



## Agency Priority Goal Action Plan

# Complete Yearly Audits to Move the Department Towards Achieving a Positive Audit Opinion

### Goal Leader:

David L. Norquist, Under Secretary of Defense (Comptroller)

# Overview

---

## Goal Statement:

- Begin audit and use its findings to achieve a positive opinion for the DoD. By September 30, 2019, make demonstrable progress toward a sustainable clean audit opinion of DoD financial statements.

## 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 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.
3. Cost savings to help drive reform
  - Audit NFRs will be used by cross-functional teams to support planning, development, and implementation of corrective action plans and reform initiatives that support the broader DoD reform agenda.
  - 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 business reform to the DoD, which directly aligns with one of the Department's three lines of effort in the National Defense Strategy.

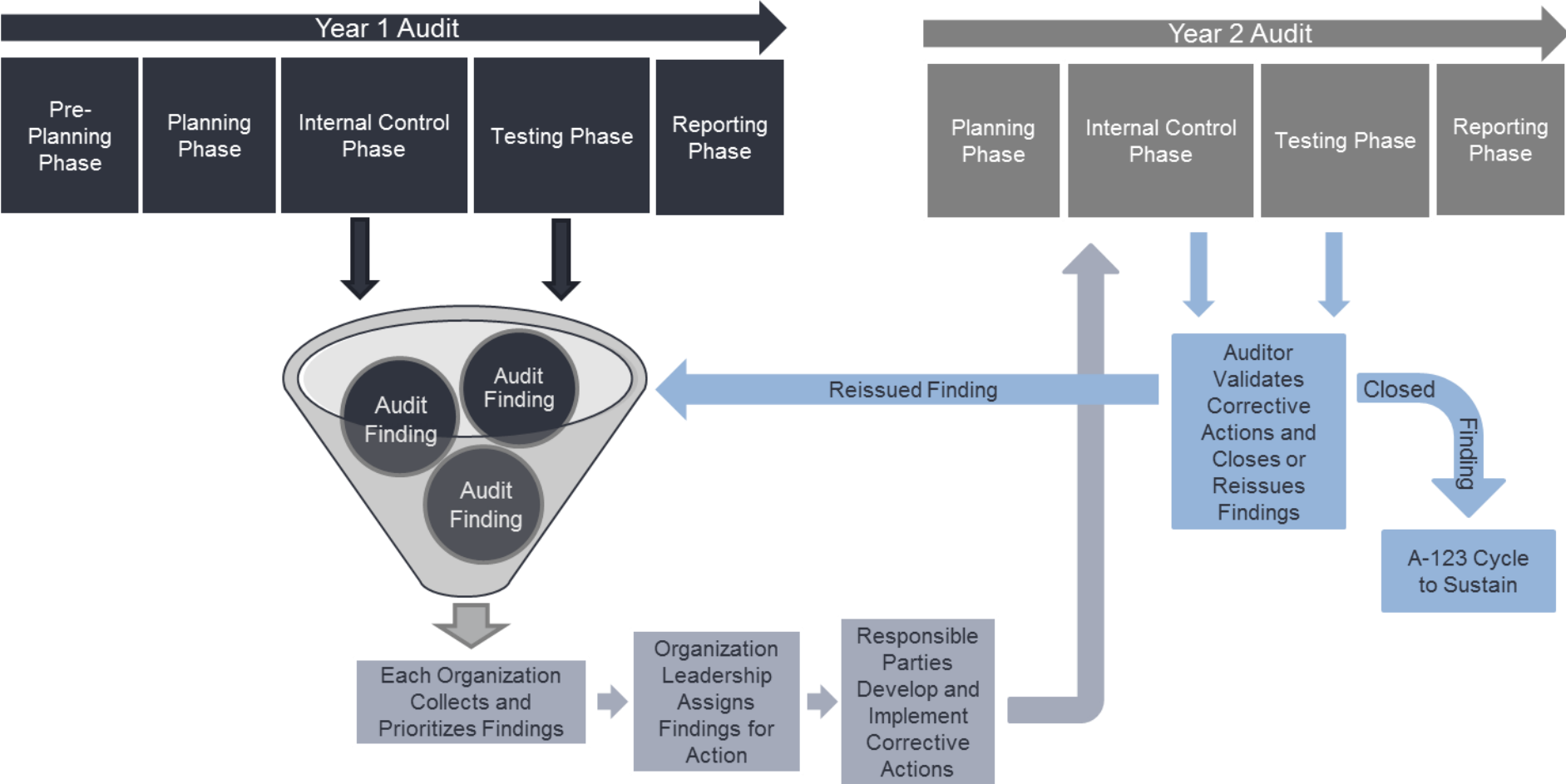
# Goal Structure & Strategies

---

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



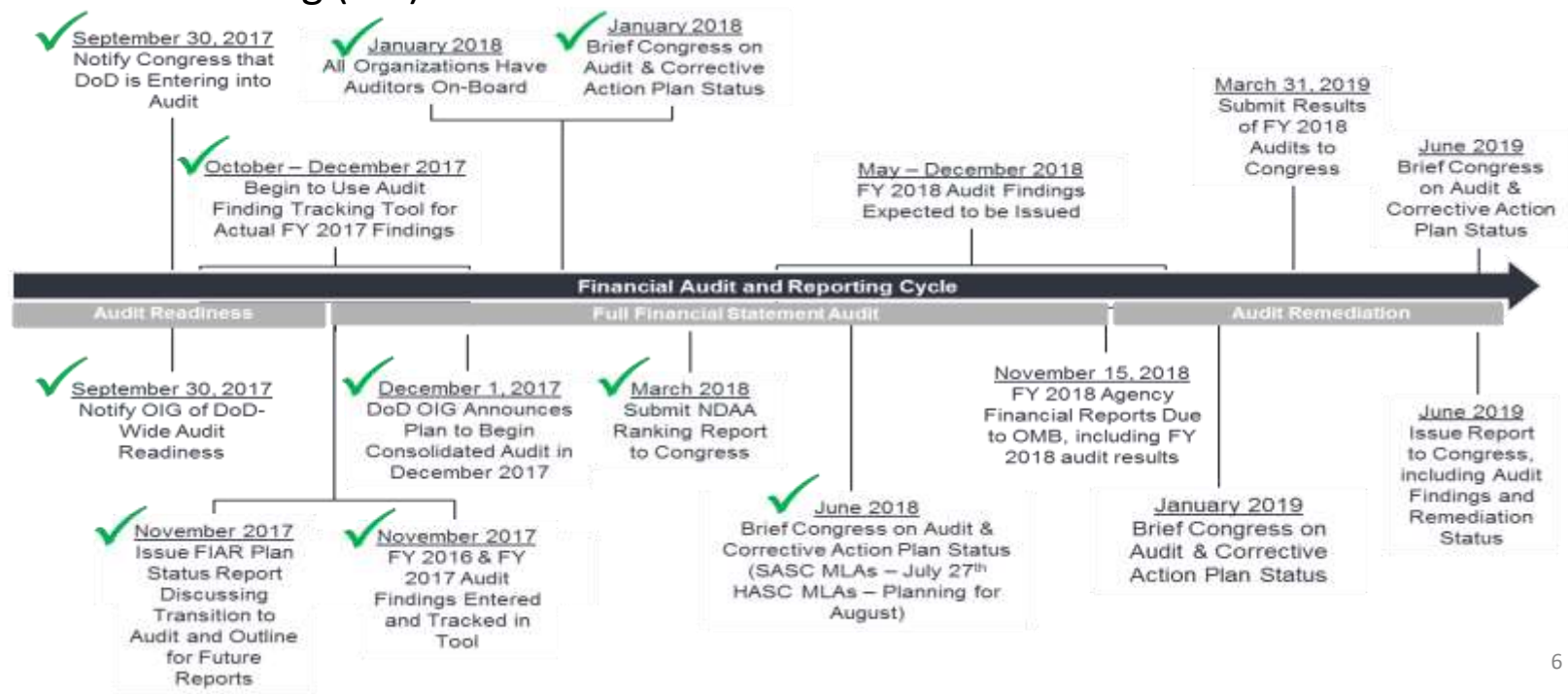
***DoD has implemented an audit feedback cycle to respond to and maximize auditor feedback***

# Summary of Progress – FY 18 Q1 - Q3

DoD will provide regular updates on the status of the Fiscal Year 2018 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.



# Key Milestones

Milestone Summary			
Key Milestone	Milestone Due Date	Milestone Status	Comments
Audit readiness assertion letters delivered to the DoD Office of the Inspector General.	Q1, FY18	Complete	
Notification / assertion to Congress that the full financial statements of the Department are audit-ready.	Q1, FY18	Complete	
Finalization of audit contracts with IPAs. Remaining contracts to be in place.	Q2, FY18	Complete	
Develop consolidated NFR tracking tool and make available to applicable stakeholders.	Q1, FY18	Complete	
FY17 full scope audit reports and findings for selected components received (USMC, DLA, DISA).	Q1, FY18	Complete	Audit findings have been received by IPAs and components are actively designing corrective action plans to remediation issues identified.
NFRs entered into tracking tool by IPAs	Q2, FY18	On-going	This process began for the FY 2017 audits. However, FY 2018 audits are just completed. The process is on-going for the FY 2018 audit findings.
Provide report to Congress on Audit results status to include Audit findings and remediation statistics.	Q1 & Q3 FY18	Complete	FIAR Plan Status Report discussing transition to audit and outline for future audits was delivered November 2017.  Q3 FY 2018 update was incorporated into the June 2018 briefing to Congress on Audit and Corrective Plan Status.
DoD OIG and IPAs conduct kick-off meetings and entrance conferences.	Q2, FY18	Complete	
DoD OIG and IPAs begin Planning Phase of the Audit.	Q2, FY18	Complete	
OUSDC(C) meets with Military Departments, U.S. Marine Corps, and Defense Logistics Agency to review and discuss CAPs status.	Q3, FY18	Complete	CAP status reviews occur on a monthly basis.

# Key Milestones (continued)

Milestone Summary			
Key Milestone	Milestone Due Date	Milestone Status	Comments
DoD OIG and IPAs begin Internal Control and Testing Phases of the Audit.	Q4, FY18	Behind	<p>The DoD OIG will officially enter the internal Control and Testing Phases in August 2018. IPAs have begun providing observations testing. The DoD OIG has started to request PBC samples, but they have not yet started providing observations.</p> <p>Large, first-year audit schedules are dependent on many variables. Individual milestones are not expected to impact FY 2018 audit reports.</p>
Service Providers issue audit reports (SSAE No. 18 examinations).	Q4, FY18	On-Track	
OUS(D) meets with Military Departments, U.S. Marine Corps, and Defense Logistics Agency to review and discuss CAPs status.	Q4, FY18 Q1, FY19	On-Track	CAP status reviews occur on a monthly basis.
DoD OIG and IPAs begin Reporting Phase of the Audit.	Q4, FY18 – Q1, FY19	On-Track	
DoD OIG and IPAs conduct exit conferences.	Q1, FY19	On-Track	
FY18 full-scope audit reports and findings for all components and consolidated DoD received.	Q1, FY19	On-Track	The audits for the Department are underway and findings are expected to be received throughout FY 2018
Submit FY18 Agency Financial Report, including audit results, to OMB.	Q1, FY19	On-Track	
Submit FY 2018 audit results to Congress.	Q2, FY19	On-Track	



# 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.	Q3, FY19	On-Track	Q1-Q2, FY19 audit status will be incorporated into the June 2019 briefing to Congress on Audit and Corrective Plan Status.
Issue report to Congress, including audit findings and remediation status.	Q3, FY19	On-Track	
Closed NFR Conditions (USMC, DLA) as validated by IPA.	Q4, FY19	On-Track	Milestone was established for 10% of NFR Conditions to be closed by Q4 2019 in support of a clean audit opinion for the components listed.
Closed NFR Conditions DoD-wide.	Q4, FY20	On-Track	Milestone was established for 10% of NFR Conditions to be closed by Q4 2020 in support of a clean audit opinion for the Department.

# 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](http://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](http://www.gao.gov)).
- DoD Office of Inspector General (DoD OIG): Provides independent oversight of the DoD ([www.dodig.mil](http://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.