ASMC PDI 2019 - Workshop 111: Audit Findings, Now What?
May 30, 2019
DOD Corrective Action and Remediation

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May 30, 2019
FY 2018 Financial Statement Audit Results

• Auditors issued a disclaimer of opinion in the first departmentwide audit.

• But the most important outcome this year was not the disclaimer; it was that the audit identified specific deficiencies in DOD’s financial management and reporting processes.

• With what has been learned from the audit, DOD and its components will develop and implement Corrective Action Plans (CAP) for remediation.
Relevance of DOD’s Audit to the Broader Government Issues

- DOD is the only federal agency that has not received an opinion on its financial statements, and it is one of only three impediments preventing GAO from opining on the governmentwide Consolidated Financial Statements (CFS).
- A clean opinion on the CFS will provide useful information for federal officials and Congress in managing spending and containing costs.
- The CFS along with such legislation as the Improper Payments, DATA, and Fraud Reduction and Data Analytics acts, will collectively provide important information for managing federal programs.
Next Steps for DOD

- Develop a sound financial management foundation with strong information technology controls
- Establish an internal control structure to ensure the accuracy, completeness, and timeliness of financial data, information, and reporting
- Prioritize findings and corrective actions that align with the Secretary’s memo listing the FY 2019 Financial Statement Audit Priorities
Next Steps for DOD (Cont.)

• Perform a root cause analysis of findings reported by the IPAs

• Recognize the linkage between solutions for different findings to avoid a too-narrow focus of remediation

• Do not cut corners, _but_ in the short term, work-arounds may be needed to address findings and ensure complete universes of transactions
OMB Circular No. A-123 defines management's responsibility for internal control in federal agencies. According to A-123 Implementation Guide

• an entity’s senior management council has ownership and accountability for resolving deficiencies/findings

• CAPs are developed by management to present the procedures that an agency plans to follow to resolve its deficiencies/findings

• recommends that an agency establish a CAP framework to facilitate stakeholder oversight and ensure accountability for results
Elements of a CAP

According to OMB Circular A-123 CAPs should include measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle—

- summary description of the deficiency
- year the deficiency was first identified
- target corrective action date
- agency official responsible for monitoring progress
- indicators, statistics, metrics to gauge resolution progress
- quantifiable target or qualitative characteristic that reports progress of remediation activities
Recent GAO Reports

High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas

DOD Financial Management: Significant Efforts Still Needed for Remediating Audit Readiness Deficiencies
Audit Findings, Now What?

Ms. Mobola Kadiri

American Society of Military Comptrollers
Professional Development Institute

Workshop No. 111

May 30, 2019
Agenda

- FY 2018 Audit Results by Component
- FY 2018 Audit Results
- Secretary of Defense Priorities
- Now What?
- Driving Results and Accountability
- DoD Audit Strategy
FY 2018 Audit Results by Component

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).

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.

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

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
FY 2018 Audit Results

- A substantial percentage (94%) of NFRs from DoD FY 2018 audits pertained to Cyber / IT, Fund Balance With Treasury / financial reporting or property, plant and equipment.

<table>
<thead>
<tr>
<th>Component</th>
<th>Cyber / IT</th>
<th>FBWT / Financial Reporting</th>
<th>Property, Plant and Equipment</th>
<th>Other</th>
<th>Total # of FY 2018 NFRs</th>
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</thead>
<tbody>
<tr>
<td>U.S. Army</td>
<td>172</td>
<td>115</td>
<td>69</td>
<td>47</td>
<td>403</td>
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<tr>
<td>U.S. Navy</td>
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<td>95</td>
<td>97</td>
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<td>528</td>
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<td>USMC</td>
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<td>25</td>
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<td>169</td>
<td>106</td>
<td>58</td>
<td>14</td>
<td>347</td>
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<tr>
<td>Fourth Estate and DoD Consolidated</td>
<td>406</td>
<td>359</td>
<td>131</td>
<td>46</td>
<td>942</td>
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<tr>
<td>Total</td>
<td>1,149</td>
<td>710</td>
<td>380</td>
<td>138</td>
<td>2,377</td>
</tr>
</tbody>
</table>

- Other NFR category includes compliance issues, payroll findings, environmental liabilities, etc.
- Data is as of April 15, 2019
- 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.
“As we continue to make good on our promise to American taxpayers, it is clear we have much to fix. The priority will be corrective actions that provide the greatest value to our operations and warfighters.” – Patrick Shanahan, Acting Secretary of Defense
The first-ever DoD consolidated audit was a significant undertaking and we are now in the process of FY 2019 audit and addressing the FY 2018 audit findings.

• The NFR tool has been developed to track all notices of findings and recommendations (NFRs) from the auditors and the status of all corrective action plans.
  – The goal for FY 2019 is to close 20% of NFRs.

• Financial reporting, property and IT are being prioritized with our functional councils coordinating and monitoring the development of CAPs to address enterprise-wide findings in these areas.

• DoD plans to continue to use the audit to improve our internal controls, mitigate material weaknesses and reform key business processes.

• Even without a unmodified opinion, the Department is already seeing benefits from the audit in the form of cost savings and operational benefits.

• DoD is focused on strengthening our service provider relationships and is spearheading the service provider working group.

• DoD must transition to a culture of performance results and accountability matters.

• Military Departments and defense agencies must ensure robust processes to sustain the positive results.
Driving Results and Accountability

1) Setting Expectations

- Corrective action plans will be developed within 60 days of NFR issuance.
- Implement as many CAPs as possible by June 30 to be reviewed in the FY 19 audit.
- Per Secretary of Defense, organizations should be prioritizing remediation of NFRs in the areas of real property, inventory and OM&S, government property in the possession of contractors and IT.

2) Measuring Progress

- Track closure of NFRs and associated material weaknesses/significant deficiencies.
- Increased reliance on Defense Repository for Common Enterprise Data (DRCED) for audit sampling and supporting transaction details.
- Improved System and Organization Control (SOC) 1 results.

3) Holding Stakeholders Accountable

- Deputy Secretary of Defense meeting with Military Departments and the Fourth Estate on a monthly basis to review corrective action plan progress.
- Utilize NFR database to promote visibility and transparency in terms of corrective action plan progress and responsible parties.
- Monitoring common challenges across Components and significant achievements in priority areas via functional councils.

Monitor and Sustain Results
DoD Audit Strategy

*FY 2019 Operational Priorities

- Real Property – Existence & Completeness
- Inventory and Operating Materials and Supplies
- Government Property in the Possession of Contractors
- IT – Access Controls

Initiate annual, full-scope financial statement audits

Develop infrastructure to collect findings, prioritize remediation and monitor progress

Establish baseline using first-year audit findings

Align findings to operational priorities* and material weaknesses

Complete remediation for operational priorities and material weaknesses

Align remediation to achieve unmodified opinions for DoD Components

Monitor and refine internal controls going forward

Annual Audit Cycle

1. Collect feedback from audit
2. Align findings to priorities
3. Complete remediation
4. Monitor and sustain internal controls

✓ = Completed
DFAS Audit Success

ASMC PDI 2019 - Workshop 111: Audit Findings, Now What?

Defense Finance and Accounting Service

Ms. Rebecca Beck
Five Pillars of Audit Success

Audit Success

Audit Ready Every Day Program
The ARED program encompasses corrective action plans related to audit preparation, risk mitigation, reporting and NOFs

Tri-Annual Reviews
TAR includes an independent post-TAR review

Financial Document Testing
Independent review of open documents conducted using IPA standards to provide assurance of audit readiness

Managers' Internal Control Program
Documents the end-to-end processes identifying risks and mitigating controls

Audit Structure
Structure ensures that dedicated audit liaison staff are available to support the audit year round
Audit Tools and Corrections of Findings

Audit Management Tool
- Enterprise-wide tool used to manage DFAS examinations and customer audits
- Supports collaboration and tracks all audit documentation requests from IPAs
- DFAS' current status on accepted audit documentation reviewed by IPA
- Ensures data and document integrity and streamlines the audit life-cycle

Audit Finding Mitigation
- Notice of Finding
- Step 02: Improve
- Step 04: Areed Program
- Step 06: Close
- Step 03: White Papers
- Step 05: Collaborate with IPA

6/6/2019
Integrity - Service - Innovation
Best Practices to Address Audit Findings

- Understand the issue
- Embrace the recommendation

Empower to Achieve Results
- Own the process
- Challenge the status quo

Partner with the Auditors
- Track the progress
- Conduct follow-up testing

Maintain an Audit Culture

19th Consecutive Unmodified Opinion