



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE

1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

April 6, 2020

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL OPERATIONS) CHIEF FINANCIAL EXECUTIVES OF DEFENSE AGENCIES

SUBJECT: Variance Analysis for Financial Statement Reporting (FPM 19-17)

The DoD Office of Inspector General (OIG) identified “Entity-Level Controls” and “DoD-Wide Oversight and Monitoring” as material weaknesses in the DoD Agency Financial Report for Fiscal Year 2019, reporting that DoD components lacked controls or performed insufficient reviews while preparing their financial statements. As a result, the DoD components were unable to detect and correct misstatements in the financial statements and related disclosures. This memorandum prescribes the criteria and requirements for component quarterly and annual financial statement reviews and analyses to improve the quality of component and agency-wide financial statements submitted to the Office of Management and Budget (OMB). It uses guidance from the Government Accountability Office Financial Audit Manual (FAM), OMB Circular A-136, “Financial Reporting Requirements,” and the Treasury Financial Manual.

When preparing quarterly and year-end financial statements, variance analyses must be prepared for the four principal financial statements. For the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources, the analyses should compare the current quarter year-to-date statement to the same quarter year-to-date statement from the prior year. Additionally, the Balance Sheet analysis should compare the current quarter statement to the prior year-end statement.

Components must provide explanations for variances exceeding the materiality threshold as defined in the attachment. A lower variance threshold is permitted, if desired. The FAM is the authoritative guidance for the thresholds; specifically, FAM Section 230, “Determining Materiality,” and Section 475, “Perform Substantive Analytical Procedures.” Explanations must include detailed analyses which have been reviewed by senior executive leadership, and include references such as legislation, new accounting standards, policy memos, and changes in business processes. Additional analyses may be requested on special interest line items regardless of the variance amount.

The root cause addressing the variance should be part of the explanation. Variances caused by errors must include an estimated timeline for correction. For complex explanations, an executive summary with an attachment that includes the detail-level information is required. If journal vouchers are referred to, they should be considered as an integral part of the explanation and provided with the variance analysis.

Effective immediately, components must retain variance analysis documentation. These analyses and documentation must be readily available within 17 business days after quarter end.

The variance analysis may be requested sooner, particularly in fourth quarter. Explanations affecting the Agency-wide financial statements and notes will be incorporated into the agency-wide variance analysis.

Requirements will be incorporated into the next update of the DoD Financial Management Regulation, Volume 6B, Chapter 2. Variance analysis criteria will be updated and published annually to identify the materiality thresholds based on the prior fiscal year's financial statement balances. My point of contact for this matter is Ms. Krystal Baranoski, at krystal.j.baranoski.civ@mail.mil or 703-695-7193.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Materiality by Component - Variance Threshold*

Component		Balance Sheet	Statement of Net Cost and Statement of Budgetary Resources	Statement of Changes in Net Position
Air Force GF	Fed	748,589,726.57	1,034,110,271.36	
	Non-Fed	1,089,010,017.01		
Air Force WCF	Fed	6,699,269.84	73,033,582.81	
	Non-Fed	150,589,005.69		
Army GF	Fed	643,012,638.85	915,573,569.91	
	Non-Fed	881,335,702.99		
Army WCF	Fed	10,527,670.15	97,556,388.36	
	Non-Fed	96,779,789.05		
DON WCF	Fed	13,170,938.78	192,423,985.80	
	Non-Fed	225,374,258.11		
Navy GF	Fed	882,643,621.69	983,033,944.50	
	Non-Fed	2,347,585,388.74		
USMC GF	Fed	55,819,791.25	147,122,124.38	
	Non-Fed	149,470,752.86		
Consolidated Defense Health Programs	Fed	98,929,708.46	206,673,487.77	
	Non-Fed	20,235,963.76		
Defense Commissary Agency Working Capital Fund	Fed	3,396,543.21	29,069,329.51	
	Non-Fed	2,385,980.10		
Defense Commissary Agency General Fund	Fed	2,014,512.45	1,364,904.63	
	Non-Fed	3,556,796.18		
Defense Contract Audit Agency	Fed	509,505.67	3,435,818.42	
	Non-Fed	1,279.24		
Defense Finance & Accounting Service Working Capital Fund	Fed	1,589,273.47	7,679,043.82	10% line item change
	Non-Fed	970,635.53		
Defense Information Systems Agency Working Capital Fund	Fed	7,096,787.04	41,303,622.25	
	Non-Fed	4,057,033.45		
Defense Information Systems Agency General Fund	Fed	15,151,885.36	17,214,483.27	
	Non-Fed	3,621,942.50		
Defense Logistic Agency Working Capital Fund	Fed	16,056,932.81	224,866,204.20	
	Non-Fed	125,537,450.24		
Defense Logistics Agency General Fund	Fed	7,165,798.32	3,899,058.64	
	Non-Fed	3,643,811.00		
Defense Logistics Agency National Defense Stockpile Trust Fund	Fed	1,436,589.50	470,073.32	
	Non-Fed	3,902,155.31		
Medicare-Eligible Retiree Health Care Fund	Fed	1,392,608,586.66	104,394,050.13	
	Non-Fed	1,335,369.48		
Military Retirement Fund	Fed	4,484,280,074.57	449,179,466.49	
	Non-Fed	663,494.61		
Office of the Inspector General	Fed	521,045.62	1,887,265.19	
	Non-Fed	940.44		
US Army Corps of Engineers	Fed	244,921,024.21	60,133,697.88	
	Non-Fed	167,368,668.76		
US Special Operations Command	Fed	55,550,997.87	63,267,032.51	
	Non-Fed	18,048,952.37		
US Transportation Command	Fed	9,582,821.13	39,381,077.94	
	Non-Fed	1,328,753.50		

*The variance thresholds were calculated using Government Accountability Office Financial Audit Manual concepts. They are based on the amounts included in each stand-alone Component's FY 2019 financial statements. As a result, these variance thresholds are much less than would be needed for analytical review of the DoD Agency-wide financial statements. The intent is for the analytical reviews to be performed for each Component's financial statements, and then provided to OUSD(C) for their use in understanding the underlying differences causing variances in the DoD Agency-wide financial statements. Components may be one of several contributors to an agency-wide variance requiring explanations. The calculation of materiality, and related variance thresholds, is a matter of professional judgement. If a Component's management believes a higher variance threshold should be used in their analytical review, the reasons for this decision should be documented and retained.