



Agency Priority Goal Action Plan

Financial Management: Complete yearly audits to move the Department towards achieving a Positive Audit Opinion readiness

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 towards 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 challenge faced by the Department range from lack of documentation, cultural changes (change of focus from just mission to improving financial management practices to drive proper accounting for resources) to major system impediments to include 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, Notice 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

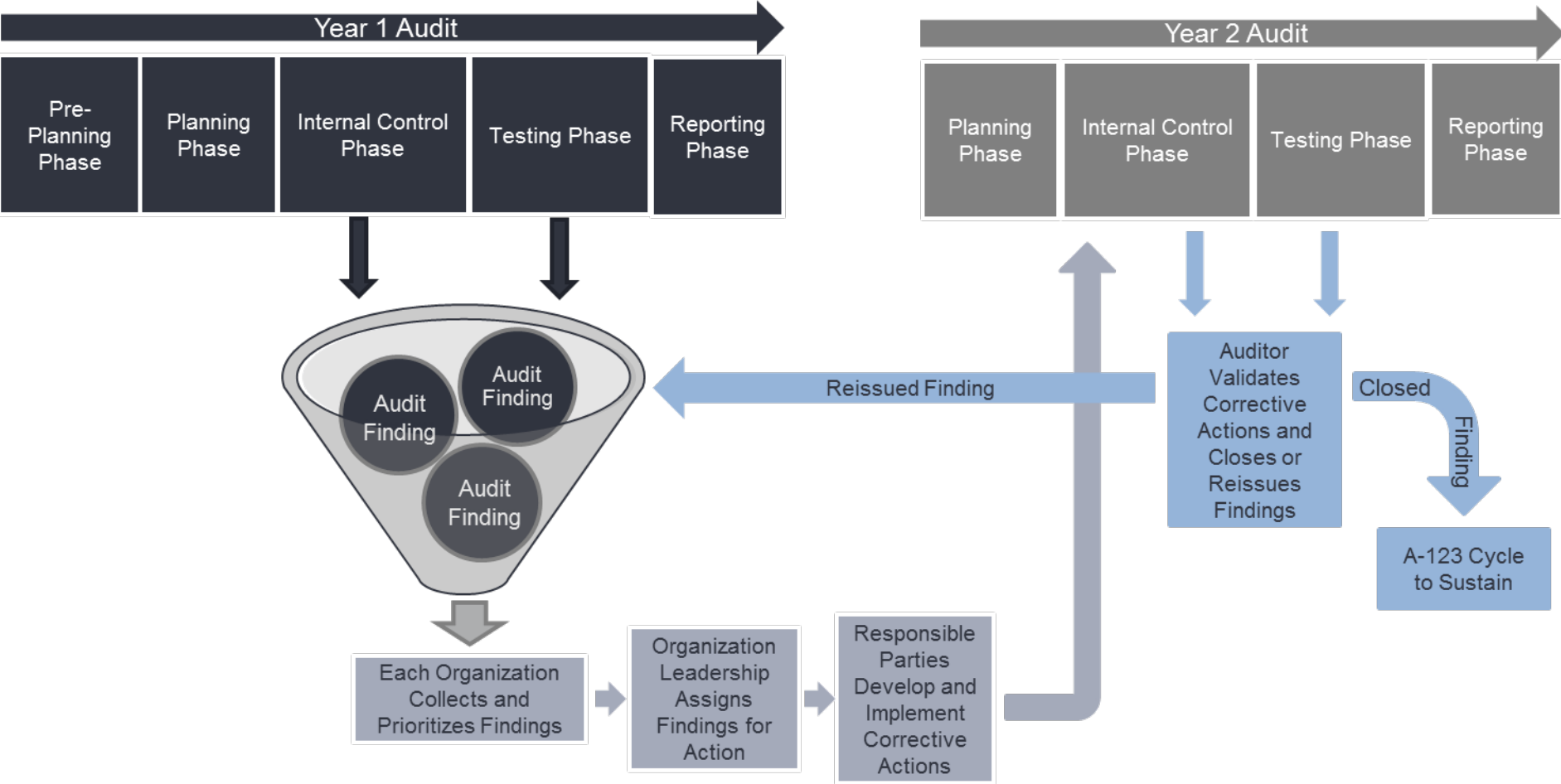
1. Better data quality for better decision making
 - The financial statement audit helps drive enterprise-wide continuous improvements to standardize our business processes and improve the quality of our data which will lead to improved financial management and informed decision-making.
2. Transparency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



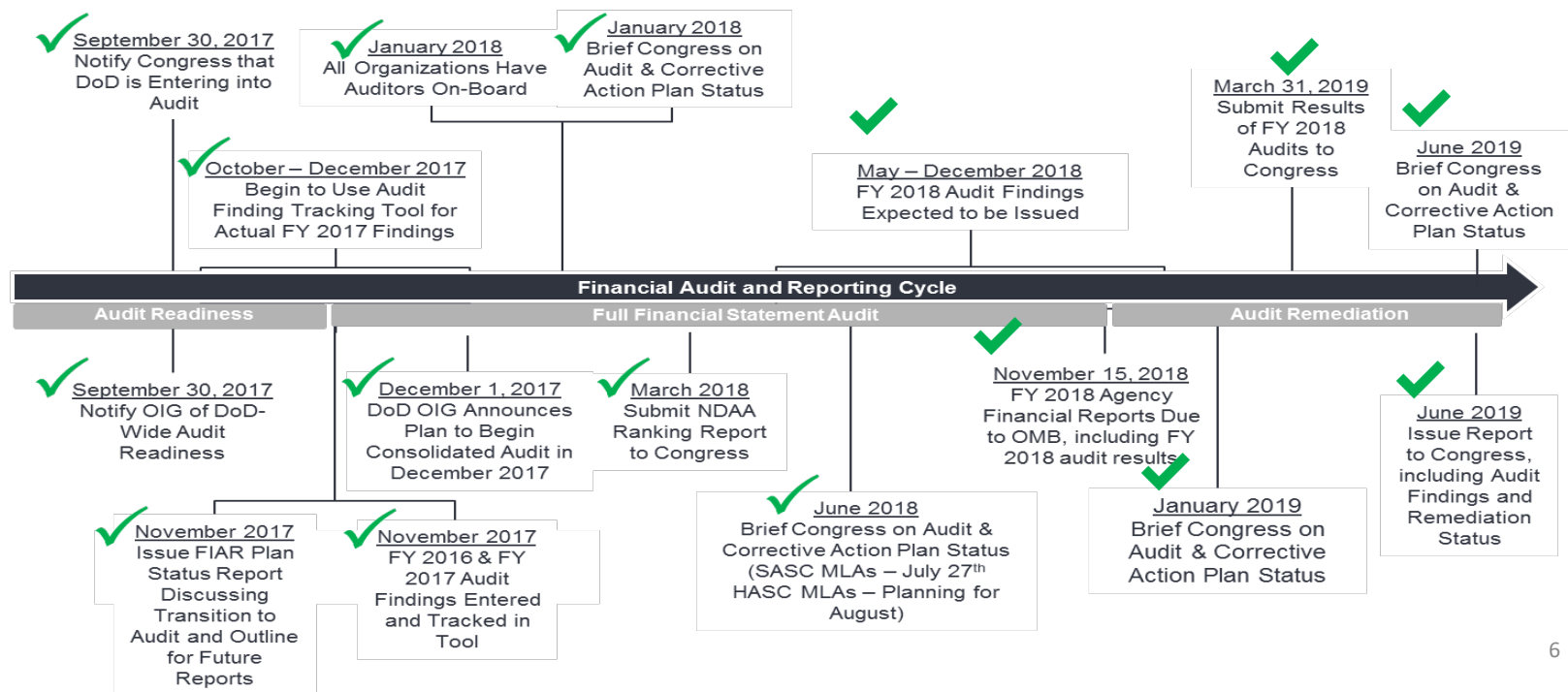
DoD has implemented an audit feedback cycle to respond to and maximize auditor feedback

Summary of Progress – FY 19 Q1 – Q4

DoD will provide regular updates on the status of the Fiscal Year 2019 audit and related remediation efforts to Congress and OMB

The DoD consolidated audit is likely to be 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).
- DoD is currently sustaining clean opinions for nine stand-alone audits.
- All audits are now underway and being conducted by the DoD OIG and Independent Public Accounting (IPA) firms.
- The June 2019 FIAR Report to congress - <https://comptroller.defense.gov/ODCFO/FIARPlanStatusReport.aspx>



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, FY19	Complete	
NFRs entered into tracking tool by IPAs.	Q2, FY19	Complete	
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, FY19	Complete	Q1-Q2, FY19 audit status was incorporated into the June 2019 briefing to Congress on Audit and Corrective Plan Status.
Percentage of notice of findings and recommendations conditions closed in support of a clean audit opinion for the Department.	Q4, FY19	Complete	
Percentage of components completed and established Go-Forward Asset Valuation.	Q4, FY19	Missed	
Percentage of universes of transactions (UOT) provided the auditors using the Defense Repository of Common Enterprise Data (DRCED) tool for the Fourth Estate.	Q4, FY19	Missed	
Percentage of reconciliations completed at the transaction level between general ledger and feeder systems for the Fourth Estate.	Q4, FY19	Missed	
Percentage of service provider audit reports with an unmodified (clean) opinion.	Q4, FY19	Missed	Audit findings have been received by IPAs and components are actively designing corrective action plans to remediation issues identified.
Percentage reduction of unsupported Journal Vouchers (over FY 2017) recorded in the Defense Departmental Reporting System.	Q4, FY19	Complete	

Key Milestones (continued)

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	On-Track	
NFRs entered into tracking tool by IPAs.	Q1, FY20	On-Track	
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	On-Track	Q1-Q2, FY20 audit status will be incorporated into the June 2020 briefing to Congress on Audit and Corrective Plan Status.
Percentage of notice of findings and recommendations conditions closed in support of a clean audit opinion for the Department.	Q4, FY20	On-Track	
Percentage of components completed and established Go-Forward Asset Valuation.	Q4, FY20	On-Track	
Percentage of universes of transactions (UOT) provided the auditors using the Defense Repository of Common Enterprise Data (DRCED) 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 service provider audit reports with an unmodified (clean) opinion.	Q4, FY20	On-Track	Audit findings have been received by IPAs and components are actively designing corrective action plans to remediation issues identified.
Percentage reduction of unsupported Journal Vouchers (over FY 2017) recorded in the Defense Departmental Reporting System.	Q4, FY20	On-Track	

Closeout APG Reporting for FYs 2018-2019 Cycle

Fiscal year (FY) 2018 marked the first time the DoD has undergone an audit of its consolidated financial statements. The audit covered the Department's total assets of more than \$2.7 trillion and involved approximately 1,200 auditors, more than 900 site visits, and the review of hundreds of thousands of items. Auditor findings and recommendations are helping Department leaders prioritize improvements, drive efficiencies, identify issues with systems, measure progress, and inform business reform efforts. Outcomes will be greater financial data integrity, increased transparency across the Department for Congress and the American people, and, ultimately, better support for the warfighter.

The auditors issued more than 2,300 Notices of Findings and Recommendations, or NFRs. Roughly 48 percent of those findings pertained to financial management systems and information technology (IT); 30 percent to financial reporting and the Department's Fund Balance with Treasury; and 16 percent to issues related to property. Other findings tie to financial reporting. The Department has developed and begun to implement corrective action plans to address these findings.

The Department is prioritizing corrective actions plans by first addressing those that align with the National Defense Strategy and provide the greatest potential value to DoD operations and the warfighter. For FY 2019, Acting Secretary of Defense Patrick Shanahan established financial statement audit priorities that are immediately actionable at many levels within the Department, including at the Command-level. FY 2019 audit priorities include:

Closeout APG Reporting for FYs 2018-2019 Cycle – Continue

- Real Property (Existence and Completeness)
- Inventory, and Operating Materials and Supplies
- Government Property in the Possession of Contractors
- Access Controls for IT Systems

Findings and corrective actions plans are entered into a centralized database managed by the Office of the Deputy Chief Financial Officer (ODCFO) and aligned to DoD-wide material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected in a timely manner. The ODCFO NFR Database provides leadership with real-time dashboard reporting of remediation status by Component. Department leaders measure progress by assessing the implementation and validation of corrective action plans and tracking the remediation of findings at major milestones. The number of auditor findings and material weaknesses closed from year to year is the independent benchmark for measuring progress toward achieving a clean audit opinion. Ultimately, the Department will track progress by the number of reporting entities moving from disclaimers of opinion to qualified opinions and from qualified opinions to unmodified opinions.

Closeout APG Reporting for FYs 2018-2019 Cycle – Continue

It often takes a federal agency several years to move from a disclaimer of opinion to an unmodified or clean opinion. Personnel across the organization are working hard to remediate audit findings and achieve a clean audit opinion as quickly as possible. It is expected that reporting entities, over time, will move from a disclaimer of opinion to a qualified opinion, with the majority of DoD Components receiving a clean opinion on all or some portion of their financial statements within the next 5 to 7 years.

Data Accuracy and Reliability

The number of auditor findings closed and material weaknesses downgraded from year to year is the independent benchmark for measuring progress toward achieving a clean audit opinion. Ultimately, the Department will track progress by the number of reporting entities moving from disclaimers of opinion to qualified opinions and from qualified opinions to unmodified opinions.

Additionally, the Department is:

- Tracking progress of remediating complex NFR at major milestones;
- Assessing the quality of Corrective Action Plan (CAP) preparation and implementation by comparing those internally-validated as closed to those closed by the auditors;
- Identifying areas where auditors are able to rely on internal controls and moving validated CAPs into sustainment;
- Expanding SSAE No. 18 examinations and increasing reliance on System and Organization Controls reporting over service providers; and
- Increasing reliance on Advana, DoD's platform for advanced analytics, for audit sampling and supporting transaction details.

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.