

# Financial Improvement and Audit Remediation (FIAR) Report June 2019



**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)**  
**United States Department of Defense**

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**The Financial Improvement and Audit Remediation Report was prepared in accordance with section 240b of Title 10, United States Code.**

**Preparation of this report cost the Department of Defense approximately \$150,000**

## Message from the Deputy Under Secretary of Defense (Comptroller)

Fiscal year 2018 marked an historic achievement for the Department of Defense (DoD)—we completed our first ever department-wide financial statement audit. Now, with the start of the fiscal year 2019 financial statement audits, these audits will always be part of our annual operations regimen and provide support for our overall business reform efforts. The audits verify the count, location, and condition of military equipment, property, and inventory. They test for vulnerabilities in financial business systems and validate the accuracy of personnel records. These things matter, especially to those in the field and at commands, and DoD personnel are starting to see how these audits both support and enable their missions.

In our first full audit year, six organizations received a clean opinion, and two organizations received a qualified opinion. The remaining organizations' audits and the DoD consolidated audit resulted in disclaimers of opinion, as we expected. Auditors found no evidence of fraud, and they confirmed that the Army, Navy, and Air Force had properly accounted for major military equipment, and military and civilian pay.

Auditors identified more than 2,300 findings. Only when we know where the problems are can we begin to fix them. Over the past several months, our workforce has focused on changes that not only address the problems but also provide operational value. The Components have developed corrective action plans for more than 2,100 findings. The annual audit process will give us independent confirmation of improvements made and spotlight best practices while helping us continue to identify areas for correction.

The audit has been a forceful catalyst for change within the Department. We welcome the transparency it brings. The audit will improve our financial clarity and decision-making as well as provide information that feeds modern data analytics to improve every element of how we do business. We are deeply committed to the long-term effort required and will continue to use the auditors' independent feedback to measure progress from year to year.

We are grateful for the commitment and support of Congress and other stakeholders and will continue to work toward our shared goal of achieving a Department-wide clean opinion and advancing the stewardship of resources for the benefit of the warfighter and the American people.



Elaine McCusker

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## Message from the Acting Chief Management Officer of the Department of Defense

The offices of the Chief Management Officer (CMO) and the Under Secretary of Defense (Comptroller) (USD(C)) jointly lead an integrated, focused approach to improving the efficiency and effectiveness of the Department's business practices. We have identified savings and reform opportunities throughout all lines of business and at both the enterprise- and Component-levels to support greater lethality and improve readiness in support of the National Defense Strategy. Two significant efforts are leading the way: business transformation to achieve greater performance and affordability; and the provision of common, usable, decision-supportive data for decision-making. The Financial Improvement and Audit Remediation (FIAR) strategy and the annual financial statement audit regimen are fundamental to these two reform efforts.

Initial results from our reform effort suggest the Department could exceed initial targets for outcomes and long-term cost savings. The Department is reaping the benefits of this synergy in the Logistics and Supply Chain management business area. This team is leveraging the Notices of Findings and Recommendations (NFRs) from the audit to address such material weaknesses as material-in-transit reporting and recording of inventory in financial journals. These steps will enable the Department to better manage its inventory needs, while also validating the cost of material in transit and in warehouses.

Reform efforts and audit results are also leading to more reliable and actionable data. The Comptroller is capturing the NFRs from across the Department to facilitate the review and improvement of the Department's data sources. As a result, the Department has access to real-time information to support not only audit reviews, but also reliable information to support greater reform initiatives across business mission areas.

Actions taken to remediate audit findings result in increased discipline, stronger internal controls, standardized data, and more efficient business processes. As we remediate audit findings and move closer toward our goal of achieving an audit opinion, we work to reform the Department's business operations. And as our business operations and audit results improve, we advance transparency and accountability.

I am proud of the Department's collaborative efforts to achieve these complementary goals of reform and audit success. Through continued teamwork and innovation, we will meet the goals of the National Defense Strategy and achieve business excellence for the benefit of the warfighter and the American people.



Lisa W. Hershman

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## Executive Summary

The January 2018 National Defense Strategy calls for a transformation of how the Department of Defense (DoD) conducts business. Reforming the Department for greater performance and affordability is one of three lines of effort and an essential part of DoD's approach to achieving its defense objectives.

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.



Mr. David L. Norquist, performing the duties of the U.S. deputy secretary of defense, speaks about the fiscal year 2020 defense budget during a press briefing at the Pentagon in Washington, D.C., March 12, 2019. (DoD photo by U.S. Army Sgt. Amber I. Smith)

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*“The reason reform is in the National Defense Strategy is because it’s so essential to what we’re trying to do to defend the country and protect the taxpayer.”*

*– David L. Norquist, Performing the Duties of  
the Deputy Secretary of Defense  
May 1, 2019*

*Defense Department Gears of Government Awards Ceremony*

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## FY 2018 Audit Results

The DoD annual financial statement audit comprises 24 standalone audits and one consolidated audit conducted by the DoD Office of Inspector General (DoD OIG). Sensitive activities are included and audited within the classified environment. Six organizations received unmodified audit opinions, the highest grade; two received qualified opinions, which means the data is right with some exceptions. All other reporting entities received a disclaimer of opinion, which means the auditors did not have enough evidence to provide an opinion. No organization received an adverse opinion, and no fraud was found.

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. Figure ES-1 shows the number of NFRs received and currently covered by a corrective action plan.

Figure ES-1: Status of Findings and Corrective Action Plans from the FY 2018 Audit



Note: As of June 20, 2019  
Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

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:

- 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.

## Audit Costs and Benefits

The audits are helping the Department inform its business reform efforts by spotlighting areas that are working and those that need fixing. They give leadership the data they need to prioritize improvements, allocate resources, and hold people accountable. However, much of the work to consolidate systems, standardize processes, and strengthen internal controls should be happening regardless of the Department's audit status.

Audit, audit support, and audit remediation costs, including financial system fixes, totaled \$973 million for FY 2018. Approximately \$182 million was paid to the independent public accounting firms (IPAs) conducting the audits. Another \$231 million went to audit support, such as responding to auditor requests for information; and \$560 million went toward remediating audit findings. The Department expects these costs to remain relatively consistent for the next several years until more organizations begin to achieve unmodified opinions. Once the auditors are able to rely more heavily on internal controls, there will be less substantive testing and fewer site visits, which will lower the Department's audit costs.

The Department's audit and remediation work is already realizing benefits, such as:

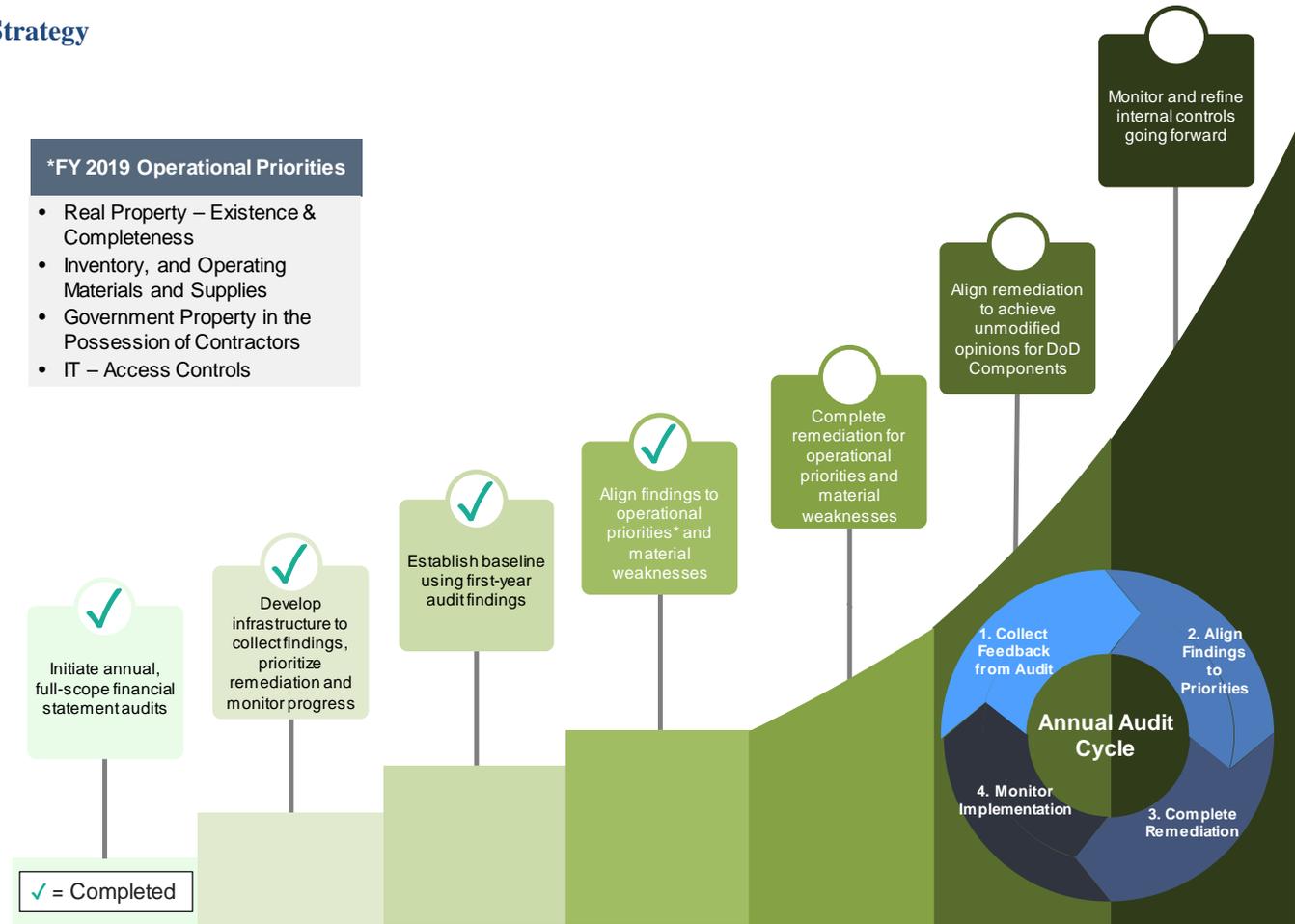
- Streamlined business processes that lead to cost avoidance and operational efficiencies;
- Improved visibility of assets and financial resources that enhances DoD decision-making and ability to support the warfighter; and
- Increased transparency and public accountability resulting from an independent, annual assessment of DoD's business processes and capability to track improvements.

### Long-Term Audit Strategy

It often takes a large, complex federal agency several years to move from a disclaimer of opinion to an unmodified or clean opinion. 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.

A lot of work has been done to get the Department to this level and to standup an enterprise-wide management system that gives leadership visibility into progress and priorities. The Department is now focusing on remediating findings that enhance operational readiness. A strong internal controls program on which auditors can rely will sustain improvements and help the Department move toward an opinion. Figure ES-2 shows work achieved and the annual audit cycle.

**Figure ES-2: The DoD Audit Strategy**



## A Catalyst for Change

The annual audit regimen is the cornerstone for future business reform. It forces better business discipline as auditors question the Department's ability to capture, record, and report financial activity and longstanding business practices. It is about more than compliance and financial management. The audit is helping galvanize change that advances cybersecurity, property management, inventory control, and readiness. Most importantly, it results in better data that supports management, decision-making, and the warfighter. The sustained nature of these audits makes sustainable solutions—and sustainable change—more likely.

The FY 2019 audits are well underway, and auditors have completed many site visits around the world. Final audit reports will be delivered in November. Auditors for nine reporting entities have already indicated their intent to disclaim, and disclaimers of opinion are again expected for many of the reporting entities. Although most financial statement audits stop as soon as the auditors determine an organization will not get an opinion, the Department arranged for its auditors to keep working in order to find as many problems as possible. This ensures the Department continues to get valuable, independent feedback and maximizes the value of having auditors on board. Progress to address auditor findings is being made every day, and with continued hard work, the Department will achieve its business reform goals.

## This Report

This report and its contents are required by section 240b of Title 10, United States Code. The report gives readers an overview of DoD's enterprise-wide status and is organized around priority areas of improvement that align to the DoD-wide material weaknesses. Anecdotal examples of benefits being derived from the audits are scattered throughout the report.

Section I, "Auditing the Department of Defense," focuses on FY 2018 audit results and the Department's plan for managing corrective actions and measuring progress. This includes examples of how the leaders of the Military Services and other reporting entities undergoing standalone audits are demonstrating commitment and holding people accountable for results. The section provides the audit timeline, resources, and benefits of audit.

Section II, "Status of FY 2018 Corrective Actions," reports DoD-wide status on the Secretary's financial statement audit priorities for FY 2019 and other areas of focus. Dashboards from the ODCFO NFR Database show baseline information from the FY 2018 audits and remediation status as of June 1, 2019. This section also describes the Department's planned efforts to reduce the number of systems.

Appendix 1, "Independent Auditor's Report," includes the DoD Inspector General's (IG) certification of the results of the FY 2018 audit.

Appendix 2, "Acronyms and Abbreviations," defines acronyms and abbreviations used in this report.

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## I. Auditing the Department of Defense

The financial statement annual audit regimen is foundational to reforming the Department's business practices and consistent with the National Defense Strategy. Data from the audits is driving the Department's strategy, goals, and priorities and enabling leaders to focus on areas that yield the most value to the warfighter. The audits are already proving invaluable and have the potential to support long-term, sustainable reform that could lead to efficiencies, better buying power, and increased public confidence in DoD's stewardship of funds.

### FY 2018 Audit Results

In FY 2018, auditors conducted 24 standalone audits of DoD reporting entities, and the DoD OIG performed the overarching consolidated audit. Approximately 1,200 auditors conducted more than 900 site visits and reviewed hundreds of thousands of items. Figure I-1 shows that six reporting entities received unmodified opinions, and two received qualified opinions.

All other reporting entities received disclaimers of opinions. The DoD classified activities, with the exception of one, also received disclaimers of opinion. A disclaimer means the auditor did not have enough evidence to provide an opinion on the reliability of the consolidated financial statements. The Department's leadership fully expected these results, and receiving a disclaimer of opinion is consistent with the experiences of other federal agencies undergoing an initial financial statement audit. No organization received an adverse opinion, and the auditors found no evidence of fraud. The auditors also provided feedback that the Army, Navy, and Air Force had properly accounted for major military equipment (e.g., armored vehicles, ships, aircraft, and helicopters) and military and civilian pay.

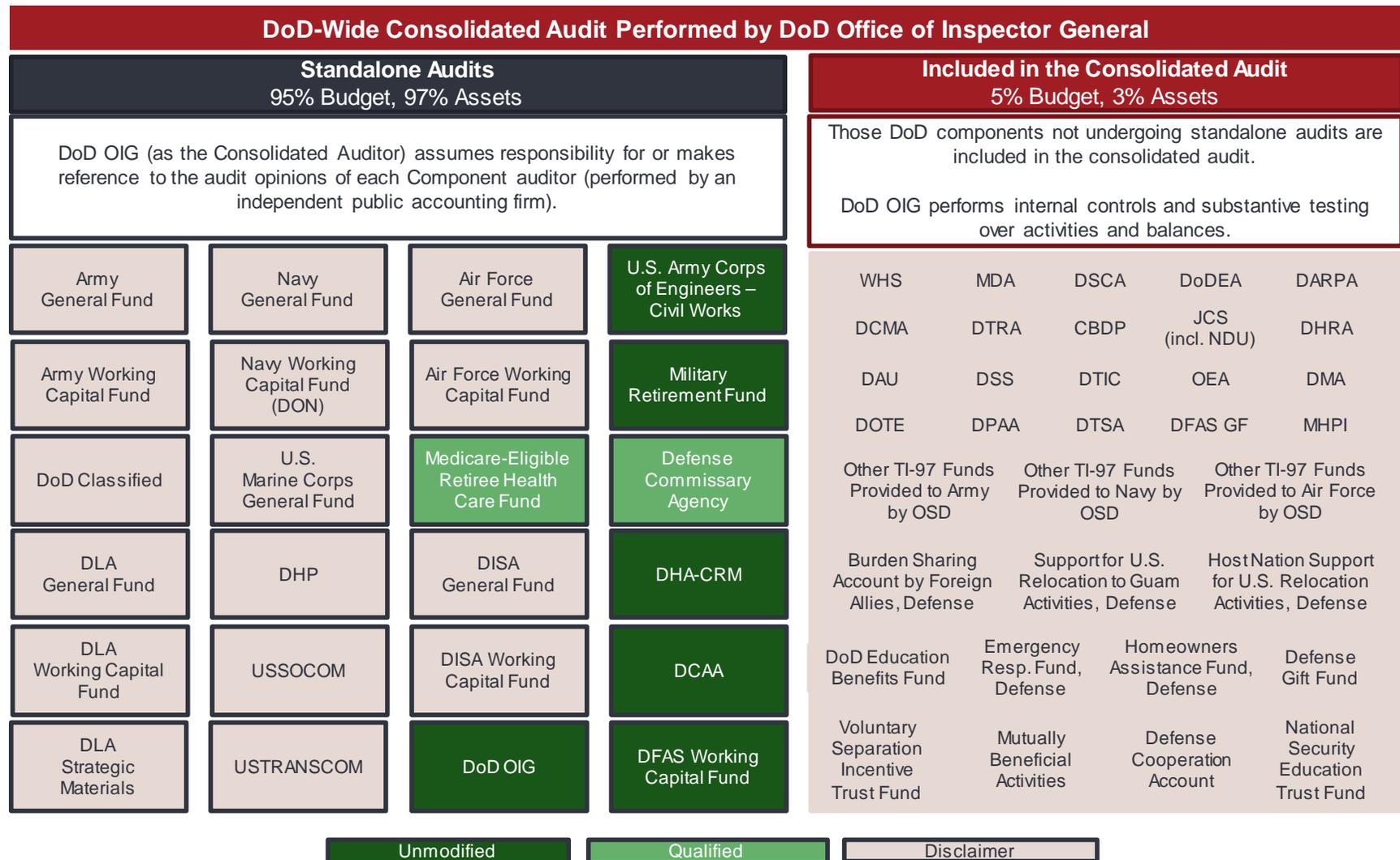
**Figure I-1: FY 2018 Audit Opinions**

<b>Unmodified Audit Opinions</b>
U. S. Army Corps of Engineers – Civil Works
Defense Contract Audit Agency
Defense Finance and Accounting Service – Working Capital Fund
Defense Health Agency – Contract Resource Management
Department of Defense Office of Inspector General
Military Retirement Fund
<b>Qualified Audit Opinions</b>
Defense Commissary Agency
Medicare-Eligible Retiree Health Care Fund

It often takes a federal agency several years to move from a disclaimer of opinion to an unmodified or clean opinion. It took the Department of Homeland Security 10 years to get a clean opinion, and DoD is larger and much more complex. However, 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.

Figure I-2 shows the resulting opinion or disclaimer of opinion for each reporting entity conducting a standalone audit or included in the consolidated audit in FY 2018.

**Figure I-2: FY 2018 Audit Opinions and Disclaimers of Opinion**



The 24 standalone financial statement audits and the DoD Consolidated Audit for FY 2018 resulted in more than 2,300 Notices of Findings and Recommendations, or NFRs. Figure I-3 shows that roughly 48 percent of those findings pertained to financial management systems and IT, such as system access controls or segregation of duties; 30 percent to financial reporting and the Department’s Fund Balance with Treasury; and 16 percent to

Property, which includes Property, Plant, and Equipment, Inventory, and Operating Materials and Supplies (OM&S). All other issues, such as payroll findings and environmental liabilities, made up the remaining 6 percent of audit findings. See Section II, “Status of Corrective Actions Plans,” for more information on FY 2018 audit findings and the Department’s progress in developing corrective action plans and remediating findings.

**Figure I-3: Number of FY 2018 NFRs by Functional Area**

Component	Financial Management Systems & IT	Financial Reporting & Fund Balance with Treasury	Property	Other	Total Number of FY 2018 NFRs
Army	172	115	69	47	403
Navy	316	95	97	20	528
Marine Corps	86	35	25	11	157
Air Force	169	106	58	14	347
Other Reporting Entities and DoD Consolidated	406	359	131	46	942
<b>Total DoD</b>	<b>1,149 (48%)</b>	<b>710 (30%)</b>	<b>380 (16%)</b>	<b>138 (6%)</b>	<b>2,377</b>

Note: Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

Property includes Property, Plant, and Equipment; Inventory; and OM&S.

Other Reporting Entities and DoD Consolidated totals comprise NFR data from DISA, DLA, USSOCOM, USTRANSCOM, DHP and the consolidated audit.

Army NFR count does not include Service Provider NFRs for GFEBS and Ammunition.

In addition to reporting NFRs, each auditor's report identifies 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 timely. An area that an auditor deems a material weakness in a standalone audit may not be material at the Department-level. Other areas may be more pervasive and identified as a material weakness in many of the standalone audits and again in the DoD Consolidated Audit.

The DoD IG identified 20 material weaknesses in the Auditor's Report for the DoD Consolidated Audit. These are consistent with the material weaknesses the Department had identified through its required annual internal controls assessment and past priority areas. Understanding how the audit NFRs align to the DoD material weaknesses provides a consistent framework for categorizing NFRs and allows Department leaders to better prioritize corrective actions and focus remediation efforts on challenges that are the most significant and widespread.

The DoD-wide material weaknesses are:

- Financial Management Systems and IT
- Universe of Transactions
- Financial Statement Compilation
- Fund Balance with Treasury
- Accounts Receivable
- Operating Materials and Supplies
- Inventory and Related Property
- General Property, Plant, and Equipment
- Government Property in the Possession of Contractors
- Accounts Payable
- Environmental and Disposal Liabilities

- Legal Contingencies
- Beginning Balances
- Journal Vouchers
- Intragovernmental Eliminations
- Statement of Net Cost
- Reconciliation of Net Cost of Operations to Budget
- Budgetary Resources
- Entity-Level Controls
- Oversight and Monitoring

### **Service Provider Examinations**

In FY 2018, IPAs also completed 20 DoD service provider examinations. Service providers that provide common services obtain an IPA examination on their controls. Results of these examinations can be used by other auditors as evidence the service provider's controls are designed and operating effectively. This reduces redundant testing of controls by auditors of reporting entities, saving both time and money.

Service provider examinations are conducted in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 18, "Attestation Standards: Clarification and Recodification." Auditors issue results in a System and Organization Controls Report, or SOC 1 Report. In FY 2018, 20 SSAE No. 18 examinations were completed—14 resulted in an unmodified opinion and 6 resulted in a qualified opinion. Those with clean opinions included civilian pay, military pay, and contract pay, which together account for nearly 70 percent of the disbursements made by the Defense Finance and Accounting Service (DFAS). In FY 2019, auditors will complete 23 SSAE No. 18 examinations on DoD systems. Figure I-4 shows the results of examinations conducted in FY 2018.

Figure I-4: NFRs from SOC 1 Reports

SSAE No. 18	FY 2018			
	Opinion	# of NFRs Issued	# of FY 2017 NFRs Repeated	# of FY 2017 NFRs Closed
<b>Army</b>				
GFEBs	Qualified	10	N/A	N/A
Conventional Ammunition	Qualified	43	15	38
<b>Defense Contract Management Agency</b>				
Contract Pay	Unmodified	7	0	6
<b>Defense Finance and Accounting Service</b>				
Civilian Pay	Unmodified	2	0	8
Military Pay	Unmodified	4	0	5
Vendor Pay	Qualified	12	2	4
SDS	Unmodified	1	0	12
Contract Pay	Unmodified	2	0	3
Financial Reporting	Qualified	9	8	2
DCAS / FBWT	Qualified	5	4	2
ELAN	Qualified	3	N/A	N/A
<b>Defense Information Systems Agency</b>				
ECS	Unmodified	18	4	10
ATAAPS	Unmodified	5	2	0
<b>Defense Logistics Agency</b>				
iRAPT / WAWF	Unmodified	1	1	0
DAAS	Unmodified	0	0	2
SOIDC	Unmodified	3	N/A	N/A
DAI	Unmodified	0	0	0

SSAE No. 18	FY 2018			
	Opinion	# of NFRs Issued	# of FY 2017 NFRs Repeated	# of FY 2017 NFRs Closed
DPAS	Unmodified	0	0	00
<b>Defense Manpower Data Center</b>				
DCPDS	Unmodified	2	0	10
DTS	Unmodified	5	2	3
<b>Total</b>		<b>132</b>	<b>38</b>	<b>105</b>

### Managing Corrective Actions

Data from the audits supports the Department's strategy for reforming its business practices and improving audit results. Continual auditor feedback ensures decision-makers have up-to-date data on problems as well as audit stories and operational benefits. A centralized database gives Department-wide visibility into corrective action plans and status that supports a data-driven governance structure and improves the Department's ability to harness best practices.

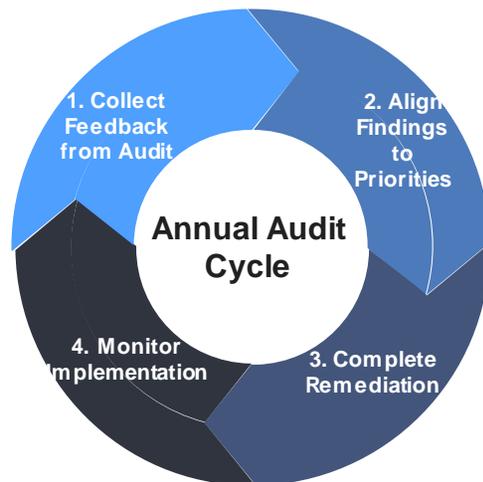
### Continual Auditor Feedback

Continual auditor feedback enables the Department to maintain momentum on making improvements. In the early stages of an audit, auditor feedback is based on inquiries and walkthroughs. Audit contracts require DoD auditors to provide informal feedback and observations from the start. This allows the entity under audit to begin addressing issues immediately instead of waiting for a formal report.

If at any point in the audit process, the auditor determines they will issue a disclaimer of opinion, this does not halt a DoD audit. Unlike in the private sector, each IPA firm is contractually required to continue work even in the event of a disclaimer. Auditors continue to identify areas for improvement and make recommendations, ensuring the Department continues to get valuable, independent feedback and maximizes the value of having auditors on board.

The final auditor report with formal NFRs is completed by mid-November of each year. Results of the FY 2018 audits were transmitted to Congress in Quarter 2 of FY 2019, as required by law. Entrance conferences and audit planning for the FY 2019 audits have been completed, and internal control testing and substantive testing is already underway. Through this repeatable process of annual audits and continual auditor feedback, progress on remediating findings is independently validated. Figure I-5 shows how auditor feedback feeds a continual process of improvement.

**Figure I-5: Annual Audit Cycle**



### ODCFO NFR Database

Audit findings are uploaded into a centralized database managed by the Office of the Deputy Chief Financial Officer. The ODCFO NFR Database provides a single source of truth by reporting 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. A user's edit and review access is limited according to their role in the audit. This protects the integrity of the findings and status of corrective actions.

In each NFR, the auditor details the conditions that led to that finding and assigns the 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, or CAP, into the database. A CAP lays out how the reporting entity will remediate the issue and address the root cause, establishes milestones, assigns responsibility for completing the milestones, and projects a completion date. There may be one or more CAP for each NFR. Only an auditor can determine whether an NFR or condition has been remediated and should be marked as closed in the database. NFRs and conditions that continue from one fiscal year into another are reissued. Those not reissued are considered closed.

The ODCFO NFR Database provides financial managers a holistic view of pervasive issues and visibility into findings and progress. Senior leaders use customized dashboards to track NFRs, conditions, and CAPs. These dashboards show, in real-time, which reporting entity has the most validated CAPs—and the most overdue CAPs. Managers use database reports to identify best practices, focus remediation efforts, and facilitate the development of solutions to Department-wide challenges. The wide visibility of this tool helps reduce duplication of efforts and maintain accountability.

**Data-driven Governance**

Although today's Financial Improvement and Audit Remediation (FIAR) governance structure is similar to the governance structure first established to support audit readiness, data from the IPA audits is reshaping how Department leaders establish priorities, advance solutions, and track and manage remediation progress. The goal is to ensure leadership has the information and support they need to stay committed to audit success—from the Commander in the field up to the Secretary of Defense.

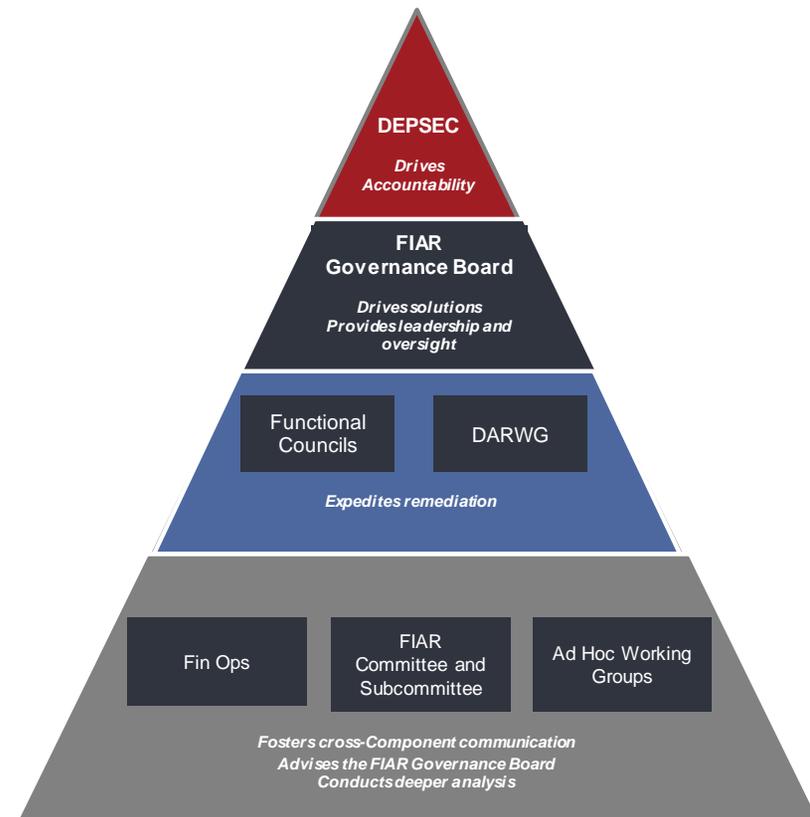
Figure I-6 shows the elements of the FIAR governance structure. A more detailed explanation of each element of the audit governance structure follows the figure. In addition to Departmental-level governance, each Component maintains its own governance structure to support these initiatives and take action, as appropriate.

Deputy Secretary meetings – Every two weeks, the Deputy Under Secretary of Defense (Comptroller) (DUSD(C)), Deputy Chief Financial Officer (DCFO), and Deputy Chief Management Officer (DCMO) meet with the Under Secretary of Defense (Comptroller) (USD(C)), who is performing the duties of the Deputy Secretary of Defense, to discuss remediation progress. They discuss the status of CAPs developed, implemented, and IPA-validated. This continued leadership attention and commitment to audit success sets a tone of accountability that reverberates throughout the Department.

FIAR Governance Board – Co-chaired by the USD(C) and DCMO, the FIAR Governance Board meets every other month and comprises the assistant secretaries for Financial Management and Comptroller (FM&C) from each of the Military Departments; Chief Financial Officers from other reporting entities undergoing standalone audits; the Director of DFAS; and representatives from the DoD OIG, Government Accountability Office (GAO), and Office of Management and Budget.

Functional Councils – Functional councils address three high-profile and pivotal audit issues for the Department: Financial Reporting, including Fund Balance with Treasury and Journal Vouchers; Plant, Property and Equipment; and IT. The councils each meet quarterly to review relevant CAP status and work out solutions that may involve changes to DoD policy or procedures.

**Figure I-6: FIAR Governance Structure**



Defense Audit Remediation Working Group – The DARWG interprets policy and accounting standards, and provides guidance on technical issues. The group may convene experts from within DoD as well as from the Department of Treasury, GAO, and the Federal Accounting Standards Advisory Board (FASAB) to help resolve issues.

Fin Ops – Short for Financial Operations, the Fin Ops meets weekly to review critical, short-term initiatives and comprises the deputies for FM&C from each Military Department, DFAS, and Defense Logistics Agency (DLA).

FIAR Committee – The FIAR Committee advises the FIAR Governance Board on ways to optimize financial management improvement efforts. Chaired by the DCFO, the committee meets bimonthly and comprises the deputies or assistants to the members of the FIAR Governance Board. The FIAR Committee is supported by a subcommittee representing all DoD Components.

Ad Hoc Working Groups – Working groups may be formed to identify root causes, research best practices, or address more narrowly-focused issues.

## Measuring Progress

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 NFRs at major milestones;

- Assessing the quality of 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 SOC reports over service providers; and
- Increasing reliance on Advana, DoD’s platform for advanced analytics, for audit sampling and supporting transaction details.

## Leadership Commitment and Accountability

Tone at the top is the drumbeat of the Department’s strategy for moving toward a clean opinion and reforming its business practices. All Components under standalone audit have an internal process for monitoring progress on corrective actions. Many have issued executive directives to all staff underscoring the importance of audit. All members of the DoD Senior Executive Service have an audit-related objective in their annual performance plan, and leaders throughout the Department are held accountable for making remediating audit findings a priority.

### Components with Audit Opinions

Components holding audit opinions offer best practices for how they continue to create a culture that is committed to audit success:

- The Defense Contract Audit Agency (DCAA) has sustained an unmodified opinion on its financial statements for 17 consecutive years and credits a sustained commitment to training and its leadership’s commitment to accountability and excellence. Of its authorized workforce of 4,895 personnel, approximately 89 percent are auditors, and 35 percent has one or more professional certifications.

- The Defense Finance and Accounting Service (DFAS) is maintaining an unmodified opinion by creating a culture that that supports continual review of internal controls and transactions, providing regular communication and guidance, and assessing audit consequences before executing any material financial decisions. Internal controls and audit support are standard performance elements for DFAS employees, and all assessable unit managers are held responsible for testing their internal controls, reporting any deficiencies, and certifying results.
- The Defense Health Agency (DHA) is maintaining an unmodified opinion on Contract Resource Management and a qualified opinion on the Medicare-Eligible Retiree Health Care Fund. DHA has invested heavily in a single financial system and is in the process of conducting the largest consolidation in the history of the Military Health System to standardize accounting processes and ensure the entire DHA is moving forward together. DHA is developing a comprehensive response to audit findings, and its components are executing corrective action plans and being held accountable for progress.
- The Defense Commissary Agency (DeCA) is dedicated to regaining its unmodified audit opinion and addressing audit findings in inventory management controls. These findings resulted from DeCA's migration from its legacy inventory business system and a change in its business model. Auditors were not able to adequately support adjustments to recorded inventory values and issued a qualified opinion for FY 2018. DeCA is incorporating performance measures that tie to audit compliance, and stakeholders are working to update systems and processes and ensure effective controls are in place.

## **Military Departments**

The Military Departments are effecting change through leadership and accountability both through policy and in practice:

- The Army issued a plan for achieving audit opinions on the Army Working Capital Fund and General Fund financial statement for FY 2020 and FY 2022, respectively. Additionally, the Assistant Secretary of the Army (FM&C) issued a 2019 organization plan outlining the importance of the audit to the Army and the path forward for achieving success. At the Army Command-level, audit operation cells facilitate auditor site visits and provide quality control for audit sample submissions.
- For the Navy, the Secretary of the Navy (SECNAV) issued the Department of the Navy Business Operations Plan for FY 2019 – 2021, a detailed strategy and milestones to transform business processes, systems, and the workforce. He regularly reviews audit status and progress, and in October 2018, established near-term priority focus areas, such as reducing the total accounting systems footprint to two systems by FY 2020, and to one system by FY 2021; conducting a 100 percent inventory count of real property and achieving 100 percent accountability of inventory and operating materials and supplies; and streamlining the financial statement preparation process and fixing deficiencies that create adjustments. Additionally, the Assistant Secretary of the Navy (FM&C) annually evaluates each major command comptroller's performance using specific metrics.
- The Marine Corps Business Reform Board reviews progress on its remediation plan quarterly. Senior Accountable Officials are required to review, endorse, and account for every CAP, including changes to milestone and schedule slippages, and are held accountable for progress. The Marine Corps also established a scorecard to monitor audit sample

successes and exceptions at the Command-level. The scorecards give insight into challenges and facilitate analysis of root cause and transparency.

- For the Air Force, the Secretary of the Air Force issued a November 2018 formal memorandum on the criticality and benefits of the financial statement audits and regularly reviews audit remediation status, risks and issues, and overall progress. The Executive Steering Committee convenes senior leaders from relevant communities quarterly to assess progress, refine the strategy, and determine next steps. Functional leaders for each business area are held accountable for developing and prioritizing corrective actions, linking NFRs to material weaknesses, and sustaining improvements. Additionally, the Air Force conducted audit and internal control training in FY 2019 to inform and prepare field-level personnel for audit response and remediation activities.

### Other Reporting Entities

Examples of how other DoD Components are demonstrating leadership commitment and holding people accountable include:

- The Defense Information Systems Agency (DISA) Audit Committee reviews risks, findings and recommendations, and advises leadership on corrective actions. DISA has increased accountability of its assets by linking performance standards to internal control standards. Performance appraisals of each member of the Senior Executive Service includes a standard to achieve accountability of property, and this standard has filtered down to many of the managers. This increased focus on accountability has had a significant effect on the focus these leaders bring to safeguarding assets.
- The Defense Logistics Agency (DLA) strategic plan includes auditability as an objective, and auditability through process excellence and sound financial stewardship is emphasized as

everyone's responsibility. Leadership regularly speaks to audit and the importance of internal controls and risk management in town hall meetings and other forums, and resources are allocated and available to address issues. Performance ratings for key personnel include attributes related to auditability that can affect one's overall rating, promotion potential, and awards and monetary bonuses.

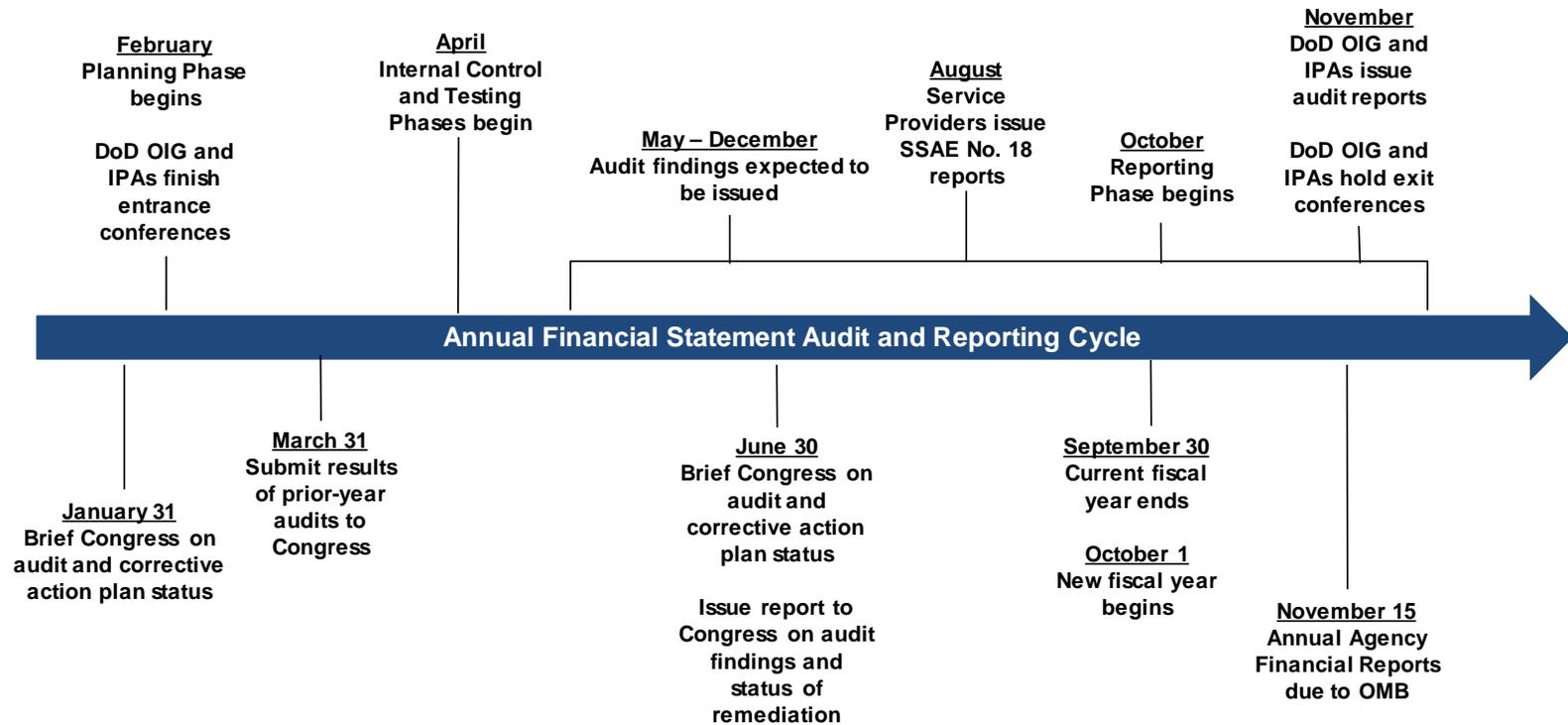
- The United States Special Operations Command (USSOCOM) created two groups to oversee its internal control program. The Senior Management Council oversees the operational risk associated with the internal controls program. The Senior Assessment Team advises the Senior Management Council on operational and financial internal controls. Audit is regularly briefed to commanders and comptrollers of all components and is included in joint reviews and as an element in performance plans.
- The United States Transportation Command (USTRANSCOM) Director of Program Analysis and Financial Management (TCJ8) is actively engaged and committed to the success of the audit. Regular updates are provided to the Commander, USTRANSCOM, and DoD stakeholders. Metrics for remediating audit findings, addressing self-identified material weaknesses, and responsiveness to auditor requests are briefed periodically to ensure accountability and progress. Reports on weekly progress against material weaknesses and daily responsiveness to auditor requests are distributed to the Components, and material weakness reports are presented quarterly to the USTRANSCOM Corporate Board.

### Annual Audit Timeline

Each annual, standalone financial statement audit focuses on a single set of financial statements that represents the entire enterprise being audited. Unlike the Department's many ad hoc compliance and program audits, these audits provide ongoing visibility into DoD's

overall status. Figure I-7 shows the audit timeline. Each year, the books are closed and financial reports produced as of September 30, the end of the fiscal year. By November 15 of each year, final audit report is issued as part of the Agency Financial Report. This process is repeated each year.

Figure I-7: Annual Audit Timeline and Reporting Cycle



## Audit Resources

Audit-related costs for FY 2018 totaled \$973 million for the Military Departments, other Defense organizations, Office of Inspector General, and Office of the Under Secretary of Defense (Comptroller). This includes the cost of remediating audit findings; supporting the audits and responding to auditor requests; and achieving an auditable systems environment. Approximately \$182 million was related to the contracts for the financial statement audits, which equates to 1/30<sup>th</sup> of 1 percent of the Department's budget, a number consistent with industry averages.

The Department expects audit-related costs to remain relatively consistent in FY 2019 and for the next several years until more organizations begin to achieve unmodified opinions. Once the auditors are able to rely more heavily on internal controls, there will be less substantive testing and fewer site visits, which should lower audit costs.

Figures I-8 through I-13 show FY 2018 costs for the Military Services and other reporting entities.

**Audit Services and Support** are the costs of the audits and SSAE No. 18 examinations performed by IPAs, plus government and contractor costs for supporting the audits and responding to auditor requests.

**Audit Remediation** includes government and contractor costs for correcting findings and the costs of achieving and sustaining an auditable systems environment. These costs do not include ERP deployment or maintenance costs.

**Figure I-8: Total DoD Resources**

Total DoD	FY 2018 (In Millions)
Audit Services and Support	\$413
Audit Remediation	\$559
<b>Total Resources</b>	<b>\$973</b>

Note: Numbers may not sum due to rounding.

**Figure I-9: Army Resources**

Army	FY 2018 (In Millions)
Audit Services and Support	\$77
Audit Remediation	\$64
<b>Total Resources</b>	<b>\$141</b>

Note: Numbers may not sum due to rounding.  
Includes U.S. Army Corps of Engineers.

**Figure I-10: Navy Resources**

Navy	FY 2018 (In Millions)
Audit Services and Support	\$72
Audit Remediation	\$208
<b>Total Resources</b>	<b>\$280</b>

Note: Numbers may not sum due to rounding.

Navy resources are proportionally higher than the other Services, because Navy holds 50% of the Department’s Property, Plant, and Equipment, net; and 38% of the Department’s Inventory and Related Property, net; and requires additional resources to establish opening balances. Additionally, Navy is shutting down its 10 legacy general ledger systems and moving to one general ledger system, Navy ERP.

**Figure I-11: Marine Corps Resources**

Marine Corps	FY 2018 (In Millions)
Audit Services and Support	\$13
Audit Remediation	\$52
<b>Total Resources</b>	<b>\$66</b>

Note: Numbers may not sum due to rounding.

**Figure I-12: Air Force Resources**

Air Force	FY 2018 (In Millions)
Audit Services and Support	\$71
Audit Remediation	\$56
<b>Total Resources</b>	<b>\$127</b>

Note: Numbers may not sum due to rounding.

**Figure I-13: Other Reporting Entities Resources**

Other Reporting Entities	FY 2018 (In Millions)
Audit Services and Support	\$180
Audit Remediation	\$180
<b>Total Resources</b>	<b>\$360</b>

Note: Numbers may not sum due to rounding.

Includes costs incurred by Defense Agencies and other reporting entities not included in the Military Services; and the cost of the DoD consolidated audit.

The Department is required to report both the absolute number and percentage of personnel performing auditing or audit remediation services who are IPA professionals, as shown in Figure I-14.

Because individual contractors may split time across categories or be assigned only part-time work, and to prevent double-counting, the Department calculated full-time equivalents, or FTEs. For example, two people each working 50 percent on audit services equates to one

FTE. A full-time person working 50 percent of their time on audit services and 50 percent on audit remediation equates to .50 FTE in each category.

The percentages of audit services and audit remediation services performed by IPAs exceed the requisite thresholds specified in the law.

**Figure I-14: Contractor Costs and Percentages Performed by IPA Firms**

Type of Service	Performed by IPA	Performed by Non-IPA	Total FY 2018 Contractor Costs	Number of IPA FTEs In FY 2018
Audit Services	100%	0%	\$192 million	803
Audit Support	72%	28%	\$136 million	407
Audit Remediation	61%	39%	\$299 million	806

**Audit Services** comprises contractor costs for independent public accounting firms to perform audits and examinations, *including* SSAE No. 18 examinations.

**Audit Support** comprises contractor costs for supporting audits and examinations.

**Audit Remediation** comprises contractor costs for completing corrective actions to address audit findings, such as modifying processes and controls.

## Benefits of Audit

The audits result in valuable, independent insight into what is already working and where the Department needs to improve for greater performance and affordability. The return on investment will continue to increase as the audits mature.

For financial managers, the audits spotlight areas that need to be fixed as well as where processes and procedures are working right. This allows the Department to better focus resources on areas needing improvement and gives those making improvements a best practice to follow. For example, at NAS Jacksonville, the Naval Supply Systems Command led a pilot with Navy Installations Command, and Naval Facilities Engineering Command to inventory assets and compare that inventory to the property system. By identifying assets on-hand but not recorded in the system, they were able to fill 27 previously backordered requisitions worth \$2.6 million.

Other benefits of these audits extend beyond financial managers and touch every part of DoD operations, from the decision-maker to the warfighter. The audits are laying the foundation for benefits that will be realized over time, such as:

### Strengthened internal controls:

- Help prevent fraud, waste, and abuse
- Improve cybersecurity
- Enhance national security

### Streamlined business processes:

- Lead to cost avoidance and increased buying power
- Increase operational efficiencies
- Reduces Component silos and audit complexity

### Improved visibility of assets and financial resources:

- Optimizes the warfighter's posture and improves readiness, such as improving timeliness of getting supplies to our warfighters
- Enhances DoD decision-making by having more accurate data in DoD systems

### Increased transparency and accountability:

- Provide an independent assessment of DoD's business processes
- Improve public confidence in DoD operations
- Send an implicit message to the public that the Department takes the use of taxpayer dollars seriously and hold itself accountable for their efficient use

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## II. Status of FY 2018 Corrective Actions

Many things went right during the FY 2018 audits. Clear direction from the Secretary of Defense, the Deputy Secretary, and leaders of the Military Services resulted in a high response rate to auditor requests, something that can be a high risk for first-year audits. Auditors also began to test and rely on internal controls for military and civilian payroll. Although issues with systems persist, auditors found no material weaknesses in these processes.

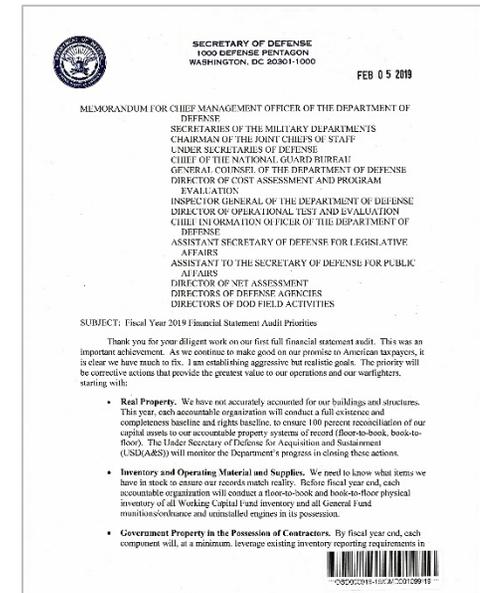
Where auditors found problems, some will be easy fixes, and some will require time and cross-Component solutions. Roughly 48 percent of the FY 2018 audit findings related to financial management systems and IT. Many of these findings resulted from the Department's complex systems environment, which comprises numerous legacy systems and systems and interfaces that are not compliant with audit requirements. Auditors also generally found a lack of sufficient documentation to support transactions, especially for property assets. The volume and diversity of global assets, and the constant movement of many of these assets makes obtaining an accurate valuation of property assets a complex problem. Valuation and existence and completeness of these assets accounted for 16 percent of all findings. Findings related to Financial Reporting and Fund Balance with Treasury made up another 30 percent.

The Department will measure and report progress over the next several years through the closure of audit findings and downgrading of material weaknesses. To begin to address findings, the Department identified areas where immediate actionable improvements could be made in the near-term and areas requiring more complex solutions.

## SECDEF FY 2019 Financial Statement Audit Priorities

The Department established the FY 2019 financial statement audit priorities by focusing corrective actions on operational improvements that provide the greatest value to DoD operations and the warfighters. Although other overarching business areas may require longer-term solutions, such as retiring legacy systems, the FY 2019 operational priorities are immediately actionable at many levels within the Department, including at the Command-level. Addressing these findings is a top priority.

Through a February 5, 2019, memorandum, the Acting Secretary of Defense defined each priority, directed a corrective action to be completed within the fiscal year, and assigned Department oversight authority. The memorandum required that plans for the FY 2019 priority areas be available for USD(C) review by February 15, 2019, and that plans for all other audit findings be available for USD(C) review by March 15, 2019. The Acting Secretary also stressed the need for Military Departments and defense agencies to sustain results in those areas where auditors are providing positive feedback.



## Real Property

The Department cannot accurately account for all of its buildings and structures. Real Property includes houses, warehouses, vehicle maintenance shops, aircraft hangars, medical treatment facilities, etc. Problems arise when right of occupancy or ownership cannot be demonstrated through supporting documentation and when system records are out of date or incomplete.

FY 2019 Corrective Action: Each accountable organization should conduct a full existence and completeness baseline and rights baseline. This will ensure 100 percent reconciliation of these capital assets to the accountable property system of record.

Status: The Military Departments are currently executing their Real Property physical inventories. The Air Force is focusing its efforts on buildings, which constitute over 90 percent of its Real Property value. Having completed a pilot inventory, the Air Force is moving to complete its most significant bases. The Navy completed its physical inventory and corrected its records. Initial audit results show a 99.7 accuracy rate. The Marine Corps will complete its physical inventory by the end of FY 2019. The Army has the largest Real Property portfolio in the Department and is focusing its efforts on data elements critical to valuation. The Army is assessing whether additional

resources will be needed to validate inputs (e.g. physical measurements, category code) to calculate plant replacement value for real property assets.

The execution of the Real Property inventory will assist all three Military Departments and the Defense Agencies in implementing the recently published DoD policy for establishing financial reporting responsibilities. These policy changes are presenting challenges for obtaining source documents, supporting valuation, and assessing and reporting deferred maintenance for assets that the Services will report as of FY 2020. However, upon completion, the Department should see a significant reduction in the resources needed to establish and support financial reporting responsibilities.

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*DLA established the Real Property Task Force to oversee the auditability of the Agency's real property. The task force is charged with obtaining evidential matter supporting the existence of real property assets. In FY 2019, DLA completed the inventory of approximately 18,000 assets at over 500 locations world-wide.*

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Figure II-1 shows the Department's overall status in addressing FY 2018 NFRs related to Real Property.

**Figure II-1: Status of FY 2018 NFRs for DoD-wide Real Property**



Note: As of June 20, 2019

Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

## **Inventory, and Operating Materials and Supplies**

The Department must confirm that each organization's inventory records match what is actually in stock and on the floor. Accurate inventories help organizations avoid ordering materials they do not need and ensure the right parts, supplies, and inventories are on-hand to support mission readiness. During testing, auditors found some items that had been disposed of still listed in inventories, and some items on-hand were not listed. Some assets were recorded as in good condition but were actually unserviceable.

FY 2019 Corrective Action: Each accountable organization should conduct a floor-to-book and book-to-floor physical inventory of all Working Capital Fund inventory and all General Fund munitions/ordnance and uninstalled engines in its possession.

Status: All three Military Departments and DLA are on track to complete physical inventories of uninstalled engines, munitions/ordnance, and working capital fund inventory in their possession. Early indications suggest that munitions/ordnance and uninstalled aircraft engines, in particular, have better existence and completeness records.

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*DLA cleared suspended stock which filled approximately 59,000 backorders worth \$287 million between January 2018 and January 2019. Additionally, DLA is on track to complete its FY 2019 100 percent physical inventory count of approximately 2.3 million records, which began in October 2018. As part of the physical inventory control plan, DLA increased its focus on reconciliation of item count variances between the inventory system of record and its business and financial system. As a result of the working capital fund monthly reconciliation process, DLA has decreased total dollar variances by over \$600 million over the past four years.*

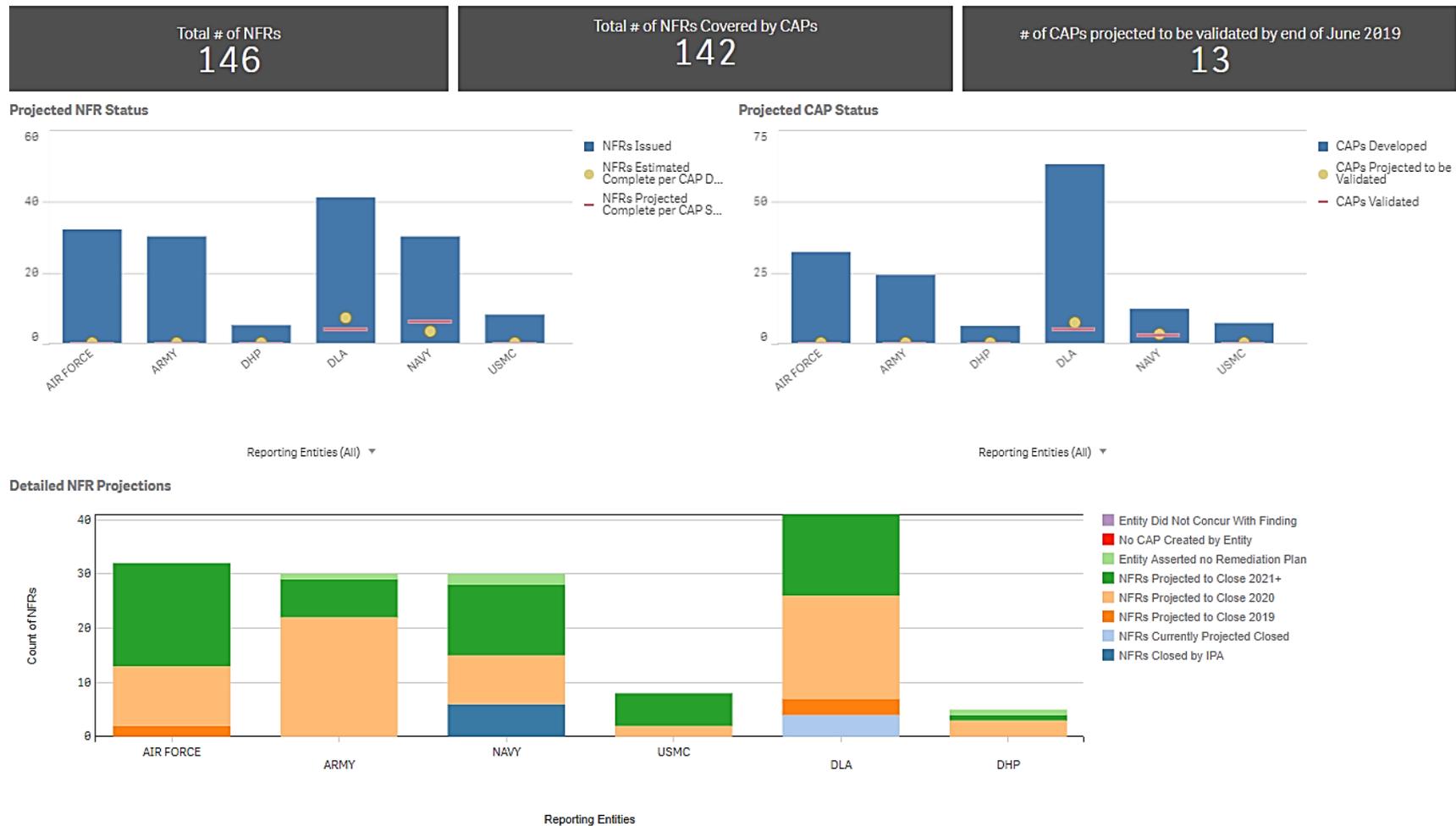
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*One of the Navy's Bureau of Medicine and Surgery (BUMED) expeditionary commands with equipment located at the Cheatham Annex was confirmed as having efficient and effective accountability over its operating materials and supplies assets. These assets included emergency medical vehicles, tents, and related supplies for conducting medical operations and are required to forward deploy emergency medical personnel units and equipment to field locations. Auditors found that BUMED was routinely performing its physical inventories and properly executing its policies and procedures. From an audit perspective, this enables the Navy's auditors to rely on BUMED's existing processes and controls for future audits. Operationally, BUMED is assured it has the right materials and supplies in the right place at the right time to support its medical operations.*

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Figure II-2 shows the Department's overall status in addressing FY 2018 NFRs related to inventory and Operating Materials and Supplies.

**Figure II-2: Status of FY 2018 NFRs for DoD-wide Inventory and Operating Materials and Supplies**



Note: As of June 20, 2019

Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

### Government Property in the Possession of Contractors

The government may provide DoD contractors with property for use on a contract, such as tooling, test equipment, spare parts held as inventory, and items to be repaired. A contractor may also acquire property for performing a contract and which the government owns. Both the government-furnished and contractor acquired property remain in the DoD organization's property system, and, at the end of the contract, it may be disposed of, consumed, modified, or returned to the Department in the same form. DoD Components must maintain accountability in their Component property records to ensure government property in possession of contractors is accounted for and accurately valued.

**FY 2019 Corrective Action:** Each component should, at a minimum, leverage existing inventory reporting requirements in sustainment contracts to reconcile contractor inventory data with property records and establish a complete baseline of assets for those contracts.

**Status:** The Under Secretary of Defense (Acquisition and Sustainment) (USD(A&S)) provided guidance on meeting this requirement in the May 11, 2019, memorandum, "FY 2019 Audit Priorities: Government Property in Possession of Contractors." The memorandum instructs Components on how to establish a property baseline and what steps to take to ensure all items are in the Component's accountable property system of record. This requires review of contracts to ensure they meet the list of contract data

requirements; include proper contract clauses and necessary system changes; and fulfill local policies, processes, and controls. Ensuring that all contracts meet updated policies and procedures is challenging. The Department is also working with commercial entities to ensure they can effectively support the DoD audit.

Completion of CAPs is projected beyond June 2019. Progress on these efforts will be on the agenda of all future property functional council meetings, and the Components are being held accountable for progress.

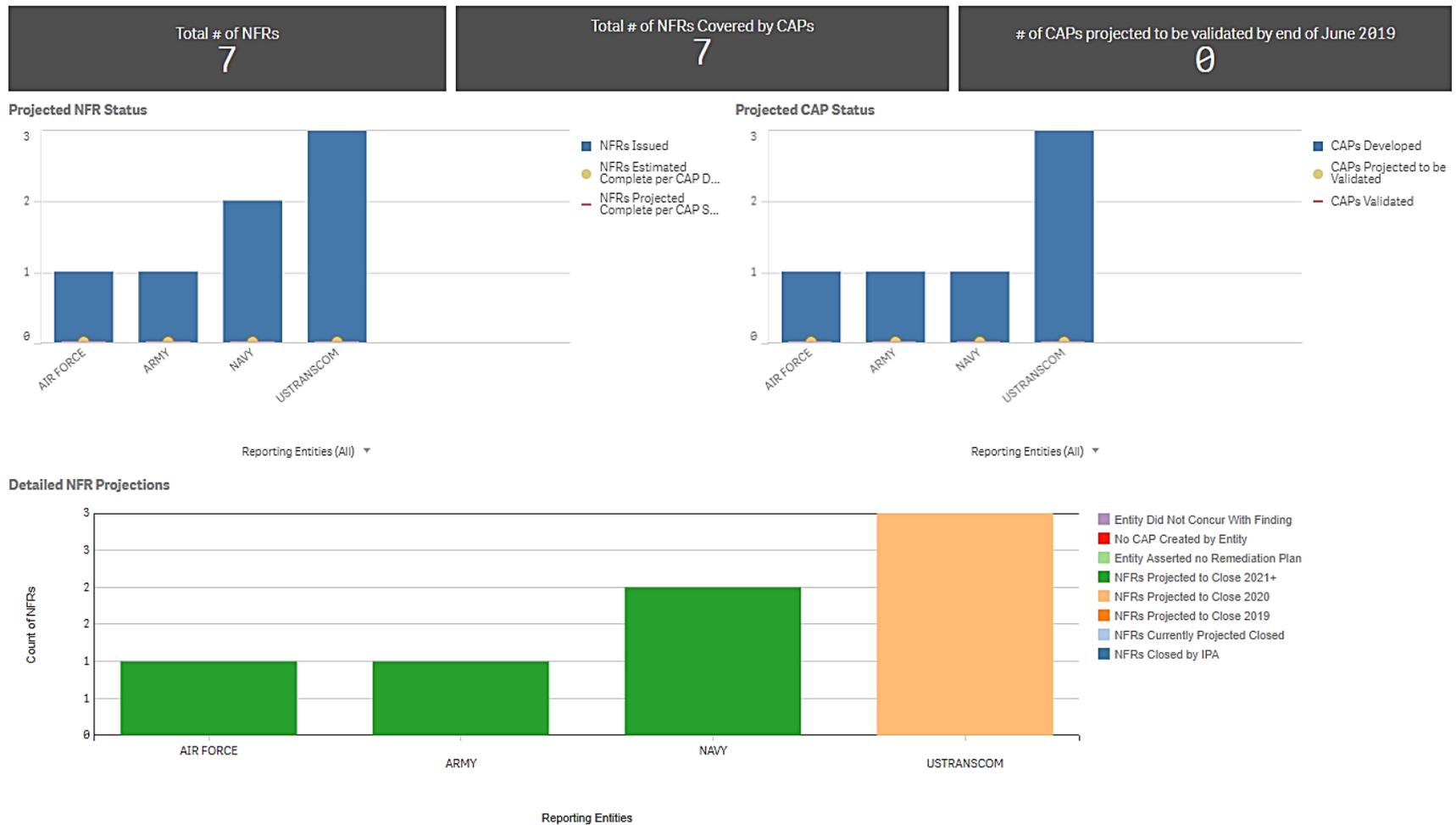
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*The Air Force identified approximately 41,000 contractor held inventory items that have not been used or requested in over a decade. The Air Force is working with its vendors to dispose of the excess obsolete inventory, and updating policies to drive more accurate categorization moving forward. These actions will improve the accuracy of Air Force financial statement reporting and, over time, drive cost savings through reductions in manpower and warehousing costs.*

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Figure II-3 shows the Department's overall status in addressing FY 2018 NFRs related to Government Property in the Possession of Contractors.

**Figure II-3: Status of FY 2018 NFRs for DoD-wide Government Property in the Possession of Contractors**



Note: As of June 20, 2019

Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

### Access Controls for IT Systems

Of the 2,377 FY 2018 audit NFRs, 1,149 were IT-related, and about half of those included access controls as an issue. The Department must better restrict access rights and responsibilities to monitor user activity and safeguard sensitive data from unauthorized access and misuse. The DoD Chief Information Officer (CIO), with support from the DoD CMO and CFO, is leading the Department's corrective action strategy.

FY 2019 Corrective Action: Financial system owners and owners of business systems that contribute financial information must review and limit system access to only those who need it and only for the specific areas within the system they need to access.

Status: The IT Functional Council approved four DoD-wide initiatives designed to remediate access controls findings. Three of these initiatives relate to improving or clarifying the process for authorizing IT systems using the risk-management approach defined by the DoD Risk Management Framework.

1. Embed automated control and testing requirements that meet audit standards into the system authorization process.

Status: The Department developed security controls and standardized test plans that align with the Federal Information Systems Control Audit Manual (FISCAM) methodology used to test systems during an audit. The controls were incorporated into eMASS, the Enterprise Mission Assurance Support Service, which automates a broad range of cybersecurity management services. The Services are assessing whether additional resources will be needed to address the increase in IT controls review.

2. Issue additional policy guidance to improve controls over identifying, assigning, and tracking administrative and privileged access rights (including developers).

Status: The Department will issue additional guidance to improve controls and privileged access rights. Components will develop reports on privileged users and transactions; access rights and maintenance of those assignment records; and the logging of privileged user activities.

3. Issue additional policy guidance to improve logging and monitoring of user activity and software changes.

Status: The Department will direct Components without a software assurance practice to establish a baseline for those software systems and maintain a record of all changes made.

4. Review user access rights and changes in status by using information from DoD personnel systems and a central repository of application access rights, and modify or remove user access.

Status: The Department will direct Components to perform periodic reviews of user access rights and remove unauthorized users. The Components must also provide current user access information, including user record file structures, access role descriptions, and listings of users and associated access privileges.

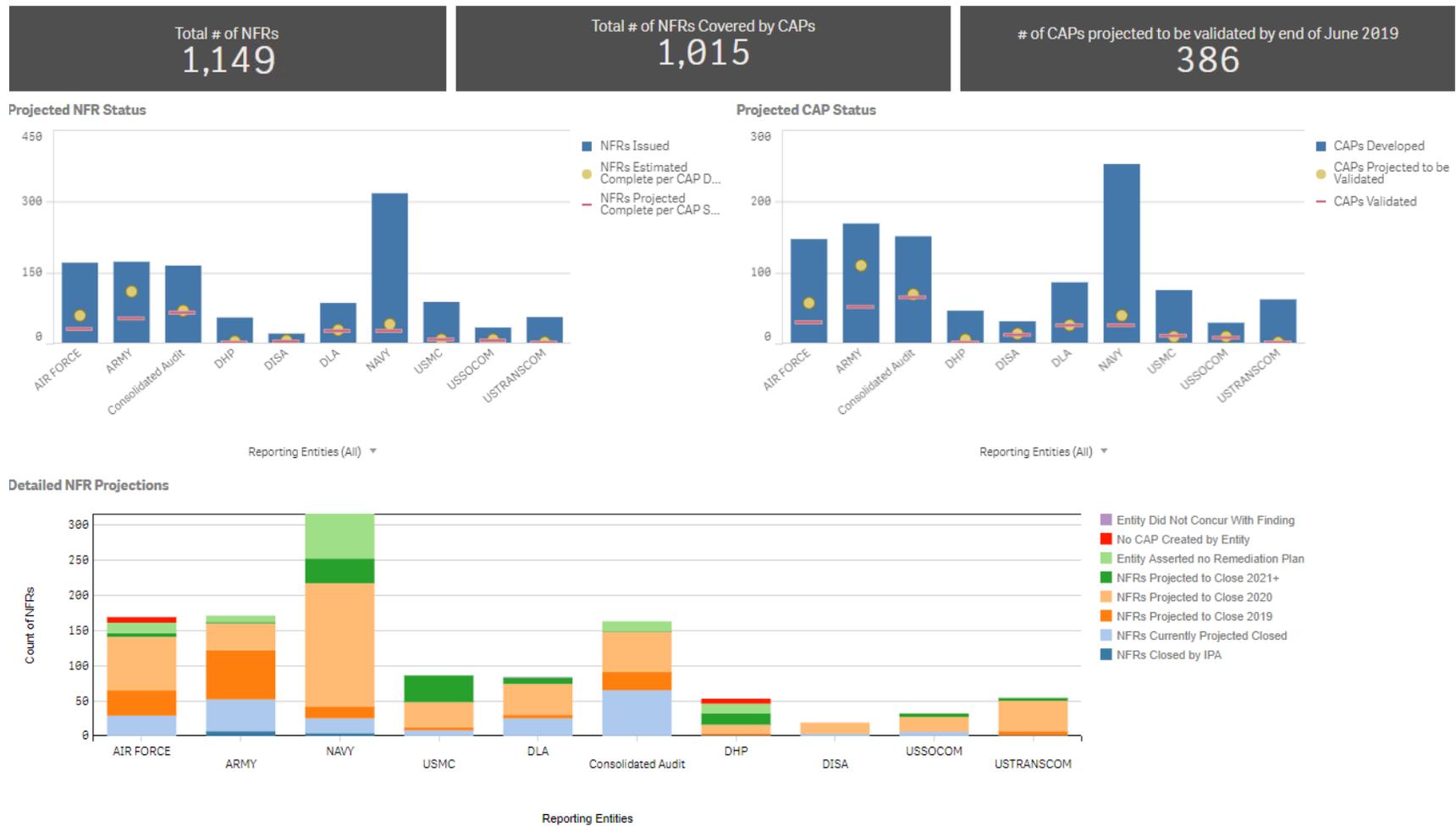
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*During a site visit to Robins Air Force Base, the auditor noted the system responsible for publishing travel orders for Reservists was not disabling user accounts after a period of inactivity, as required. The Air Force developed and deployed an automated solution to monitor and manage user access, resulting in 50 to 60 accounts disabled monthly across the system user population of more than 66,000. This solution brings the system into compliance and improves cybersecurity.*

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Figure II-4 shows the Department's overall status in addressing all FY 2018 NFRs related to IT.

**Figure II-4: Status of FY 2018 NFRs for DoD-wide IT Systems**



Note: As of June 20, 2019

Shows status of all NFRs related to IT, such as findings in access controls, security management, segregation of duties, and configuration management. Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

## Other Areas of Focus

Other auditor-identified issues are foundational to the Department's overall financial management health and long-term audit success. The Department self-identified many of these issues, and the USD(C) and leaders from the respective functional community are driving solutions.

### Financial Reporting and Journal Vouchers

The Department's policies and procedures for compiling and reporting financial statements cannot sufficiently identify, detect, and correct inaccurate and incomplete balances in the general ledger. As a result, balances reported on the financial statements, accompanying footnotes, and related disclosures may not be reliable. Additionally, journal vouchers, which are routine adjustments made as part of financial statement preparation, are not adequately supported.

Status: Remediation work focuses on fixing accounting systems, unsupported journal vouchers, and the trading partner eliminations process, with a goal of downgrading this material weakness to a significant deficiency in FY 2021. The Department completed improved internal controls and descriptive capability of journal vouchers in the reporting system. To further lessen the risk of misstatement, the Department issued policy instructing reporting entities to reduce recording "on-top" adjustments in the financial reporting system and instead record adjustments in the source field-accounting system.

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*The DoD IG identified problems with the way USSOCOM was reporting General Equipment on its financial statements. USSOCOM is working with the Military Services and other stakeholders to agree that USSOCOM would report all General Equipment assets procured with Major Force Program-11 funds. Most General Equipment assets previously being reported by USSOCOM would transfer to the Military Services for financial reporting. This mitigates the financial reporting material weakness by preventing duplicate reporting of assets and reduced USSOCOM's FY 2019 Balance Sheet by \$9.3 billion net book value.*

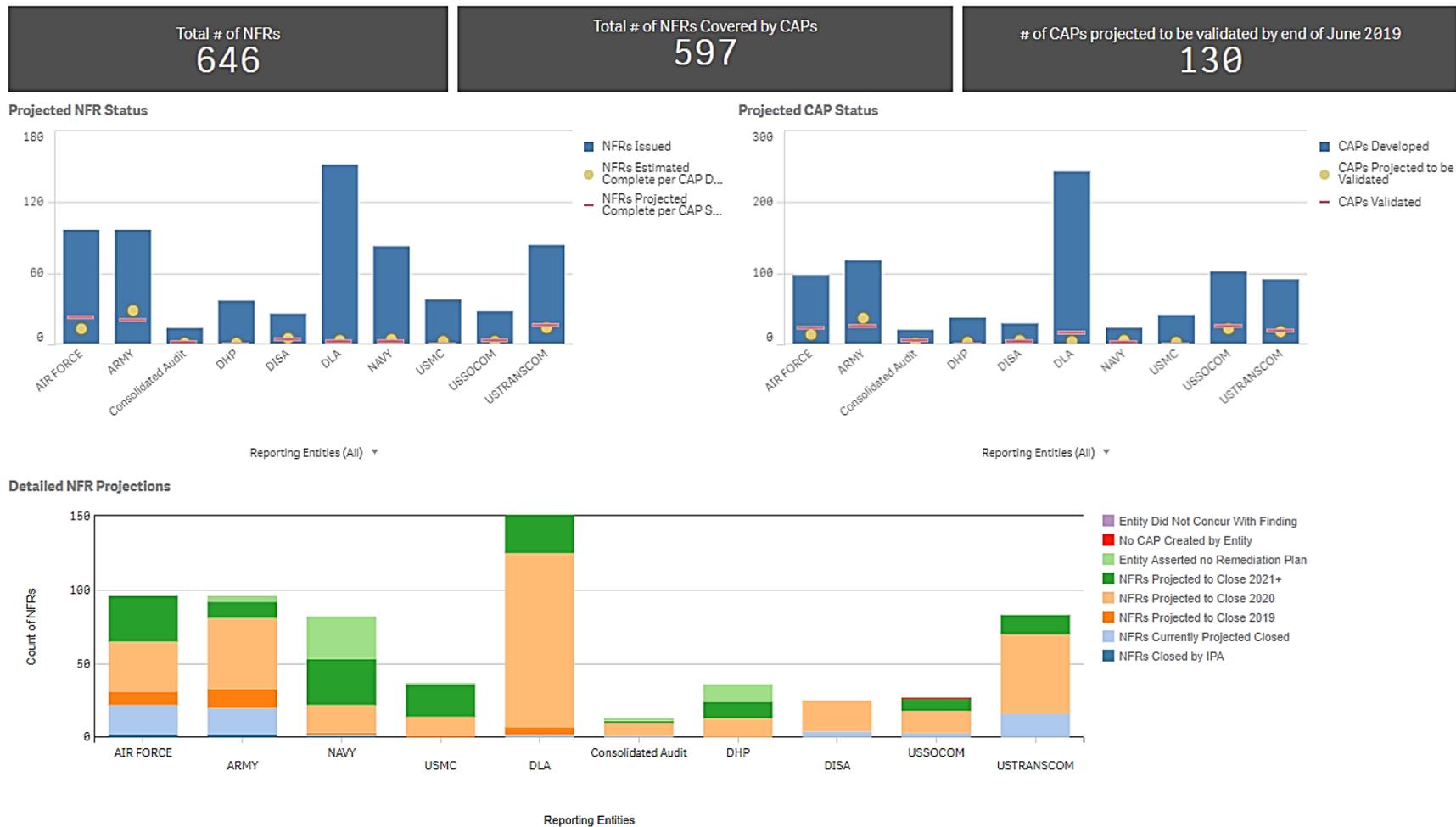
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*The DFAS Financial Reporting SSAE No. 18 examination revealed the control environment was allowing for the processing of unsupported journal vouchers. During fiscal years 2018 and 2019, DFAS-Cleveland worked with the Navy to reduce the number of on-top accounting adjustments for the Navy financial statements. The team identified posting logic issues in the field-level accounting system related to missing budgetary general ledger postings. The team updated the posting logic to ensure that field-level transactions properly posted both budgetary and proprietary entries. This led to the research and remediation of \$3.1 billion in journal vouchers for the Navy Working Capital Fund, Naval Facilities Engineering Command (NAVFAC) and a reduction in FY 2018 Navy Working Capital Fund journal vouchers by 108 or about 8 percent. Reducing the number of on-top adjustments also allowed DFAS to repurpose about \$7,000 per year of labor dollars into other Department of Navy audit initiatives.*

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Figure II-5 shows the Department's overall status in addressing FY 2018 NFRs related to Financial Reporting and Journal Vouchers.

**Figure II-5: Status of FY 2018 NFRs for DoD-wide Financial Reporting and Journal Vouchers**



Note: As of June 20, 2019  
Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

### Fund Balance with Treasury

Fund Balance with Treasury is an asset account that shows a reporting entity's available budget spending authority. Much like a personal checking account, the balance in the fund increases and decreases with collections and disbursements or new appropriations and other funding sources. Each reporting entity must be able to perform a detailed, monthly reconciliation that identifies all the differences between its records and the Department of Treasury's records. These reconciliations are essential to supporting the budget authority and outlays reported on their Statement of Budgetary Resources. The auditors noted several deficiencies in the design and operation of internal controls for Fund Balance with Treasury that resulted in a DoD-wide material weakness.

Status: The reporting entities are improving their business processes to streamline reporting, reduce differences to an insignificant amount, and support account reconciliations. The Department will maintain a detailed universe of transactions to adequately support DoD's Fund Balance with Treasury. The Department successfully piloted a project assessing the feasibility of using Advana for the Defense-Wide Accounts Fund Balance with Treasury reconciliation. The Department is also building reconciliations in Advana to compare transactions initiated in the source systems to the accounting systems. These reconciliations will improve internal control over Fund Balance with Treasury transactions Department-wide. An ODCFO NFR Database dashboard showing the Department's overall status in addressing Fund Balance with Treasury NFRs follows this section. More information on Advana is provided in the status of Universe of Transactions.

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*The DLA audit identified several instances where DLA needed to improve its communication with its customers and service providers to better resolve problems and support its Fund Balance with Treasury reconciliation process. DLA now repeatedly reaches out to its partners for support, instruction, and assistance, creating more streamlined processes and greater efficiencies. DLA has also worked with DFAS to change the frequency of DLA collections to improve solvency of the Working Capital Fund and promptness of payments to vendors.*

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Figure II-6 shows the Department's overall status in addressing FY 2018 NFRs related to Fund Balance with Treasury.

**Figure II-6: Status of FY 2018 NFRs for DoD-wide Fund Balance with Treasury**



Note: As of June 20, 2019

Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

## Universe of Transactions

The FY 2018 financial statement audits resulted in 136 NFRs related to universe of transactions. The universe of transactions refers to the entirety of underlying, individual accounting transactions that support a financial statement line or balance. A reporting entity must be able to validate the completeness of its universe of transactions.

Status: Prior to beginning full financial statement audits, the ODCFO, working with the DoD ODCMO, DoD CIO, DFAS, and USSOCOM conducted a pilot project to develop an automated capability that could produce a complete, accurate, and reconcilable universe of transactions from numerous, disparate accounting and feeder systems. The resulting system supported audits and examinations related to Treasury Index (TI)-97 appropriated funds.

The National Defense Authorization Act (NDAA) for FY 2018 required the Department to develop a repository for common enterprise data to improve transparency of management data and facilitate DoD-wide analysis and management of business operations. The Department's platform for advanced analytics, Advana, fulfills this requirement while helping the Department build its universe of transactions capability.

Advana has more than 4,000 users and spans all Services. It has ingested approximately 10 billion transactions from more than 60 systems and is standardizing the data using a common data model. The Advana audit capability has identified \$110 million of monthly financial transactional variances that affect the accuracy of the DoD financial statements.

The benefits of Advana extend beyond the Department's financial management goals. Having detailed transactional data housed in a big data platform ensures consistency across multiple needs and uses. For

example, the same data used for audits is being used to report medical line of business costs. Additionally, standardizing transactions using 72 standard data elements has helped eliminate inefficient data reconciliations and reduced these monthly processes from taking three weeks to taking one day. Data captured once is managed centrally and available enterprise-wide.

An ODCFO NFR Database dashboard showing the Department's overall status in addressing universe of transaction NFRs follows this section. The Military Departments' enterprise resource planning systems (ERPs) and DAI, the Defense Agencies Initiative, the primary accounting system used by 22 Defense Agencies and other Defense organizations, are also helping reporting entities produce a universe of transactions.

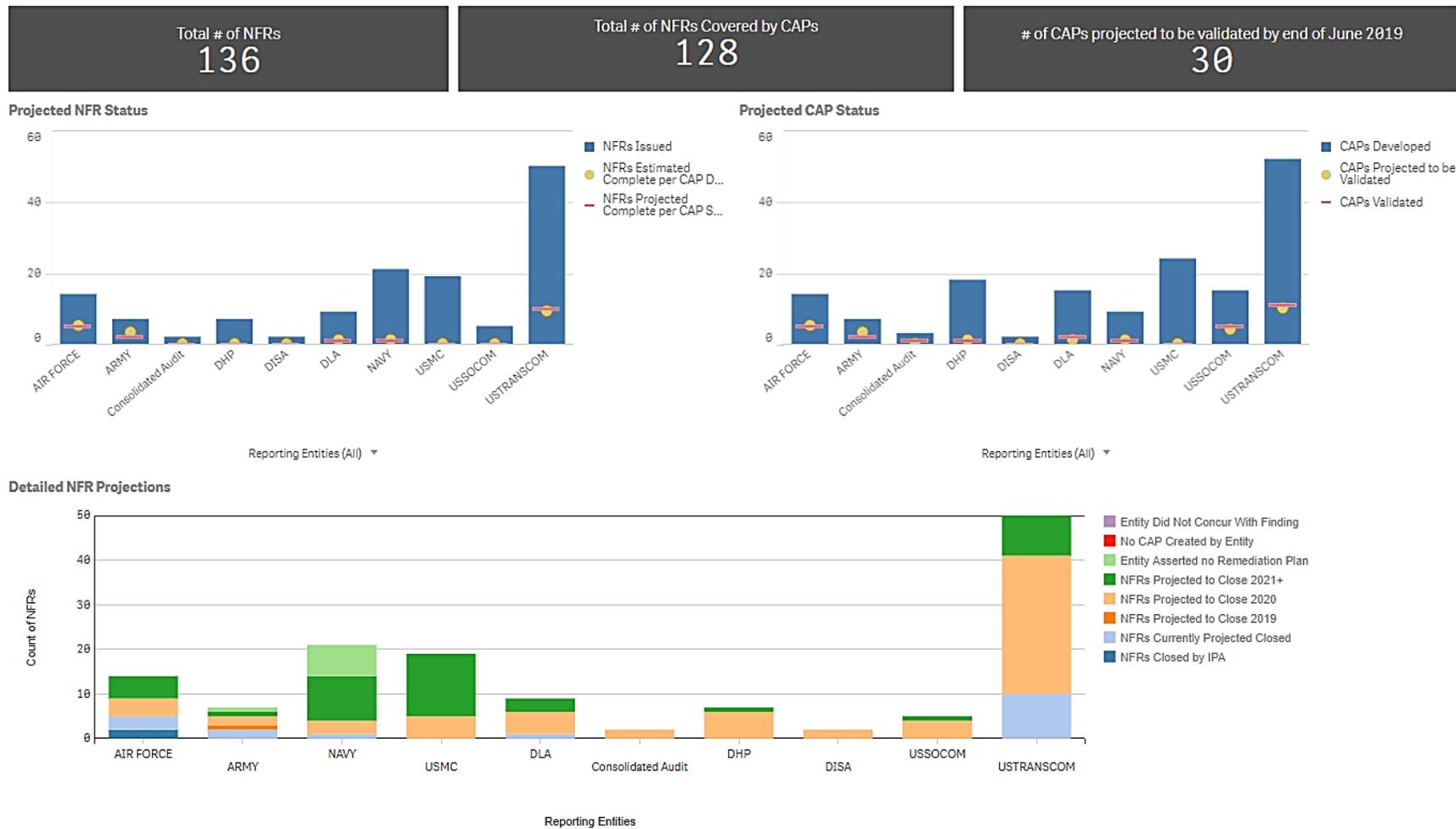
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*The Army established the Universe of Transactions database to house and reconcile transactions from business systems to accounting systems to the financial statements. Since then, the Army has established processes to obtain data from 27 systems, including DDRS, the Army's ERPs, and 22 additional business systems; and has significantly increased its capability to provide data to auditors. As a result, the scope of Army NFRs has decreased. The Army has also established procedures to transfer data from the Army ERPs to Advana in support of the DoD audits for TI-97 funds.*

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Figure II-7 shows the Department's overall status in addressing FY 2018 NFRs related to Universe of Transactions.

Figure II-7: Status of FY 2018 NFRs for DoD-wide Universe of Transactions



Note: As of June 20, 2019

Does not include NFRs from SSAE No. 18 examinations or audits of reporting entities with an unmodified opinion.

## Reducing Legacy Systems

The number and variety of audit-relevant business and financial systems complicates the Department's financial statement audits. These systems include ERPs, custom-built legacy systems, financial systems, and non-financial feeder systems. Issues such as non-standard processes; lack of data exchange standards; dependencies on aging systems and technology that predates modern data standards and laws; and the use of non-accounting feeder systems continue to impede the Department's progress toward achieving an opinion.

The Department is tracking approximately 300 audit-relevant systems. The Department owns about 80 percent of these systems, and other federal and commercial service providers own the other 20 percent. ERPs are integral to the Department's plans to reduce legacy systems and achieve an auditable systems environment. ERP systems streamline and standardize business processes; embed internal controls and reduce the likelihood of human error; and improve cybersecurity.

The DoD financial statement auditors have tested the IT controls for more than half of the DoD-owned systems that are audit-relevant. The OUSD(C) is leading the push to a simplified future target financial management systems environment that is information-driven, standards-based, technology-enabled, auditable, secure, and affordable.

**Status:** The Department continues to make progress toward achieving an auditable systems environment. Any new IT system or significant modification to an existing system that contributes to DoD financial information requires a review to verify the system will meet federal audit requirements. The reviewer must be a professional accountant and independent from the system. This requirement ensures the auditability of new systems and complies with the NDAA for FY 2019.

The Department is reducing legacy financial management systems by investing in current ERPs and target financial management systems, and evolving the roles of service providers in conjunction with retiring systems. The Department of the Navy (DON) is shutting down all legacy general ledger systems and moving to one general ledger system, Navy ERP. In addition, it is shifting its business processes to require all disbursements of DON funds to be made by the Department of the Treasury and initiated by the Navy ERP general ledger system. This significant change will require all of DON's trading partners to change how they process reimbursable transactions.

During fiscal years 2019 through 2023, the Department expects to migrate the capabilities of 51 legacy systems to core next-generation systems.

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*DeCA is almost mid-way through the deployment of its new end-to-end resale Enterprise Business Solution (EBS). By the end of FY 2019, DeCA will have deployed to almost half of its stores using the DAX ordering, forecasting, and inventory management module, category analyzer and price optimization tools. DeCA is also deploying new points of sales systems that allow for faster checkout operations in store. EBS is allowing for the sunset of the legacy ordering and inventory management system. In addition, DeCA is working to deploy DAI for our non-resale financial processes. The legacy system DBMS will be sunset with this transition. When DeCA is fully implemented, the DoD legacy footprint will be reduced by two major financial systems within the Defense Agencies and other Defense organizations.*

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Figure II-8 shows IT systems material to audit currently planned for retirement over the next five years. Column headings are:

- System – Commonly used acronym for the system name. (See Appendix 2 for definitions of acronyms.)
- System Owner – Organization responsible for the procurement, development, integration, modification, operation, maintenance, and retirement of the system.
- Under SSAE No. 18 Examination – Indicates whether the system is subject to annual SSAE No. 18 examinations.
- Retirement Date – Calendar year in which the system owner plans to retire the system.
- Target System – Name of the system that will replace the current system. TBD means that a replacement system has not been determined.
- Business Area – Area the system addresses.
- Reporting Entities – Indicates which reporting entities consider that system material to their financial statement audit.

**Figure II-8: Legacy Systems Planned for Retirement from FY 2019 through FY 2023**

System	System Owner	Under SSAE No. 18 Examination	Retirement Date	Target System	Business Area	Reporting Entities										
						Army	Navy	Marine Corps	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
CHOOSE	DFAS		2019	DCAS	Financial Management		•									
STARS HCM	DFAS		2019	Navy ERP SABRS	Financial Management		•									
AFCOS	Army		2020	IPPS-A	Financial Management	•										•
AIMS	DeCA		2020	EBS	Material Supply & Inventory Management											•
AWRDS	Army		2020	GCCS-Army	Material Supply & Service Management	•										•
CAO	DeCA		2020	EBS	Material Supply & Inventory Management											•
CMR	DFAS		2020	Advana	Financial Management	•	•	•	•	•	•	•	•	•	•	•
COPPS	DeCA		2020	EBS	Financial Management											•
DRAS	DFAS		2020	DRAS2	Financial Management											•
eMILPO	Army		2020	IPPS-A	Human Resource Management	•										•

System	System Owner	Under SSAE No. 18 Examination	Retirement Date	Target System	Business Area	Reporting Entities									
						Army	Navy	Marine Corps	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs
FMSuite	Air Force		2020	TBD	Financial Management				●	●					●
ITAPDB	Army		2020	IPPS-A	Human Resource Management	●									●
OnePay	DFAS	●	2020	TBD	Financial Management		●	●		●		●			●
SAVES	DeCA		2020	DAI, EBS	Financial Management										●
SIDPERS	Army		2020	IPSS-A	Human Resource Management	●									●
SPS A	Army		2020	AWCS	Acquisition	●						●			
SPS AF	Air Force		2020	CON-IT	Acquisition				●			●			
WMS	DeCA		2020	EBS	Material Supply & Inventory Management										●
ConWrite	Air Force		2021	CON-IT	Acquisition				●	●					●
DBMS	DFAS		2021	DAI	Financial Management										●
DDARS	DFAS		2021	ADS, CCAS, ODS, and others TBD	Financial Management	●						●	●		●
DIBS	DeCA		2021	EBS	Material Supply & Inventory Management										●
DMPS	DeCA		2021	EBS	Material Supply & Inventory Management										●
FAMIS-WCF	DISA		2021	DAI	Financial Management					●					
HQARS	DFAS		2021	DCAS, DDRS	Financial Management	●				●	●	●	●		●
MOCAS Mid-Tier	DFAS		2021	MOCAS SCRT	Financial Management	●	●	●	●	●	●	●	●	●	●
MUP	Army		2021	IPSS-A	Human Resource Management	●				●					●
PMRT	Air Force		2021	ACST	Acquisition				●						
RLAS	Army		2021	IPSS-A	Human Resource Management	●									●
SAMIS	Air Force		2021	SCES	Material Supply & Service Management				●						●

System	System Owner	Under SSAE No. 18 Examination	Retirement Date	Target System	Business Area	Reporting Entities										
						Army	Navy	Marine Corps	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
TOPS	USTRANSCOM		2021	DPS	Financial Management										●	
ACES	Air Force		2022	CE NexGen IT	Real Property & Installation				●							●
ACPS	Air Force		2022	CON-IT	Acquisition				●							●
ADIS	Air Force		2022	CON-IT	Acquisition				●							●
CIDS	Air Force		2022	CON-IT	Acquisition				●							●
DTS	DLA	●	2022	SAP Concur	Human Resource Management	●	●	●	●	●	●	●	●	●	●	●
MOCAS	DFAS/DCMA	●	2022	TBD	Acquisition	●	●	●	●	●	●	●	●	●	●	●
PADDS	Army		2022	ACWS	Acquisition	●										●
SEAPORT	Navy		2022	ePS	Acquisition		●	●								●
AROWS-R	Air Force		2023	AF IPPS	Human Resource Management				●						●	●
CARTS	DeCA		2023	CARTS R/M	Financial Management											●
COINS	USTRANSCOM		2023	TBD	Material Supply & Service Management										●	
COUPONS	DeCA		2023	EBS	Financial Management											●
DMLSS-R	DHA		2023	DML-ES	Material Supply & Service Management					●		●	●			
EAS (eTools)	DCMA	●	2023	EITS	Acquisition	●	●	●	●	●	●	●	●	●	●	●
RAMPOD	Air Force		2023	TBD	Material Supply & Service Management				●							●
SPS DCMA	DCMA		2023	TBD	Acquisition											●
SPS DTRA	DTRA		2023	TBD	Acquisition								●			●
TFMS	USTRANSCOM		2023	DEAMS	Financial Management									●		

As of June 6, 2019

## Conclusion

Audit findings not already detailed in this report account for less than 4 percent of total FY 2018 NFRs. Remaining areas of findings include accounts receivable, accounts payable, environmental liabilities, and intragovernmental eliminations. The Department had self-identified many of these areas as a material weakness prior to beginning annual financial statement audits. Reporting entities with findings in these remaining areas are developing corrective actions, and DoD leaders continue to track progress. DoD personnel are working hard to make progress in all areas of findings, and people are being held accountable for sustainable improvements.

The FY 2019 audits are well underway, and progress will be measured by the number of FY 2018 findings closed. Although the Department expects to again receive a disclaimer of opinion, the benefits of audit are already being realized. Qualitative changes are happening every

day that will, over time, result in real change in how the Department does business. The tone-at-the-top is being echoed by DoD leaders at many levels. The workforce's understanding of audit requirements continues to grow, and, as efficiencies are gained, value is being realized. Systems are being made more reliable, and audits are providing the tools needed to effect sustainable improvements. The audit is helping galvanize change that advances cybersecurity, property management, inventory, and readiness—for the benefit of the warfighter and the American people.

The FIAR Report is due to Congress annually on June 30. Other updates on audit findings and the status of corrective actions are provided in semi-annual briefings, Congressional hearings, and other reports. For more information or to download a copy of this report, please visit the Office of the Deputy Chief Financial Officer website at: <https://comptroller.defense.gov/ODCFO/>.

## **Appendix 1. Independent Auditor’s Report**

Section 240b of Title 10 U.S. Code requires the inclusion of “a certification of the results of the audit of the financial statements of the Department performed for the preceding fiscal year.” The November 15, 2018, Independent Auditor’s Report, issued by the DoD Inspector General and initially provided in the DoD FY 2018 Agency Financial Report, follows. The full FY 2018 Agency Financial Report, including the Department’s FY 2018 financial statements, may be downloaded at:

<https://comptroller.defense.gov/ODCFO/afr2018.aspx>

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**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

November 15, 2018

MEMORANDUM FOR SECRETARY OF DEFENSE  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2018 and  
FY 2017 Basic Financial Statements (Project No. D2018-D000FE-0063.000,  
Report No. DODIG-2019-017)

We are providing the subject report to be published in the Department of Defense FY 2018 Agency Financial Report in conjunction with the Department of Defense FY 2018 and FY 2017 Basic Financial Statements provided to us in draft on November 14, 2018. The report includes our disclaimer of opinion on the basic financial statements and our required Reports on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the Department of Defense FY 2018 and FY 2017 Basic Financial Statements; therefore, this audit report should not be disseminated separately from those statements.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

November 15, 2018

MEMORANDUM FOR SECRETARY OF DEFENSE  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2018 and  
FY 2017 Basic Financial Statements (Project No. D2018-D000FE-0063.000,  
Report No. DODIG-2019-017)

### ***Report on the Basic Financial Statements***

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying DoD Agency-Wide Consolidated Balance Sheet as of September 30, 2018, and September 30, 2017, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic financial statements (referred to as financial statements in this report).

### ***Management's Responsibility for the Annual Financial Statements***

DoD management is responsible for the annual financial statements. Specifically, management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the control met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the DoD's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 19-01, "Audit Requirements for Federal Financial Statements," October 4, 2018. However, because of the matters described in the "Basis for Disclaimer of Opinion" section below, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Management's Assertion***

The National Defense Authorization Act for FY 2014 required the DoD to assert to audit readiness and to undergo its first full financial statement audit in 2018.<sup>1</sup> On September 27, 2017, Secretary of Defense James N. Mattis and Under Secretary of Defense (Comptroller)/Chief Financial Officer David L. Norquist notified the DoD Office of Inspector General that the DoD's financial statements were ready for audit. They asserted that "the DoD has the following capabilities (i.e., processes and systems) in place that allow an auditor to scope and perform an audit of full financial statements, that results in actionable feedback on:

- Universe of Transactions – The DoD can provide detailed accounting transactions for material financial statement line items;
- Fund balance with Treasury – The DoD can provide processes to reconcile fund balance with the Department of the Treasury;
- Journal vouchers – The DoD can provide a list of material journal vouchers and support;
- Existence, completeness, and rights and obligations and valuation of assets – The DoD can provide asset populations and has applied alternative valuation methods to certain asset categories; and
- Environmental and disposal liabilities for real property and general equipment – The DoD has identified and valued its liabilities."

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<sup>1</sup> Public Law 113-66, "National Defense Authorization Act for Fiscal Year 2014," December 26, 2013.

***Basis for Disclaimer of Opinion***

OMB Bulletin No. 19-01 identifies reporting entities required to undergo financial statement audits. Auditors conducting the audits of these entities issued disclaimers of opinion on the following DoD Component financial statements.

- Department of the Army General Fund
- Department of the Navy General Fund
- Department of the Air Force General Fund
- U.S. Marine Corps General Fund
- Department of the Army Working Capital Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force Working Capital Fund

In addition to the required reporting entities, the auditors also issued disclaimers of opinion on the Component financial statements for the Defense Health Program, Defense Logistics Agency, U.S. Transportation Command, and U.S. Special Operations Command.

When combined, these reporting entities are material to the DoD financial statements. As a result, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We performed limited audit procedures at the Agency-Wide level and compiled the work from the audits of the DoD Components to identify material weaknesses in internal control over financial reporting that affected the DoD as a whole. We also compiled material weaknesses that DoD Components identified within their Statements of Assurance. These material weaknesses limit the DoD's ability to produce reliable financial statements. The underlying material weaknesses in internal control contributed to our disclaimer of opinion on the financial statements.

We considered the disclaimers of opinion on the DoD Component financial statements a scope limitation in forming our conclusions on the Agency-Wide Basic Financial Statements. Accordingly, we did not perform all the auditing procedures required by

GAGAS and OMB Bulletin No. 19-01 to determine whether material amounts on the financial statements were presented fairly. Therefore, our work may not identify all issues that could affect the financial statements.

### ***Disclaimer of Opinion***

Because of the significance of the matters described in “Basis for Disclaimer of Opinion,” we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. Thus, the basic financial statements may contain undetected misstatements that are both material and pervasive.

### ***Emphasis of Matter***

In this first year audit of the Agency-Wide Basic Financial Statements, DoD management did not provide a completed Agency Financial Report until after the close of business on November 14, 2018, which limited our ability to complete a thorough review of the annual financial statements. However, during our review of the draft Agency Financial Report, we noted a material inconsistency between the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), “Financial Reporting Requirements,” July 30, 2018. Specifically, Note 3 and Note 16 were not presented in accordance with OMB Circular No. A-136. We did not modify our disclaimer report on the FY 2018 Basic Financial Statements with respect to this matter.

### ***Other Matter***

DoD management referenced information on websites or other forms of interactive data outside the DoD Agency Financial Report, this information is not required. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

### ***Other Information in the Annual Financial Statements***

We performed our audit to form an opinion on the basic financial statements as a whole. DoD management presented the Management’s Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. However, based on our limited review, we did not find any material inconsistencies between the information and applicable sections of OMB Circular No. A-136.

***Reports on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements***

In accordance with Government Auditing Standards, we also have included our consideration of DoD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of the reports is described in the Attachment. The reports are an integral part of our audit in accordance with Government Auditing Standards in considering DoD's internal control over financial reporting and compliance.

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. We compiled the results from the audits of the DoD Components to determine whether the DoD complied with provisions of applicable laws and regulations, contracts, and grant agreements.

However, it was not our objective to provide an opinion on internal control or compliance with certain provisions of laws and regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

***Agency Comments and Our Evaluation***

We provided a draft of this report to officials at the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The officials provided technical comments that we have incorporated, as appropriate.

This report will be made publicly available under section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DoD management; and the DoD Office of Inspector General. This report is not intended for, nor should it be used to, any other audience.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).



Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

Attachment:  
As stated

## **Report on Internal Control Over Financial Reporting**

### ***Internal Control Compliance***

In planning our audit, we considered the DoD's internal control over financial reporting. We did this to determine appropriate procedures for auditing the basic financial statements and for expressing our opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

### ***Management Responsibilities***

DoD management is responsible for implementing and maintaining effective internal controls, including providing reasonable assurance that DoD personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

### ***Auditor's Responsibilities***

The purpose of our audit was not to express an opinion on internal controls over financial reporting, and we do not express such an opinion. However, we identified the following material weaknesses by compiling the results from the audits of the DoD Components, performing limited audit procedures at the Agency-Wide level and reviewing the DoD Components' Statements of Assurance. These material weaknesses could adversely affect the DoD's financial operations.

### ***Identified Material Weaknesses***

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the DoD's financial statements will not be prevented, or detected and corrected, in a timely manner. We identified the following 20 material weaknesses.

**Financial Management Systems and Information Technology.** The FMFIA requires financial management systems to provide reasonable assurances that: obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial reports. The FFMIA requires Government agencies to incorporate accounting standards and reporting objectives established for the Government into

their financial management systems. In addition, it requires that financial management systems have controls to support financial management. However, the DoD had multiple material financial management systems that did not comply with Federal management system requirements. In addition, the DoD Components did not implement internal controls over their information technology environment that adequately deter fraud, waste, and abuse. These systemic deficiencies in financial management systems and inadequate internal controls prevent the DoD from collecting and reporting financial and performance information that is accurate, reliable, and timely.

**Universe of Transactions.** OMB Bulletin No. 19-01 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements. However, the DoD Components were unable to validate the completeness of the universe of transactions underlying their financial statements. Without a complete universe of transactions, the DoD Components cannot perform reconciliations of their financial statement line items. Therefore, auditors may not detect errors within the financial statements.

**Financial Statement Compilation.** OMB Circular No. A-123 states that management is responsible for developing and maintaining effective internal control to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. However, at least three DoD Component financial statements were not compiled correctly into the Agency-Wide Basic Financial Statements. The DoD lacked sufficient processes and internal controls to ensure that complete and accurate Component financial statements, including related note disclosures, were prepared prior to the compilation of the Agency-Wide Basic Financial Report. The lack of sufficient processes at the Agency-Wide level increased the risk of material misstatements on the Agency-Wide Basic Financial Statements.

**Fund Balance With Treasury.** For FY 2018, the DoD reported a Fund Balance With Treasury (FBWT) balance of \$580 billion. Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities," and the Treasury Financial Manual (TFM), chapter 5100, require the DoD to reconcile its FBWT and explain any discrepancies between its balances and the Department of the Treasury's records. However, the DoD Components have ineffective processes and controls for reconciling their FBWT. The ineffective processes and controls resulted in unreconciled differences between the DoD and Treasury recorded balances that materially affect the financial statements.

Attachment  
Page 2 of 9

**Accounts Receivable.** For FY 2018, the DoD reported an Accounts Receivable balance of \$5.7 billion. SFFAS No. 1 states that a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities. However, the DoD Components did not have proper controls to record, report, test, or reconcile transactions that should be labeled as a receivable. Failure to establish proper controls to support and document accounts receivable transactions could prevent the recording of receivables or result in recording receivables in the incorrect period or for the incorrect amount, which could result in a material misstatement on the financial statements.

**Operating Materials & Supplies.** For FY 2018, the DoD reported an Operating Materials and Supplies (OM&S) gross value of \$184 billion. SFFAS No. 3, "Accounting for Inventory and Related Property," requires the DoD to value its OM&S at historical costs or any method approximating historical cost. However, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," permits a reporting entity that cannot value its opening balance in accordance with SFFAS No. 3 to apply an alternative valuation method in establishing opening balances for OM&S. The DoD Components were unable to report OM&S in accordance with SFFAS No. 3 because the systems they used did not maintain historical cost data. In addition, the DoD Components did not implement a process to accurately value all OM&S opening balances in accordance with SFFAS No. 48. Therefore, the DoD OM&S balances may be materially misstated on the financial statements.

**Inventory and Related Property.** For FY 2018, the DoD reported an Inventory and Related Property net balance of \$282 billion. SFFAS No. 3 requires the DoD to use historical cost, the latest acquisition cost, or any other valuation method that reasonably approximates historical cost for valuing Inventory. However, the DoD Components lacked the systems and controls necessary to provide assurance over the existence, completeness, and the valuation of Inventory and Related Property recorded in the financial statements. In addition, the DoD has not established policies and procedures to properly manage or account for inventory held by other DoD Components and Government contractors. Therefore, Inventory and Related Property reported on the financial statements may be materially misstated.

**General Property, Plant, and Equipment.** For FY 2018, the DoD reported a General Property, Plant, and Equipment (PP&E) balance of \$759 billion. SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires the DoD to record General PP&E at acquisition cost. However, the DoD worked with the Federal Accounting Standards Advisory Board (FASAB) to develop an alternative method for establishing a

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baseline, or starting value of its General PP&E at the time it was acquired. Although the DoD has established a formula that will be used by all DoD Components to value their General PP&E, the FASAB has made it clear that the alternative method for valuing assets is a one-time exception to the established standards. Despite the flexibilities allowed by the FASAB, the DoD had several deficiencies affecting its valuation of its General PP&E. These deficiencies include the inability of the DoD to record General PP&E at acquisition or historical cost, substantiate the existence and completeness of its assets, and assign or determine the value for all real property and general equipment assets. Because the DoD could not accurately account for its assets or value its General PP&E, the DoD is at risk of materially misstating its General PP&E on its financial statements.

**Government Property in Possession of Contractors.** SFFAS No. 6 requires that property and equipment in the possession of a contractor, acquired on behalf of the Government for use in accomplishing a contract, be considered Government property. Such property should be accounted for based on the nature of the item, regardless of who has possession. The DoD lacked policies, procedures, controls, and supporting documentation for the acquisition, disposal, tracking, and inventory processes of Government property in the possession of contractors, which prevented the DoD from substantiating the existence and completeness of this property. As a result, the financial statements may be incomplete or inaccurate and could be materially misstated.

**Accounts Payable.** For FY 2018, the DoD reported an Accounts Payable balance of \$29 billion. SFFAS No. 1 states that Accounts Payable are “amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities.” However, the DoD Components had a combination of deficiencies that resulted in unsupported Accounts Payable balances. In addition, the DoD Components did not have the financial management system capabilities to properly record Accounts Payable transactions. Therefore, the Accounts Payable balances on the financial statements may be materially misstated.

**Environmental and Disposal Liabilities.** For FY 2018, the DoD reported an Environmental and Disposal Liabilities balance of \$70 billion. Federal Accounting Standards Advisory Board, Federal Financial Accounting and Auditing Technical Release 2, “Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government,” states that an agency is required to recognize a liability for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable.

Attachment  
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The DoD lacked formal policies, procedures, and supporting documentation to substantiate the completeness and valuation of its Environmental and Disposal Liabilities. As a result, Environmental and Disposal Liabilities reported on the financial statements may be materially misstated.

**Legal Contingencies.** SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to a possible gain or loss to an entity. Additionally, TFM, volume 1, part 2, chapter 4700, states that significant entities must submit a Legal Representation Letter (LRL) summarizing and evaluating legal actions against the entity and categorizing them as having a probable, reasonably possible, remote, or "unable to determine" chance of a negative outcome. The TFM also states that agencies should avoid excessive use of the term "unable to determine" in assessing the likelihood of loss. In addition, it states that, if agencies categorized a case as "unable to determine," they should provide a note disclosure that includes the information they evaluated which led to their assessment. If a note disclosure is not provided, the agency should provide justification for why a disclosure is not necessary. The Agency-Wide Consolidated LRL included 150 cases, totaling \$5.27 trillion. Of the 150 cases, 97 cases, totaling \$3.2 trillion, were categorized as "unable to determine." The DoD did not disclose what information was evaluated to categorize these cases as "unable to determine" or provide a justification for why a disclosure was not necessary. Due to the DoD's noncompliance with the TFM, the DoD was unable to substantiate the presentation and disclosure of the legal contingencies balance on the financial statements.

**Beginning Balances.** SFFAS No. 48 states that beginning balances are account balances that exist at the beginning of the reporting period and are based upon the closing balances of the prior period. These balances reflect the effects of transactions that occurred and accounting policies applied in the prior period. At least six reporting entities do not have the historical data to support beginning balances on their financial statements or the ability to reconcile beginning balances to closing balances at the end of the reporting period. Without a supported beginning balance, the auditors cannot confirm the completeness and accuracy of the amounts reported on the financial statements.

**Journal Vouchers.** The FMFIA requires that obligations and costs comply with applicable laws. FMFIA also requires that revenues and expenditures be properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the assets. Adequate supporting documentation

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is necessary to demonstrate compliance with the FMFIA requirements. The DoD recorded 1,232 journal vouchers that it categorized as unsupported, totaling more than \$175 billion, that directly affected the financial statements. In addition, multiple DoD Components posted journal vouchers to the accounting systems before management performed adequate reviews. The lack of adequate supporting documentation and management reviews at the Component level directly increased the risk of material misstatements on both the Components' financial statements and the Agency-Wide Basic Financial Statements.

**Intragovernmental Eliminations.** The TFM, volume 1, part 2, chapter 4700, requires agencies to maintain accurate information and supporting documentation on intragovernmental transactions to facilitate the reconciliation and elimination of these transactions during the financial statement preparation process. However, DoD Components could not accurately identify, provide supporting documentation, or fully reconcile their intragovernmental transactions. Additionally, DoD Components eliminated transactions based on data that may not have been accurate. The inability to confirm that the transaction data supporting the intragovernmental eliminations was accurate may have resulted in a material misstatement to the amounts reported on the financial statements.

**Statement of Net Cost.** SFFAC No. 2, "Entity and Display," states that the Statement of Net Cost should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. OMB Bulletin No. 19-01 requires that the Statement of Net Cost be included in the Basic Financial Statements and it requires that financial statements be presented in accordance with GAAP. However, at least three reporting entities did not accumulate cost information and record transactions in compliance with GAAP for the Statement of Net Cost. Therefore, DoD management does not have reliable financial information to effectively manage and understand the net costs of its organizations and programs, resulting in a potential material misstatement on the Statement of Net Cost.

**Reconciliation of Net Cost of Operations to Budget.** SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary and budgetary data. At least three reporting entities were unable to perform the required reconciliation. This negatively affects management's and users' understanding of the relationship between the net cost of operations and the budgetary resources obligated. In addition,

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variances between proprietary and budgetary data may not be identified and resolved, resulting in possible misstatements to amounts reported on the financial statements.

**Budgetary Resources.** SFFAS No. 7 states that the budget is the Government’s primary financial planning and control tool. For this reason, the following material budgetary information should be presented by reporting entities for which financing comes wholly or partially from the budget: total budgetary resources available to the reporting entity during the period, the status of those resources (including “obligations incurred”), and outlays. At least three reporting entities could not accurately determine their total budgetary resources available during the period and the status of those resources. Therefore, the DoD Components are unable to use their Statement of Budgetary Resources to monitor the status of their available funds, and, as a result, the DoD is at greater risk of potential violations of the Antideficiency Act.

**Entity Level Controls.** The Government Accountability Office Green Book, “Standards for Internal Control in the Federal Government,” September 2014, present the internal control standards for federal agencies for both program and financial management. The Green Book states that entity-level controls are controls that have a pervasive effect on an entity’s internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity’s risk assessment process, control environment, service organizations, and management override. However, multiple DoD Components do not have sufficient entity level controls to establish an internal control system that will produce reliable financial reporting. The lack of sufficient controls at the Component level directly increased the risk of material misstatements on both the Components’ financial statements and the Agency-Wide Basic Financial Statements.

**Oversight and Monitoring.** OMB Circular No. A-123 defines management’s responsibility for internal control. Additionally, it states that agency management is responsible for taking timely and effective action to correct deficiencies and ensuring that corrective action plans are developed for all material weaknesses. However, some DoD Components have not developed corrective action plans for all material weaknesses. Without effective oversight and monitoring, the Components’ material weaknesses will continue to affect the DoD’s ability to provide reasonable assurance that internal controls over financial reporting are effective.

## **Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements**

Generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws, regulations, contracts, and grant agreements related to financial reporting. We compiled the results from the audits of the DoD Components and determined that the DoD was not compliant with all laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. Specifically, the DoD did not comply with the Antideficiency Act (ADA), FFMIA, FMFIA, the Federal Information Security Modernization Act, and the Debt Collection Improvement Act. However, our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Additionally, because of the significance of the matters described in "Basis for Disclaimer of Opinion," we performed limited procedures that may not have detected all instances of noncompliance. The following instances of noncompliance impacted material DoD Components.

### ***Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. §1341 [1990]), limits the DoD and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. §1517 (2004), the DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. §1351 (2004), if an officer or employee of an executive agency violates the ADA, the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2018, the DoD reported six ADA violations within four completed cases.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," establishes timeframes for identifying and reporting ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. One potential ADA violation investigation within a case has been open for more than 15 months.

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### ***Compliance With FFMIA Requirements***

The FFMIA requires the DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA.

For FY 2018, the DoD did not substantially comply with the FFMIA. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer represented that the controls in place to support reliable financial reporting were not effective to provide reasonable assurance. They represented that their financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2018. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FFMIA.

### ***Compliance With FMFIA Requirements***

The FMFIA requires the DoD to perform ongoing evaluations and reports on the adequacy of its systems of internal accounting and administrative control. OMB Circular No. A-123, which implemented FMFIA, states that management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

For FY 2018, the DoD did not substantially comply with the FMFIA. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer represented that the DoD's internal control over financial reporting was not effective because of the material weaknesses reported in the FY 2018 Agency Financial Report. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FMFIA.

### ***Recommendations***

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations. Component auditors provided recommendations to the DoD Components. We will review all Component auditor recommendations to determine if an Agency-Wide recommendation is appropriate.

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## Appendix 2. Acronyms and Abbreviations

### A

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<b>A&amp;S</b>	Acquisition and Sustainment
<b>ACES</b>	Automated Civil Engineers System
<b>ACPS</b>	Automated Contract Preparation System
<b>ACST</b>	Acquisition and Command Support Toolkit
<b>ACWS</b>	Army Contract Writing System
<b>ADIS</b>	Acquisition and Due-In System
<b>ADS</b>	Automated Disbursing System
<b>AFCOS</b>	Automated Fund Control Order System
<b>AF IPPS</b>	Air Force Integrated Personnel Pay System
<b>AIMS</b>	Automated Inventory Management System
<b>AROWS-R</b>	Air Force Reserve Order Writing System-Reserves
<b>ATAAPS</b>	Automated Time Attendance and Production System
<b>ACWS</b>	Army Contract Writing System
<b>AWRDS</b>	Army War Reserve Deployment System

### B

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<b>BUMED</b>	Bureau of Medicine and Surgery
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### C

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<b>C</b>	Comptroller
<b>CAO</b>	Computer Assisted Ordering
<b>CAP</b>	Corrective Action Plan
<b>CARTS</b>	Commissary Advanced Resale Transaction System
<b>CARTS R/M</b>	Commissary Advanced Resale Transaction System Replacement/Modernization
<b>CBDP</b>	Chemical and Biological Defense Program
<b>CCAS</b>	Columbus Cash Accountability System
<b>CE NexGen IT</b>	CE NexGen IT – TAM (CG 1&2)
<b>CFO</b>	Chief Financial Officer
<b>CHOOSE</b>	Cash History On-Line Operator Search Engine
<b>CIDS</b>	Contracting Information Database System
<b>CIO</b>	Chief Information Officer
<b>CMO</b>	Chief Management Officer
<b>CMR</b>	Cash Management Report
<b>COINS</b>	Commercial Operations Integrated System

<b>CON-IT</b>	Contracting Information Technology	<b>DCPDS</b>	Defense Civilian Personnel Data System
<b>ConWrite</b>	Contract Writing System	<b>DDARS</b>	Defense Disbursing Analysis Reporting System
<b>COPPS</b>	Commissary On-Line Product and Pricing System	<b>DDRS</b>	Defense Departmental Reporting System
<b>CRM</b>	Contract Resource Management	<b>DEAMS</b>	Defense Enterprise Accounting and Management System
		<b>DeCA</b>	Defense Commissary Agency
<b>D</b>		<b>DEPSEC</b>	Deputy Secretary
		<b>DFAS</b>	Defense Finance and Accounting Service
<b>DAAS</b>	Defense Automatic Addressing System	<b>DFAS GF</b>	Defense Finance and Accounting Service General Fund
<b>DAI</b>	Defense Agencies Initiative	<b>DHA</b>	Defense Health Agency
<b>DAU</b>	Defense Acquisition University	<b>DHA-CRM</b>	Defense Health Agency – Contract Resource Management
<b>DARPA</b>	Defense Advanced Research Projects Agency	<b>DHP</b>	Defense Health Program
<b>DARWG</b>	Defense Audit Remediation Working Group	<b>DHRA</b>	Defense Human Resources Activity
<b>DAX</b>	Data Analytics	<b>DIBS</b>	DeCA Interactive Business System
<b>DBMS</b>	Defense Business Management System	<b>DISA</b>	Defense Information Systems Agency
<b>DC</b>	District of Columbia	<b>DLA</b>	Defense Logistics Agency
<b>DCAA</b>	Defense Contract Audit Agency	<b>DMA</b>	Defense Media Activity
<b>DCAS</b>	Defense Cash Accountability System	<b>DML-ES</b>	Defense Medical Logistics-Enterprise Solution
<b>DCAS/FBWT</b>	Defense Cash Accountability System/Fund Balance with Treasury	<b>DMLSS-R</b>	Defense Medical Logistics Standard Support-Retail
<b>DCFO</b>	Deputy Chief Financial Officer	<b>DMPS</b>	DeCA Meat and Produce System
<b>DCMA</b>	Defense Contract Management Agency		
<b>DCMO</b>	Deputy Chief Management Officer		

<b>DoD</b>	Department of Defense
<b>DoDEA</b>	Department of Defense Education Activity
<b>DoD OIG</b>	Department of Defense Office of Inspector General
<b>DON</b>	Department of the Navy
<b>DOTE</b>	Director, Operational Test and Evaluation
<b>DPAA</b>	Defense POW/MIA Accounting Agency
<b>DPAS</b>	Defense Property Accountability System
<b>DPS</b>	Defense Personal Property System
<b>DRAS</b>	Defense Retiree and Annuitant System
<b>DRAS2</b>	Defense Retiree and Annuitant System 2
<b>DSCA</b>	Defense Security Cooperation Agency
<b>DSS</b>	Defense Security System
<b>DTS</b>	Defense Travel System
<b>DTIC</b>	Defense Technical Information Center
<b>DTRA</b>	Defense Threat Reduction Agency
<b>DTS</b>	Defense Travel System
<b>DTSA</b>	Defense Technology Security Administration
<b>DUSD(C)</b>	Deputy Under Secretary of Defense (Comptroller)

**E**


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<b>EAS</b>	Entitlements Automation System
<b>EBS</b>	Enterprise Business Solution
<b>ECS</b>	Enterprise Computing Services
<b>EITS</b>	Enterprise Integrated BI Toolset
<b>ELAN</b>	Enterprise Local Area Network
<b>eMASS</b>	Enterprise Mission Assurance Support Service
<b>eMILPO</b>	Electronic Military Personnel Office
<b>ePS</b>	Electronic Procurement System
<b>ERP</b>	Enterprise Resource Planning System
<b>ES</b>	Executive Summary

**F**


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<b>FAMIS-WCF</b>	Federal Financial Accounting Management Information System-Working Capital Fund
<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FBWT</b>	Fund Balance with Treasury
<b>FIAR</b>	Financial Improvement and Audit Remediation
<b>Fin Ops</b>	Financial Operations
<b>FISCAM</b>	Federal Information Systems Control Audit Manual

<b>FM</b>	Financial Management
<b>FM&amp;C</b>	Financial Management and Comptroller
<b>FMSuite</b>	Financial Management Suite
<b>FTE</b>	Full-time Equivalent
<b>FY</b>	Fiscal Year
<b>G</b>	
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<b>GAO</b>	Government Accountability Office
<b>GCSS-Army</b>	Global Combat Support System-Army
<b>GF</b>	General Fund
<b>GFEBs</b>	General Fund Enterprise Business System
<b>H</b>	
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<b>HQARS</b>	Headquarters Accounting and Reporting System
<b>I</b>	
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<b>IG</b>	Inspector General
<b>IPA</b>	Independent Public Accountant or Independent Public Accounting firm

<b>IPPS-A</b>	Integrated Personnel Pay System-Army
<b>iRAPT</b>	Invoicing, Receipt, Acceptance, and Property Transfer
<b>iRAPT/WAWF</b>	Invoicing, Receipt, Acceptance, and Property Transfer/Wide Area Work Flow
<b>IT</b>	Information Technology
<b>ITAPDB</b>	Integrated Total Army Personnel Database
<b>J</b>	
<hr/>	
<b>JCS</b>	Joint Chiefs of Staff
<b>M</b>	
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<b>MDA</b>	Missile Defense Agency
<b>MHPI</b>	Military Housing Privatization Initiative
<b>MIA</b>	Missing in Action
<b>MOCAS</b>	Mechanization of Contract Administration Services
<b>MOCAS-SCRT</b>	Mechanization of Contract Administration Services-Standard Contract Reconciliation Tool
<b>MUP</b>	My Unit Pay

**N**


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<b>NAVFAC</b>	Naval Facilities Engineering Command
<b>NDAAs</b>	National Defense Authorization Act
<b>NDU</b>	National Defense University
<b>NFR</b>	Notice of Findings and Recommendations

**O**


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<b>OIG</b>	Office of Inspector General
<b>ODCFO</b>	Office of the Deputy Chief Financial Officer
<b>ODS</b>	Operational Data Store
<b>OEA</b>	Office of Economic Adjustment
<b>OMB</b>	Office of Management and Budget
<b>OM&amp;S</b>	Operating Materials and Supplies
<b>OnePay</b>	OnePay
<b>OSD</b>	Office of the Secretary of Defense

**P**


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<b>PADDS</b>	Procurement Automated Data and Document System
<b>PMRT</b>	Program Management Responsibility Transfer

**POW**

Prisoner of War

**R**


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<b>RAMPOD</b>	Reliability, Availability, and Maintainability of Pods Database
<b>RLAS</b>	Regional Level Application Software

**S**


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<b>SABRS</b>	Standard Accounting, Budgeting and Reporting System
<b>SAMIS</b>	Security Assistance Management Information System
<b>SAVES</b>	Standard Automated Voucher Examination System
<b>SCES</b>	Security Cooperation Enterprise Solution Application
<b>SDS</b>	Standard Disbursing Services
<b>SECDEF</b>	Secretary of Defense
<b>SECNAV</b>	Secretary of the Navy
<b>SIDPERS</b>	Standard Installation Division Personnel System
<b>SOC</b>	System and Organization Controls

<b>SOIDC</b>	Service-Owned Items in the Custody of DLA
<b>SPS A</b>	Standard Procurement System Army
<b>SPS AF</b>	Standard Procurement System Air Force
<b>SPS DCMA</b>	Standard Procurement System Defense Contract Management Agency
<b>SPS DTRA</b>	Standard Procurement System Defense Threat Reduction Agency
<b>SSAE</b>	Statement on Standards for Attestation Engagements
<b>STARS HCM</b>	Standardized Accounting and Reporting System Headquarters Claimant Module

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**T**

<b>TBD</b>	To Be Determined
<b>TCJ8</b>	Program Analysis and Financial Management Directorate
<b>TFMS</b>	Transportation Financial Management System
<b>TI</b>	Treasury Index
<b>TOPS</b>	Transportation Operational Personal Property Standard System
<b>TOPS</b>	Travel Order Processing System

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**U**

<b>US</b>	United States
<b>USD(A&amp;S)</b>	Under Secretary of Defense (Acquisition and Sustainment)
<b>USD(C)</b>	Under Secretary of Defense (Comptroller)
<b>USMC</b>	United States Marine Corps
<b>USSOCOM</b>	United States Special Operations Command
<b>USTRANSCOM</b>	United States Transportation Command

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**W**

<b>WAWF</b>	Wide Area Work Flow
<b>WHS</b>	Washington Headquarters Services
<b>WMS</b>	Warehouse Management System

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