accommodate the new AFT and avoid differences in basic areas. The first plan was in reference to the timeliness associated with the FBWT reconciliation. DoD Financial Management regulation<sup>22</sup> states that DFAS must complete its reconciliation within 10 business days of the end of the month being reconciled. While this may seem like plenty of time, when dealing with the issues in reconciliation the Army has been, it may be time to consider adjustments be made to the regulation to allow DFAS and its components to create better products if given more time. Therefore, the plan was to remove the 10-day period and readjust the financial management regulation to allow for more time for DFAS to manage the vastness of the reconciliation.

The second plan was to make specific changes to the FBWT reconciliation process in several areas. Changes were set to be made to correct the system deficiencies identified that were causing so many of the differences. DFAS will now also be required to provide supporting documentation for the system-generated adjustments to the entries within the DFAS system, and will support all adjustment entries with transaction-level detail using the new universe of transactions. The process behind the system-generated

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<sup>22</sup> Financial Management Regulation, IV Department of Defense § Accounting Policy (2016).

adjustments may also need some development as well, as in the past it has been unclear and evidently needs expansion.

The last plan revolved mainly around standardization of data. More specifically, standardizing data from the DFAS system accounting with the other financial systems. Because the systems are so different, having the data set transcribed over in the same way will allow for ease of transfer between systems. This in turn will decrease differences between data sets during the reconciliation process, and therefore create less unnecessary steps.

## PROPOSED SOLUTIONS

To solve the above problems, there are several possible solutions. Firstly, the Army can move toward more modernized computer systems for process data which will allow for all parties to have access to information at the same time while keeping it up to date and easy to trace. Next, more effort should be placed into standardization of entry methods into the various systems, as that will decrease the number of differences one sees between DFAS and component-entered data. Lastly, some of the more tedious and simple activities currently performed by personnel can be conducted automatically, which will help with the standardization efforts as well as eliminate human error in data entry.

Based on the sheer number of reports and studies done by the Army and comptroller, there are many plans in place to increase U.S. Army audit readiness and ability to control financial management within the organization. That being said, there is question as to whether or not the plans set in place will be sufficient to strengthen financial controls to the point where one can expect an unqualified audit report in response to the 2018 audit cycle. There are several reasons why one would think that they are not sufficient, and these reasons cause concern for the Army's ability to improve on material weakness areas.

Firstly, there is question as to the universe of transactions' ability to be created and implemented to the extent required to assuage concerns when tracing summary

numbers back to the transactional level. According to a 2016 DoD report<sup>23</sup>, one of the areas that is most problematic within the transactional realm is the disbursement records. This report indicated that the level to which the DoD is encountering these problem disbursements is high enough that as an organization, DFAS is unable to use the transaction-level disbursement data to support reconciliations.

The action plan outlined in the November 2017 FIAR Plan Status Report<sup>24</sup> indicates that the Army plans to eliminate problem disbursements by tracking, on a monthly basis, disbursements that are considered “problematic” or unmatched and to utilize this data to analyze common patterns within the component’s financial management structure that causes these disbursement issues. This, in conjunction with the development of a universe of transactions to trace numbers back to the transactional level, is anticipated, to be sufficient to decrease the lapses in internal control that cause these problem disbursements, which in turn cause reconciliation difficulties.

This plan is sound in theory, but misses the mark in some key areas. In several reports issued by the DoD, many issues revolve around the outdated nature of many of the computer financial management systems. It is here that more focus should be placed, as keeping track of data on a transactional level is difficult without the standardization that an improved system could provide. Currently the Army uses what is called a legacy system, which essentially means that it is an older information technology system that, while it covers all bases in terms of accounting for information, is quite basic and is not

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<sup>23</sup> *Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective*(Rep. No. DODIG-2016-064). (2016, March 28). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2016-064.pdf>

<sup>24</sup> *Financial Improvement and Audit Readiness Plan Status Report*(Rep.). (2017, November). Retrieved [http://comptroller.defense.gov/Portals/45/documents/fiar/FIAR\\_Plan\\_November\\_2017.pdf](http://comptroller.defense.gov/Portals/45/documents/fiar/FIAR_Plan_November_2017.pdf)

made for work on a large or adaptive scale<sup>25</sup>. Many businesses have started to move to more advanced systems, like Enterprise Resource Planning (ERP). ERP works on an organizational-level scale to sort information and coordinate business activities. It is run on a central database system accessible from any part of the organization, and this allows for different parts of an organization to integrate and distribute data from the central hub all using the same software.

The ERP method is more technologically advanced than the system the Army is currently using. Transitioning to an ERP system allows for all parts of an organization to input data using the same software in the same way, and be able to access necessary information with ease from the central hub. This centralization will decrease the issues the Army and DFAS has been having with data not syncing up at the transactional level due to different input methods and formatting discrepancies.

Continuing to use outdated systems that do not allow for standard data input is unacceptable. Moving the central focus of FIAR efforts for tracing summary numbers back to the transactional level to resetting the information technology software will enable workers to then place their full attention on the more management-level problems that can cause problem distributions and other such issues. Continuing to address the other, smaller-scale difficulties without creating a standard input method where all this improved data can be placed is wasteful of time and energy, and inhibits the positive effects of making all these corrections at the management level. It is for that reason that

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<sup>25</sup> Martin, M. T., & Tan, M. T. (n.d.). *SYMBOLIC PROCESSES IN ERP VERSUS "LEGACY" SYSTEM SUPPORT* (National University of Singapore) [Abstract]. Retrieved from [http://140.138.148.209/im520/IM520 \(10\)/4 ERP vs legacy system \(2\).pdf](http://140.138.148.209/im520/IM520 (10)/4 ERP vs legacy system (2).pdf)

the U.S. Army should reconsider one of its primary goals for FIAR to be transitioning out of more of the legacy systems into those better suited for an organization of this scale and scope of transactions.

Once the issue of standardization of input data has been addressed, it will be easier for financial management staff to implement other strategies to combat the FBWT material weakness in other ways. With standard data, the AFT will be able to process data more quickly, since it will all be in the same format, and will not be slowed down by inconsistencies that are just differences in formatting or input type. One of these other main issues within the reconciliation process that has been encountered when trying to use AFT was the implementation of the tool itself to make optimal use. According to a 2016 DoD report on issues regarding suspense accounts<sup>26</sup> and their interaction between DFAS-IN and the AFT, a big issue with the integration of AFT upon its creation was that DFAS-IN was not integrating the transaction-level support for suspense account balances. Not all the data was included, and if there was data included it would not support the suspense on a transaction level to the extent necessary.

To make maximum use out of AFT, it is important that all levels of the reconciliation process be supported by transaction-level data. Therefore, to get AFT to the point where it can be used on a larger scale than just DFAS-IN, there need to be systems in place that ensure more support in this area. At a transactional level, Army finance employees should be entering data into the general ledger while supporting that data via subsidiary ledgers. Following the proper, regulation-supported transactional

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<sup>26</sup> *Improvements Needed in Managing Army Suspense Accounts*(Rep. No. DODIG-2016-103). (2016, June 27). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2016-103.pdf>

entering procedures in two separate ledgers will allow the information to be more easily traceable when making adjustments come reconciliation time. This accompanied by having that universe of transactions to pull from will make AFT a much more effective tool.

According to a financial management and information systems briefing<sup>27</sup>, a sound way to improve the reconciliation process and integrate AFT is to streamline processes in other areas. As discussed earlier, one of the biggest implementation problems with AFT is that it has not been utilized by DFAS effectively at all tiers of reconciliation. If training was restructured to move to the new process that eliminated the prior means of conducting reconciliations manually in favor of AFT's automatic methods, the reconciliation process would be significantly more streamlined. The new process would utilize AFT to conduct the comparisons between the Army's and Treasury's summary-level data as opposed to having personnel do this manually. This streamline would also allow for the reconciliations as whole to happen more efficiently each month. This is important because one of the stresses on the implementation process has been the inability to complete these reconciliations within the 10-day period necessary as required by regulation.

While the better integration of AFT can save time each month, it is also worth considering that the 10-day reconciliation period just may not be realistic. As indicated in a 2017 DoD report<sup>28</sup>, reconciliation processes currently are not being carried out within

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<sup>27</sup> Morgan, A. S. (2018). *Army Financial Information Management*[PPT].

<sup>28</sup> *Ineffective Fund Balance With Report No. DODIG-2017-069 Treasury Reconciliation Process for Army General Fund*(Rep. No. DODIG-2017-069). (2017, March 23). Retrieved <https://www.oversight.gov/sites/default/files/oig-reports/DODIG-2017-069.pdf>

the time window allotted. This negatively effects one's ability to view the Army's financial statements as timely, because the lack of adherence to the 10-day rule creates backlogs of data and problems when making adjustments at the time of reconciliation. Therefore, to supplement efforts being made to make the reconciliations move more quickly, the USDC/CFO should consider restructuring the regulation concerning this topic in favor of a longer time window. During these times of transition into new systems especially, more time to actually do the reconciliation enables personnel to utilize AFT, and complete the transaction-level pieces of the process without running behind.

Along the lines of reengineering parts of the reconciliation process, there is more opportunity for trimming down the role of the individual employee in reconciliation. This streamlining can be done through automation of specific tasks that are repetitive and tedious. These are the tasks that are most prone to human error, and are often time consuming both to do initially and to go back and adjust later. By increasing the amount of these tasks that are done automatically, it will free up manpower to accomplish more significant tasks, like ensuring all transactions are supported by correct documentation.

Automation also ties into the standardization argument, as if the Army switches to more standardized systems, it becomes easier to implement automatic methods. Automation programs in the works are anticipated to work with complete accuracy, as well as being able to operate constantly. This also streamlines the amount of systems and interfaces individual workers have to use, which can be helpful during a period of technological advancement, a period which should be encountered should the Army move toward more ERPs.

The specificity surrounding the introduction of more automation revolves around the better integration of AFT and the development of Robotics Process Automation (RPA)<sup>29</sup>. RPA is a form of automatic technology that, when programmed by a technician, can process data and perform other simple tasks. The advantages to RPA include its low cost and quick implementation time, and the fact that if created correctly it will be 100% accurate. This guaranteed accuracy is something that one sacrifices to have tedious and repetitive tasks performed manually, so by switching to RPA the Army reduces that risk. The systems RPA would be able to improve would be data entry and validation as well as processing reconciliations. For example, one could create and integrate an RPA system within the DFAS organization and “teach” the robotic system to identify and trace problem distributions back to the transaction level.

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<sup>29</sup> Morgan, A. S. (2018). *Army Financial Information Management*[PPT].

## CONCLUSION

As the Army moves towards a more organized financial future, there are definite steps it can take to improve its ability to function at a more controlled and efficient level. Improving reconciliation systems in pace to better integrate automation tools and expanding training to educate employees about the nuances of automation and the strengths that it will give the organization as opposed to former methods will streamline processes and make the reconciliation timeframe much narrower. Transitioning out of legacy systems toward ERP systems will also strengthen the ability to work with massive amounts of data in a specific way that will eliminate areas in which one sees discrepancies. The U.S. Army and DFAS are both strong organizations, and with these improvements have the potential to be unqualified audit ready.

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## APPENDIX: GLOSSARY

DoD: Department of Defense

USD(C): Under Secretary of Defense (Comptroller)

CFO: Chief Financial Officer

GASB: Governmental Accounting Standards Board

FIAR: Financial Improvement and Audit Readiness

AGF: Army General Fund

FBWT: Fund Balance with Treasury

DFAS: Defense Finance and Accounting Service

TFM: Treasury Financial Manual

USSGL: U.S. Standard General Ledger

CMR: Cash Management Report

DFAS-IN: Defense Finance and Accounting Service- Indianapolis

AFT: Army Fund Balance with Treasury Tool

ERP: Enterprise Resource Planning

RPA: Robotics Process Automation

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Danielle Lynn Lelio was born in Allentown, Pennsylvania on July 12, 1996. She grew up in Lee, New Hampshire and graduated from Oyster River High School in 2014. At the University of Maine, Danielle studies accounting with a minor in military science. She works as a Tour Guide for the Department of Admissions and has spent her college career also working as an Army ROTC Cadet for the Black Bear Battalion. Danielle is also a recipient of the UMaine Dean's Scholar Award.

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