



Office of the Under Secretary of Defense (Comptroller)



Insights from First Ever DoD-Wide Enterprise Audit

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Insights from First Ever DoD-Wide Enterprise Audit

- **FY 2018 Audit Overview**
- **FY 2018 Audit Results**
- **Way Forward**
- **Demonstration on the NFR Tracking Tool**
- **Questions and Answers**



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DoD FY 2018 Audit Overview



What Did They Do?

- Approximately 1,200 auditors reviewed DoD business processes and activities. They conducted over 900 site visits (at 600 locations) and reviewed hundreds of thousands of items.
- Auditors evaluated statistically valid samples for accuracy and completeness to:
 - Verify count, location and condition of military equipment, real property and inventory
 - Test for security vulnerabilities in DoD business systems
 - Validate the accuracy of personnel records and actions, such as promotions and separations.
- Auditors issued over 2,000 Notice of Finding and Recommendations (NFRs) based on internal control and substantive testing.

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DoD FY 2018 Audit Results

FY 2018 Audit Results



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) assumed responsibility for or made reference to the audit opinions of each Component auditor (performed by an independent public accounting firm).

Army General Fund	Navy General Fund	Air Force General Fund	U.S. Army Corps of Engineers – Civil Works
Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund	Military Retirement Fund
DoD Classified	U.S. Marine Corps General Fund	Medicare-Eligible Retiree Health Care Fund	Defense Commissary Agency
DLA General Fund	DHP	DISA General Fund	DHA-CRM
DLA Working Capital Fund	USSOCOM	DISA Working Capital Fund	DCAA
DLA Strategic Materials	USTRANSCOM	DoD OIG	DFAS Working Capital Fund

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

Those DoD components not undergoing stand-alone audits were included in the consolidated audit.

DoD OIG performed 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	Other TI-97 Funds Provided to Navy by OSD	Other TI-97 Funds 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		
DoD Education Benefits Fund	Emergency Resp. Fund, Defense	Homeowners Assistance Fund, Defense	Defense Gift Fund	
Voluntary Separation Incentive Trust Fund	Mutually Beneficial Activities	Defense Cooperation Account	National Security Education Trust Fund	

Disclaimer

Modified

Unmodified



Overall Results from the FY 2018 Audits

Six organizations received an Unmodified (clean) Opinion

- U.S. Army Corps of Engineers – Civil Works
- Military Retirement Fund
- Defense Health Agency – Contract Resource Management
- Defense Finance and Accounting Services – Working Capital Fund
- Defense Contract Audit Agency
- Department of Defense Office of Inspector General

Two organizations received a Modified Opinion

- Medicare-Eligible Retiree Health Care Fund
- Defense Commissaries Agency (was unmodified in FY 2017)






The remaining organizations received a Disclaimer of Opinion

Army General Fund	U.S. Marine Corps
Army Working Capital Fund	Defense Logistics Agency – General Fund
Navy General Fund	Defense Logistics Agency – Working Fund
Navy Working Capital Fund	Defense Logistics Agency – Transaction Fund
Air Force General Fund	U.S. Special Operations Command (USSOCOM or SOCOM)
Air Force Working Capital Fund	U.S. Transportation Command (USTRANSCOM)
Defense Information Systems Agency – General Fund	Defense Information Systems Agency – Working Capital Fund



FY 2018 NFRs By Functional Area

- A substantial percentage (94%) of NFRs from DoD FY 2018 audits pertained to IT, Property, or FBWT/Financial Reporting.

Component	Cyber / IT	FBWT / Financial Reporting	Property, Plant and Equipment	Other	Total # of FY 2018 NFRs
U.S. Army 	172	69	115	48	404
U.S. Navy 	311	97	95	20	523
USMC 	86	25	35	11	157
U.S. Air Force 	169	58	85	14	326
Fourth Estate and DoD Consolidated 	429	132	367	46	974
Total	1,167	381	697	139	2,384

94%






6%

- Data is as of March 5th, 2019
- Other NFR category includes health care liabilities, payroll findings, compliance issues, etc.
- Fourth Estate and DoD Consolidated totals are comprised of NFR data from DISA, DLA, SOCOM, TRANSCOM, DHP and the consolidated audit.
- U.S. Army NFR count does not include Service Provider NFRs for GFEBS and Ammunitions.
- There are 5 IT Navy NFRs and 21 FIN Air Force NFRs that are classified and not categorized in this summary



FY 2018 CAPs Developed and Completed

- The Department has developed 2,378 CAPs thus far to address 2,202 NFRs from the recently completed FY 2018 audits.

Component	# of FY 2018 NFRs	# of FY2018 NFRs w/o CAPs	# of CAPs Developed	# of CAPs Completed
U.S. Army 	404	31	431	56
U.S. Navy 	523	16	447	13
USMC 	157	2	132	0
U.S. Air Force 	326	0	326	41
Fourth Estate and DoD Consolidated 	974	26	1,155	80
Total	2,384	75	2,491	190

- Data is as of March 5th, 2019.
- Fourth Estate and DoD Consolidated category is comprised of data from DISA, DLA, SOCOM, TRANSCOM, DHP and the consolidated audit.
- Note that NFRs and CAPs do not have a one to one relationship, see “# of FY2018 NFRs w/o CAPs” to identify outstanding items.



Audit Observations

- **What went well?**
 - Tone from the Top: Clear direction from SecDef, DepSecDef, and Military Service leadership.
 - Responsiveness: High risk for first year audits, satisfied the majority of auditor requests by providing thorough and timely responses.
 - Payroll processing: Auditors began to test and rely on some internal controls for military and civilian payroll; and found no material weaknesses in these areas.
 - Auditors stated Army, Navy and Air Force could account for the existence and completeness of major military equipment.
- **What areas will require the most effort?**
 - Universe of Transactions: A lot of work ahead to reconcile all feeder and accounting systems.
 - Documentation: Lack of sufficiency to support transactions, especially property.
 - Information Technology: The audits have highlighted IT challenges such as:
 - DoD's complex system environment consisting of many legacy and non-audit compliant systems and interfaces.
 - Poor access controls given large number of users and systems.
 - Speed of Remediation: Taking too long to start remediation of audit findings.
 - Asset Valuation: Accurate valuation of property plant and equipment assets remains a complex problem for DoD.

DoD will measure and report progress the next several years through the closure of significant audit findings. Achieving clean audit opinions will take time.

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Way Forward



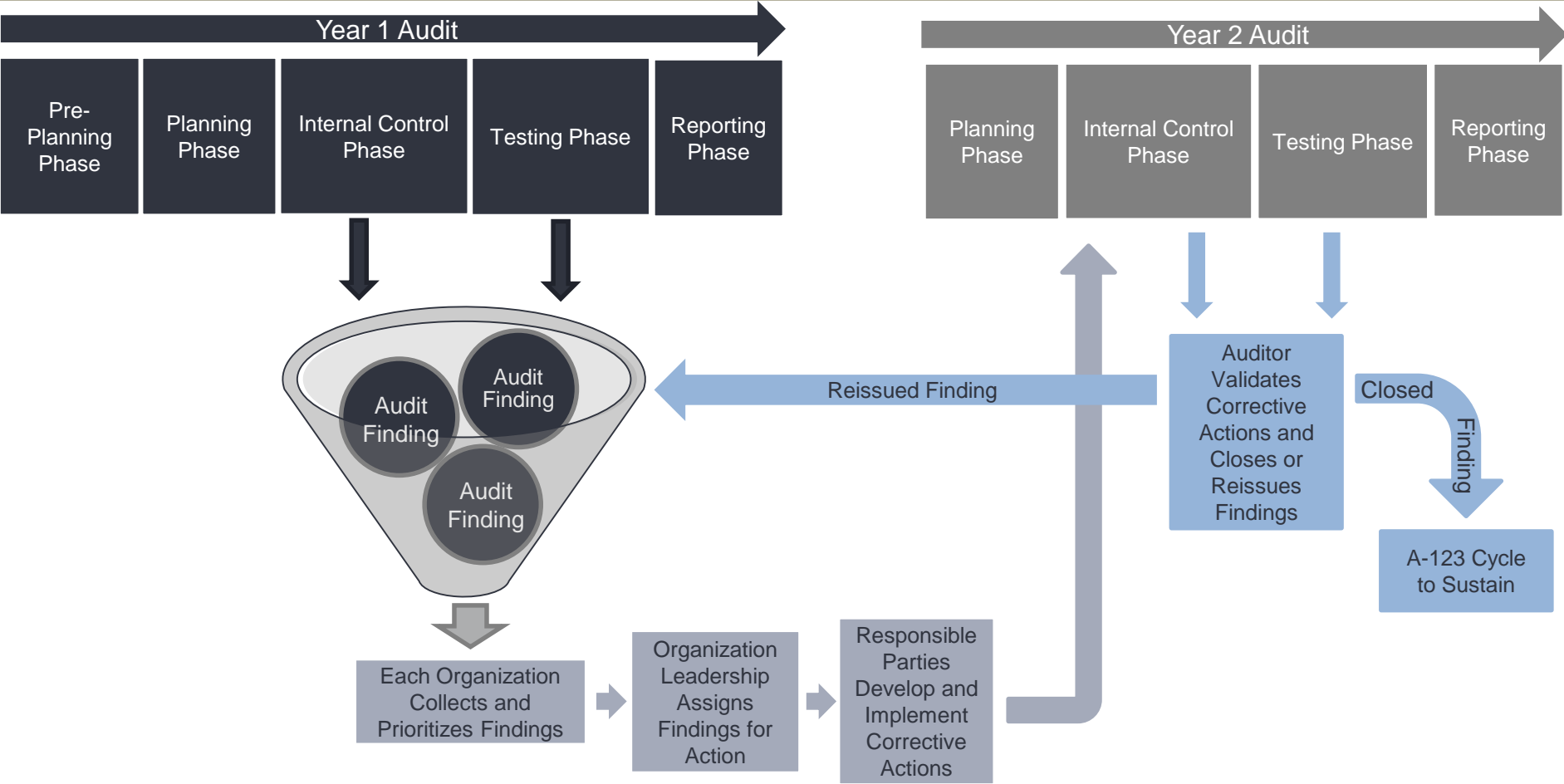
Way Forward – Drive Progress and Promote Increased Transparency

- The DoD is aggressively working to implement CAPs for inclusion in IPA assessments during the FY 2019 audit and does not anticipate a significant change in the extent of nature of the findings until the conclusion of the FY 2019 audit.
- **Financial reporting, property and IT are being prioritized** with our **functional councils** coordinating the development of CAPs to address **enterprise-wide findings** in these areas.
- The Department will monitor **the closure of audit NFRs** as an **objective measure** of our progress toward achieving a clean audit opinion over the next several years.
- The DoD is promoting increased transparency and oversight of our progress through monthly meetings with the Secretary of Defense, Deputy Secretary of Defense and Military Service Secretaries to review audit finding metrics and CAP progress.
- Bi-monthly FIAR Governance Board meetings, co-chaired by the Deputy Under Secretary of Defense (Comptroller) and Chief Management Officer, are also being used to review progress and encourage collaboration and transparency.
- The Department is also using the NFR database to track the issuance and closure of NFRs and hold the right individuals accountable for corrective actions.

Directly linked to National Defense Strategy reform efforts, although will require short term investment for longer term savings



How We Track Progress



DoD implemented an audit feedback cycle to address findings and sustain remediation efforts



NFR Tracking Tool

- Progress, Measurement and Insights from ADCFO





Key Takeaways

In order to drive change and improve business process and take control of auditability organizations must:



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Questions & Answers

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Backup Slides

Acronyms



Acronym	Description
CAP	Corrective Action Plan
CBDP	Chemical and Biological Defense Program
CRM	Contract Resource Management
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHP	Defense Health Program
DHRA	Defense Human Resources Activity
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DMA	Defense Media Activity
DoD	Department of Defense
DoD OIG	Department of Defense Office of the Inspector General
DoDEA	Department of Defense Education Activity
DON	Department of the Navy
DOTTE	Director, Operational Test and Evaluation
DPAA	Defense POW/MIA Accounting Agency
DSCA	Defense Security Cooperation Agency
DSS	Defense Security Service
DTIC	Defense Technical Information Center

Acronym	Description
DTRA	Defense Threat Reduction Agency
DTSA	Defense Technology Security Administration
ERP	Enterprise Resource Planning
FM&C	Financial Management and Comptroller
FTE	Full-Time Equivalent
GE	General Equipment
GF	General Fund
GFEBSS	General Fund Enterprise Business Systems
IPA	Independent Public Accountant
ITGC	Information Technology General Controls
JCS	Joint Chiefs of Staff
LMP	Logistics Modernization Program
MDA	Missile Defense Agency
MHPI	Military Housing Privatization Initiative
NDAA	National Defense Authorization Act
NFR	Notice of Finding and Recommendation
OEA	Office of Economic Adjustment
OM&S	Operating Materials and Supplies
USC	United States Code
USMC	United States Marine Corps
USSOCOM	U.S. Special Operations Command
USTRANSCOM	U.S. Transportation Command
WHS	Washington Headquarters Service



DoD-Wide FY 2018 Audit Material Weaknesses

DoD-Wide MW Area
1. Financial Management Systems and IT
2. Universe of Transactions
3. Financial Statement Compilation
4. Fund Balance with Treasury
5. Accounts Receivable
6. OM&S
7. Inventory and Related Property
8. General Property, Plant and Equipment
9. Government Property in Possession of Contractors
10. Accounts Payable
11. Environmental and Disposal Liabilities
12. Legal Contingencies
13. Beginning Balances
14. Journal Vouchers
15. Intragovernmental Eliminations
16. Statement of Net Cost
17. Reconciliation of Net Cost of Operations to Budget
18. Budgetary Resources
19. Entity Level Controls
20. Oversight and Monitoring



Example of NFR and CAP – Basic

The following is an example of a basic NFR and related CAP:

NFR

- The Component does not have security management policies and procedures for one of its logistics systems responsible for conducting periodic risk assessments, developing and maintaining system security plans, security awareness training, annual security control testing, and the plan of action and milestone process.

CAP

- The Component is in the process of completing a comprehensive draft of the recommended policies and procedures. The Component anticipates the draft being available for leadership review by the end of the month and a final version complete and implemented by the end of the next fiscal quarter.



Example of NFR and CAP – Complex

The following is an example of a complex NFR and related CAP:

NFR

- The Component has not established a process to account for and monitor the reporting of property, plant, and equipment assets on a forward looking basis in accordance with Statement of Federal Financial Accounting Standard 6: *Accounting for Property, Plant, and Equipment*.

CAP

- The Component has developed a comprehensive strategy to fully remediate this issue by June 2025 including anticipated policy, system and business process changes. This CAP contains over 25 unique milestones. Phase one and two will be complete in 2019. Phase three and four will be complete in 2020. Phase 5 will be complete in 2021. Final implementation across centers and program offices will take place from 2021 to 2025.