

**NEW AUDIT FINDS PROBLEMS IN ARMY MILITARY  
PAY**

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**JOINT HEARING**

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,  
EFFICIENCY AND FINANCIAL MANAGEMENT  
OF THE

COMMITTEE ON OVERSIGHT AND  
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

AND THE

SUBCOMMITTEE ON FEDERAL FINANCIAL  
MANAGEMENT, GOVERNMENT INFORMATION,  
FEDERAL SERVICES, AND INTERNATIONAL  
SECURITY

OF THE

COMMITTEE ON HOMELAND SECURITY  
AND

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## **NEW AUDIT FINDS PROBLEMS IN ARMY MILITARY PAY**

**Thursday, March 22, 2012**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY  
AND FINANCIAL MANAGEMENT, JOINT WITH THE SENATE  
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,  
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND  
INTERNATIONAL SECURITY,  
*Washington, D.C.*

The committees met, pursuant to notice, at 10:06 a.m. in room 2154, Rayburn House Office Building, the Honorable Todd Platts [chairman of the House Subcommittee on Government Organization, Efficiency and Financial Management] presiding.

Present: Representatives Platts, Issa, Towns and Connolly.

Also present: Senator Carper.

Staff Present: Kurt Bardella, Majority Senior Policy Advisor; Molly Boyd, Majority Parliamentarian; Linda Good, Majority Chief Clerk; Mark D. Marin, Majority Director of Oversight; Tegan Millspaw, Majority Research Analyst; Mary Pritchau, Majority Professional Staff Member; Rebecca Watkins, Majority Press Secretary; Jaron Bourke, Minority Director of Administration; Beverly Britton Fraser, Minority Counsel; Devon Hill, Minority Staff Assistant; Jennifer Hoffman, Minority Press Secretary; and Carla Hultberg, Minority Chief Clerk.

Mr. PLATTS. We are pleased to also have the Chairman of our full committee, Mr. Issa, and our Ranking Member, Mr. Towns, with us.

In the interest of time, I am going to submit my formal statement.

I would highlight that our real focus here is really to achieve two purposes, how do we do a better job of doing right by our men and women in uniform and their families to make sure they are paid and compensated in an efficient, effective and accurate manner without the need for corrections after the fact repeatedly, as we will hear from our first witness what is, in some ways, described as just the norm for military personnel to expect problems with their pay. How do we do right by our men and women in uniform and their families in that regard?

How do we better protect all American taxpayers that the funds they send here are efficiently handled and appropriately handled so that we do not have the misuse of funds or the inaccurate disbursement of funds?

We have two primary goals, do right by the military and their families, do right by American taxpayers and collectively through this hearing advance that joint effort in the coming months and years as we especially work towards the ability to audit the Department of Defense and all of its related entities by 2017.

With that, I will yield to the Chairman of our Senate Subcommittee for the purpose of an opening statement.

Senator CARPER. Thank you, Mr. Chairman.

I would ask unanimous consent that my full statement be made a part of the record, if I could.

Mr. PLATTS. Without objection.

Senator CARPER. I will summarize very briefly.

You are good to do this, to let an old House member come back and work with you, Mr. Towns, Chairman Issa and others on what I believe is not the sexiest issue but is a real important issue.

Colonel, we welcome you. We are delighted to see you and are privileged to have served with you in the service of our country.

I was in the Navy for five years, active duty, during the Vietnam War. We were in California, we were all over the U.S. In California, our squad was home-based at Moffett Field Naval Air Station and then off to Southeast Asia. We bounced all over the Pacific with a lot of missions in and out of Thailand, the Philippines and Japan and everywhere. It was hard to keep our pay straight in a war and given the nature of the business we were in.

I understand it is not an easy thing to do. It is made all the more difficult when people are at war, people deployed and serving combat positions all over the world. It is hard.

Having said that, we can do this better. Everything I do, I know I can do better. We can do a better job of this. We had a very good demonstration yesterday in our full committee, the Homeland Security Committee in the Senate where our witness was Janet Napolitano, the Secretary of the Department of Homeland Security.

They have an obligation to become audit-ready by 2014. They are a new department, they are standing up and have sort of meshed together what a lot of folks call a dogs breakfast of a department because it has so many different new elements that have been kind of crammed together to form one.

She announced this week that their financials will be auditable this year, two years ahead of schedule. If they can do that at the Department of Homeland Security, we have to be able to do better at the Department of Defense in meeting their goal of 2017.

God bless Leon Panetta with whom I served in the House for a number of years. He has a tough job, everyone knows that. The Secretary of that Department, the Secretary of any Department is a tough job but that one in the time of war is about as hard as it gets. He is also trying to make sure that his Department complies with the law with respect to their financials becoming auditable by 2017. He wants to beat the date of 2017. My firm hope is that will be the case.

Among the reasons why that is so important, for him or whoever is going to be managing the Department in the future, if we don't have good financials, if we don't have good accounting systems, if we don't have good technology, we are doomed. We look at these huge budget deficits of trillions of dollars coming down, but still

way too much and we have to be able to get better results for less money. This is a part of it, like ground zero where it starts.

I look forward to a constructive hearing from our witnesses. We appreciate the work that GAO has done on this and look forward to hearing from our friends from the Army, too.

Again, the spirit here is if it isn't perfect, make it better. We have to do better, all of us, and that includes me.

Thank you.

Mr. PLATTS. Thank you, Senator Carper.

I yield to the Chairman of the full committee, Mr. Issa.

Mr. ISSA. Thank you and I, too, will be brief and submit for the record.

I came here for two reasons. First of all, when the House of the people and the other house get together, it means that we have what it takes to move positive legislation all in one room. It is always preferable to have us hear the same thing and come away from a hearing knowing that we have to act and how we have to act.

The second reason is that Colonel, like you, I was an enlisted man, paper leave and earnings statements. In 1970, it was real paper as it was for Senator Carper. If one piece of paper got ripped out of there, it was gone forever.

My enlisted time was fairly uneventful, although I had a lot of TDY and a lot of different supplemental dollars as an EOD, enlisted man. When I was commissioned, I saw the other side of it. I was responsible for up to 200 men and women who were constantly having to get compassionate pay, having to get \$25 or \$50 because when they PCSed in, the paperwork got lost. We would keep them sometimes for a couple of months, not getting their real pay because there was a problem, particularly if they were coming from overseas.

That was approaching half a century ago. We have come a long way. We have come from paper to electronic but we haven't come far enough to have the kind of proactive effort to where you should never have to say how do we pay this person, what do we do? Do we send them to USO or do we in fact, find some other way. More importantly, do we no longer have people who receive pay and then somehow, we say that was a snafu and for the next six months, we are going to be deducting.

I represent Camp Pendleton. As a result, I see that happening. I see naval assets and private assets have to find ways to take care of families because there has been an overpayment and it has to be repaid.

Last, but not least, I had the pleasure of leaving the Army and the only time I have been personally audited was the year I left the Army. There is nothing worse than trying to explain all these various per diems and pays that are tax free if x, y and z to a man who has never served in the military but whose job it is to try to get a little money out of you.

I believe when we get to where we do the job right, it will make a huge difference for our men and women in uniform, especially those who have families who are also earning and have to bring these together in a predictable way to make payments.

I am glad to see that my good friend, Chairman Towns, is also here. That gives an awful lot of legacy of this committee to hear it and respond.

Mr. Chairman, Mr. Chairman, Mr. Chairman, I thank you all for being here today and I yield back. Chairmen are cheap here, aren't they?

[Laughter.]

Mr. PLATTS. Thank you, Mr. Chairman. We appreciate your interest in the important topic and your own service in uniform as well.

I will now yield to the Ranking Member and former Chairman of the full committee as well as this subcommittee, Mr. Towns from New York.

Mr. TOWNS. Thank you very much.

Let me say you are right. I called someone Mr. Chairman on the elevator and about seven members looked around, you are right, there are a lot of folks around, ex and former chairmen and all of that.

Let me just say, Mr. Zecchini, that I am really happy to see you, a person who served in the military more than 50 some years ago, ROTC and all of that. To have had problems with my own pay while I was in there on several occasions, every time they would transfer me somewhere, I would always have problems with my check catching up with me. I was one who needed my check in advance. To have to worry about your pay and at the same time defending this country to me is just something that should not happen.

I want to salute you for your many, many years of service. We feel that we owe it to our military personnel to make certain they get paid on time.

I am happy to see that we have Senator Carper, my classmate, here with me and of course Chairman Platts and of course the Chairman of the full committee as well, Chairman Issa.

I think this is the way we go about it, hearing from people who have had these experiences and at the same time, folks on this side of aisle who are committed to trying to make certain the situation changes.

On that note, Mr. Chairman, I will submit my entire statement for the record and look forward to hearing from the witnesses.

Mr. PLATTS. Thank you, Mr. Towns.

We will keep the record open for seven days for opening statements and extraneous material.

We are going to move to our witnesses. In the interest of time, if I could ask not just the Colonel, but all of our witnesses on the second panel also, to stand and I will swear you all in at the same time. Please rise and raise your right hands.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

[Witnesses respond in the affirmative.]

Mr. PLATTS. May the record reflect that all witnesses answered in the affirmative. Please be seated.

Colonel Zecchini, we are delighted to have you here with us. The Colonel is currently serving with the United States Army Reserve



but soon to mark almost 30 years of service in one capacity or another in uniform to our Nation. We certainly are grateful for those many years of service and appreciate both your written testimony and your willingness to be here in person today.

We will set the timer for all of our witnesses at five minutes. Because of time constraints, you could try to stay within that time limit it will help us get to a chance to have a good exchange with the Q and A.

Colonel, the floor is yours.

#### **WITNESS STATEMENTS**

##### **STATEMENT OF LIEUTENANT COLONEL KIRK ZECCHINI, U.S. ARMY RESERVE**

Colonel ZECCHINI. Chairman Platts, Chairman Carper, Ranking Members Towns and Brown, and members of the two subcommittees, thank you for the opportunity to appear this morning.

During the span of my military career covering 28 years, mostly as a member of the Ohio National Guard, I have personally experienced a wide variety of military pay problems. Serving as a traditional Guardsman, a full-time, active duty soldier and as a federal technician has provided me with a broad range of opportunities and challenges.

In my experience in the military, pay problems are considered a normal part of Army life. Very early in my career as a Second Lieutenant, I was mentored to keep a running travel log to track my pay, allowances, per diem and travel costs. This guidance proved to be valuable as I began to perform more frequent temporary duty and additional duties with the Ohio National Guard.

Travel vouchers were sometimes lost or misrouted during processing. For the most part, situations like this were easily fixed at the unit level as long as I could reproduce original claim documents such as orders, pay vouchers, receipts, et cetera.

Later, as a field grade officer, my pay problems became more complex during my first deployment to Afghanistan in 2003. My original mobilization order was not to exceed 180 days but I volunteered to extend for an additional six months. The extension order was published but my military pay stopped promptly at the end of my original order. It took approximately one and a half months to have this issue resolved while I continued to perform in Afghanistan without pay.

Immediately following my combat tour in Afghanistan, I began a series of missions throughout Southeast Asia and the Pacific Rim performing humanitarian assistance and humanitarian civic assistance in various developing countries. Several of the countries in which I worked were designated for special allowances such as hostile fire pay and hardship duty location pay, which varied by amount per location. These pay types were not familiar to me.

Upon my return to Ohio in August 2004, I inquired with my unit administrator pay clerk about being paid the additional allowances but this was also new terrain to the unit, so my inquiry was sent up the chain of command to the Ohio Army National Guard State Headquarters for review by military pay and ultimately to the Comptroller.

After several months of emails and non-action, I created a spreadsheet which reflected duty locations, orders, dates, allowances, pay and per diem. All entries were color coded to reflect status of payment. Several more months went by until I finally had to write a memo to the Ohio Inspector General requesting assistance.

I eventually got paid for all requested allowances late in 2005 while deployed in Iraq, approximately one and a half years after the initial performance of duty.

During my deployment to Iraq in 2005 to 2006, I was assigned to an active duty unit along with a team of 10 other Ohio National Guardsmen. Our parent unit from Ohio was located in Baghdad. My team was deployed north in Tikrit. Three or four months into our deployment, we were notified that some particular tax was being withheld and that we all needed to complete additional paperwork in order to have the money refunded and the withholding to cease. This process was neither simple nor convenient while working in an austere environment.

Dealing with pay problems while in a combat zone is not something that anyone should have to worry about, yet this was my second episode in as many tours.

Since resigning and receiving an honorable discharge from the Ohio Army National Guard in June 2011, my pay problems have continued. Just last week, I received a leave and earnings statement for performance of duty on January 5, 2012 only to learn that the checking account number was entered incorrectly, so my pay was not deposited into my bank account.

I just heard yesterday, two and a half months later, from the Army Reserve Finance Office that they think they have resolved the situation. I have also recently received four separate notices from DFAS indicating a debt collection that there is no indication of the reason or how I should contest these erroneous claims. These debt collections seem to have been initiated by the Ohio Army National Guard even though I have not been a part of this organization since June of 2011.

Thank you once again for this opportunity to testify this morning. Now that my eldest son is serving proudly in Afghanistan, I am especially interested to see that he and his fellow soldiers are properly taken care of while performing their duties and without distractions of pay problems.

He loves being a soldier as much as I have always loved being a soldier and I want nothing more than to see him come home safely. It is all about taking care of soldiers.

[Prepared statement of Colonel Zecchini follows:]

“New Audit Find Problems in Military Pay”  
Testimony of  
Mr. Kirk Zecchini, LTC US Army Reserve Control Group (Reinforcement)  
March 22, 2012

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Mr. PLATTS. Colonel, thanks for your testimony and especially your service and now your eldest son's service as well. Certainly Godspeed to him and all who are out there in harms way on our behalf.

Your testimony here today throughout your almost 30 years of service is kind of the norm, nothing new. Can you share more often than not when there is an error of some degree, is it something that more likely you identified or questioned because of uncertainty and have had to initiate the efforts to correct those errors or would it be more the norm that the military, whether it be the Guard, the Reserve, active duty, units you have served with, that they have caught the errors and then come to you to try to correct them?

Colonel ZECCHINI. I don't recall anybody in the military ever coming to me to identify a pay issue. I would have to say you have to read your LES, you have to understand what you are looking at.

Mr. PLATTS. So when those problems are identified, it is because you have to basically, in addition to worrying about the enemy out there if you are in harms way, you or your family back home looking at each pay to try to make sure you are getting what you are supposed to, not less, not more but the onus falls to you and all of our soldiers, airmen, sailors individually?

Colonel ZECCHINI. Correct.

Mr. PLATTS. The example you give of when you were in Iraq, in essence, your whole team of I think you said 10 Ohio Guardsmen that who were attached, in that case it was a tax issue?

Colonel ZECCHINI. It was some sort of withholding from Ohio.

Mr. PLATTS. Did that come from back home?

Colonel ZECCHINI. I believe somebody in Ohio identified that this should have been taken care of at the mobe site at the mobilization station and for whatever reason, it wasn't picked up, so we had to do the paperwork down range.

Mr. PLATTS. Was it a federal tax issue?

Colonel ZECCHINI. As I recall, it was some sort of State withholding.

Mr. PLATTS. Did you each individually have to then move forward to correct it for your own taxes and payroll or was there assistance that applied to all of you, we will take care of it?

Colonel ZECCHINI. Each person had to do their own paperwork and each person was responsible to fax it back to the unit which made it a challenge when we were spread all over northern Iraq. It was not such an easy task.

Mr. PLATTS. I have had the privilege to visit our troops 11 times in Iraq and 8 in Afghanistan and I try to get to those remote places. I have been to Tikrit and some of the FOBS and get out there and one just logistically doing it and someone who is more remote, I think of a base in the mountains of Afghanistan where a young Army Captain, Adam King, leading about 70 soldiers, you flew in by helicopter or got there by mule but not a very easily accessible point. If they are experiencing these types of problems, all the more challenging to correct them and then hardship for families back home if the pay is not correct.

In your time, have you ever had an instance where because pay was not properly provided to you that it caused a financial hardship because of an incorrect balance in a checking account? Are you

aware that any soldiers you have served with have had that problem?

Colonel ZECCHINI. From my personal experience, the only real hardship that I encountered was when I was in Afghanistan and my pay just stopped for about a month and a half. I still had a mortgage and I still had bills to pay back home. Fortunately, I had a little bit of savings while I was deployed. That was a pretty tense period not knowing when the pay was going to be turned back on again.

Mr. PLATTS. In that example where it was delayed, was there any compensation, meaning interest for the two months that were not properly paid, when it finally was?

Colonel ZECCHINI. No, sir.

Mr. PLATTS. Again, I appreciate your service and your efforts in being here today that we do right by your son and all who are and will be serving us. That is the goal ultimately of this hearing and our continued oversight work, that we do right by those who are so courageously serving all of us.

With that, I yield to Senator Carper.

Senator CARPER. Thank you, Mr. Chairman.

My dad was a Chief Petty Officer in the Navy for many years. During the time I served active and reserves, about 23 years, some of the best officers I served with were folks who have been prior enlisted and earned commissions and became an officer, and for the most part, performed admirably. How long were you enlisted?

Colonel ZECCHINI. Five years.

Senator CARPER. How did you get your commission?

Colonel ZECCHINI. Through Officer Candidate School, OCS.

Senator CARPER. I am going to ask you a question, then make a comment and then I am going to ask a question. The question I am going to ask you so you can think about it is this. We have some folks gathered here today who are responsible for trying to fix this problem. The question I would ask you is help us help them fix the problem for other folks, so just be thinking about that and give us some practical advice as to how to do that.

The question I want to ask before that is my guess is you weren't the only person you served with who has had some problems with pay. We did in my unit then and I presume you had similar problems in your units. Were the problems of a nature similar to those you experienced or were they different, were there any commonalities, or was it just across the board, a wide variety of problems?

Colonel ZECCHINI. I can't say that I have ever experienced the same problem twice.

Senator CARPER. When you think of your colleagues with whom you served, did they have similar problems or were they different kinds of problems?

Colonel ZECCHINI. I would have to say different. Again, my experiences were kind of different from the typical Guardsman where I had a lot of active duty time, a lot of TDYs and I did a lot more outside of the one weekend a month, two weeks in the summer. Yes, I would have to say mine are probably a little bit different and broader than most of my peers.

Senator CARPER. I think you said you had a period of a month or two where you didn't get paid at all. When I was overseas, I was

not married and had no wife or children and the Navy pretty much took care of our immediate needs. They fed us and there was a place to sleep, there was medical care and that kind of thing, so guys like me were able to save every other paycheck. We didn't make much money but we didn't spend much either. I had no wife or children to support. I tried to help my sister a little bit to go to college but that was the only big obligation that I had.

That is not the case with a lot of folks, especially today when we have a lot of Reservists deployed, actively deployed, we have a lot of Guardsmen and women actively deployed and a lot of them do have families. When they have problems with their pay, it is a whole lot more difficult, a lot more complex.

Put yourself in the position of providing good advice sort of through us but with us to the folks charged with fixing these problems. I realize we will never get to perfection but that should be our goal. If you were to provide some good advice, friendly advice to the folks charged with fixing this, and our job is oversight and making sure that it is addressed, what would be the advice? It can be fairly general, doesn't have to be very specific.

I will give you an example. We had a guy before us testifying on the Finance Committee a couple months ago on deficit reduction. I asked him what we need to do on deficit reduction. He is Alan Blinder, former Vice Chairman of the Federal Reserve, Professor of Economics at Princeton. I said what should we do about deficit reduction? His big deal on deficit reduction is health care costs. If we don't reign in health care costs, we are doomed. He said, I am not a health economist.

I said what should we do about health care to reign in health costs. He said, I am not a health economist but here is what I would do. I would find out what works and I would do more of that. That is exactly what he said. I would find out what works and do more of that. I said, you mean find out what doesn't work and do less of that? He said, yes.

Actually that is pretty good advice in everything we do not just in reigning in health care costs. What should we do here? What should the folks at the Department of Defense do to help address this problem?

Colonel ZECCHINI. Obviously, I have seen a lot of changes in 28 years from paper statements to electronic statements now and those have all been good things. Most recently, the Defense travel system came online where you can enter your travel claims online and that was huge. That really took the paperwork piece and streamlined the process for travel vouchers. You get paid now in three or four days where it used to take a month sometimes to get your travel pay.

Senator CARPER. That is a great improvement.

Colonel ZECCHINI. DTS was, in my mind, great but not everybody has access to DTS. I had access to it because I was a full-time federal technician where most traditional Guardsmen and Reservists don't have that system yet.

Senator CARPER. Should they?

Colonel ZECCHINI. I think they should especially if you are doing a lot of traveling. If you come back from a TDY period, then you have to go into your unit to submit a claim, you may or may not

be within reasonable commuting distance to your unit and you can't do it at home. So things like that, everybody should have access to all the same databases and DTS especially.

I would also think they could make some progress in connecting G1 to G8 maybe where if you are on orders and in a specific pay zone for allowances, somehow that should trigger G8 to connect the dots. That doesn't seem to be taking place.

Senator CARPER. Thank you very much for being here today. I appreciate those 28 years that you have shared with our Country, given our Country. Our very best to you and to your son.

Mr. PLATTS. Thank you, Senator Carper.

I will now yield to the Ranking Member, Mr. Towns, from New York.

Mr. TOWNS. Let me thank you too for your many, many years of service.

I recall in terms of my years that when they had trouble with my pay, it was that I had orders to go one place and they changed my orders and sent me somewhere else. Then they had trouble finding me. That was the problem they had. Other than that, I must say that I got paid pretty much on time.

How many times did you have the problem?

Colonel ZECCHINI. How many times?

Mr. TOWNS. The pay problem during your years of service?

Colonel ZECCHINI. After I started talking to Mr. Tyler last week, I started thinking back in my career and I gave him some good examples of the ones I just testified to, but I can think of several other ones that weren't such a big deal and they were pretty easily fixed at the unit level.

Mr. TOWNS. It was so many times you can't remember, is that what you're saying?

Colonel ZECCHINI. Yes.

Mr. TOWNS. Wow! How widespread is the problem among others?

Colonel ZECCHINI. You hear people talking about pay issues, chow hall talk. Somebody always seems to have a pay issue they are dealing with.

Mr. TOWNS. How long did it take, the longest period, for you to correct your pay?

Colonel ZECCHINI. The example I mentioned about my one and a half months without pay in Afghanistan, that was the longest that I ever went without a paycheck. That is the longest I ever had to deal with a problem and getting resolution to the problem was the one where I didn't get my various allowances from my missions in Southeast Asia. That took about a year and a half.

Mr. TOWNS. Could you walk us through one process in terms of how you went about getting paid? Walk us through a process you had to take in order to get paid? In other words, you didn't get your check and what you had to do in order to get it.

Colonel ZECCHINI. The example I mentioned about the pay and allowances from Southeast Asia, I was working in Bangladesh, the Philippines and all through Southeast Asia. Each of these different countries has a different rate for hostile fire pay in the Philippines as hardship duty location pay in Bangladesh and I wasn't even aware that these allowances were there when I was performing the duty. It was just through talking to my active duty counterparts



who were there with me, I was informed that we were entitled to these allowances.

When I got back to Ohio, I went to my unit and inquired about getting these allowances. I actually had to look through the regulations. There is a chart they have in the reg that tells you if you are in this location during this time of year, you are entitled to this much money. It was a pretty complex set of numbers. My unit clerk, my unit administrator certainly didn't know how to process that, so that is when it got pushed up the chain of command and went to Military Pay. Military Pay didn't seem to know anything about it.

Time went on and I put together a spreadsheet, actually did a lot of the legwork for them to make it easier to understand what I was supposed to get versus what I did get. It languished and eventually I wrote a letter to the Ohio Inspector General requesting assistance. That is when I finally got some action.

Mr. TOWNS. Let me ask, as a Lieutenant Colonel, did folks come to you asking you to help them get their pay, to help them resolve their problems?

Colonel ZECCHINI. When I was a Company Commander years ago, I routinely worked with pay issues with my soldiers.

Mr. TOWNS. Did you get a lot of complaints?

Colonel ZECCHINI. I was a Company Commander for five years, so it was a little bit longer than usual. Yes, I would have to say that over five years, I got a fair number of pay issues that we worked through. Most of that we were able to fix most of that at the unit level. I had a unit administrator, a pay clerk, who was able to fix most of the pay problems at our level.

Mr. TOWNS. Do you have any suggestions for us or to the folks that will be testifying later as to what might be done to eliminate some of this? Do you have any suggestions? You have had 28 years of this. I didn't stick around that long.

Colonel ZECCHINI. Again, the guidance I give to my son is the same guidance I received as a young soldier, keep track of all your records, keep track of all your pay documents, your orders. You never know when you might need this stuff again some day.

Mr. TOWNS. Thank you very much for service.

On that note, I yield.

Mr. PLATTS. Thank you, Mr. Towns.

Before I go to Mr. Connolly, just a quick follow up. You said on the example of your Southeast Asia time, you were not even aware of the allowances. Other than active duty soldiers that you were serving with who then said, are you aware, you were not given any formal notification of what you were entitled to relating to those deployments?

Colonel ZECCHINI. That is correct.

Mr. PLATTS. As you worked through it, you mentioned ultimately you had to go the Ohio Inspector General to assist. At what point in that year and a half long process, how long had you tried working through the channels before you went that route to get it taken care of?

Colonel ZECCHINI. I went to my unit initially in August 2004. I would say the very next month, in September, it got pushed up the chain to the Ohio State Headquarters. I worked the issue with

them until probably August 2005 when I was getting ready to go to Iraq. I knew I was going to be deployed again, so at that point I really had to do something.

Mr. PLATTS. So for about a year, you kind of worked through their regular channels without success?

Colonel ZECCHINI. Right.

Mr. PLATTS. This was something, once you were aware, seemed pretty straight forward. You were in this country, you qualified, yet a year later you still weren't being compensated appropriately.

Colonel ZECCHINI. It was a significant dollar amount too.

Mr. PLATTS. Roughly, a round number?

Colonel ZECCHINI. As I recall, it was a couple thousand dollars allowances.

Mr. PLATTS. Thank you.

I yield to the gentleman from Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

I want to welcome our colleague from the Senate, Senator Carper, who has been a great ally on so many other issues including postal issues. We thank him for being here today.

Welcome to you, Lieutenant Colonel Zecchini. Thank you for your service and thank you for being here.

You have a family?

Colonel ZECCHINI. Yes, I do.

Mr. CONNOLLY. Mortgage?

Colonel ZECCHINI. Yes.

Mr. CONNOLLY. Maybe a car loan, student loans?

Colonel ZECCHINI. Not currently.

Mr. CONNOLLY. Not currently, but maybe you did?

Colonel ZECCHINI. I did.

Mr. CONNOLLY. Delay in pay could be kind of significant not just for you, it is more inconvenient is the point, and actually could be pretty disruptive to the family household and its budget?

Colonel ZECCHINI. Yes.

Mr. CONNOLLY. Are you aware of cases, either your own or others, where that was the case?

Colonel ZECCHINI. The example I mentioned of being in Afghanistan where I went about a month and a half without pay, that was a tense period, not knowing how long that was going to continue without pay. That was the only thing. I was working with my wife who was back home trying to pay the bills and stretch the savings we had for as long as we could.

Mr. CONNOLLY. While you were on a war front?

Colonel ZECCHINI. Yes, sir.

Mr. CONNOLLY. Why do you think there are these problems? I have to tell you, I spent 20 years in the private sector and I never once had a paycheck problem. They never once made a mistake about my amounts, my withholding or what name to send it to, whether it be electronic transfer or a paycheck. Why do you think we have a problem in the Pentagon?

Colonel ZECCHINI. In that example, I was on orders for 180 days and I may have over complicated the situation by volunteering to extend that when the order was cut authorizing the extension, in my mind, everything else should have fallen into place but pay didn't catch up with the orders.

Mr. CONNOLLY. You mentioned that you went to, I think you said, the company clerk but the clerk was not really equipped to resolve the problem and you had to go to a higher level?

Colonel ZECCHINI. Right.

Mr. CONNOLLY. Does the Army not have or do other services not have people designated as ombudsmen to try to help the men and women in uniform when they have this kind of problem?

Colonel ZECCHINI. At the State Headquarters, that is my understanding.

Mr. CONNOLLY. The State Headquarters?

Colonel ZECCHINI. The Ohio National Guard State Headquarters.

Mr. CONNOLLY. If you are in Afghanistan, going back to State Headquarters in Ohio is a bit of a challenge.

Colonel ZECCHINI. The pay issues I had in Afghanistan, the active duty finance people did work with me on that one and got that one resolved in the end.

Mr. CONNOLLY. On-site?

Colonel ZECCHINI. On-site.

Mr. CONNOLLY. But you still went a month and a half, you said?

Colonel ZECCHINI. A month and a half.

Mr. CONNOLLY. Mr. Chairman, I am so struck by the fact that Lieutenant Colonel Zecchini puts on the uniform, is active duty in a war front in Afghanistan on behalf of his Country because his Country called, and we can't resolve his compensation. He and his family back home suffering the anxiety of the war front now have to add to that anxiety can we meet the mortgage or other family household obligations. It seems to me no way to treat our men and women in uniform and it also seems to me this is not rocket science. The private sector somehow manages to do this every day of the week.

As I said, I worked for 20 years in the private sector, I never once heard a complaint about a mistake. Maybe there were some and I am sure there were, but it certainly was not commonplace. It is very troubling to hear that is not the case in the U.S. military.

I look forward to the next panel's testimony but I think Lieutenant Colonel Zecchini and his fellow men and women in uniform deserve better from their country.

Thank you, Mr. Chairman. I yield back.

Mr. PLATTS. I thank the gentleman and would echo the concern. As you well highlighted, that impacts not just the men and women in uniform but the family and certainly with deployments, enough stress associated with overseas deployments for the whole military family, let alone adding a pack issue and financial stress that comes with that.

Colonel, again, we thank you for your almost 30 years of service in uniform to our Nation as well as your willingness to be here as we work to try to make sure we do better by you and all who are serving us and will continue to serve as your son is in harms way as we speak. Please convey to your wife as well for her service on the home front while you have been serving us far from home, our thanks.

We are going to take a very brief recess while we reset for the second panel. We stand in recess momentarily.

[Recess.]

Mr. PLATTS. We will reconvene. We appreciate the quickness of our witnesses getting settled. Again, I apologize for the time restraints we are working under. I would ask you to try stay within your five minutes and if you want to yield back any of that time so we can get to exchange Q and A with you, we welcome that.

I want to add my thanks to each of you for your current service as well as I know a number of you who have served in uniform for many years as well. We are very fortunate to have your commitment to your Nation and your fellow citizens both now as well as in the past in uniform. Thanks for being here and being a part of this process.

We are going to go right to your testimony. Asif Khan is Director, Financial Management and Assurance, U.S. Government Accountability Office.

#### STATEMENT OF ASIF KHAN

Mr. KHAN. Thank you, Chairman Platts, Chairman Carper, Ranking Member Towns and Congressman Connolly. It is a pleasure to be here today to discuss our work on the challenges in assuring the accuracy and the validity of Army's military payroll.

Deficiencies in Army payroll processes and control were most recently reported by GAO in 2009 and by the DOD Inspector General in 2011. Such deficiencies increase the risk of inaccurate and invalid payments to Army military personnel and impede the Army's efforts to prepare an auditable statement of the budget, the SBR.

The SBR is one of the principal financial statements required of major government agencies including the military components of DOD. According to the Defense Finance Accounting Service, DFAS the Army fiscal year 2010 active duty military payroll was \$46.1 billion, a material amount in the Army's SBR.

We found there continues to be significant deficiencies in the Army and DFAS processes and systems. Today, I will focus on three problem areas highlighted in our report: first, significant deficiencies in the processes used to maintain and retrieve payroll records for active duty military personnel; second, problems in the automated systems used to store, process and reporting these records; and third, lack of supporting documentation for payroll transactions.

To test whether Army's payroll processes were effective in making data readily available for an audit, we requested a list of service members who had received active duty pay in fiscal year 2010. DFAS staff made three attempts to provide us with a complete and accurate file. The first attempt included more than 11,000 duplicate accounts; the second attempt found over 28,000 more accounts than the first; and finally, with a third attempt, we were able to perform reconciliation procedures that satisfied us that the data were reasonably complete.

The inability to readily provide this information, if not effectively addressed, will impede the Army's ability to meet the 2014 SBR audit readiness goal. Non-integrated systems and cumbersome processes also contribute to the Army's difficulty in maintaining and reporting timely, accurate and complete data.

The Army's pay and personnel system for example are not integrated. Active duty payroll data is maintained in one system; the

personnel data is compiled from several systems that are fed data from the recruit reception office in each battalion and from at least 45 other feeder systems and spreadsheets.

Comparing and reconciling the pay and personnel data requires labor intensive research. It took the data center over two months to confirm that all service members who received active duty military pay in fiscal year 2010 had an active duty personnel file for one of the personnel systems.

The third problem is supporting documentation which is the fundamental control over all financial accounting and reporting. It provides evidence that a recorded transaction is accurate and valid. To test this control, we selected a sample of 250 service members' records and requested the related leave and earnings statements, and also documents that support basic pay allowances and entitlements.

After initial difficulties in locating the documents, we suggested the Army focus on the first 20 pay account sample items. After further delay, we narrowed our request for documents to the first five sample items. As of the end of September 2011, six months after our initial request, we were able to obtain a complete documentation for 2 of the 250 sample items, partial support for 3, and no support for the remaining 245.

Without support documentation, the Army cannot verify the validity of its payment and is at increased risk of payments to the wrong persons or in the wrong amounts. Further, without documentation, the Army will not be able to pass an audit of its SBR.

DOD has recently taken important steps toward improving financial management at the Department and its components. The Army has begun efforts to prepare for the audit of its SBR by 2014 and ultimately, all principal statements by 2017.

Other military components such as the Air Force and the Navy share some of the same processes and system risks as the Army. They also will need to resolve significant problems before their SBRs are auditable.

Chairman Platts, Senator Carper, Ranking Member Towns, Congressman Connolly, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

Thank you.

[Prepared statement of Mr. Khan follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Management, Government Information, Federal Services and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate; and the Subcommittee on Government Organization, Efficiency and Financial Management, Committee on Oversight and Government Reform, House of Representatives

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## DOD FINANCIAL MANAGEMENT

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

Statement of Asif A. Khan, Director  
Financial Management and Assurance



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Chairmen Carper and Platts, Ranking Members Brown and Towns, and Members of the Subcommittees:

It is a pleasure to be here today to discuss our work on the significant challenges the Army faces in achieving audit readiness for its military pay. The Army's military pay is material to the Army's financial statements. The Chief Financial Officers Act of 1990, as amended, established requirements for 24 agencies, including the Department of Defense (DOD), to prepare annual financial statements and have them audited.<sup>1</sup> Further, the National Defense Authorization Act (NDAA) for Fiscal Year 2010 mandated that DOD be prepared to validate (certify) that its consolidated financial statements are ready for audit by September 30, 2017.<sup>2</sup> On October 13, 2011, the Secretary of Defense directed the department to achieve audit readiness for the Statement of Budgetary Resources, one of the principal financial statements, by the end of fiscal year 2014 as an interim milestone for DOD to meet the legal requirement in the NDAA for Fiscal Year 2010 to achieve full audit readiness for all DOD financial statements by 2017.<sup>3</sup>

The Army's active duty military payroll, comprising about 20 percent of its reported \$233.8 billion in fiscal year 2010 net outlays,<sup>4</sup> is significant to both Army and DOD efforts to meet DOD's 2014 Statement of Budgetary Resources auditability goal as well as the mandate to achieve full audit readiness for all DOD financial statements by 2017. For years, we and others have reported continuing deficiencies with the Army's military

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<sup>1</sup>Pub. L. No. 101-576, § 303, 104 Stat. 2838, 2849 (Nov. 15, 1990), *codified, as amended at* 31 U.S.C. § 3515.

<sup>2</sup>Pub. L. No. 111-84, § 1003, 123 Stat. 2190, 2439-40 (Oct. 28, 2009).

<sup>3</sup>DOD, Secretary of Defense Memorandum, "Improving Financial Information and Achieving Audit Readiness," October 13, 2011.

<sup>4</sup>Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year. Net outlays are disbursements net of offsetting collections.

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payroll processes and controls.<sup>5</sup> These reported continuing deficiencies in Army payroll processes and controls have called into question the extent to which the Army's military payroll transactions are valid and accurate, and whether the Army's military payroll is auditable. Further, other military components, such as the Air Force and the Navy, share some of the same process and system risks as the Army.

My remarks today are based on our report, *DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay*, which is being released today.<sup>6</sup> I will focus on problems that impede the Army's ability to (1) identify a valid population of military payroll transactions and (2) provide documentation that supports the validity and accuracy of payments for Army military payroll.

Our work on which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our published report contains additional details on our scope and methodology for this audit.

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## Background

For fiscal year 2010, Congress appropriated more than \$52 billion to the Military Personnel, Army appropriation primarily for Army active duty

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<sup>5</sup>DOD Inspector General, *Active Duty Military Personnel Accounts Were Generally Valid and Secure, but DoD May have Made Improper Payments*, D-2011-093 (Arlington, VA: July 27, 2011); GAO, *Military Pay: The Defense Finance and Accounting Service—Indianapolis Could Improve Control Activities over Its Processing of Active Duty Army Military Personnel Federal Payroll Taxes*, GAO-09-557R (Washington, D.C.: June 18, 2009); *Military Pay: Hundreds of Battle-Injured GWOT Soldiers Have Struggled to Resolve Military Debts*, GAO-06-494 (Washington, D.C.: Apr. 27, 2006); *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-89 (Washington, D.C.: Nov. 13, 2003).

<sup>6</sup>GAO, *DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay*, GAO-12-406 (Washington, D.C.: Mar. 22, 2012).



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military personnel costs.<sup>7</sup> The Military Personnel, Army appropriation is a 1-year appropriation available for the pay, benefits, incentives, allowances, housing, subsistence, travel, and training primarily for Army service members on active duty. According to the Defense Finance and Accounting Service in Indianapolis, Indiana (DFAS-IN), of the \$52 billion in fiscal year 2010 military personnel appropriations, the Army's nearly 680,000 service members received \$46.1 billion in pay and allowances. Army Human Resources Command, unit commanders, and training certification officials, among others, are responsible for providing DFAS-IN with accurate and timely information regarding changes in individual military member status necessary to maintain accurate and timely payroll accounts. DFAS-IN is responsible for the accounting, disbursement, and reporting for the Army's military personnel costs using the Defense Joint Military Pay System-Active Component (DJMS-AC).

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### Process and System Weaknesses Hindered Army's Ability to Identify a Valid Population of Military Payroll Transactions

We found that the Army could not readily identify a complete population of Army payroll accounts for fiscal year 2010, given existing procedures and systems. The Army and DFAS-IN did not have an effective, repeatable process for identifying the population of active duty payroll accounts. In addition, the Defense Manpower Data Center (DMDC), DOD's central source for personnel information, did not have an effective process for comparing military pay account files to military personnel files to identify a valid population of military payroll transactions.<sup>8</sup> 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. Similarly, it took DMDC over 2 months to compare the total number of fiscal year 2010 active duty payroll accounts to its database of personnel files. *Standards for Internal Control in the Federal Government* requires all transactions and other significant events to be clearly documented and the documentation readily available for examination.<sup>9</sup> DOD's *Financial Improvement and Audit Readiness (FIAR)*

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<sup>7</sup>Department of Defense Appropriations Act, 2010, Pub. L. No. 111-118, 123 Stat. 3409, 3410, 3458 (Dec. 19, 2009); Supplemental Appropriations Act, 2010, Pub. L. No. 111-212, 124 Stat. 2302, 2305 (July 29, 2010).

<sup>8</sup>DFAS-IN processes military payroll for the Army, and DMDC supports audits by performing analyses of Army military personnel files and data.

<sup>9</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

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*Guidance* sets out key tasks essential to achieving audit readiness, including defining and identifying the population of transactions for audit purposes.<sup>10</sup> The *GAO/PCIE Financial Audit Manual* provides guidance concerning typical control activities, such as independent checks on the validity, accuracy, and completeness of computer-processed data.<sup>11</sup> Without effective processes for identifying a complete population of Army military pay records and comparing military pay accounts to personnel records, the Army will have difficulty meeting DOD's 2014 Statement of Budgetary Resources audit readiness goal and its 2017 goal for a complete set of auditable financial statements.

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**DFAS-IN Did Not Have an Effective Process for Identifying the Population of Army Military Payroll Records**

DFAS-IN made three attempts from November 2010 through early January 2011 to provide us a Defense Joint Military Pay System-Active Component (DJMS-AC) file extract of Army service members who received active duty pay in fiscal year 2010. The first attempt included 11,940 duplicate pay accounts, and the total number of pay accounts included in the second attempt increased by 28,035 records over the first attempt, necessitating a third attempt to establish the population of fiscal year 2010 active duty pay records. We requested that DMDC compare the results of DFAS-IN's third attempt to identify the population of Army fiscal year 2010 payroll accounts against DMDC's compilation of monthly active duty payroll data that it received from DFAS-IN. Of the 677,024 Army active duty pay accounts, per DJMS-AC, we were able to reconcile all but 1,025 pay accounts (less than 1 percent of the total active duty pay accounts to pay account data that DFAS-IN had previously provided to DMDC. However, as discussed later, we were unable to verify the validity of the records. *Standards for Internal Control in the Federal Government* requires all transactions and other significant events to be clearly documented and the documentation readily available for examination.<sup>12</sup> In

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<sup>10</sup>DOD, Office of the Under Secretary of Defense (Comptroller/CFO), *Financial Improvement and Audit Readiness (FIAR) Guidance*, December 2011.

<sup>11</sup>GAO/PCIE, *Financial Audit Manual, Volume 1*, GAO-08-585G (Washington, D.C.: July 2008). The President's Council on Integrity and Efficiency (PCIE) was replaced by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). CIGIE was statutorily established as an independent entity within the executive branch by the Inspector General Reform Act of 2008, Pub. L. No. 110-409, § 7, 122, Stat. 4302, 4305-4313 (Oct. 14, 2008) (*codified at* 5 U.S.C. App., § 11).

<sup>12</sup>GAO/AIMD-00-21.3.1.

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addition, DOD's *Financial Improvement and Audit Readiness (FIAR) Guidance* states that being able to provide transaction-level detail for an account balance is a key task essential to achieve audit readiness.

At the time we initiated our audit, Army officials told us that they had not yet focused on this area in their audit readiness efforts because the target date for Army military pay was not until the first quarter of fiscal year 2015.<sup>13</sup> The inability to readily provide a population of military pay accounts impeded our efforts to accomplish our audit objectives and, if not effectively addressed, will impede the Army's ability to meet DOD's new Statement of Budgetary Resources audit readiness goal of September 30, 2014.

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**System Weaknesses  
Hindered the Matching of  
Army Pay Accounts to  
Personnel Files**

The Army's pay and personnel systems are not integrated, which can lead to differences between the systems and potential errors. Therefore, an audit of military pay would include comparisons of military payroll accounts to personnel records to identify discrepancies. However, we found that DMDC did not have an effective process for comparing military pay account files with military personnel files. While DMDC was ultimately able to confirm that all 677,024 service members who received fiscal year 2010 active duty Army military pay<sup>14</sup> from the DJMS-AC had an active duty personnel file in one of the multiple personnel systems, the reconciliation process was labor intensive and took over 2 months to complete. For example, DMDC's initial comparison of active duty Army military pay accounts to personnel records identified 67,243 pay accounts that did not have a corresponding active army personnel record on September 30, 2010.<sup>15</sup> Labor-intensive research was necessary to reconcile the differences between DJMS-AC pay records and Army personnel files compiled by DMDC. According to DMDC, these differences related primarily to personnel who had either left or were scheduled to leave the service, were reserve component soldiers

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<sup>13</sup>Subsequent to this discussion, the Secretary of Defense issued a memo accelerating the Statement of Budgetary Resources audit readiness goal from 2017 to 2014.

<sup>14</sup>Fiscal year 2010 was the most recently completed fiscal year at the time of our audit.

<sup>15</sup>The personnel file used for comparison included service members who were still on active duty in the Army on September 30, 2010, and did not cover the entire fiscal year.

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released from active duty, or were soldiers who had died during fiscal year 2010.

DMDC attempted to complete our requested comparison of active duty Army pay accounts to military personnel records in January 2011, but was unable to complete the reconciliation until early March 2011. DMDC officials told us that the reasons for the delays included mainframe computer issues,<sup>16</sup> staff illness and turnover, and management data quality reviews of the file comparison results, including additional file comparisons to resolve differences. We referred six duplicate Social Security numbers in personnel account records that we confirmed with the Social Security Administration to DMDC and the Army for further research and appropriate action.<sup>17</sup> The absence of an effective process for confirming that the Army's active duty payroll population reconciles to military personnel records increases the risk that the Army will not meet DOD's Statement of Budgetary Resources auditability goal of September 30, 2014.

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**The Army Was Unable to Provide Documentation to Support the Validity and Accuracy of a Sample of Payroll Transactions**

We identified deficiencies in DFAS-IN and Army processes and systems for readily identifying and providing documentation that supports payments for Army military payroll. First, DFAS-IN had difficulty retrieving and providing usable Leave and Earnings Statement files for our sample items. Second, the Army and DFAS-IN were able to provide complete documentation for 2 of our 250 military pay account sample items, partial support for 3 sample items, but no support for the remaining 245 sample items. Because the Army was unable to provide documents to support reported payroll amounts for our sample of 250 soldier pay accounts, we were unable to determine whether the Army's payroll accounts were valid and we could not verify the accuracy of payments and reported active duty military payroll. Further, because military payroll is significant to the financial statements, the Army will not be able to pass an audit of its Statement of Budgetary Resources without resolving these control weaknesses.

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<sup>16</sup>DMDC and other DOD agencies use the Navy Postgraduate School mainframe computer to support their activities and share data processing priorities.

<sup>17</sup>The six duplicate personnel records related to Social Security numbers that were assigned to two different service member names.

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DFAS-IN Could Not  
Readily Provide Usable  
Leave and Earnings  
Statement Files for Sample  
Items

DFAS-IN staff experienced difficulty and delays in providing usable Leave and Earnings Statement files to support our testing of Army military payroll. We selected a sample of 250 Army active duty soldier pay accounts and in April 2011 requested the relevant Leave and Earnings Statement files for fiscal year 2010. *Standards for Internal Control in the Federal Government* requires internal control and all transactions and other significant events to be clearly documented and the documentation readily available for examination.<sup>18</sup> DOD Regulation 7000.14-R, *Financial Management Regulation* (FMR), requires the military components to maintain documentation supporting all data generated and input into finance and accounting systems or submitted to DFAS.<sup>19</sup> After multiple discussions and requests, we ultimately obtained usable Leave and Earnings Statement files for our sample items—5 weeks after our initial request. DFAS-IN took over 2 weeks to provide the initial set of Leave and Earnings Statement files because it needed to retrieve files from two areas of the Defense Joint Military Pay System-Active Component (DJMS-AC). The DJMS-AC database holds the current month plus the previous 12 months' data. Data older than this are archived and need to be retrieved from the archived database. In addition, the first set of Leave and Earnings Statement files that DFAS-IN provided included statements outside the requested fiscal year 2010 timeframe of our audit. It took 1 week, including our data reliability review, to obtain the second set of DFAS-IN Leave and Earnings Statement files consisting of 445 separate files containing monthly statements for 250 service member pay accounts in our sample. We determined that the Leave and Earnings Statement files for an individual service member generally were in two or more of the files provided. Consequently, we had to combine these files into a format with each service member's Leave and Earnings Statement files grouped together to include all of the pay and allowance information for the service members in our sample. This combining and formatting required 2 additional weeks.

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<sup>18</sup>GAO/AIMD-00-21.3.1.

<sup>19</sup>DOD, FMR, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," ¶ 020201.B. (rev. August 2011).

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The Army Was Unable to Locate Supporting Documentation for Military Pay Account Sample Items

We found that the Army's inability to locate personnel documents to support its military payroll transactions was primarily the result of weaknesses in Army procedures. *Standards for Internal Control in the Federal Government* requires internal control and all transactions and other significant events to be clearly documented and the documentation readily available for examination.<sup>20</sup> DOD Regulation 7000.14-R, *Financial Management Regulation* (FMR), requires the military components to maintain documentation supporting all data generated and input into finance and accounting systems or submitted to DFAS.<sup>21</sup> This regulation also requires the components to ensure that audit trails are maintained in sufficient detail to permit tracing of transactions from their sources to their transmission to DFAS. Audit trails are necessary to demonstrate the accuracy, completeness, and timeliness of transactions as well as to provide documentary support for all data generated by the component and submitted to DFAS for recording in the accounting systems and use in financial reports. Further, DOD's FIAR Guidance states that identifying and evaluating supporting documentation for individual transactions and balances, as well as the location and sources of supporting documentation and confirming that appropriate supporting documentation exists, is a key audit readiness step.<sup>22</sup> Without the capability to readily locate and provide supporting documentation for military pay transactions, the Army's ability to pass a financial statement audit will be impeded.

As of the end of September 2011, 6 months after receiving our initial request, the Army and DFAS-IN were able to provide complete documentation for 2 of our 250 sample items, partial support for 3 sample items, and no support for the remaining 245 sample items. As shown in figure 1, our review of the partial documentation provided for 3 sample items showed that the Army was unable to provide supporting documentation for common elements of its military pay, including basic allowance for housing, cost of living allowance, hardship duty pay-location, and hostile fire/imminent danger pay.

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<sup>20</sup>GAO/AIMD-00-21.3.1.

<sup>21</sup>DOD, FMR, Volume 6A, Chapter 2, "Financial Reports Roles and Responsibilities," ¶ 020201.B. (rev. August 2011).

<sup>22</sup>DOD, *Fiscal Year 2010 Financial Improvement and Audit Readiness (FIAR) Guidance*, Office of the Under Secretary of Defense (Comptroller/CFO) (Arlington, VA: May 15, 2010).

Figure 1: Test Results for 5 of 250 Soldier Pay Account Sample Items

Type of pay or allowance	Item #1	Item #2	Item #3	Item #4	Item #5
Basic pay	✓	✓	✓	✓	✓
Basic allowance for subsistence (BAS)	✓	✓	✓	✓	✓
Basic allowance for housing (BAH)	✗	✓	✓	✓	✓
Clothing allowance	✗	✓	✗	N/A	✓
Family separation allowance (FSA)	N/A	N/A	✓	N/A	N/A
Overseas housing allowance (OHA)	N/A	N/A	N/A	✓	N/A
Dual overseas housing allowance (DUAL OHA)	N/A	N/A	N/A	✓	N/A
CONUS cost of living allowance (COLA)	✗	N/A	N/A	N/A	N/A
Cost of living allowance (COLA)	N/A	✓	N/A	✓	N/A
Special Duty Pay	✓	N/A	N/A	N/A	N/A
Hardship duty pay - location (HDP LOC)	N/A	N/A	✗	N/A	✗
Hostile Fire/Imminent Danger Pay (HFP/IDP)	N/A	N/A	✗	N/A	✗

✓ Adequate supporting documentation was provided

✗ Adequate supporting documentation was not provided

N/A Not applicable because the service member did not have this type of pay or allowance

Source: GAO analysis of Army personnel documentation.

One of the factors impeding the Army's ability to provide supporting documentation is that it does not have a centralized repository for pay-affecting documents. Army personnel and finance documentation supporting basic pay and allowances resides in numerous systems, and original hard copy documents are scattered across the country—at hundreds of Army units and National Archives and Records Administration (NARA) federal records centers. According to Army and DFAS-IN officials, there are at least 45 separate systems that the Army uses to perform personnel and pay functions with no single, overarching personnel system. Although these systems contain personnel data on Army active duty military members and their dependents and feed these data to DJMS-AC, the systems do not contain source documents.

Further, we found that the Army had not established a mechanism for periodic monitoring, review, and accountability of the Interactive

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Personnel Management System (iPERMS) to ensure that personnel files are complete. Army Regulation No. 600-8-104, *Military Personnel Information Management/Records*, establishes requirements for the Army's Official Military Personnel File.<sup>23</sup> The Army deployed iPERMS in 2007 and designated it as the Army's Official Military Personnel File. However, when we attempted to find supporting documents in iPERMS, we found that this system had not been consistently populated with the required service member documents, resulting in incomplete personnel records. For example, when testing our sampled transactions, we discovered that documents, such as orders to support a special duty assignment, permanent change of station orders, and release or discharge from active duty, that should have been in iPERMS were not. The Army has designated the Human Resources Command as the owner of iPERMS; however, local installation personnel offices across the country are responsible for entering most documents into individual service member iPERMS accounts. We found that documents needed to support pay transactions are not in iPERMS because (1) Army Regulation 600-8-104 does not require the specific personnel forms to be included and (2) some pay-supporting documents are finance documents and are not considered personnel documents.<sup>24</sup> We believe these finance documents should also be maintained in the Army's central repository of pay-supporting documentation.

In addition, the Army's efforts to achieve auditability are compounded by payroll system limitations. DJMS-AC, used to process Army active duty military pay, is an aging, Common Business Oriented Language (COBOL)<sup>25</sup> mainframe-based system that has had minimum system maintenance because DOD planned to transition to the Forward Capability Pay System and then to the Defense Integrated Military Human

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<sup>23</sup>Department of the Army, Army Regulation No. 600-8-104, *Military Personnel Information Management/Records* (Washington, D.C.: June 22, 2004).

<sup>24</sup>These documents include the Department of the Army (DA) Form 5960, Authorization to Start, Stop or Change Basic Allowance for Quarters and/or Variable Housing Allowance; the Department of Defense (DD) Form 1561, Statement to Substantiate Payment of Family Separation Allowance (FSA); and the DD Form 2367, Individual Overseas Housing Allowance.

<sup>25</sup>COBOL is one of the earliest high-level programming languages. It was developed in 1959, and the language continues to evolve.



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Resources System.<sup>26</sup> DJMS-AC lacks key payroll computation abilities to pay active duty Army service members. To address these functionality limitations, DFAS has developed approximately 70 workaround procedures that are currently being used to compensate for the lack of functionality in DJMS-AC. An audit of Army military pay would necessitate an evaluation of these procedures and related controls.

Another factor in the Army's inability to provide support for military payroll is that the Army has not adequately documented its personnel processes and controls related to military pay. During our audit, we spent considerable time attempting to identify the range of personnel and finance documents that would be needed to support basic military pay and allowances reported on service members' Leave and Earnings Statements and the appropriate office responsible for providing the documentation. According to Internal Control Standards, written documentation should exist covering the agency's internal control and all significant transactions and events.<sup>27</sup> The documentation for internal control includes identification of the agency's activity-level functions and related objectives and control activities and should appear in management directives, administrative policies, accounting manuals, and other such guidance.

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Army Military Pay Audit  
Readiness Efforts  
Currently Under Way

DOD's November 2011 FIAR Status Report includes DOD's goal of achieving audit readiness for its Statement of Budgetary Resources by the end of fiscal year 2014. DOD and the Army have established interim goals for meeting the fiscal year 2014 Statement of Budgetary Resources audit readiness goal. For example, the Army plans to assert audit readiness for its General Fund Statement of Budgetary Resources, including military pay, by March 31, 2013, and have its assertion tested and fully validated by June 30, 2014. Army officials stated that military pay audit readiness poses a significant challenge and acknowledged that the success of the Army's efforts will be key to meeting DOD's 2014 Statement of Budgetary Resources audit readiness goal. To meet this goal, the Army has several military pay audit readiness efforts planned or

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<sup>26</sup>The Defense Integrated Military Human Resources System was terminated due to the differences in the business processes, operations, and information required by each Service.

<sup>27</sup>GAO/AIMD-00-21.3.1.

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under way, such as developing a matrix of personnel documents that support military pay and allowances and developing the Integrated Personnel and Payroll System-Army.<sup>28</sup> However, many of these efforts are in the early planning stages.

In our report, we recommend that the Army document and implement a process for identifying and validating the population of payroll transactions and identify, centrally retain, and periodically review key finance and personnel (i.e., pay-affecting) documents that support military payroll transactions. The Army agreed with our recommendations to improve the controls and processes related to active duty military. Our report more fully describes the Army's comments and our evaluation of them.

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## Concluding Observations

Active Army military payroll, reported at \$46.1 billion for fiscal year 2010, is material to the Army's financial statements and, as such, will be significant to DOD's audit readiness goals for the Statement of Budgetary Resources. The Army has several military pay audit readiness efforts that are planned or under way. Timely and effective implementation of these efforts could help reduce the risk related to DOD's ability to achieve its 2014 Statement of Budgetary Resources audit readiness goal. However, most of these actions are in the early planning stages. Moreover, these initiatives, while important, do not address (1) establishing effective processes and systems for identifying a valid population of military payroll records, (2) ensuring Leave and Earnings Statement files and supporting personnel documents are readily available for verifying the accuracy of payroll records, (3) ensuring key personnel and other pay-related documents that support military payroll transactions are centrally located, retained in service member Official Military Personnel Files, or otherwise readily accessible, and (4) requiring the Army's Human Resources Command to periodically review and confirm that service member Official Military Personnel File records in iPERMS or other master personnel record systems are consistent and complete. These same issues, if not effectively resolved, could also jeopardize the 2017 goal for audit

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<sup>28</sup>Currently under development, the Integrated Personnel and Pay System-Army (IPPS-A) is intended to be the Army's future web-based Human Resources management system. The goal of IPPS-A is to standardize, streamline, and integrate critical soldier personnel and pay processes and data across the Active Army, Army National Guard, and Army Reserve.

Mr. PLATTS. Thank you, Mr. Khan.  
Next is Mr. James Watkins, Director, Accountability and Audit Readiness, Department of the Army.

**STATEMENT OF JAMES WATKINS**

Mr. WATKINS. Thank you.

Chairman Platts, Chairman Carper, Ranking Member Towns, members of the committee, especially my own representative in Congress, Representative Connolly, thank you for the opportunity to testify today regarding Army military pay, audit readiness and our commitment to achieving auditable financial statements.

Secretary McHugh, Army Chief of Staff Odierno, Under Secretary Dr. Westphal, the Assistant Secretary for Financial Management and Comptroller, Dr. Matiella; and all of our senior leaders are committed to achieving auditable financial statements including the Army's military pay business processes.

I also thank the Government Accountability Office for their military pay audit. We concur that the Army faces challenges in achieving audit readiness for military pay. The military pay audit provided additional insight with specific recommendations to address deficiencies. We concur with the GAO findings and have included their recommendations in the Army's Financial Improvement Plan.

While we are confident that we do a good job paying our soldiers the right amount of money at the right times. We know we have a lot of work to do to prove it via an audit. Military pay at approximately \$50 billion annually represents a significant component of the Army's Statement of Budgetary Resources. Because of the amount of resources dedicated to and the importance of military pay, the Army and the Defense Finance and Accounting Service must ensure controls are in place to continue paying soldiers the right entitlements, the right amounts at the right time and to accurately report these transactions on the financial statements. This requires teamwork between the Army, DFAS and the Office of the Under Secretary Defense Comptroller.

Our progress to date includes working with DFAS to develop and document a repeatable process for identifying the total population of active duty military payroll accounts each fiscal year. In fact, the Army and DFAS, in October 2011, implemented a monthly reconciliation of all detailed military pay transactions to the summary financial reporting records. This process improvement represents a significant accomplishment in advancing the Army's audit readiness efforts.

Other initiatives include documenting the military personnel and payroll business processes; identifying the key pay-related substantiating documents; and standardizing the procedures for maintaining these documents. As part of this effort, we are creating a matrix that identifies the relevant substantiating documents and the retention location of those documents for each payroll entitlement. The matrix will simplify the retrieval of documents, demonstrate proof of military pay and assist in our response in future audit requests.

Finally, we are reviewing all policies governing the storage and retention of key documents to ensure policies, processes and sup-

porting business systems enable timely access to substantiating documentation in a cost effective manner.

The pace at which the Army has supported financial improvement the past three years is unprecedented in the more than 30 years I have served in the Army, including 27 years as an infantryman and finance officer, and 6 as a civilian in the financial management and audit readiness community.

With critical help from Congress, GAO, OSD and DFAS, we have generated the necessary momentum across the Army to achieve the goal of financial improvement in audit readiness. We have dedicated appropriate funding to meet this goal; we have established a robust government structure; we have shifted the culture of the Army toward greater personal and collective accountability.

The Army's senior leaders are actively engaged in ensuring we meet Secretary Panetta's directive of an auditable statement of budgetary resources in 2014 and all financial statements by 2017. I met with congressional staff in the spring of 2010 to describe the Army's financial improvement plan and the milestones between that time and 2017 that would demonstrate progress.

I am proud to report that we have met our interim goals since that time and we continue to prove we are on the right path. To meet Secretary Panetta's 2014 deadline, we have accelerated some milestones, all of which I am very confident we will achieve.

While we have made great progress, a tremendous amount of challenges lie before us. As Mr. Khan pointed out last July 2011 in front of the Senate Committee on Armed Services, I am personally committed to this historic effort to improve financial management in the Army, to enhance support to soldiers and to improve accountability to the American taxpayers.

I look forward to working with you to ensure the Army's success and I welcome your questions.

[Prepared statement of Mr. Watkins follows:]

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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Mr. PLATTS. Thank you, Mr. Watkins.

Next, we have Ms. Jeanne Brooks, Director, Technology & Business Architecture Integration, Office of the Deputy Chief of Staff, G-1, Department of the Army. Thank you for being here, Ms. Brooks.

#### STATEMENT OF JEANNE M. BROOKS

Ms. BROOKS. Good morning.

Chairman Platts, Chairman Carper, Ranking Member Towns, and Congressman Connolly, thank you for the opportunity to testify today regarding the audit readiness of the Army's military pay appropriation and the draft report issued by the Government Accountability Office.

Military pay is a significant portion of the Army's budget authority and we are committed to providing an accurate and comprehensive accountability of the monies authorized and appropriated by Congress for the purpose of paying our most viable assets, our soldiers.

The Army G-1 is working diligently with the Assistant Secretary of the Army for Financial Management, Dr. Matiella, and her point person on audit readiness, Mr. Jim Watkins, to ensure that our G-1 processes, systems and procedures that impact military pay fully support the effort to be audit ready for the Statement of Budgetary Resources by 2014 and for all financial statements by 2017.

We are using the Financial Improvement and Audit Readiness principles to guide our efforts. We appreciate the balanced and constructive approach used by GAO in assessing our audit readiness for active duty military pay. The dual focus of GAO was to validate the accuracy of the population paid and to verify all documentation for entitlements received. GAO highlighted that these two areas currently being worked in support of the overall audit readiness require significant additional emphasis.

In the short term, we are aggressively analyzing the expansion of our Personnel Integrated Records Management System or IPPS-A to address the GAO finding of the document storage shortcomings. This analysis has focused on the inclusion of pay supporting documentation as well as the personnel documentation already being captured.

Our current process for capturing pay documentation is paper centric and it relies on the National Archives and Records Administration storage facility. This process is outmoded and cumbersome and does not support our move to the auditable environment.

Additionally, the Defense Finance and Accounting Service and the Army's Human Resources Command have processes in place outlining the procedures that are required to validate the Army's pay accounts against official personnel records. These agreements have been in place for a number of years. Currently, we are validating the efficacy of these comparisons in today's environment.

The Army's Integrated Personnel and Pay System Program IPPS-A is our major effort to address these shortcomings in the long term. The initial release of IPPS-A will give us an integrated database of all active Guard and Reserve soldiers. Subsequently releases will eventually get us to an Integrated Personnel and Pay System. This implementation of the commercial PeopleSoft Human

Resources Management System will be configured to meet the Army's needs and will strengthen our internal controls and ensure that our entire population is paid accurately.

No longer will there be separate personnel and pay databases. Digital signatures, strong audit capabilities, a built-in business engine rule, and a strict roles and permissions structure will further ensure accuracy and internal control rigor for military pay.

Expanding IPERMS and validating that personnel and pay comparisons are routinely performed will prepare the Army for the fiscal year 2014 SBR audit as well as address the GAO audit findings in the short term. IPPS-A will be the Army's long term solution to eliminate the need for personnel and payroll comparisons. This coupled with the enhanced iPERMS capabilities will prepare the Army for the full audit in fiscal year 2017.

This concludes my statement. I welcome your questions.

[Prepared statement of Ms. Brooks follows:]

Chairman Platts, Chairman Carper, Ranking Member Towns, Brown and Members of the House Committee on Oversight and Government Reform and Members of the Senate Subcommittee on Federal Financial Management, thank you for the opportunity to testify today regarding the audit readiness of the Army's Military Pay Appropriation and the draft report issued by the Government Accountability Office (GAO).

As you know, military pay is a significant portion of the Army's budget authority and we are committed to providing an accurate and comprehensive accountability of the monies authorized and appropriated by Congress for the purpose of paying our most valuable assets – our Soldiers.

We are working diligently with the Assistant Secretary of the Army for Financial Management, Dr. Sally Matiella, and her point person on audit readiness, Mr. Jim Watkins, to ensure that our G-1 systems, processes, and procedures that impact military pay fully support the effort to be audit ready for the Statement of Budgetary Resources (SBR) by 2014 and for all financial statements by 2017. We are using the Financial Improvement and Audit Readiness (FIAR) principles to guide our efforts.

We appreciate the balanced and constructive approach used by GAO in assessing our audit readiness for active duty military pay. The dual focus of GAO was to validate the accuracy of the population paid and verify all documentation for entitlements received. GAO highlighted that these two areas currently being worked in support of the overall audit readiness effort, require significant additional emphasis.

The Integrated Personnel and Pay System – Army (IPPS-A) program is our major effort to address these shortcomings. The initial release of IPPS-A will give us an integrated database of all Army components (Active, Guard, and Reserve), and subsequent releases will eventually get us to an integrated personnel and pay system. This implementation of the commercial PeopleSoft Human Resources Management System configured to meet the Army's needs will strengthen our internal controls and ensure that our entire population is paid accurately. No longer will there be separate personnel and pay databases. Digital signatures, strong audit capabilities, a built-in rules engine, and a strict roles and permissions structure will further ensure accuracy and internal control for Military Pay.

Additionally, we are aggressively studying the expansion of our Personnel Electronic Records Management System (iPERMS) to include the full spectrum of pay supporting documentation as well as the personnel documentation already being captured. Our current process for capturing pay documentation is paper-centric and relies on National Archives and Records Administration (NARA) storage facilities. This process is outmoded and cumbersome and does not support our move to an auditable environment.

The IPPS-A and iPERMS efforts will address and correct the GAO findings allowing us to meet Secretary Panetta's audit readiness goals.

I welcome your questions.

Mr. PLATTS. Thank you, Ms. Brooks.

Next, we have Mr. Aaron Gillison, Acting Director, Defense Finance and Accounting Service, Indianapolis, Department of Defense. Mr. Gillison?

#### **STATEMENT OF AARON P. GILLISON**

Mr. GILLISON. Chairman Platts, Chairman Carper, Ranking Member Towns, and Representative Connolly, thank you for the opportunity to speak at this hearing.

I would like to thank the Government Accountability Office for their work on the study. I am pleased to be here to discuss DFAS commitment and actions to achieve audit readiness.

The GAO 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 the Department, DFAS specific improvements in support of an Army military pay audit, and how DFAS is collaborating with customers to support audit readiness and prepare for assertions.

As background, DFAS proudly pays America's military, government civilians and commercial vendors. We also pay travelers and perform accounting and financial reporting services including the summary level financial reports for the Department. DFAS is applying the Financial Improvement and Audit Readiness Plan to help our customers achieve auditability.

In fiscal year 2010, the active Army payroll accounted for \$46.1 billion in Army resources or 20 percent of Army net outlays. This included about \$9.6 million Army military pay transactions. The GAO report confirmed the active duty military members paid in fiscal year 2010 had an active duty personnel file. We recognize all process partners must provide documentation within reasonable time lines.

While we have made improvements, we are committed to executing additional DFAS owned actions identified in the Army's Financial Improvement Plan. To improve the audit process, the Army and DFAS will use data query capability against the Master Military Pay Account which is the backbone of the Joint Military Pay System.

In addition, our team is developing a matrix that includes entitlements, supporting document location and the responsible organizations. We will use this matrix to clarify roles, responsibilities and acceptable standard retrieval time lines. These steps coupled with the Army's Electronic Document Repository for Personnel Actions will help get documents to auditors more quickly.

There is a weekly reconciliation of Army military pay directly to the personnel system. In October 2011, DFAS also implemented monthly payroll reconciliations that traced active duty Army payroll from the military pay system to the accounting system. This extracts soldier level data for all pay and allowance categories and includes all records.

Generated and archived each month, reconciliations can be extracted for a single payroll period or combined to create a population for broader time periods providing an easier way to sample the transactions. DFAS established a senior executive as Director

of Audit Readiness to provide oversight and guidance for agency support to the Department's audit readiness.

DFAS is collaborating with process partners on systems we have used using the GAO Federal Information Systems Control Audit Manual. We are also using the American Institute of Certified Public Accountants Standards to prepare for and conduct audits of DFAS common processes in civilian pay, in military pay, disbursing and contract pay to ensure systems and controls are operated as intended.

In addition, we are using lessons learned to reduce or eliminate repeat audit findings. We have dedicated teams at DFAS sites to coordinate all audit readiness efforts. While a number of these team members are certified public accountants, our training strategy must instill an audit ready every day philosophy into every employee.

All DFAS senior executives now have audit readiness goals and performance plans. We are making progress toward financial auditability. Collaboration with our process partners and continuous improvement with an all in philosophy of leaders and employees is key to achieving military payroll audit readiness.

Chairman Platts, Chairman Carper, Ranking Member Towns, Representative Connolly, and distinguished members, thank you for your time today. I look forward to your questions.

[Prepared statement of Mr. Gillison follows:]

**NOT FOR PUBLICATION UNTIL  
RELEASE BY THE  
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**

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.

Mr. PLATTS. Thank you, Mr. Gillison.

I will go directly to questions. I will give myself five minutes as again we try to beat the clock with the Floor votes.

I want to say up front that I certainly appreciate that each and every one of you is committed and determined to make sure we get this right. We all share that goal and our exchange here is trying to identify how do we better achieve that goal.

Mr. Gillison, I am going to start with your written testimony and your reference here. Mr. Watkins, you alluded to it as it well. Mr. Gillison, in your written testimony, you make the statement "While we did pay these members correctly." When I read the GAO's report, their testimony here today and in writing as well, how do you know that to be able to make that statement because of the lack of documentation that they uncovered related to their 2010 study or report? How do you have the certainty to be able to make the statement that you know you paid correctly?

Mr. GILLISON. Number one, I do have confidence in the backbone of the system, the Match Military Pay Account. I can trace the actual computer update that it was processed on, I can trace back to which office processed it. What we could not do at the time was actually present some of those documents.

I was as frustrated as the GAO was when I looked at it and asked questions. The team came together and said, have we thought about this system? Have we thought about it might be located over here in this other system. Over the course of the last two weeks, we have identified the documents for all those five cases.

Mr. PLATTS. But there were 250 total though and that goes to the point that for 5, pulling together 2 completely initially, three partially, 245 is my understanding, no documentation.

Mr. GILLISON. Mr. Chairman, what I would say to that is the human element that's involved in this process, all of us, that is why I say really all in, we have to do our job every day. That is the audit ready every day component. Quickly, I will say this. Those documents are there the day it is processed into the computer system and they are retained at the respective finance office for one year. That very next morning, you know it is there because you do a comparison, then we ship it off.

Mr. PLATTS. I apologize for interrupting, but I think that is the issue here. One, for internal controls to work, you have to be able to go back and say not just that we believe when that payment was made the document was there to justify the payment, we can go back and do the audit and say, yes, it was and still is. Otherwise, today we really don't know that it was. We are taking the word of whoever processed it that they looked at documentation.

That is a significant internal control breakdown. That is why I asked you about the statement because we really cannot say, when we look at the number, on average in 2010, 364,000 cases that were not all directly payroll related but my understanding is the majority, we have some serious challenges here.

I appreciate that is what we are working through and trying to address. I think we have to be cautious. We cannot say today that we know we paid all of our military accurately because we know

we haven't based on facts brought to your attention and that is what we are really trying to get after here.

You also talked about and there was reference in a couple testimonies, the changes in October 2011. If we made the same request today that GAO made for the 2010 records, how quickly could you provide me, if I picked out any soldier who was paid in February of this year, how quickly could you provide me the backup documentation to show this is why he was paid what he was paid?

Mr. GILLISON. It is a three part answer, sir. We do affirm every month, first off, that we are paying the correct soldiers the correct pay and identified those that we are not.

Mr. PLATTS. How do you do that every month?

Mr. GILLISON. We use the Unit Commander's finance report and pay is also a Commander's responsibility. That Commander and First Sergeant in every unit, affirms to us, signs off on the document that comes back and says I have 100 soldiers, this is the pay by category. We hold that document on hand for six months.

Mr. PLATTS. So it is the Commander's assertion at that point, not the root documentation or the source documentation, you don't have at that point?

Mr. GILLISON. We also are supposed to retain it, the key word is supposed to retain it, within the finance office for one year and then we ship it to the records holding.

As far as being able to support a GAO audit or a public accounting firm audit at this point, with the capability we have built, we can pull out and say that the following 1,000 soldiers or 600,000 or 590,000 soldiers have received this amount of pay by this category of entitlements and allowances traced to the accounting system.

Where we are still deficient is, this is what we are building, we have this table we are working on right now that then says who is responsible for the source document, where is it located, how do I get there from here, and we are going to have to expand the horizons of all of our individuals so they understand what the person left and the person right is doing and give them the accesses to that computer system.

Mr. PLATTS. I am going to run out of time. I already am out of time. Hopefully I can come back to that issue because ultimately that is where we have to get. I know the iPERMS system is intended to help us do that, that we are going to have, as the Colonel testified, with the travel system, technology is a good thing if we are able to properly and efficiently implement it so that all that documentation is there, electronically stored and able to be pulled up.

When you mentioned in the last two weeks, I won't ask how many hours you would calculate you and how many others put in to try to document just five soldiers? We do need to do it for all 500,000-plus that we are talking about. We have to get away from the labor intensive. This should be when you are working towards a system when you want that information on one soldier, last month you pulled up the source documentation and saw everything that we ultimately get to that.

It is not heroic efforts because a hearing or heroic efforts because an audit is going to be done. It is so it is just routine. I know that

is what you and all of you are working toward. I don't want to minimize that the commitment is there, starting with the Secretary of Defense and his commitment that we are going to do this and do it right.

I am way over my time. Senator Carper has asked because of what may happen on the Floor with votes, I am going to yield to Mr. Connolly from Virginia.

Mr. CONNOLLY. Thank you, Mr. Chairman, and I thank the Senator.

Thank you all for your testimony and your service, especially my constituent, Mr. Watkins, whose outstanding testimony I think should be framed, Mr. Chairman.

Mr. PLATTS. With the exception of that chairman remark, trying to push me out of my seat here.

[Laughter.]

Mr. CONNOLLY. I guess one of the things I would say to the panel is it seems to me progress achieved, notwithstanding, we need to move from sort of the administrative clutter to the human level. No soldier on the ground in Afghanistan, Iraq or anywhere else serving in uniform ought to, on top of everything else, we worried about whether the spouse and kids back home can pay the bills. That ought to be our goal bottom line. That part, don't worry about, focus on the mission. We got the rest of it.

It is very difficult to hear testimony, as we did this morning from Lieutenant Colonel Zecchini that in the middle of Afghanistan in a war front, he is worried about trying to pay the bills back home and so is his spouse and his kids. That is a very human concern and a very legitimate one.

We may never get to perfection, it is a big, complex system with lots of change orders, bigger than any private sector enterprise. I understand, but that ought to be our goal. It is a human goal. We need to be seized with the mission. This isn't about numbers; this is about men and women and their lives.

I say that as someone who has managed a big enterprise. If that is our mentality, we will fix this problem. I commend it to you. I know you are committed but we need to redouble that commitment so that we never have that kind of testimony again and Lieutenant Colonel Zecchini and his colleagues never have to worry about that again.

Mr. Watkins, in your outstanding testimony you indicated you were pretty confident that we were going to meet the deadlines we have set for ourselves to finally have a certifiable audit like most other federal agencies. The Pentagon is not like every other federal agency, so we understand the complications. On a scale of 1 to 10, how confident are you that we, in fact, will meet that deadline finally?

Mr. WATKINS. Representative Connolly, I am very confident. I would rate it about 8.

Mr. CONNOLLY. Ok Thank you.

Mr. Khan, your testimony, if I understood you correctly, has the GAO found appreciable progress has been made on the fronts we are talking about, is that correct?

Mr. KHAN. Some progress has been made but there is a lot more work which needs to be done to be able to meet the 2014 deadline.

Mr. CONNOLLY. That is on the audit?

Mr. KHAN. Correct.

Mr. CONNOLLY. What about the issue of accurate pay?

Mr. KHAN. That continues to be a problem.

Mr. CONNOLLY. Statistically, how much of a problem is it from GAO's point of view? The Chairman was talking about 250, but obviously the problem has to be bigger than that given the size of our armed forces.

Mr. KHAN. Let me just pick up where you left off. Our sample of 250 was a statistical sample. That means the results could be generalized or extrapolated.

Mr. CONNOLLY. If we extrapolate, what would we say?

Mr. KHAN. We could not say anything on the accuracy or validity of Army's military active duty pay for fiscal year 2010.

Mr. CONNOLLY. If we don't have some metrics for these folks to measure against and to gauge progress, then it remains anecdotal. Based on that statistical sample, what percentage of active duty military do we feel suffer from mistakes in their payroll?

Mr. KHAN. Based on our work, that would be very difficult to say. Getting two payroll records out of 250 doesn't really say much.

Mr. CONNOLLY. Right.

Mr. Chairman, I have to go vote. I thank the Senator for his consideration. I just do think the GAO could be helpful here in helping to try to get our arms around some of the metrics so that we know what we are measuring against and we know what goals we need to be setting for ourselves. Is it 20 percent at any given time of active duty who are having payroll complications, the severity of which obviously is another spectrum. Is it 5 percent, is it 2 percent? What is it?

If we don't know that or have some way of trying to measure that, it seems to me it remains an illusive goal to try to get to zero so that Lieutenant Colonel Zecchini and his colleagues never suffer from that kind of malady again. I commend it to the GAO to try to work with us a little bit on more substantial metrics that we can use as a tool. So can the Pentagon in terms of a management tool.

I yield back and I thank the Chair.

Mr. PLATTS. I thank the gentleman. Because we don't actually know the total breadth of the number of cases, that means we also don't know how much time, effort and money we are spending on trying to correct the problems when they do occur. If we get the system right up front, we can avoid it in the long term.

With that, I yield to Senator Carper.

Senator CARPER. Thank you, Mr. Chairman.

Take a few seconds each of you and react to what we heard from Colonel Zecchini today. Mr. Khan, just a brief reaction to what you heard from him.

Mr. KHAN. I am sorry, Senator Carper?

Senator CARPER. I am going to ask you to briefly react to what you heard in the testimony of Colonel Zecchini, just your off-the-cuff reaction.

Mr. KHAN. That was pretty consistent with our observations on the deficiencies in the systems and payroll processes in the Army, that there is a high risk of incorrect payments, whether the amounts are wrong or they could be paid to the wrong person.



Senator CARPER. Mr. Watkins?

Mr. WATKINS. Yes, sir. First of all, I would say that is unacceptable, that is going on in more than one isolated case is unacceptable to the Army, it is unacceptable to the people in the Finance Corps and to the people doing the payroll.

I spent 27 years on active duty. For 15 years, I have been receiving retired pay and for 4 years, I was in ROTC, different payroll systems, all administered by DFAS. I never had a pay complaint. I don't know if I am the oddball or if the pay issues that were brought up today is the oddball, but I do know we keep statistics on the pay time and pay accuracy. DFAS can provide those.

I was a Commander, a platoon leader, Company Commander, Battalion Commander, Brigade Commander, I was the Commandant of the Army's Finance School and the Chief of the Finance Corps and I dealt with paying hundreds of thousands of soldiers and we did not have rampant problems with pay.

First of all, I can tell you as a Commander, if you have a soldier that has a pay problem, you have a problem because he is not focused on the mission and you have to get that problem fixed. When I was the Finance Officer at the 5th Corps in Germany, at the 2nd Division in Korea and in I Corps at Ft. Lewis, if on payday we had long lines that indicated we had a problem but we didn't have long lines. The number of pay complaints were small compared to the number of people we paid.

Senator CARPER. Ms. Brooks, same question. Be brief.

Ms. BROOKS. I agree the situation is unacceptable. That is one of the reasons we are passionate and working very, very hard to correct our personnel systems and processes so that we can fix this problem. We truly need an integrated, active component, reserve component personnel and payroll system and we are working very hard toward that goal.

Senator CARPER. Mr. Gillison?

Mr. GILLISON. Any pay problem is an issue for us. I will say that during the time frame 2003 to 2004, we did react to the audit then and put in a 65-point action plan to address those deficiencies and put more speed on paying soldiers properly in all components. Today, we are data and metric rich. We pay 97 percent on time and we aggressively go after that other 3 percent. We are aggressive about this and we are looking forward to making further changes. Continuous improvement is the name of this game and everyone all in to get this done right.

Mr. CONNOLLY. Would the Senator yield?

Senator CARPER. Sure.

Mr. CONNOLLY. Mr. Gillison, your response to Senator Carper would suggest that you do have metrics in terms of error rate. If I heard you correctly, it is 3 percent?

Mr. GILLISON. Sir, we do have metrics we measure at each month and we report the metrics to OSD level. It is part of the Military Pay Improvement Action Plan that started in April 2006. Our timeliness was much lower in that period of time, about 88 percent, and we have moved it to close to 97 percent. We are all about collaboration with all process partners and the continuous improvement. We are identifying these targets as soon as we can and trying to automate as much as we can. We are committed.

Mr. CONNOLLY. Thank you and I thank the Senator.

Senator CARPER. Sure.

Mr. Khan, you heard the testimonies of Mr. Watkins, Ms. Brooks and Mr. Gillison and how they responded to GAO's work and to our questions. What did you hear that were happy to hear and what did you hear you weren't so pleased with?

Mr. KHAN. I was pleased to hear the response both from DFAS and the Army and the expectation is if they follow through with the commitment, they should be able to see some results in the short term.

At the same time, this is a real problem. The length of time it took to produce the documentation is not going to enable an auditor to stay there and be able to give a valid audit opinion in a timely fashion.

The other is the issue of supporting documentation. Regardless of the robustness of the system, the auditor will need access to the supporting documentation, the underlying records of the information which is maintained in the system.

Those are the two points which need to be recognized. One is the timeliness and the other one is the accuracy and validity of the information in the system.

Senator CARPER. Mr. Khan, I think in responding to the GAO's work, the Army official letter to GAO said, "We appreciate your confirmation that no significant issues were identified in your review of the military pay accounts for the Army." That is part of what it said. Based on what we heard from you and some from the Colonel, it seems a bit of an odd comment based on your testimony. Do you believe, as the Army stated, that your audit showed no significant issues?

Mr. KHAN. Our report has been very clear in highlighting the deficiencies in the Army's processes and systems. The deficiencies in the systems and processes really increase the risk of inaccurate payments as I mentioned before. Along with the timeliness with which the information that is provided, those are very significant issues, both towards the accuracy and validity of the information in the system and also to be able to get ready for an audit whether it is 2014 or 2017. The issues we highlighted are very significant.

Senator CARPER. Thank you.

Mr. PLATTS. I am going to ask one question and then yield to Senator Carper before wrapping this up. We may have some follow up in writing because of time constraint.

Ms. Brooks, key here is the Integrated Personnel Pay System you are moving forward with that ultimately will combine both active, Reserve, Guard and ultimately also payroll and personnel records. You talk in your testimony about that is in process. What is the time frame we see for that implementation?

Ms. BROOKS. The IPPS-A Program will be fielded in five different releases. Acquisition-wise, there are two increments. The first release will be an integrated database. It will be populated from the existing legacy databases. That first capability will be available around March 2013. Then each year, we have increasing capability. In 2014 and 2015, we have added personnel transactions. Those transactions are critical to eventually get to payroll.

In fiscal year 2016, we will move on to the payroll piece of the program and move off DJMS, the DFAS-based system.

Mr. PLATTS. When we look at the 2014 mid step to getting to a full audit of budgetary resources, we really are going to be in the early stages of this system even being started?

Ms. BROOKS. Correct.

Mr. PLATTS. That is not going to help us really get to that audit capability we are talking about in 2014 that Secretary Panetta has laid out?

Ms. BROOKS. That is correct. The integrated database will help us to some extent but it will not give us those transactions.

Mr. PLATTS. One final question related to access to information. You reference also that you are studying the expansion of the Personnel Electronic Records Management System, iPERMS, to include all the supporting documentation. Where is that study and what do you anticipate coming from that?

Ms. BROOKS. We still have a long ways to go on that study. The regulation that governs that system is up for review right now and under revision. The system itself will have to be changed once we determine what the policies are. It takes quite a bit of time because there are a large number of stakeholders involved in changing the policies that exist right now to include the Reserve components.

As we do that, we have to take a look at the level of intrusion we are considering with documentation going into this electronic system. When we talk about birth certificates and marriage licenses, that does not seem very intrusive but certain pay events are also driven or authorized by documents such as divorce decrees, custody suits, paternity suits. It is going to take us some time to work with all of our stakeholders and get to the right level of documentation that is not so intrusive but is still authorizing.

Mr. PLATTS. Getting through all that is going to be key to getting to ultimately one which is having in the system, easily accessible proper documentation to support whatever actions we take. With the study of that issue and iPERMS as well as the long term Integrated Personnel pay system, it is going to be critically important to achieving what we are all after. The bottom line is paying our soldiers and doing right by them and their families.

I will yield to Senator Carper.

Senator CARPER. One of the things Mr. Connolly knows I sometimes like to do when I chair hearings over in the Senate is we get to the end of the hearing, I ask the witnesses given what you have heard, what you have said and what we have asked and some thoughts you have had, make a brief closing statement.

We always ask you to make an opening statement, we give five minutes and then we ask you to consider making just a brief closing statement for 30 to 60 seconds about what you would like to have us walk out of here thinking about as well.

Mr. Khan, we heard a fair amount from Mr. Watkins, Ms. Brooks and Mr. Gillison here today through testimony. I am sure a lot of work has gone into them preparing for today. As we listen to what they are saying and watch what they are doing, what kind of actions will say, boy, they have it, they are on the right track? They have turned the corner, they are going to do this. What should we be looking for?

Mr. KHAN. It is encouraging with the response we got from the Army that they are taking the steps they should be taking to identify their process. That is the key to really understanding where the internal controls are. However, they really need to go beyond that, just working with DFAS, and also include the system owners and human resources, so it should not really be in isolation.

I am encouraged that they are heading in the right direction but I guess it is first, one step at a time. The only thing is the time line is compressed and 2014 is going to be here before we know it.

Senator CARPER. So there is a sense of urgency. In the Senate, we don't always operate with a sense of urgency as my friend from Pennsylvania knows. As a recovering governor, it drives me crazy sometimes and I am sure I drive my colleagues crazy as well sometimes. As much as anything I want to really impart a sense of urgency to you. I think that is what Secretary Panetta was trying to do as he takes on his responsibilities here.

Speaking of Secretary Panetta, in my opening statement, I mentioned he had been very vocal in his support for improved financial information and financial management at the Department he now leads. I very much applaud his commitment to that goal. We will work with him during my time as chairman of our subcommittee in the Senate while we continue to try to partner with the Department of Defense and also with GAO towards supporting the goal of better accountability. I just think knowing that war fighters need our best efforts on this, so do the taxpayers.

Mr. Watkins, you sort of alluded to this already. Can you again tell us what changes are forthcoming and how the new Army payroll and other related systems will be improved to meet Secretary Panetta's commitment to not only meet the 2017 goal of auditability but to meet the Secretary's challenge to the Department of being auditable before 2017? For example, how have your goals changed to meet the new goal to audit the Statement of Budgetary Resources by 2014?

Mr. WATKINS. Sir, that is a multi-faceted question. I will try and address each part.

First of all, the changes you will see in the Army's rolling out its Enterprise Resource Planning Systems, the first thing we need to do in order to be auditable by 2017 is we need enterprise systems, not stovepipe systems that are old. The problems the Lieutenant Colonel brought up today, a lot of those are because of the built-in inefficiencies and ineffectiveness of some of our old systems, so these enterprise systems are key. That is number one.

Number two is change management. We have a huge issue before us of change management because we are changing systems, we are changing processes, we are changing procedures and we are changing standard operating systems. Change management requires a competent workforce because what we are asking the workforce to do is different than what we used to ask them to do. We need more analysts and more people that have credentials than data entry folks because the systems allow different inputs and different analysis. We need training, so we have stepped up the training. We are doing a lot of training across the Army for this audit readiness.

In 237 years, the Army has never had a financial statement audit. We have never been asked until recently the passage of the recent laws. We have had a lot of compliance audits and program audits, but a financial statement audit is a different beast. As GAO points out one of the biggest things is having the documentation to prove we are doing it right. We can't prove it today and that is the weakness we have. That is what we are about doing.

To the second piece of your question concerning 2014, because we don't have an integrated pay and personnel system for 2014, we have to look at our current system which we call our legacy system, the Defense Joint Military Pay System. Our intention was not to use DJMS to go to audit in 2017; our intention was to use IPPS-A.

Now that we are not going to have IPPS-A, we have to get these problems with our legacy system fixed and those are the recent activities I mentioned in my statement, the successes we have had about tying up detailed transactions to the General, summary data and tying the disbursing data to the accounting system so it is transaction-driven. We can drill it all the way down and get the proof for it.

Senator CARPER. I said earlier I would ask you all each to just give a closing statement, if it is all right with you, Mr. Chairman. I will start with you Mr. Gillison. Use no more than a minute, please.

Mr. GILLISON. Yes, sir.

First, I appreciate being here today and telling the story of the proud Americans, some who have served in uniform, some who have not, that are committed to continuous improvement in paying our soldiers, sailors, airmen and Marines properly.

We live in two worlds. We live in the current world where we have to be ready by 2014 for the SBR military pay. We have to continue to improve on our current system and we have to be able to show proof that we have the documents. We will get there. We are committed.

We had a mock audit out briefing this week from a public accounting firm looking at some of the very same things identified and they think we can get there. They believe we can get there.

We are going to do an SSA-16 study with accounting looking at military pay by September 2012. That will position us so we can do corrective actions in 2013 and we are ready in 2014. I am more on the scale of a paratrooper on top of a hill knowing that we are going to achieve the mission. I have no doubt about that with the personnel we have and the commitment.

Thank you.

Senator CARPER. From your lips to God's ears.

Ms. Brooks.

Ms. BROOKS. Again, I would like to thank you for the opportunity to appear here this morning. We are very, very committed to making sure that things are correct on the personnel side and on the pay side and eventually, the integration of the personnel and payrolls.

We need the additional support for our ERP programs, as Mr. Watkins has explained, and we appreciate the oversight that we are getting from GAO because they are going to collaborate with

us and help us so that we achieve our eventual goal whether it is in the near term with things that are less automated and in the long term when we get our fully fielded personnel and pay system.

Senator CARPER. Thank you.

Mr. Watkins?

Mr. WATKINS. First, I would like to thank you and the Committee and the staffers who worked in preparation of this hearing.

Senator CARPER. Even Peter Tyler?

Mr. WATKINS. Even Peter. I have been working with Peter for over two years now because of other hearings on your side.

Senator CARPER. My heart goes out to you. He is great.

Mr. WATKINS. He is and I have enjoyed working with him and enjoy looking forward to the continuing relationship.

My message is there is an old expression when I first came in the Army that said the organization only does well those things that the boss checks. I think it is very important for the Congress to continue its oversight and conduct these hearings because that has given impetus to this change that we are undergoing. I think it is important that Congress continues that because our leaders have the message. Our leaders are committed to it and we are checking and getting better. I think the future is brighter today than it was two years ago.

Senator CARPER. Thank you.

Mr. Khan?

Mr. KHAN. Thank you very much.

I have really been encouraged with the tone of this hearing and with how the Army and DEFAS responded to our findings. At the same time, it is very important that they follow through and commitment exists. We obviously will be providing our oversight. Our work is done with the spirit of providing constructive advice. At the same time, exactly as Mr. Watkins said those charged with government and oversight it is very important that they stay involved so that the pace of progress continues and if there is any help needed by the audit team, that is provided on a timely basis.

Thank you.

Senator CARPER. We appreciate very much the work that you and your colleagues at GAO continue to do with us for the American people on so many fronts. I would also say that I am encouraged by the tone of the testimony here and the comments we received from everyone.

Sometimes Mr. Chairman, I have seen, as I am sure you have, where GAO comes in and has done a very good job on an audit and the folks who come from the agency about whom the hearing is being held are in like a state of denial and not really acknowledging they have a problem. It's usually somebody else's and we're not hearing that today.

As we leave here I just want us to keep in mind the men and women who are serving us all around the world in some places not in the middle of hostility are not in imminent danger but in some places, they are in real danger. In some cases, they are single and have no wife, no husband, no children, no dependents. But in some cases, they have all of the above. The last thing we want them to have to worry about is how are we going to pay our bills, how is my family getting by, they are depending on me and I am not able

to help them. That is a problem we don't need. They don't need that and we don't need that as a country.

As we look at these goals that we set ahead to 2014 and 2017, let us keep in mind this is not so much about complying with the law, staying in line with the GAO audit; there are real people involved in this.

Thank you.

Mr. PLATTS. Chairman Carper, I certainly thank you and your staff for partnering with our House Subcommittee.

Senator CARPER. We love doing it.

Mr. PLATTS. It is a good example. Maybe in the public eye, they think Republicans and Democrats, House and Senate, just can never agree on anything and work together. This is a good example where we can and do, not just within the committees but with the witnesses here today, GAO, the DFAS and the Army, Colonel Zecchini and his testimony, how it impacts a soldier and a family ultimately when we don't get it right. I know we are all on the same page of what we are after and we are committed to getting there.

While I can't make a commitment for myself beyond the end of this year because my chairmanship and tenure here will end in the House for at least the remainder of this year, I know Senator Carper and others, House and Senate, will continue well beyond the end of this year working with each of you in that partnership.

I like the motto about what the boss checks. I think it is a good approach and certainly we try in our Oversight Committee, and I know Chairman Carper does it as well on the Senate side, is doing oversight, it is not a gotcha, it is just trying to make sure we are keeping an eye on the ball. In this case, it is good financial management that ultimately means we do right by our courageous men and women in uniform.

We appreciate all of your testimonies and we will keep the record open for seven days for any additional information you can submit. We do look forward to continuing to work with each of you along with our staffs in moving forward.

This joint hearing stands adjourned.

[Whereupon, at 11:44 a.m., the committees were adjourned.]



FOR RELEASE: March 22, 2012  
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**U.S. SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,  
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND  
INTERNATIONAL SECURITY**

**AND**

**U.S. HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON GOVERNMENT  
OPERATIONS, EFFICIENCY AND FINANCIAL MANAGEMENT**

**JOINT HEARING: “New Audit Finds Problems in Army Military Pay”**

WASHINGTON – Today, Sen. Tom Carper (D-Del.), Chairman of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, co-chaired a joint hearing with the House Committee on Oversight and Government Reform Subcommittee on Government Organization, Efficiency, and Financial Management entitled, “New Audit Finds Problems in Army Military Pay.”

The hearing examined the findings of an audit conducted by the Government Accountability Office (GAO) of the U.S. Army’s military payroll accounts for FY 2010 and the problems in ensuring correct pay for Army uniformed personnel, including those deployed overseas.

For more information on the hearing or to watch a webcast of the hearing, please click [here](#).

*A copy of Sen. Carper’s opening statement, as prepared for delivery, follows:*

**“Since the 1990’s, Congress has passed a series of laws with the important goal that all federal agencies must produce auditable financial statements. Recently, Janet Napolitano, Secretary of the Department of Homeland Security announced that the Department was now audit ready, reaching that important goal nearly two years early. That’s a commendable achievement for the Administration and the Department of Homeland Security.**

**“It also leaves the Department of Defense in the rather unenviable position of being the only federal agency that cannot produce an audit. In fact, its books are so bad**



that auditors cannot even attempt to perform a complete audit. This is clearly unacceptable. Fortunately, Secretary of Defense Leon Panetta has pledged to make achieving a financial audit a priority, and has stated that the Department will complete this important mission before the current 2017 deadline.

“As our witnesses and my colleagues know, successful financial statement audits are the outcome of strong financial management. Keeping a federal agency’s books in order, ensuring good financial controls, and getting a clean audit helps ensure that taxpayers are getting the services they paid for. Unfortunately, these basic managerial tasks have proven challenging to the Department of Defense.

“Federal agencies should always strive to be good stewards of taxpayer funds, but as we struggle to address our massive federal debt and deficit, this effort has taken on even greater importance. We must improve the basic financial management practices at the Department of Defense and throughout the Federal government. After all, we can’t effectively identify areas to reduce spending if we don’t know how much – and where – we’re spending that money in the first place.

“Now more than ever, we need to establish a different kind of culture in Washington when it comes to spending. Clean, auditable financial statements can provide the roadmap we need to move from a culture of spendthrift, towards a culture of thrift.

“Clean statements would give agency leadership and those of us here in Congress the information we need to look in every nook and cranny of federal spending and ask this question: “Is it possible to get better results for less money?”

“Unfortunately, the Department’s finances have been on the Government Accountability Office’s high-risk list since 1995, in part due to pervasive management deficiencies that would never be tolerated in a private sector business. In fact, these deficiencies aren’t tolerated even in most federal agencies. These deficiencies make it difficult if not impossible to know for certain how and when the Department of Defense spends the money we entrust to it.

“Of course, successful financial audits also determine whether an agency can do its job effectively and efficiently. An agency must have confidence that a payment was made accurately and on time. The Department of Defense must know whether or not it receives the goods and services it is paying for.

“Today, we will hear from witnesses about serious problems with the U.S. Army’s ability to pay its troops accurately and on time. The Government Accountability Office, upon the request of the Members of our two subcommittees, investigated the Army payroll system. What they found was disturbing, though not necessarily surprising given the Department of Defense’s ongoing struggles with basic financial management.

“As part of its audit, the Government Accountability Office (GAO) asked for a random sample of 250 pay records. The GAO team originally wanted to check and see if the usual and basic documentation for payroll supported the payments. Correct documentation is a critical part of any financial audit. In other words, the GAO was verifying that a soldier’s pay grade, locality pay, number of dependents, or combat and hazardous duty pay, and other pay factors were correct.

“However, the Army was only able to produce documentation for five out of the 250 pay records sampled. That’s right; the Army system apparently is so troubled that no records were available for most of the payments. Of course, without documentation, no agency or company can pass a financial audit. In effect, the Army was not able to find the “receipts” to prove the payments were correct for most of the audited sample.

“The GAO audit also shows a problem that we have heard about from soldiers. Too often, a pay problem happens for a soldier and it take days, or weeks or months to correct an incorrect pay amount. If an Army Reservist is called to active duty and sent overseas to Iraq or Afghanistan, the soldier’s family can’t wait weeks or months to receive the correct pay. If the Army cannot produce documentation showing the soldier’s status, the service member or their family is forced to find pay records, orders for deployment or other proof. This is an added and unnecessary burden on soldiers and their families.

“The Army’s inability to accurately manage payrolls underscores the major weaknesses throughout the Department of Defense’s financial management system, a problem that my colleagues and I have been pressing the Pentagon to fix for some time now.

“In order to empower the Department of Defense in its efforts to achieve this goal, the Department must first improve its financial management systems, which includes putting into place real financial controls and programs that effectively manage pay. Unfortunately, the Department of Defense’s last attempt at upgrading the military pay system ended two years ago as a billion-dollar failure.

“As I mentioned earlier, Secretary of Defense Panetta has pressed the Department to drastically improve its financial management practices. In fact, last year, the Secretary required that the entire Department, including the U.S. Army, meet its financial audit goals sooner than the current 2017 deadline.

“I welcome that commitment from Secretary Panetta and am hopeful that the Army is able to get its financial house in order quickly, not only to ensure that taxpayer dollars are spent correctly, but to ensure that we don’t shortchange our war fighters.

“We ask so much of service members and their families. It seems like the very least we can do is ensure that they are paid accurately and in a timely manner for their

**service. Unfortunately, it appears that because of an antiquated and fundamentally broken Army payroll system, thousands of pay mistakes are made each year. That's unacceptable.**

**“We have an opportunity, an imperative actually, to make financial management at the Department of Defense better so that, every day, decisions can be made based on quality information. This way we can support the men and women in uniform and ensure they receive accurate and timely pay.”**

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**STATEMENT OF SENATOR SCOTT BROWN, RANKING MEMBER**

SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES AND INTERNATIONAL SECURITY

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

JOINT HEARING w/ HOUSE SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,  
EFFICIENCY AND FINANCIAL MANAGEMENT

**“New Audit Finds Problems In Army Military Pay”**

**March 22, 2012**

First, I would like to thank Chairman Platts and Ranking Member Towns for hosting Chairman Carper and I today.

For some time now, our respective subcommittees have tracked the efforts of the Department of Defense to improve its bookkeeping, reach a point where it can produce auditable financial statements, and finally be in compliance with statutory requirements it has failed to meet for twenty years.

But for decades, DoD has suffered from significant financial system weaknesses, problems with fundamental recordkeeping, incomplete documentation and weak internal controls. Efforts to fix these problems, such as modernizing key business systems, have themselves been plagued by mismanagement -- going years over schedule and billions over budget.

As Mr. Khan from GAO will point out today, many challenges remain that in my view put the Army's ability to meet current deadlines recently set by Secretary Panetta for just the first stage of audit readiness in serious doubt.

The concerns raised in GAO's recent audit of Army pay systems are eye opening. It seems the Army or the Defense Finance and Accounting Service unable to produce common documentation used to reconcile data from its payroll systems within a reasonable schedule set by GAO. Producing backup documentation in a timely manner is an essential part of any audit

These weaknesses are further alarming because they can have a direct effect on our servicemembers and reservists. They certainly have enough to worry about risking their lives overseas without having to worry about the possibility that their families back home might receive paychecks that contain errors or missing funds. No system is completely error-free, but our servicemembers deserve some confidence that the Army can get their pay right.

There are some encouraging signs, however, that show the persistence of this subcommittee and others in paying off and senior leadership at DoD are giving this the priority it deserves.

I am pleased that Secretary Panetta has shared in our concern that it is “unacceptable” that the Department cannot produce an auditable financial statement and has pushed the services for swifter progress on this front.

Yet, as we are all well aware, promises have been made before, deadlines have been set, and “new and improved” plans have been presented. Yet time and again, deadlines are pushed, plans are scraped, and we are left with limited success to show for the effort.

There is no doubt that the complexity, size, and institutional resistance that must be overcome with these efforts pose unique challenges. I applaud the dedication and service of our witnesses. However, consistent, tangible results must be shown to provide Congress with confidence that the Army can pay our servicemembers without error and progress is truly being made.

In this budget environment, when significant cuts are being considered across the federal government, improving financial management is no longer simply good practice, but critical to managing diminished resources in the future. The ultimate goal is to ensure our military has the resources it needs to achieve its mission and support the warfighter and their families. They deserve nothing less. I thank the witnesses for their attendance today and for their testimony. Thank you.

**Opening Statement**  
**Rep. Edolphus Towns, Ranking Member**  
**Joint Hearing on**  
**“New Audit Finds Problems in Army Military Pay”**

**March 22, 2012**

Our hearing today discusses an extremely important issue: Whether Army military pay information is valid, accurate and reliable. Mr. Chairman and Senator Carper, thank you both for shining the spotlight on an issue that is so important for the men and women of our armed forces.

Every day, the men and women of the Army put their lives on the line so that we could continue to enjoy the freedoms that this country was built on. They suffer untold personal stresses while on combat missions or on peace keeping assignments around the globe. It is difficult enough for them constantly having to worry about their personal safety. It is much worse when they also have to worry about whether their paycheck is in the correct amount, or if they're getting paid at all. Our witness, Mr. Zecchini will help us understand the reality of these Army military pay issues and its effect on our soldiers. Thank you for your 28 years of service in defense of this country.

The Defense Finance and Accounting Service-Indianapolis (DFAS-IN) reported that the Army payroll totaled \$46.1 billion, covering over 677,000 active duty soldiers in 2010. The payroll total also represents 20% of the \$233 billion the Army spent in 2010. Proper stewardship of such a large spending commitment is critical to Army's financial management practices and audit readiness. It is also important for the Department of Defense's financial statements. GAO recently conducted an audit to review the validity and accuracy of military pay. Out of the 677,000 active duty soldiers, GAO selected 250 payroll files and compared them with personnel files to establish that military pay was going to the correct individuals. Next, the GAO checked to see if the correct amount was being paid to soldiers, by looking at things like their deployment commands, and changes in family composition among other things.

GAO has reported for years that the Army military payroll had continuing deficiencies in its processes and controls. Unfortunately, the recent audit finds that these deficiencies are indeed continuing. The auditors concluded that the army does not have an effective process for identifying the population of active duty payroll accounts. The army also cannot verify the validity or accuracy of payroll transactions because they are unable to provide supporting documentation for payroll decisions.

Out of the 250 payroll files that GAO requested information on, the Army was only able to provide complete information pertaining to 2 soldiers and partial information on 3 soldiers. That means that they could produce NO documents on 245 soldiers. What this translates to, is that too many of our soldiers are having problems with their military pay, and the Army does not have effective processes in place to solve the problems and prevent them from happening again. We have got to do better than that.

The National Defense Authorization Act of 2010 established September 30, 2017 as the date that the Department of Defense must be in a position to produce auditable financial statements. The race to meet this deadline has been on since then and the scrutiny on the Department has been relentless. The scrutiny is rightly deserved. Of the 24 CFO Act agencies, the DOD is one of only three major government agencies which do not produce auditable financial statements. It is time that it does.

Secretary Panetta expressed strong commitment to reaching audit readiness by the 2017 deadline. I applaud the Secretary's placement of financial statement auditability as a high priority across the Department. I am looking forward to hearing from our witness as to how the Army will solve the problem of military pay accuracy, but also how they can move on to full audit readiness by the NDAA deadline.

CHARRTS No.: HOGRGVTEFFICIENCY-01-001  
Hearing Date: March 22, 2012  
Committee: HOGRGVTEFFICIENCY  
Member: Congressman Platts  
Witness: Mr. Gillison, Mr. Watkins, Ms. Brooks  
Question: #1

Question: According to GAO's audit report, it took five months for DFAS to provide a valid population of the payroll system, and another six months to produce only five files out of the 250 GAO requested. Please explain the delay in producing the requested information, and describe your current process for retrieving payroll files.

Answer: Delays in producing the requested information were caused by changes to GAO requests, concerns over the best methodology to select a valid population, and differences over what documents could sufficiently support the entitlement or allowance paid. At the time of the audit we did not have the capability to identify every unique transaction associated with a Social Security Number (SSN) within a given payroll nor were we able quickly retrieve supporting documents.

We can now produce that information with our current process of retrieving payroll files. Today, DFAS, has the capability to produce transactions for a given payroll and, working with the Army, to finalize a matrix to help quickly retrieve supporting documentation.



CHARRTS No.: HOGRGOVTEFFICIENCY-01-002

Hearing Date: March 22, 2012

Committee: HOGRGOVTEFFICIENCY

Member: Congressman Platts

Witness: Deputy Director (DFAS) Gillison

Question: #2

Question: DFAS-IN will eventually be replaced by the Integrated Pay and Personnel System - Army (IPPS-A). When will IPPS-A be fully operational? Will IPPS-A improve the Army's ability to meet the 2014 deadline for auditable Statements of Budgetary Resources and the 2017 deadline for complete auditable financial statements?

Answer: DFAS will continue to support Army efforts to replace the Defense Joint Military Pay System with IPPS-A. DFAS defers to Army on the specific timelines and capabilities of the IPPS-A system.

CHARRTS No.: HOGRGOVTEFFICIENCY-01-002

Hearing Date: March 22, 2012

Committee: HOGRGOVTEFFICIENCY

Member: Congressman Platts

Witness: Mr. Watkins, Ms. Brooks

Question: #2

Question: DFAS-IN will eventually be replaced by the Integrated Pay and Personnel System - Army (IPPS-A). When will IPPS-A be fully operational? Will IPPS-A improve the Army's ability to meet the 2014 deadline for auditable Statements of Budgetary Resources and the 2017 deadline for complete auditable financial statements?

Answer: IPPS-A will not replace Defense Finance and Accounting Service Indiana (DFAS-IN). IPPS-A will subsume payroll functions provided by DFAS-IN, associated with Defense Joint Military Pay Systems for both the Active and the Reserve Components. IPPS-A's releases will be incrementally deployed over five years, providing integrated personnel and pay capabilities by FY17. IPPS-A will support the FY17 audit readiness deadline for fully auditable financial statements, as well as align with Statements of Budgetary Resources (SBR) audit requirements beyond FY17. IPPS-A is not required to meet the 2014 deadline for auditable SBR due to its exemption based on its incremental deliveries through FY17.

CHARRTS No.: HOGRGOVTEFFICIENCY-01-003  
Hearing Date: March 22, 2012  
Committee: HOGRGOVTEFFICIENCY  
Member: Congressman Platts  
Witness: Mr. Gillison, Mr. Watkins, Ms. Brooks  
Question: #3

Question: The Case Management System for Army tracked over 364,000 errors in pay during FY 2010. Please identify the common causes of those errors and the time taken to resolve them. Please also provide information on how the Army discovered those errors, and describe all processes put in place to identify errors in pay.

Answer: Case Management System (CMS) is used for entering, tracking, updating, resolving, and reporting on pay and personnel-related issues. Cases are created when events occur which require updating a Soldier's pay record, and are not necessary related to pay errors or problems. Many of these issues are not pay errors or problems. In 2010, separations, ascensions, group life insurance, and pay entry basic date issues made up the majority of CMS cases.

Since July 2010, 99% of CMS cases were resolved within 20 days, which is the DoD standard. Pay problems, generally defined as a transaction greater than 30 days beyond the effective date of the entitlement or allowance authorized, are also a part of CMS cases. These problems are discovered by communication with the Soldier, commander, or other Army commands, such as Army Human Resource Command, with which we have automated information feeds.

Multiple processes have been put in place to identify errors in pay, not the least of which is the Unit Commander's Finance Report (UCFR). Unit commanders are required to review UCFR monthly to ensure Soldiers are being paid accurately. Other processes put in place are weekly reconciliations of personnel and pay records, pre-payroll reviews, pre-payday audits, and multiple internal control systemic reviews

There are multiple processes and quality checks to ensure a high degree of accuracy in processing payments which include:

- A pre-payroll review of a statistical sample of Leave and Earnings Statements is conducted to analyze and search for conditions that appear to be abnormal to allow correction before payroll release.
- Weekly reconciliations of the personnel and pay records are conducted to ensure Army Human Resources Command has a record for every Soldier being paid.
- A pre-payday audit which of every 900<sup>th</sup> record to confirm pay information used to calculate pay is correct. Additionally, a post-payday review identifies net changes of \$100 from the pre-payday audit amounts.

- Weekly database access from DFAS-IN to the Army Human Resources Command (HRC) to compare DJMS data with the Total Army Personnel Data Base (TAPDB); to produce mismatch files to DFAS for action.
- The Separation Mismatch file identifies personnel separated in the Personnel System but in a pay status. TAPDB Mismatch file identifies accounts in the pay system without matching TAPDB personnel files. DFAS immediately suspends the account and notifies the respective Defense Military Pay Office (DMPO) for action.
- An Enlisted Deserter file identifies accounts listed as Deserter in the Personnel systems but in pay status in DJMS.
- A monthly internal DJMS comparison to produce listings of personnel in a movement status for over 90 days.
- A monthly Active Component / Reserve Component Bump file identifies members who have accounts on both Active and Reserve pay systems. This search is conducted after the 1<sup>st</sup> of the month and in Feb 2012.
- A "High Dollar Report" after each computer update (approximately 22 updates per month) identifies pay amounts over \$25,000 for active and reserve component. This provides the supporting DMPO the opportunity to confirm correct payments.
- A daily report highlighting changes greater than 150% of the member's previous net pay. This information is reported to the supporting pay office for validation, and helps prevent pay errors before paydays.
- A Unit Commander's Finance Report (UCFR) produced every payday. The UCFR is used to replace commanders and First Sergeants review Leave and Earnings Statements for each Soldier for validation. Unit commanders review, sign, and return the UCFR to the supporting DMPO each month. This certification serves to advise the DMPO on whether or not a soldier is receiving the correct pay.

CHARRTS No.: HOGRGOVTEFFICIENCY-01-004  
Hearing Date: March 22, 2012  
Committee: HOGRGOVTEFFICIENCY  
Member: Senator Carper  
Witness: Director (T&BAI) Brooks, Mr. Watkins  
Question: #4

Question: Please provide for the record specific steps, actions or policy changes undertaken to improve audit readiness of the Army payroll system and related financial or personnel systems, including those of DFAS, since the new financial management improvement and audit readiness goals announced on October 13, 2011 by Secretary of Defense Leon Panetta.

Answer: The Army, jointly with DFAS, has developed and documented a repeatable process for identifying the total population of active duty military payroll accounts each fiscal year. In fact, the Army and DFAS in October 2011 implemented a monthly reconciliation of all detailed military pay transactions to the summary financial reporting records. This process improvement represents a significant accomplishment in advancing the Army's audit readiness efforts.

In addition, the Army has identified the key supporting documents for all military pay entitlements and the procedures for maintaining these documents. As part of this effort we are creating a matrix that identifies the relevant key supporting documents and the retention location of those documents for each payroll entitlement. The matrix will simplify the retrieval of documents to substantiate military pay entitlements and assist in our response to future audit requests.

Finally, the Army has several financial improvements in process that will be complete in the next 6 to 12 months. Specifically, we are reviewing and revising the relevant policies to ensure compliance with federal accounting standards. In addition, we are developing and implementing business process changes to streamline the capture and storage of all key supporting documents to create an effective audit trail for all military pay transactions.

CHARTS No.: HOGRGVTEFFICIENCY-01-004  
Hearing Date: March 22, 2012  
Committee: HOGRGVTEFFICIENCY  
Member: Senator Carper  
Witness: Deputy Director (DFAS) Gillison  
Question: #4

Question: Please provide for the record specific steps, actions or policy changes undertaken to improve audit readiness of the Army payroll system and related financial or personnel systems, including those of DFAS, since the new financial management improvement and audit readiness goals announced on October 13, 2011 by Secretary of Defense Leon Panetta.

Answer: DFAS has incorporated audit readiness goals into all DFAS senior executive performance plans. Each DFAS senior executive is required to meet audit readiness goals during their rating period, adding accountability and incentives to DoD's overall audit readiness effort. DFAS has also established audit readiness teams at each DFAS central site to effectively coordinate and execute audit readiness efforts. Many of these teams have either private sector internal audit experience or corporate accounting experience.

CHARTS No.: HOGRGOVTEFFICIENCY-01-005  
Hearing Date: March 22, 2012  
Committee: HOGRGOVTEFFICIENCY  
Member: Senator Carper  
Witness: Mr. Watkins, Ms. Brooks  
Question: #5

Question: Your testimony included specific steps that both the Army and DFAS are taking to improve the Army payroll system, and related financial and personnel systems. However, there were few target dates or timelines for completing these steps. Please provide the target completion dates and timelines to accomplish:

- Review and revision of Army regulations on military personnel information managements and records to require key personnel and pay-related documents supporting military payroll transactions be centrally located and retained;
- Integrated Personnel and pay System release dates, including initial release and subsequent releases, including a description of the improved functionality of each release;
- Expansion of iPERMS; and
- Development of a matrix of entitlements with locations of supporting documents and organization responsible to aid in more timely retrieval.

Answer: This review and business practice will be completed in the time to support the Army's assertion for the 2014 Statement of Budgetary Resources.

b. Increment I (2Q FY13) will provide an extensive multi-component database that will ultimately be the foundation for all future IPPS-A releases. The end-user will be able to generate a number of reports to include the Soldier Record Brief- which is a multi-component, single-format report to replace the ORB and ERB. IPPS-A will also be able to support a number of multi-Component queries.

The first release will establish interfaces with multiple personnel systems to ensure data accuracy. During subsequent releases, many of the legacy systems that interface with IPPS-A in the first release will be subsumed.

Increment II, Release 2.0 (3Q FY14) meets the basic need of the commanders in the field to be able to access accurate, timely standardized personnel data for Soldiers in all components. It establishes a consolidated system that provides Soldier accountability and tracking of all personnel who deploy. It also provides a basic means of reconciling who should be on the payroll.

Release 3.0 (3Q FY15) was designed to complete the majority of the HR functions to establish a functioning HR system and to ensure that all the HR drivers of payroll were brought on board to meet the major need in the Mission Needs Statement to ensure correct pay, credit for service, and benefits. Rolled together with Release 2.0, this creates a system that then becomes the basis of a fully integrated and functioning per-pay system that is developed in Release 4.0 (3Q FY16).

In Release 5.0 (3Q FY17) are those remaining functions related to recording evaluations and retention management functions currently accomplished in RETAIN. Also in Release 5.0 are some largely manual (primarily separation) functions that HRC recommended could be moved to a later release. The loss transaction data will be processed in Release 2.0 as part of duty status, but the manual process would not be automated until later.

c. At this time it is premature to determine time, resources, or applicability of iPERMS to support the Army Audit compatibility. iPERMS is being explored as a potential solution to comply with Army Audit requirements. U.S. Army Human Resources Command is working in full cooperation with the Army Deputy Chief of Staff, G1 and other Army agencies to determine as quickly as possible the timeline and resources that may be required to utilize iPERMS as part of the audit solution. As quickly as an accurate assessment of the necessary resources is made, we will ensure that we forward those resource requirements as appropriate.

d. Attached are two documents which outline when the Integrated Personnel and Pay System-Army will release different components into the integrated system. The two documents are the Defense Joint Military Pay System – Active Component to Format Identification Integrated Personnel’s Pay System-Army Business Process (DJMS-AC FID to IPPS-A BP) Crosswalk and the Defense Joint Military Pay System – Reserve Component Transaction Identification Number to Integrated Personnel’s Pay System-Army Business Process (DJMS-RC TIN to IPPS-A BP) Crosswalk.



CHARRTS No.: HOGRGOVTEFFICIENCY-01-005  
Hearing Date: March 22, 2012  
Committee: HOGRGOVTEFFICIENCY  
Member: Senator Carper  
Witness: Deputy Director (DFAS) Gillison  
Question: #5

Question: Your testimony included specific steps that both the Army and DFAS are taking to improve the Army payroll system, and related financial and personnel systems. However, there were few target dates or timelines for completing these steps. Please provide the target completion dates and timelines to accomplish:

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- Integrated Personnel and pay System release dates, including initial release and subsequent releases, including a description of the improved functionality of each release;
- Expansion of iPERMS; and
- Development of a matrix of entitlements with locations of supporting documents and organization responsible to aid in more timely retrieval.

Answer: DFAS defers to Army on specific questions regarding Army regulations, reviews, and system release dates. With regard to the matrix of entitlements, that is a collaborative project involving DFAS, Army, and OSD participation. A complete list of pays and entitlements has been identified with the offices charged with managing and retaining the supporting documentation. In collaboration with Army Audit Readiness, DFAS will obtain a statistically valid population of transactions, grouped by entitlement type to ensure full document retrieval support across the locations, components and entitlements.