Agency Priority Goal Action Plan

Financial Management: Complete yearly audits, gain actionable feedback, and remediate findings toward achieving a clean audit opinion for the DoD Fiscal Year 2020, Quarter 1 & 2

Goal Leader:

HON Elaine A. McCusker, Acting Under Secretary of Defense (Comptroller)/Chief Financial Officer OUSD(C)/CFO
Goal Statement:

• Continue annual audits and use the resulting recommendations as feedback on implemented corrective actions and other improvement opportunities toward a positive/clean/unmodified audit opinion for the entire DoD. By September 30, 2021, make demonstrable progress in closing prior-year audit findings, reducing material weaknesses, and increasing the number of components with positive/clean/unmodified audit opinions.

Challenge:

• The major audit challenges faced by the Department range from a lack of documentation, to cultural changes (change of focus from just mission to improving financial management practices to drive proper accounting for resources) to major system impediments, including the use of legacy systems that lack the transactional details necessary to support the financial statement audit.

• Given our size and complexity, auditors may not be able to complete detailed testing on all critical assessable units in the first few years of the audit. Consequently, Notices of Findings and Recommendations (NFRs) will continue to increase in the initial years. As we mature and remediate findings, we will be able to demonstrate progress by increasing the number of findings closed by the auditors yearly, reliance on our internal controls, and reduction in material weaknesses.
Opportunity

1. Better data quality for better decision making
   • The financial statement audit helps drive enterprise-wide continuous improvements to standardize our business processes and improve the quality of our data, which will lead to improved financial management and more informed decision-making.

2. Transparency and accountability
   • Audit activities involve all DoD components and have a governance process that ultimately reports progress and status to the Deputy Secretary and the Secretary.
   • The audit improves the quality of our financial statements and underlying data available to the public, including a reliable picture of our assets, liabilities, and spending.

3. Cost savings to help drive reform
   • System investments in ERP systems will be reviewed to ensure that both Information Technology requirements and financial auditability requirements are addressed.
   • The financial statement audit is part of leadership’s vision to bring enduring business reform to the DoD, which directly aligns with one of the Department’s three lines of effort in the National Defense Strategy.
Goal Structure & Strategies

Strategies on how the goal will be achieved:

• Audit opinions will be based on comprehensive auditor testing and will result in actionable feedback.
• The Department has established a tool and a process to capture, prioritize, assign responsibility for, and develop corrective actions to address audit findings.
• The Secretary and Deputy Secretary establish the Audit Priority areas for the Department.
• DoD establishes functional councils to address Audit Priority areas identified by the Secretary to address challenges and monitor and report remediation progress in those areas: financial reporting; property, plant, and equipment; and information technology. These functional councils consists of leaders within the financial and functional communities that are responsible for making key decisions and driving changes within their respective areas in support of the audit and the National Defense Strategy.
• Progress briefings on findings and corrective action plans are provided to the Deputy Secretary and the Secretary on a recurring basis to ensure that findings are being addressed.
• Each year, auditors will assess and report on whether the Department has successfully addressed the findings.
• Going forward, DoD will measure and report progress toward achieving a positive audit opinion using the number of audit findings resolved through corrective action plans.
DoD has implemented an audit feedback cycle to respond to and maximize auditor feedback.
The DoD consolidated audit is likely the largest audit ever undertaken in the federal government and the United States:

- Comprises more than 24 stand-alone audits and an overarching consolidated audit as performed by the DoD Office of Inspector General (DOD OIG).
- During FY 2019, the Department effectively remediated over 25% of the NFRs issued during the FY 2018 audit, allowing auditors to not re-issue those findings.
- Six reporting entities received unmodified (clean) opinions, one received a qualified (modified) opinion, and one opinion is pending as shown in Figure 7.1. All other DoD reporting entities received a disclaimer of opinion.

DoD will provide regular updates on the status of the Fiscal Year 2020 audit and related remediation efforts to Congress and OMB.
Summary of Progress – FY 2020 Q1 & Q2 (continued)

DoD-Wide Consolidated Audit Performed by DoD Office of Inspector General (DoD OIG)

**Stand-Alone Audits**
95% Budget, 97% Assets

DoD OIG (as the Consolidated Auditor) considers the opinions of each Component auditor (performed by an independent public accounting firm) in forming its opinion.

- **Army General Fund**
- **Navy General Fund**
- **Air Force General Fund**
- **Military Retirement Fund**
- **DoD OIG**

**Included in the Consolidated Audit**
5% Budget, 3% Assets

DoD Components not undergoing stand-alone audits are included in the consolidated audit.

DoD OIG performs internal controls and substantive testing over activities and balances.

- **WHS**
- **MDA**
- **DSCA**
- **DoDEA**
- **DARPA**
- **DCMA**
- **DTRA**
- **CBDP**
- **JCS** (incl. NDU)
- **DHRA**
- **DAU**
- **DSS**
- **DTIC**
- **OEA**
- **DMA**
- **DOTE**
- **DPAA**
- **DTSA**
- **DFAS GF**
- **MHPI**

Other TI-97 Funds
- Provided to Army by OSD
- Provided to Navy by OSD
- Provided to Air Force by OSD

Burden Sharing Account by Foreign Allies, Defense
- Support for U.S. Relocation to Guam Activities, Defense
- Host Nation Support for U.S. Relocation Activities, Defense

Burden Sharing Account by Foreign Allies, Defense

DoD Education Benefits Fund
- Emergency Response Fund, Defense

Homeowners Assistance Fund, Defense
- Defense Cooperation Account

Voluntary Separation Incentive Trust Fund
- Mutually Beneficial Activities

Defense Gift Fund
- National Security Education Trust Fund

Figure 7.1. DoD Consolidated Audit Structure and Progress
## Key Milestones

<table>
<thead>
<tr>
<th>Key Milestone</th>
<th>Milestone Due Date</th>
<th>Milestone Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide report to Congress on Audit results status to include Audit findings and remediation statistics (Recurring in Q1 and Q3) of each fiscal year.</td>
<td>Q1, FY20</td>
<td>Complete</td>
<td>Audit results status briefing was provide to Congress.</td>
</tr>
<tr>
<td>Percentage of established opening balances for the Department’s Inventory and Related Property (I&amp;RP) and General Property, Plant and Equipment (GPP&amp;E)</td>
<td>Q1, FY20</td>
<td>Complete</td>
<td>28% of established opening balance for I&amp;RP and GPP&amp;E was achieved in FY 2020 Q1.</td>
</tr>
<tr>
<td>Percentage of established opening balances for the Department’s Inventory and Related Property (I&amp;RP) and General Property, Plant and Equipment (GPP&amp;E)</td>
<td>Q2, FY20</td>
<td>On-track</td>
<td>28% of established opening balance for I&amp;RP and GPP&amp;E was achieved in FY 2020 Q2.</td>
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<td>Percentage of established opening balances for the Department’s Inventory and Related Property (I&amp;RP) and General Property, Plant and Equipment (GPP&amp;E)</td>
<td>Q3, FY20</td>
<td>On-track</td>
<td></td>
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<td>Percentage of established opening balances for the Department’s Inventory and Related Property (I&amp;RP) and General Property, Plant and Equipment (GPP&amp;E)</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
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<tr>
<td>Provide report to Congress on Audit results status to include Audit findings and remediation statistics (Recurring in Q1 and Q3) of each fiscal year.</td>
<td>Q3, FY20</td>
<td>On-track</td>
<td></td>
</tr>
<tr>
<td>Percentage of established opening balances for the Department’s Inventory and Related Property (I&amp;RP) and General Property, Plant and Equipment (GPP&amp;E)</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
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<td>Percentage of notice of findings and recommendations closed in support of a clean audit opinion for the Department</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
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<td>Percentage of universes of transactions (UOT) provided the auditors using the ADVANA tool for the Fourth Estate.</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
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<td>Percentage of reconciliations completed at the transaction level between general ledger and feeder systems for the Fourth Estate</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
</tr>
<tr>
<td>Percentage of reconciliations completed at the transaction level between general ledger and feeder systems for the Fourth Estate.</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
</tr>
<tr>
<td>Percentage of service provider audit reports with an unmodified (clean) opinion.</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
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<tr>
<td>Percentage reduction of unsupported Journal Vouchers (over FY 2017) recorded in the Defense Departmental Reporting System.</td>
<td>Q4, FY20</td>
<td>On-track</td>
<td></td>
</tr>
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Data Accuracy and Reliability

Historically, the Department’s data was scattered across hundreds of systems, making it difficult to access information and answer basic business questions timely. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer developed a single authoritative source for audit and business data analytics. This big data platform, Advana, currently hosts over 15 billion transactions, has over 7,000 users, 250+ dashboards, ingests data automatically from over 120 DoD source systems, reconciles over $1 trillion in financial transactions, and has the flexibility to support analytics in the areas of audit, financial operations, cost management, and performance management.

The increasing reliance on Advana for audit sampling, supporting transaction details in response to auditor requests, monitoring remediation activities, and inspiring data-driven conversation with Components and other stakeholders will also allow for improved decision-making and better informed budget execution.

The Department is already seeing the benefits of better data. For example, the Department, using the Advana tool, recently automated the quarterly review process of its obligations. This workflow tool eliminated inefficiencies and provided analysts time and insight to identify a cumulative $316 million in high-risk funds, allowing for a better use of those resources before expiring or canceling.
Contributing Programs:

- Federal Accounting Standards Advisory Board (FASAB): FASAB issues federal financial accounting standards and provides guidance after considering the needs of external and internal users of federal financial information (www.fasab.gov).
- Government Accountability Office (GAO): GAO performs audits and issues reports on a variety of subject matters in an effort to improve the performance and ensure the accountability of the federal government (www.gao.gov).

Stakeholder / Congressional Consultations:

- The DoD corresponds, as requested, with Congress, GAO, and the Office of Management and Budget (OMB) to provide audit and audit remediation status.