



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

Goal Leader:

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Overview

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 and increase 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 year. 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 tracking/increasing the number of findings closed by the auditors yearly.

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.

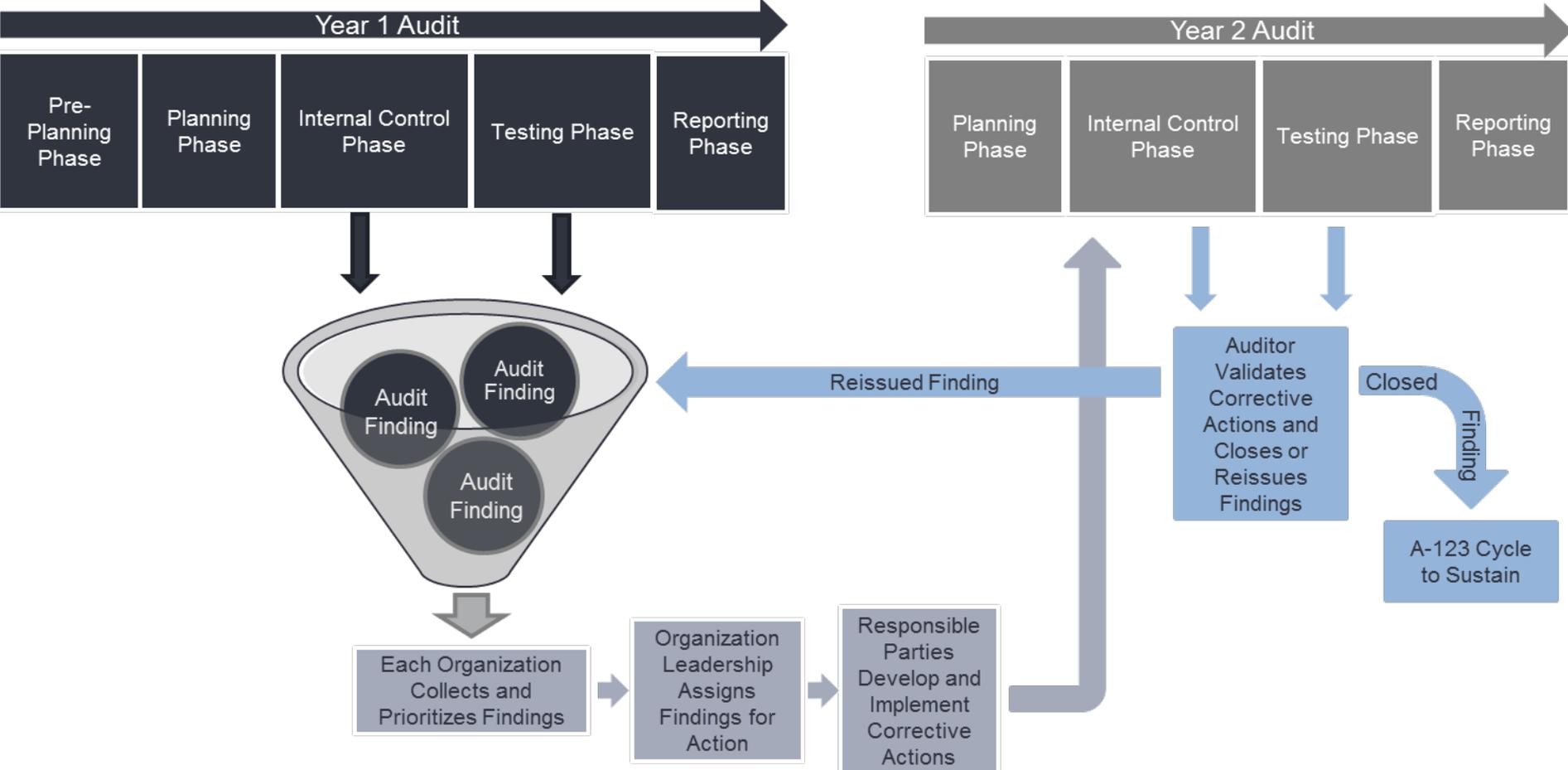
3. Cost savings to help drive reform
 - System investments in ERP systems will be reviewed to ensure that both Information Technology requirements and financial auditability requirements are addressed.
 - The financial statement audit is part of leadership's vision to bring enduring business reform to 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.
- DoD established three functional councils to address specific audit challenges and monitor and report remediation progress: 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 Audit Feedback Cycle



DoD has implemented an audit feedback cycle to respond to and maximize auditor feedback

Summary of Progress – FY 2020 Q3

DoD will provide regular updates on the status of the Fiscal Year 2020 audit and related remediation efforts to Congress and OMB

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.
- Seven reporting entities received unmodified (clean) opinions, one received a qualified (modified) opinion, as shown in Figure 7.1. All other DoD reporting entities received a disclaimer of opinion.
- The Defense Commissary Agency (DeCA) moved up to an unmodified opinion in FY 2019, an important indicator of progress and one measure of success.
- 12th consecutive opinion for the Army Corps of Engineers (Civil Works).
- 20th consecutive unmodified opinion for the DFAS Working Capital Fund.
- 25th consecutive unmodified opinion for the Military Retirement Fund. The Military Retirement Fund's nearly \$900 billion in total assets represents more than 30 percent of total DoD assets.

Summary of Progress – FY 2020 Q3 (continued)

Figure 7.1. DoD Consolidated Audit Structure and Progress

Fiscal Year 2019 DoD-Wide Consolidated Audit Performed by DoD Office of Inspector General (DoD OIG)					
Standalone Audits 95% Budget, 97% Assets				Included in the Consolidated Audit 5% Budget, 3% 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.				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.	
Army General Fund	Navy General Fund	Air Force General Fund	Military Retirement Fund	WHS	MDA
Army Working Capital Fund	U.S. Marine Corps General Fund	Air Force Working Capital Fund	Medicare-Eligible Retiree Health Care Fund	DCMA	DTRA
U.S. Army Corps of Engineers – Civil Works	Navy Working Capital Fund	Defense Health Program	Defense Commissary Agency	DAU	DSS
DLA General Fund	DoD Classified	DHA-CRM	DFAS Working Capital Fund	DOTA	DPAA
DLA Working Capital Fund	USSOCOM	DISA General Fund	Defense Contract Audit Agency	Other TI-97 Funds Provided to Army by OSD	Other TI-97 Funds Provided to Navy by OSD
DLA Strategic Materials	USTRANSCOM	DISA Working Capital Fund	DoD OIG	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	
				DoD Education Benefits Fund	Emergency Response Fund, Defense
				Voluntary Separation Incentive Trust Fund	Mutually Beneficial Activities
					Homeowners Assistance Fund, Defense
					Defense Gift Fund
					National Security Education Trust Fund
					Defense Cooperation Account

Unmodified
Qualified
Disclaimer

Key Milestones

Milestone Summary			
Key Milestone	Milestone Due Date	Milestone Status	Comments
Provide report to Congress on Audit results status to include Audit findings and remediation statistics (Recurring in Q1 and Q3) of each fiscal year.	Q1, FY20	Complete	Audit results status briefing was provide to Congress.
Percentage of established opening balances for the Department's Inventory and Related Property (I&RP) and General Property, Plant and Equipment (GPP&E)	Q1, FY20	Complete	28% of established opening balance for I&RP and GPP&E
Percentage of established opening balances for the Department's Inventory and Related Property (I&RP) and General Property, Plant and Equipment (GPP&E)	Q2, FY20	Complete	28% of established opening balance for I&RP and GPP&E
Percentage of established opening balances for the Department's Inventory and Related Property (I&RP) and General Property, Plant and Equipment (GPP&E)	Q3, FY20	Complete	32% of established opening balance for I&RP and GPP&E
Provide report to Congress on Audit results status to include Audit findings and remediation statistics (Recurring in Q1 and Q3) of each fiscal year.	Q3, FY20	Complete	Audit results status briefing was provided to Congress.
Percentage of established opening balances for the Department's Inventory and Related Property (I&RP) and General Property, Plant and Equipment (GPP&E)	Q4, FY20	On-track	
Percentage of notice of findings and recommendations closed in support of a clean audit opinion for the Department	Q4, FY20	On-track	
Percentage of universes of transactions (UOT) provided the auditors using the ADVANA tool for the Fourth Estate.	Q4, FY20	On-track	
Percentage of reconciliations completed at the transaction level between general ledger and feeder systems for the Fourth Estate	Q4, FY20	On-track	
Percentage of reconciliations completed at the transaction level between general ledger and feeder systems for the Fourth Estate.	Q4, FY20	On-track	
Percentage of service provider audit reports with an unmodified (clean) opinion.	Q4, FY20	On-track	
Percentage reduction of unsupported Journal Vouchers (over FY 2017) recorded in the Defense Departmental Reporting System.	Q4, FY20	On-track	

Data Accuracy and Reliability

There are numerous business and mission systems across the Department, all with different interfaces, formats, and schemas. Historically, these systems have proven so difficult to navigate that analysts have resorted to basic reporting within departmental silos. Advana, a mash-up of the words “Advancing Analytics,” is the DoD technology platform that houses a collection of enterprise data and arms leaders and decision-makers with analytics, visualizations, and data tools.

Advana is helping resolve some of the largest financial statement audit challenges with custom tools predicated on the idea that to achieve an unmodified opinion, each reporting entity must be able to identify and record its transactions accurately and completely, and demonstrate how those transactions flow to its financial statements. Tools that aggregate and reconcile audit populations are enabling reporting entities to drill from the financial statements down to general ledger details, better track and resolve auditor findings, improve funds management, and reduce cash reconciliation differences between DoD’s accounting systems and the Department of the Treasury.

Each year’s audit findings are uploaded into a centralized database managed by the DCFO. The DCFO NFR Database continues to be the single source for accurate, real-time, independent information on the progress of the DoD financial statement audits. It houses all findings from each standalone financial statement audit, the DoD Consolidated Audit, and service provider SSAE No. 18 examinations. Limited access rights protect the integrity of the findings and status of corrective actions. For each NFR, the auditor details the conditions that led to that finding and assigns a deficiency category (material weakness, significant deficiency, control deficiency, or compliance). The Department uses this information to categorize and prioritize findings. The reporting entity receiving the NFR then develops and enters a corrective action plan into the database. A corrective action establishes milestones, assigns responsibility for completing the milestones, and projects a completion date.

Additional Information

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).
- DoD Office of Inspector General (DoD OIG): Provides independent oversight of the DoD (www.dodig.mil). The DoD OIG serves as the Auditor of the DoD's consolidated financial statements.

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.