

CUI

INSPECTOR GENERAL

U.S. Department of Defense

JUNE 13, 2024



(U) Audit of Financial Improvement and Audit Remediation Contracts for DoD Components

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INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY

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(U) Results in Brief

(U) Audit of Financial Improvement and Audit Remediation Contracts for DoD Components

June 13, 2024

(U) Objective

(U) The objective of this audit was to determine whether DoD Components effectively managed Financial Improvement and Audit Remediation (FIAR) contracts. In addition, we determined whether DoD Components awarded support contracts that met the FIAR goal of providing a reliable financial environment and whether they used appropriated funds efficiently when obtaining contractor support.

(U) Background

(U) The National Defense Authorization Act of FY 2018 required the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) to estimate the costs associated with correcting the DoD's financial management deficiencies in its annual FIAR report to Congress. As of FY 2023, 18 of the DoD's 29 stand-alone audits and its own consolidated audit had received a disclaimer of opinion, meaning that the auditors were unable to obtain sufficient, appropriate audit evidence. From FY 2018 to FY 2022, the DoD reported spending approximately \$4.11 billion on audit remediation and support in government and contractor costs, with minimal progress to correct the financial management deficiencies.

(U) Findings

(U) DoD Components did not effectively manage FIAR contracts or report accurate information to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO)

(U) Findings (cont'd)

(U) for the annual FIAR Report. Specifically, we identified 12 contracts containing FIAR-related objectives, valued at \$104 million, which the DoD did not include in the annual FIAR Report. In addition, DoD Components used inconsistent processes for identifying and reporting the amount of funds spent on FIAR contracts. This occurred because the OUSD(C)/CFO did not define the specific tasks and types of contracts that DoD Components should report as supporting FIAR efforts. Additionally, DoD Components did not have a centralized process to identify or report FIAR contracts. As a result, DoD Components cannot accurately or consistently identify and report contracts as supporting FIAR efforts.

(U) Furthermore, DoD Components did not use FIAR contract resources efficiently to meet FIAR goals. Instead, DoD Components used FIAR contracts to support non-remediation efforts and tasks unrelated to the full financial statement audits. This occurred because the DoD Components used their FIAR contracts to overcome staffing shortfalls. Additionally, the OUSD(C)/CFO did not provide clear guidance on what tasks were appropriate under FIAR efforts, and allowed the DoD Components to decide which tasks they deemed necessary to support FIAR efforts. As a result, DoD Components reported spending more than \$75 million of FIAR contract funds on non-remediation efforts in FY 2022.

(U) Recommendations

(U) We recommend that the USD(C)/CFO:

- (U) strengthen guidance by clarifying and defining FIAR tasks for DoD Components;
- (U) develop and implement a process to ensure information reported in the Audit Resources Budget Submission; and
- (U) monitor for conflicting audit remediation tasks within the DoD, in addition to reviewing the overall effectiveness of the FIAR contracts to verify the appropriateness of the tasks and funds spent annually.



(U) Results in Brief

(U) Audit of Financial Improvement and Audit Remediation Contracts for DoD Components

(U) Recommendations (cont'd)

(U) We recommend that the Assistant Secretaries of the Army and Navy (Financial Management and Comptroller) develop and implement a centralized process to monitor their FIAR efforts.

(U) We recommend that the Assistant Secretaries of the Army, Navy, and Air Force (Financial Management and Comptroller) and the Chief Financial Officer of the Defense Logistics Agency develop and implement a strategy to align their FIAR contracts to the annual Secretary of Defense audit priorities and their Component-specific roadmap goals and develop a plan to reduce the use of contractors as each DoD Component transitions from remediation efforts to sustaining an unmodified audit opinion.

(U) Management Comments and Our Response

(U) The Deputy Chief Financial Officer within the OUSD(C)/CFO, responding for all management officials, agreed with 12 recommendations, partially agreed with 1 recommendation, and disagreed with

(U) 3 recommendations. The Deputy Chief Financial Officer's comments addressed the specifics of 12 recommendations; partially addressed the specifics of 1 recommendation related to developing a strategy for using FIAR contractors and contract requirements to achieve an unmodified audit opinion by December 31, 2028; and did not address the specifics of 3 recommendations related to: (1) ensuring the completeness of FIAR reporting for the DoD, (2) ensuring that the FIAR tasks are not conflicting, and (3) monitoring the overall effectiveness of FIAR contracts. Therefore, 12 recommendations are resolved and remain open, and 4 recommendations are unresolved. For the unresolved recommendations, we request that management provide additional comments on the final report within 30 days. We will close the resolved recommendations when we receive sufficient evidence to demonstrate that management has taken appropriate action to meet the intent of the recommendations. Please see the Recommendations Table on the next page for the status of recommendations.

(U) Recommendations Table

(U) Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	A.1.b, A.1.c, B.3.b	A.1.a.1-2; B.3.a	None
Assistant Secretary of the Army (Financial Management and Comptroller)	None	A.2.a, B.1.a, B.2.a	None
Assistant Secretary of the Navy (Financial Management and Comptroller)	None	A.2.b; B.1.b, B.2.b	None
Assistant Secretary of the Air Force (Financial Management and Comptroller)	B.1.c	B.2.c	None
Defense Logistics Agency Chief Financial Officer	None	B.1.d, B.2.d	None (U)

(U) Please provide Management Comments by July 16, 2024

(U) Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **(U) Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **(U) Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **(U) Closed** – The DoD OIG verified that the agreed upon corrective actions were implemented.





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

June 13, 2024

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: (U) Audit of Financial Improvement and Audit Remediation Contracts for DoD
Components (Report No. DODIG-2024-096)

(U) This final report provides the results for the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final reports. These comments are included in the report.

(U) This report contains recommendations that are considered unresolved because comments from the Deputy Chief Financial Officer within the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, did not fully address the recommendations in this report. Therefore, the recommendations remain open. We will track these recommendations until management agrees to take actions that we determine to be sufficient to meet the intent of the recommendations and management officials submit adequate documentation showing all the agreed-upon actions are completed. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, within 30 days please provide us your response concerning specific actions in process or alternative corrective actions proposed on the recommendations. Send your response to audfmr@dodig.mil.

(U) The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Assistant Secretary of the Army (Financial Management and Comptroller); Assistant Secretary of the Navy (Financial Management and Comptroller); Assistant Secretary of the Air Force (Financial Management and Comptroller); and Chief Financial Officer of the Defense Logistics Agency, agreed to address the remaining recommendations presented in the report; therefore we consider the recommendations resolved and open. We will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed.

(U) Therefore, within 90 days please provide us your response concerning specific actions in process or completed on the recommendations. Send your response to followup@dodig.mil.

(U) If you have any questions, please contact me at [REDACTED].

FOR THE INSPECTOR GENERAL:



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

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(U) Introduction

(U) Objective

(U) The objective of this audit was to determine whether DoD Components effectively managed Financial Improvement and Audit Remediation (FIAR) contracts.¹ In addition, we determined whether DoD Components awarded support contracts that met the FIAR goal of providing a reliable financial environment and whether they used appropriated funds efficiently when obtaining independent public accountant contractor support.² To answer our objective, we focused our audit on the FIAR contracts for the Army, Navy, Air Force, and Defense Logistics Agency (DLA).³ See Appendix A for the audit scope, methodology, and prior audit coverage related to the audit objective.

(U) Background

(U) The Chief Financial Officers (CFO) Act of 1990 requires the production of complete, reliable, timely, and consistent financial information for use by the Executive Branch of the Government and Congress in the financing, management, and evaluation of Federal programs. Over the past 30 years, Congress established additional requirements within the National Defense Authorization Acts (NDAAs) to hold the DoD responsible for meeting the requirements of the CFO Act of 1990. In addition, the Secretary of Defense and Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), provided guidance to the DoD for tracking its progress in meeting the CFO Act of 1990.

(U) Financial Improvement and Audit Remediation Program

(U) The FIAR Program began in FY 2005 when the OUSD(C)/CFO established the FIAR Directorate and FIAR Committee and issued the FIAR Plan. Congress, the Secretary of Defense, and the USD(C)/CFO added additional requirements to the FIAR Program beginning in FY 2010. See Figure 1 for the timeline of the requirements.

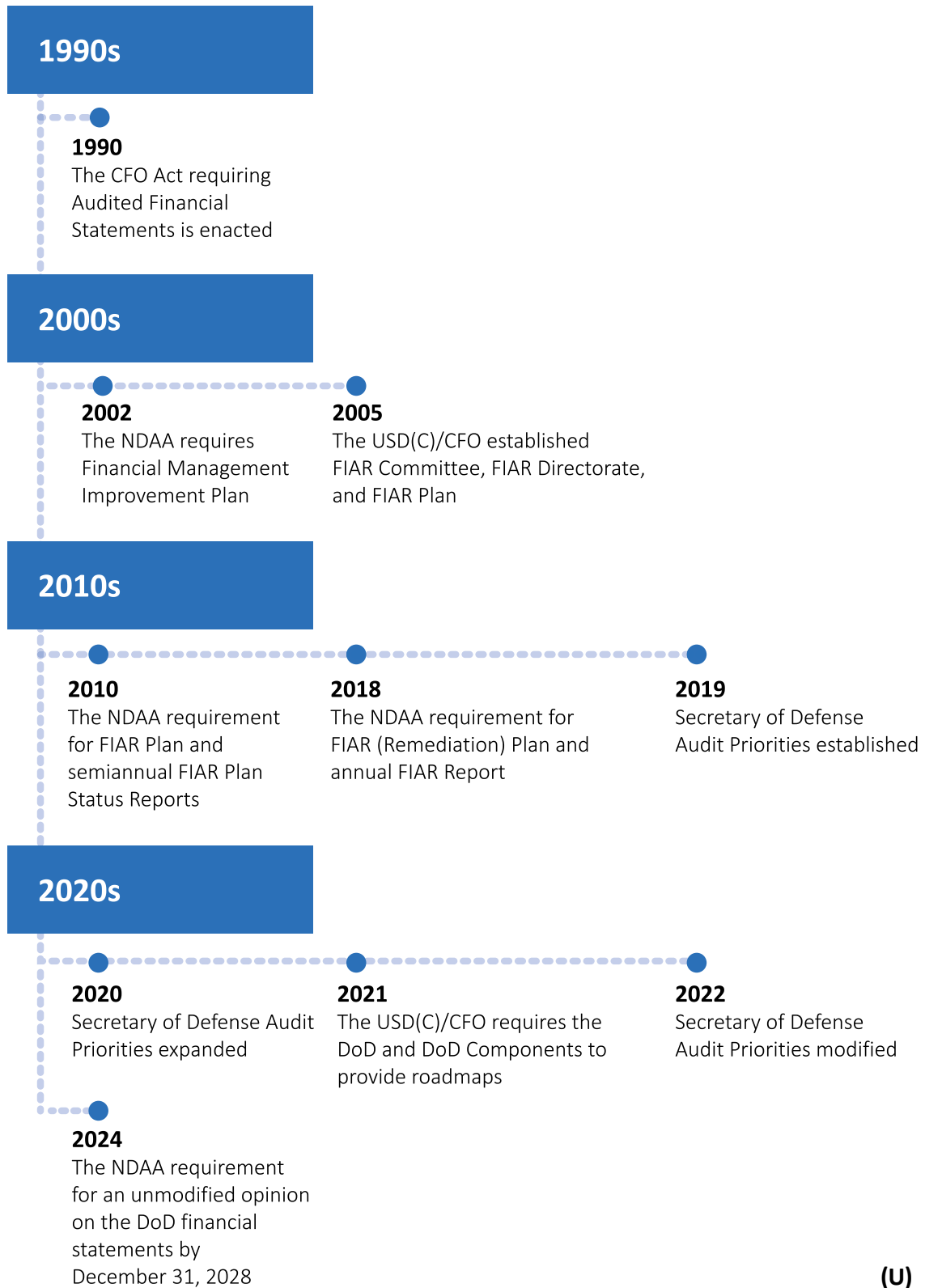
¹ (U) We use the acronym “FIAR” interchangeably throughout the report to mean “Financial Improvement and Audit Readiness” and “Financial Improvement and Audit Remediation.” “Financial Improvement and Audit Readiness” refers to FY 2002 through FY 2017, and “Financial Improvement and Audit Remediation” refers to FY 2018 to present.

² (U) This report contains information that has been redacted because it was identified by the Department of Defense as Controlled Unclassified Information (CUI) that is not releasable to the public. CUI is Government-created or owned unclassified information that allows for, or requires, safeguarding and dissemination controls in accordance with laws, regulations, or Government-wide policies.

³ (U) References to the Navy include the Marine Corps throughout this report.

(U) Figure 1. FIAR Program Timeline

(U)



(U)

(U) Source: The DoD OIG.

(U) After years of minimal progress within the DoD, Congress established requirements in section 1008 of the FY 2002 NDAA (Public Law 107-107) for the DoD to submit a report on the reliability of its financial statements, including a summary of the specific sections of its annual Financial Management Improvement Plan. Congress required the Financial Management Improvement Plan to summarize the priorities, milestones, and measures of success that applied to the preparation of the financial statements and to provide an estimate of when each financial statement would convey reliable information.

(U) The Office of the USD(C)/CFO (OUSD[C]/CFO) established the FIAR Committee to prepare a FIAR Plan in FY 2005 to provide a series of steps for financial improvement activities and auditability. The FIAR Plan outlined the DoD's near-term objectives in Military Equipment, the Medicare Eligible Retiree Health Care Fund, Real Property, and Environmental Liabilities. DoD Components prepared their own FIAR Plans to focus on specific steps they would take to achieve financial improvement. These steps included the discovery and correction of deficiencies, validation of the corrective action plans to remediate the deficiencies, assertion that the financial statements were ready for audit, and how the DoD Components would support the audit of the financial statements.

(U) Congress established a requirement in section 1003 of the FY 2010 NDAA (Public Law 111-84) for the USD(C)/CFO to develop and maintain the FIAR Plan. Specifically, Congress required USD(C)/CFO FIAR Plans to:

1. (U) describe specific actions the DoD would take, and the costs associated with correcting the financial management deficiencies and ensuring that the DoD financial statements were ready for audit by no later than September 30, 2017, and
2. (U) systematically tie the specific actions to process and control improvements.

(U) DoD Components began efforts to meet the audit readiness deadline outlined in the FY 2010 NDAA, including using contractor personnel. From FY 2010 to FY 2017, the Army, Navy, Air Force, and DLA spent more than \$2.02 billion on audit readiness support contracts to help the DoD prepare for the full financial statement audits that were required to begin in FY 2018.

(U) The FY 2018 NDAA removed the requirement for the Financial Improvement and Audit Readiness Plan and required the USD(C)/CFO to maintain a plan known today as the Financial Improvement and Audit Remediation Plan. The FIAR Plan included requirements to take specific actions, include interim milestones, and to estimate the associated costs with correcting the financial management deficiencies. Furthermore, the FY 2018 NDAA required the USD(C)/CFO to submit an annual report to Congress on the status of the implementation of the FIAR Plan. The DoD chose to use assistance from contractors to complete audit remediation efforts to move the DoD closer to receiving an unmodified audit opinion.

(U) In FY 2019, the Secretary of Defense established audit priorities for the DoD to focus on the corrective actions of material weaknesses found during the FY 2018 financial statement audits and other areas that provided the greatest value to the DoD's operations and Service Members. A material weakness is a deficiency, or combination of deficiencies, in internal control that indicates an entity will not be able to prevent, detect, or correct a material misstatement on its financial statements on a timely basis. The FY 2019 audit priorities focused on the material weaknesses of Real Property, Inventory, Operating Materials and Supplies, Government Property in the Possession of Contractors, and Information Technology-User Access Controls. Additionally, the audit priorities focused on implementing corrective action plans for all material weaknesses and establishing a plan to sustain the audit areas that did not contain internal control deficiencies. In FY 2020, the Secretary of Defense added three additional material weaknesses as audit priorities—Fund Balance with Treasury, Financial Reporting Internal Controls, and Joint Strike Fighter—for a total of eight priority material weaknesses.

(U) The OUSD(C)/CFO began maintaining a DoD-wide audit roadmap in FY 2021. In addition, each DoD Component under stand-alone audit with a disclaimer of opinion began maintaining its own audit roadmap. These roadmaps are designed to align strategies for remediating material weaknesses across the DoD, identify timelines for achieving audit opinions, prioritize focus areas, and help the OUSD(C)/CFO monitor progress and resources across the DoD Components. The audit roadmaps detail corrective action completion dates by fiscal year and financial statement line item or audit focus area.

(U) The Secretary of Defense narrowed the focus of the audit priorities for the DoD from eight to three in FY 2022. This narrower focus prioritized improving Fund Balance with Treasury, establishing user access controls, and creating a universe of transactions.⁴ Auditors cited these three priority areas as scope limitations for more than 18 years. These priority areas contributed to the auditors not being able to perform the necessary procedures to provide an opinion on the financial statements.

(U) The FY 2024 NDAA requires the Secretary of Defense to ensure that the DoD receives an unmodified opinion on the financial statements of the Department by December 31, 2028.⁵

(U) Full Financial Statement Audits

(U) The DoD underwent its first full financial statement audit in FY 2018 in accordance with the FY 2010 NDAA, along with 24 stand-alone audits for DoD reporting entities. Of the 24 stand-alone audits, 6 audits received an unmodified opinion and 2 received a qualified opinion. The remaining 16 stand-alone audits, along with the audit of the DoD's consolidated financial statements, resulted in a disclaimer of opinion. Auditors express an unmodified opinion when they conclude that management has presented the financial statements fairly and in accordance with Generally Accepted Accounting Principles. Auditors express a qualified opinion when they conclude that there are misstatements in the financial statements, which are material to the financial statement, but are not significant to the overall presentation of the financial statements. Auditors express a disclaimer of opinion when they are unable to obtain sufficient, appropriate audit evidence on which to base an opinion.

⁴ (U) Universe of Transactions falls under the original Secretary of Defense audit priority of Financial Reporting Internal Controls.

(U) A universe of transactions is a list of every financial event or transaction that happened during a specific timeframe that impact a financial statement balance.

⁵ (U) The language of the FY 2024 NDAA uses the term "unqualified opinion." The American Institute of Certified Public Accountants Codification of Statements on Auditing Standards, AU-C 700 uses the term "unmodified" versus "unqualified."

(U) Figure 2. Types of Audit Opinions

(U)

Types of Audit Opinions

Unmodified (also known as “Clean”)

- Planned audit procedures completed.
- Entity can provide supporting documents.
- Auditors conclude that management has presented financial statements, in all material respects, fairly and in accordance with Generally Accepted Accounting Principles.

Modified Opinions

Qualified

- Management is unable to provide sufficient and appropriate evidence to enable the auditor to conclude that material misstatements are not pervasive to the financial statements.
- Management is unable to obtain sufficient appropriate evidence to enable the auditor to support an unmodified opinion, but conclude that the possible effects of undetected material misstatements on the financial statements are not pervasive.

Adverse

- Planned audit procedures completed; however, auditors identified uncorrected misstatements.
- Auditors conclude that misstatements are both material and most likely widespread in the financial statements.

Disclaimer

- Planned audit procedures cannot be completed due to pervasive errors in data or the entity is unable to provide supporting documentation.
- Management is unable to provide sufficient, appropriate evidence for the auditors to conclude whether the financial statements were fairly presented in accordance with Generally Accepted Accounting Principles.

(U)

(U) Source: The DoD OIG.

(U) Between FY 2018 and FY 2022, the DoD consolidated two audits into one and added four stand-alone audits. In FY 2022, 9 audits received an unmodified opinion, 1 audit received a qualified opinion, and 16 audits and the DoD’s consolidated audit received a disclaimer of opinion.⁶ In FY 2023, 10 audits received an unmodified opinion, 1 audit received a qualified opinion, and 18 audits and the DoD’s consolidated audit received a disclaimer of opinion.⁷

⁶ (U) For FY 2022, the Office of Management and Budget exempted the Marine Corps from preparing audited financial statements because it was undergoing a 2-year audit cycle, which began in FY 2022. As a result, the Marine Corps General Fund is not included in these totals.

⁷ (U) The Defense Advanced Research Projects Agency and Defense Threat Reduction Agency went under stand-alone audits for the first time in FY 2023. These audits resulted in disclaimers of opinion.

(U) Figure 3. FY 2022 DoD Reporting Entity Financial Statement Audit Results

(U) Fiscal Year 2022 Audit Results			
Military Retirement Fund	U.S. Army Corps of Engineers – Civil Works	Defense Health Agency – Contract Resource Management	Defense Information Systems Agency Working Capital Fund
Defense Commissary Agency	Defense Finance and Accounting Service Working Capital Fund	Defense Contract Audit Agency	DoD OIG
National Reconnaissance Office			
Medicare-Eligible Retiree Health Care Fund			
Army General Fund	Army Working Capital Fund	Navy General Fund	Department of the Navy Working Capital Fund
Air Force General Fund	Air Force Working Capital Fund	Defense Logistics Agency Working Capital Fund	Defense Logistics Agency General Fund
Defense Logistics Agency Transaction Fund	Defense Health Program	Defense Information Systems Agency General Fund	U.S. Special Operations Command
U.S. Transportation Command	National Security Agency	Defense Intelligence Agency	National Geospatial-Intelligence Agency
Unmodified	Qualified	Disclaimer	(U)

(U) Note: Office of Management and Budget Bulletin No. 22-01 lists the Marine Corps as a DoD Component that is required to prepare audited financial statements; however, for FY 2022, the Office of Management and Budget exempted the Marine Corps from preparing audited financial statements, as they were under a 2-year audit cycle that would not be completed as of September 30, 2022. Therefore, we did not include results from the Marine Corps audit in our categories.

(U) Source: The DoD OIG.

(U) FIAR Guidance

(U) The OUSD(C)/CFO replaced its FY 2017 FIAR Guide in May 2018 with the DoD Financial Statement Audit Guide and the DoD Internal Control Over Financial Reporting Guide. The DoD Financial Statement Audit Guide provides DoD reporting entities with details regarding the methodology used to perform financial statement

(U) audits of Federal entities to help DoD Components prepare for and navigate a financial statement audit. The DoD Internal Control Over Financial Reporting Guide provides standard guidance regarding financial management and post-audit opinion activities within the DoD. The guide provides an overview of the relationship between the reporting entity's internal control environment and the independent audit of its financial statements.

(U) FIAR Contracts

(U) The DoD uses contractors to help the DoD's financial and functional communities accomplish the tasks necessary to achieve and maintain FIAR goals and objectives. A major objective of FIAR is to achieve an unmodified audit opinion for the DoD's financial statements. The objectives of the DoD's FIAR contracts are varied and contain requirements such as:

- (U) build an audit infrastructure to interact with external financial statement auditors and manage auditor requirements;
- (U) provide a strategy and plan to overcome material weaknesses identified in internal and external audits;
- (U) recommend new business processes or controls needed to achieve financial statement assertions;
- (U) monitor financial reporting controls and validate the corrective actions of the Components before official submission to the auditors; and
- (U) communicate and coordinate change management with the DoD Components' Senior Leadership.

(U) USD(C)/CFO FIAR Report

(U) The FY 2018 NDAA requires the USD(C)/CFO to report costs associated with correcting financial management deficiencies associated with the financial statement audits each fiscal year in the annual FIAR Report. To meet this requirement, the OUSD(C)/CFO uses the information the DoD Components provide within their Audit Resources Budget Submissions for government and contractor costs through Select and Native Programming (SNaP), a web-based application used to collect non-standard program and budget data requirements. The FIAR Report categorizes the government and contractor costs into three categories: (1) audit services, (2) audit support, and (3) audit remediation. Audit services are the contracted independent public accounting firm costs for conducting the audits. Audit support is the government and contractor costs for supporting the audits and responding to auditor requests. Audit remediation is the government and contractor costs for addressing findings and the costs of achieving and sustaining an auditable systems environment.

(U) The DoD reported that since FY 2018, it has spent around \$969 million on audit services, \$1.1 billion on audit support, and \$3 billion on audit remediation for a total of \$5 billion spent on DoD financial statement audits. See Table 1 for the costs in each category from FY 2018 through FY 2022.

(U) Table 1. Annual Financial Statement Audit Costs Since FY 2018

(U) Fiscal Year	Audit Services (in millions)	Audit Support (in millions)	Audit Remediation (in millions)	Total (in millions)
2018	\$182	\$231	\$559	\$973
2019	186	242	472	900
2020	184	223	518	926
2021	197	208	526	931
2022	220	206	926	1,352
Total	\$969	\$1,110	\$3,001	\$5,082 (U)

(U) Note: Totals may not equal the actual sum due to rounding.

(U) Source: The DoD OIG.

(U) Finding A

(U) DoD Management Did Not Effectively Manage or Report FIAR Contracts

(U) DoD Components did not effectively manage FIAR contracts or report accurate information to the OUSD(C)/CFO for the annual FIAR Report. Specifically, DoD Components self-identified the existence of 11 FIAR contracts, with obligated funds totaling \$1.54 billion as of September 30, 2022. However, we identified an additional 12 contracts containing FIAR-related objectives, valued at \$104 million, which the Army and Navy did not identify, and the DoD did not include in the annual FIAR Report. Additionally, DoD Components used inconsistent processes for identifying and reporting to the USD(C)/CFO the amount of funds spent on FIAR contracts.

(U) This occurred because the OUSD(C)/CFO did not define the specific tasks and types of contracts that DoD Components should report as supporting FIAR efforts or verify that the reported FIAR contract amounts were accurate or complete. Additionally, the Army and Navy did not have a centralized process to identify or report FIAR contracts. Without a definition of FIAR tasks or a centralized process, DoD Components cannot accurately or consistently determine the contract costs they should report as supporting remediation. As a result, DoD Components are unable to identify the total amount of obligated funds spent on their FIAR activities. In addition, the OUSD(C)/CFO does not have full visibility into the contracted FIAR remediation efforts of DoD Components, which increases the risk of duplication or conflicting tasks and the DoD spending funds on unnecessary or low-priority remediation efforts.

(U) DoD Components Did Not Have a Complete Universe of FIAR Contracts

(U) DoD Components identified 11 FIAR contracts with \$1.54 billion in obligations; however, the Army and Navy did not identify 12 contracts with \$104 million in obligations related to remediation efforts. Although the DoD Components identified contracts their FIAR offices managed, they did not identify a complete universe of FIAR contracts. Table 2 summarizes the DoD Component-identified and additional contracts we identified, and the total amount of funds obligated on those contracts as of September 30, 2022.

(U) Table 2. Universe of FIAR Contracts as of September 30, 2022

(U) DoD Component	FIAR Contracts Identified by DoD Components	Obligations (in Millions)	Additional FIAR Contracts Identified by Audit Team	Additional FIAR Contracts Obligations (in Millions)
Army	2	\$360	4	\$24
Navy	5	434	8	80
Air Force	1	504	0	0
DLA	3	245	0	0
Total	11	\$1,542	12	\$104

(U)

(U) Note: Totals may not equal the actual sum due to rounding.

(U) Source: The DoD OIG.

(U) We queried the Federal Procurement Data System (FPDS), a central repository of information on Federal contracts, for contracts that contained FIAR-related tasks for the Army, Navy, Air Force, and DLA. We identified 11 contracts for the Army and Navy with total obligated amounts of \$59 million that the Army and Navy did not identify as FIAR contracts. In addition to the contracts we identified in FPDS, we identified one classified FIAR contract for Navy classified work with obligated funds totaling \$45 million.

(U) Incomplete Universe of Army FIAR Contracts

(U) The Army did not identify two FIAR contracts with obligated funds totaling \$10 million. Office of Assistant Secretary of the Army (Financial Management and Comptroller) personnel, who report the audit resource costs to the OUSD(C)/CFO, stated that they were not aware of these two contracts with FIAR-related tasks managed by other Army commands. Personnel in the Assistant Secretary’s office stated that each command has its own staff dedicated to managing FIAR contracts, and most commands request FIAR support through the two contracts identified by the Army. Therefore, Army officials should develop and implement a centralized process for monitoring and ensuring awareness of all FIAR contracts within the Army. Additionally, we found two other contracts, with obligated funds totaling \$14 million, that contained financial statement compilation and reconciliation efforts that aligned with tasks the Navy, Air Force, and DLA included within their FIAR contracts. However, we are unable to determine whether these should be considered FIAR contracts because the OUSD(C)/CFO did not clearly define FIAR tasks in existing guidance.

(U) Incomplete Universe of Navy Contracts

(U) The Navy did not identify seven FIAR contracts with obligated funds totaling \$35 million. Navy personnel confirmed that three of the seven contracts were FIAR contracts and should have been included within their universe of active FIAR contracts. The Navy did not recognize or include the remaining four contracts as FIAR support because those contracts provided support for managing the day-to-day business operations not specifically audit support. Although the Navy did not include these contracts, the tasks were audit support-related, including tasks such as helping the Government conduct internal and external audit planning and supporting audit requirements, including collecting key supporting documents and providing post-visit deliverables. In addition, the Navy did not identify one classified FIAR contract for classified work with an obligated amount of \$45 million. In April 2023, to strengthen the governance of the Navy's FIAR resources, the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) issued a memorandum to the Navy budget submitting offices. The memorandum required the budget submitting offices to use the Financial Improvement Program contract vehicle from the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) for all FIAR requirements, unless otherwise permitted by the Office of the Assistant Secretary (Financial Management and Comptroller).⁸ Due to the implementation of this memorandum, we are not making a recommendation to the Navy regarding its controls over tracking its FIAR contracts.

(U) After discussions with Army and Navy personnel, we determined that the contracts and task orders we identified in FPDS contained FIAR-related tasks. Navy personnel confirmed that three of the seven contracts should have been included with the universe of their FIAR contracts. However, because the OUSD(C)/CFO guidance does not define the types of tasks that should be reported as FIAR support or provide instructions to report classified activities, the Army and Navy were unable to determine whether the remaining nine FIAR contracts should be reported. In addition, because there is no specific guidance defining FIAR tasks, additional contracts and task orders may exist that are not accounted for by DoD Components. Therefore, we recommend that the OUSD(C)/CFO strengthen existing FIAR guidance to clarify and define FIAR support tasks associated with the Audit Resources Budget Submission and the reporting requirements for classified activities FIAR contracts.

⁸ (U) Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) memorandum, "Financial Improvement Audit Remediation Support Contracts," April 13, 2023.

(U) DoD Components Reported Inaccurate FIAR Contract Costs to the OUSD(C)/CFO

(U) DoD Components did not report accurate FIAR contract costs to the OUSD(C)/CFO for inclusion in the annual FIAR Report. The OUSD(C)/CFO includes the FIAR contract costs, which the DoD Components submit through SNaP, in the Audit Resources Budget Submission. We determined that the Air Force and DLA used consistent methods to track and verify FIAR costs; however, the Army and Navy did not have consistent or accurate reporting methods for the budget submission. In addition, because the OUSD(C)/CFO did not provide a definition of the tasks associated with FIAR contracts, the universe of contracts used in the budget submission is not complete. As a result, the amounts reported in the FIAR Report from the Audit Resources Budget Submission could be understated due to the lack of a complete and accurate population of FIAR contracts.

(U) The OUSD(C)/CFO requires the DoD Components to submit government personnel and contractor costs for financial statement audits within SNaP. The instructions for reporting contractor costs, provided by the OUSD(C)/CFO, require DoD Components to report year-end actuals for the prior year. For the current and out years, DoD Components are required to report known costs and budget estimates using the President's budget inflation rate.

(U) Proper Reporting Practices of FIAR Contract Costs

(U) The Air Force and DLA had processes in place to verify the information reported in their Audit Resources Budget Submissions. Both Components track contracts that support FIAR efforts and allocate the costs across the required categories. Air Force personnel stated that they confirm the full-time equivalents broken down by task orders with the vendor to determine the hours required, and then use the labor category costs to determine the cost of each category by task order. The DLA manually tracks the costs associated with FIAR efforts throughout the year by the reporting categories and uses the information to compile the information required for the Audit Resources Budget Submission. The Air Force and DLA confirmed that they are using known costs and budget estimates for the current year.

(U) Inaccurate Reporting Processes of FIAR Contract Costs

(U) Army and Navy personnel did not have consistent or accurate processes for reporting FIAR contract costs to the OUSD(C)/CFO. The Army did not send data calls to internal commands and instead used the inflation rate from the prior year to prepare the Audit Resources Budget Submission. In addition, Army personnel did not verify that the information was accurate before submission.

(U) While Navy personnel performed a data call, they did not identify four FIAR contracts. Furthermore, the Marine Corps did not have standard operating procedures for entering the information into the audit resources budget exhibit. As a result, the amount reported in the Audit Resources Budget Submission was not complete or accurate.

(U) The Army Did Not Accurately Report Known FIAR Contract Costs in FY 2022

(U) Army personnel performed an internal data call with Army commands in FY 2020 to determine the audit remediation costs reported to the OUSD(C)/CFO. However, for the FY 2021 and FY 2022 budget requests, Army personnel did not conduct a data call to internal commands to obtain the known costs for the current year and instead used an inflation rate to determine the amount reported in the budget submission. Army personnel stated that they did not perform the data call because they did not have enough time. In addition, Army personnel confirmed that they relied on the information the commands provided for the FY 2020 data call and did not verify the amounts reported for the Audit Resources Budget Submission. Because Army personnel did not perform annual data calls, did not verify amounts that internal commands submitted during previous data calls, and excluded contracts that contained FIAR tasks, the amount reported to the OUSD(C)/CFO did not reflect complete or accurate FIAR contract costs. Therefore, Army personnel should develop and implement a centralized process for identifying and verifying all FIAR contract costs.

(U) The Navy Did Not Accurately Report Known FIAR Contract Costs in FY 2022

(U) The Navy did not identify all FIAR contracts for the Audit Resources Budget Submission. Navy personnel send a data call to the budget submitting offices and internally to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) on a semiannual basis. Navy personnel responsible for submitting the audit resource budget compile the data and update FIAR resources in the budget system, Program Budget Information System (PBIS), and they use the information in PBIS to prepare the figures reported in the budget submission. Navy personnel stated that the list of contracts they identified was consistent with the elements of the Audit Resources Budget Submission; however, they did not identify four contracts in their universe of FIAR contracts.

(U) The Marine Corps did not provide accurate information for the Audit Resources Budget Submission. The Marine Corps had a turnover of personnel and no standard operating procedures developed for the Audit Resources Budget Submission.

(U) Marine Corps personnel used a combination of information from PBIS and the inflated rate of the figures submitted in FY 2021 for their FY 2022 submission. The Marine Corps personnel performed a basic reconciliation of the data to determine the final figures they reported in each category for the Audit Resources Budget Submission; however, the personnel stated that they could have overestimated the budget for FIAR contracts because they did not closely track the budget data needed for the submission. Marine Corps personnel stated that they intend to send out a data call and pull execution data for the next budget submission to have figures that are more accurate.

(U) We determined that while Navy personnel conducted data calls and extracted information from PBIS, they did not identify the four additional contracts outlined above. In addition, the Marine Corps lacked standard operating procedures and a process to verify the information reported in the Audit Resources Budget Submission. As a result, the amount reported to the OUSD(C)/CFO for the Navy did not reflect complete or accurate FIAR contract costs. Therefore, Navy personnel should develop and implement a centralized process for identifying and verifying all FIAR contract costs.

(U) The OUSD(C)/CFO Does Not Verify FIAR Contract Costs in Annual FIAR Report

(U) The OUSD(C)/CFO prepares the annual FIAR Report, which includes the costs of financial statement audit remediation as required by the FY 2018 NDAA. However, the OUSD(C)/CFO does not verify the FIAR contract costs reported by the DoD Components for the Audit Resources Budget Submission before compiling the information for the FIAR Report. In addition, the OUSD(C)/CFO does not have full visibility into the contracted FIAR remediation efforts of the DoD Components. OUSD(C)/CFO personnel stated that they consolidate the amounts reported in SNaP to prepare the FIAR Report; however, they are unable to confirm which tasks support the amounts because they do not request the contracts that specifically account for the reported amounts. As a result, the audit remediation costs reported in the FIAR Report may not be complete or accurate. Additionally, because the OUSD(C)/CFO lacks full visibility into the remediation efforts, there is an increased risk that DoD Components could perform conflicting audit remediation tasks and that unnecessary spending of their funds for FIAR remediation efforts could go untracked. Therefore, the OUSD(C)/CFO should develop and implement a process to ensure that the Audit Resources Budget Submissions the DoD Components report are complete and meet FIAR reporting requirements, and to ensure that audit remediation tasks across the DoD Components are not conflicting.

(U) Conclusion

(U) The OUSD(C)/CFO relies on DoD Components to track and submit a complete universe of their FIAR contract costs for the annual FIAR Report for transparency into the cost of achieving an unmodified audit opinion to Congress and the public. The FIAR Report contains the cost of the audit support and remediation efforts that went into remediating the issues found during the DoD's audits each fiscal year. Because the OUSD(C)/CFO did not define the specific tasks the DoD Components need to report as supporting the FIAR efforts, the Army and Navy did not identify 12 FIAR contracts, valued at \$104 million, that contained audit support and remediation tasks. Without a definition of FIAR tasks, the DoD Components are unable to identify the total amount of funds spent on FIAR activities each year.

(U) In addition, Army and Navy personnel used improper reporting methods when submitting their FIAR contract costs by applying inflation rates to prior-year reported amounts rather than using the known cost of the current year and an inflation rate. Personnel in the OUSD(C)/CFO did not verify that reported FIAR contract costs were accurate or complete and did not have full visibility into the FIAR remediation efforts of the DoD Components. Unless the OUSD(C)/CFO implements a process to verify that reported FIAR contract costs are complete and meet the FIAR reporting requirements, the resulting FIAR Report will not provide an accurate amount spent on FIAR audit support and remediation costs each fiscal year.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation A.1

(U) We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. (U) Strengthen Financial Improvement and Audit Remediation guidance to:
 1. (U) Clarify and define Financial Improvement and Audit Remediation support tasks associated with the Audit Resources Budget Submission. At a minimum, the guidance should define all audit-related tasks required for reporting.

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

(U) The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, agreed with the recommendation and stated that they would strengthen FIAR guidance to clarify and define FIAR support tasks associated with the Audit Resources Budget Submission to include all audit-related tasks required for reporting.

(U) Our Response

(U) The response from the DCFO addressed the specifics of this recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when the USD(C)/CFO provides the updated FIAR guidance that clarifies and defines FIAR support tasks associated with the Audit Resources and Budget Submission.

2. **(U) Clarify and define reporting requirements of Financial Improvement and Audit Remediation contracts for classified activities.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

(U) The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that they would strengthen FIAR guidance to clarify and define reporting requirements of FIAR contracts for classified activities.

(U) Our Response

(U) The DCFO's response addressed the specifics of this recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when the USD(C)/CFO provides the updated FIAR guidance that clarifies and defines reporting requirements for FIAR contracts for classified activities.

- b. **(U) Develop and implement a process to ensure that the Audit Resources Budget Submissions the DoD Components report are complete and meet the Financial Improvement and Audit Remediation reporting requirements.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

(U) The DCFO, responding for the USD(C)/CFO, agreed with the intent of the recommendation and stated that the recommendation was to implement a review process from the DoD enterprise level. However, the DCFO stated that the true root cause lies with the Components implementing preventative and corrective controls to ensure that all budget exhibit submissions are complete and accurate.

(U) Our Response

(U) The DCFO's response did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We agree that the Components should implement preventative and corrective controls to ensure that all budget exhibit submissions are complete and accurate, and we believe recommendation A.2 addresses that shortcoming. However, Section 240b, title 10, United States Code (10 U.S.C. § 240b), requires the USD(C)/CFO to submit to the congressional defense committees a report on the status of the DoD's implementation of the FIAR Plan. The FIAR Plan requires that the USD(C)/CFO estimate the costs associated with correcting the financial management deficiencies that impair the DoD's ability to prepare timely, reliable, and complete financial management information. As noted in the report, we identified shortcomings in the data that DoD Components submitted, and the USD(C)/CFO ultimately included in the Audit Resources Budget Submission.

(U) For example, the Department of the Army and Department of the Navy did not include a complete universe of their FIAR contracts in their Audit Resources Budget Submission. The lack of controls at the USD(C)/CFO level resulted in this shortcoming not being detected until we conducted our audit. The USD(C)/CFO is responsible for reporting accurate data on the DoD's FIAR costs to the congressional defense committees and should ensure the completeness of the data being reported.

(U) We request that the USD(C)/CFO reconsider their position on the recommendation and provide comments on the final report within 30 days to address the specific actions they will take to ensure the Audit Resources Budget Submissions that the DoD Components report are complete and meet the FIAR reporting requirements.

- c. **(U) Develop and implement a process to ensure that audit remediation tasks across the DoD Components are not conflicting.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

(U) The DCFO, responding for the USD(C)/CFO, agreed with the intent of this recommendation and stated that a process should be developed and implemented to ensure that audit remediation tasks across the DoD Components are not conflicting. However, the DCFO stated that in order to address the root cause and instill a preventative and corrective control, the Components should develop and implement processes to ensure that audit remediation tasks within each Component are not conflicting. Additionally, the DCFO stated that the USD(C)/CFO memorandum, “Financial Improvement and Audit Remediation Contract Guidance,” dated April 22, 2024, advises Military Departments and other Components to request their respective Audit Agencies or internal auditors to annually validate the inventory of FIAR contracts for completeness and accuracy, which should also help confirm that audit remediation tasks across the DoD Components are not conflicting.

(U) Our Response

(U) The DCFO’s response did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We agree that the DoD Components should request their respective Audit Agencies or internal auditors to annually validate the inventory of FIAR contracts for completeness and accuracy and commend the USD(C)/CFO for issuing the “Financial Improvements and Audit Remediation Contract Guidance” memorandum with this advisement. In addition, we acknowledge the USD(C)/CFO plans to strengthen the FIAR Guidance to clarify and define FIAR support tasks associated with the Audit Resources Budget Submission to include all audit-related tasks required for reporting in response to Recommendation A.1.a. However, the steps initiated by the USD(C)/CFO will not address conflicts and inconsistencies across the enterprise because their efforts are focused internal to each entity. The USD(C)/CFO needs to have procedures in place to deconflict audit remediation tasks across the DoD Components.

(U) For example, the Army did not consider its contracts that contained financial statement compilation and reconciliation efforts as FIAR contracts, whereas the Navy, Air Force, and DLA included these types of contracts in their universe of FIAR contracts. We request that the USD(C)/CFO reconsider their position on the recommendation and provide comments on the final report within 30 days to address the issue of ensuring audit remediation tasks across the DoD Components are not conflicting.

(U) Recommendation A.2

(U) We recommend that the following officials develop and implement a centralized process to monitor Financial Improvement and Audit Remediation efforts across all commands. At a minimum, the process should include performing annual data calls, identifying Financial Improvement and Audit Remediation contracts, and verifying that the information submitted for the Audit Resources Budget Submission is complete and accurate.

- a. **(U) Assistant Secretary of the Army (Financial Management and Comptroller)**

(U) Assistant Secretary of the Army (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with this recommendation and stated that the Assistant Secretary will implement a corrective action plan by August 31, 2024, to incorporate a centralized overarching process for the FIAR contracts. This plan will also include alignment to the Audit Resources Budget Submission.

(U) Our Response

(U) The DCFO's response addressed the specifics of this recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when the Assistant Secretary of the Army (Financial Management and Comptroller) provides their corrective action plan by August 31, 2024.

- b. **(U) Assistant Secretary of the Navy (Financial Management and Comptroller)**

(U) Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed with this recommendation and stated that the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) has a centralized process to monitor FIAR efforts across all commands and uses the Department of the Navy Financial Improvement Program IV Indefinite Delivery, Indefinite Quantity Multiple Award contract, as directed by the April 2023 memorandum from the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller). In addition,

(U) the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) conducts twice-yearly data calls to the budget submitting offices to identify any relevant contract support not covered under the Principal Deputy Assistant Secretary's memorandum. Furthermore, the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) plans to:

- (U) issue a directive memorandum, signed by the Principal Deputy Assistant Secretary, requiring Navy commands to report any existing FIAR contracts based on the updated FIAR definitions from Recommendation A.1;
- (U) conduct periodic searches within contracting databases to identify any additional unreported FIAR contracts; and
- (U) document their analysis of reported contracts, based on agreed upon FIAR definitions, and obtain Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) leadership concurrence with the analysis.

(U) Our Response

(U) The DCFO's response addressed the specifics of this recommendation; therefore, the recommendation is resolved but will remain open. We commend the Principal Deputy Assistant Secretary for taking a proactive approach and issuing the "Financial Improvement Audit Remediation Support Contracts" memorandum in April 2023. We will close the recommendation once the Principal Deputy Assistant Secretary issues the directive memorandum and provides evidence of the periodic searches and the results of analysis of reported contracts.

(U) Finding B

(U) DoD Components Inefficiently Used FIAR Contracts and Funds to Support FIAR Goals

(U) DoD Components did not use FIAR contract resources and funds efficiently to meet FIAR goals. Specifically, DoD Components' FIAR contract tasks did not always align with FIAR remediation efforts such as the Secretary of Defense's audit priorities or their individual audit roadmap goals. Additionally, DoD Components used FIAR contracts to support non-remediation efforts and for tasks outside of the full financial statement audits.

(U) This occurred because the DoD Components used their FIAR contracts to overcome staffing shortfalls. Additionally, the OUSD(C)/CFO did not provide clear guidance on what tasks were appropriate under FIAR efforts and allowed the DoD Components to decide which tasks they deemed necessary to support FIAR efforts within the FIAR contracts. Furthermore, the OUSD(C)/CFO did not oversee how the DoD Components spent FIAR contract funds for their FIAR efforts. As a result, DoD Components reported spending more than \$75 million of FIAR contract funds on non-remediation efforts in FY 2022.⁹

(U) DoD Components Used FIAR Contract Resources and Funds for Non-Remediation Efforts

(U) DoD Components did not use FIAR contract resources and funds efficiently to prepare for the full financial statement audits beginning in FY 2018 and to progress the audits by downgrading material weaknesses or significant deficiencies in the pursuit of an unmodified audit opinion through FY 2022. Between FY 2010 and FY 2017, the DoD Components spent more than \$2.02 billion on FIAR contractor support to prepare their reported financial data for the first full financial statement audit in FY 2018. However, the contractor support from FY 2010 to FY 2017 did not help sufficiently prepare the DoD Components for their full financial statement audits. In addition, DoD Components have spent more than \$1.54 billion since FY 2018 on FIAR contracts to help remediate audit findings and support the audits; however, they were unable to obtain an unmodified audit opinion as of FY 2022.¹⁰

⁹ (U) Non-remediation efforts consist of actions that do not contribute to completing corrective actions to address audit findings.

¹⁰ (U) The Marine Corps received an unmodified audit opinion on its FY 2023 General Fund Financial Statements; however, the Army, Navy, Air Force, and DLA received disclaimers of opinion on their FY 2023 financial statements.

(U) In FY 2019, the Secretary of Defense established audit priorities for the DoD to focus on the corrective actions of material weaknesses found during the FY 2018 financial statement audits. Because the audits over the next few years showed minimal progress, the Secretary of Defense updated the priority areas in FY 2022 for the DoD to focus on the foundational goals of improving Fund Balance with Treasury, establishing user access controls, and creating a Universe of Transactions and financial reporting internal controls. In addition to the Secretary of Defense's audit priorities, the USD(C)/CFO required each DoD Component to maintain its own audit roadmap that identified timelines for achieving its unmodified audit opinion, prioritize focus areas, and help the OUSD(C)/CFO monitor progress and resources across the DoD Components.

(U) DoD Components had a combined 101 material weaknesses and 13 significant deficiencies in the beginning of FY 2022.¹¹ The Army and DLA did not project any material weaknesses or significant deficiency downgrades in FY 2022 on their audit roadmaps; however, the Navy and Air Force projected 10 total material weaknesses to downgrade. Of the 10 projected material weaknesses, the Navy downgraded 1 material weakness to a significant deficiency, and the Air Force completely remediated 1 material weakness, resulting in only 2 of the 10 targeted material weaknesses being downgraded.

(U) DoD Components Used FIAR Contracts for Audit Support and Normal Business Operations

(U) The DoD Components used FIAR contracts that contained tasks that generally aligned with the remediation efforts of the Secretary of Defense's audit priorities and their individual roadmap goals; however, they spent approximately \$75 million of FIAR contract funds in FY 2022 in areas not aligned with remediation efforts. We found that the DoD Components used their FIAR contracts for audit support and normal business operations, such as responding to auditor requests for key supporting documentation, coordinating meetings between auditors and Component stakeholders, and assisting with preparing the Agency Financial Reports (AFRs).

(U) The DoD Components used their FIAR contracts for non-remediation efforts because they relied on contractors due to staffing level shortfalls and a lack of government personnel with sufficient accounting and audit readiness training and experience. Additionally, the OUSD(C)/CFO did not provide clear guidance on the tasks allowed under FIAR for the DoD Components to follow. According to the FY 2024 NDAA, the DoD Components have until December 31, 2028, to

¹¹ (U) The number of material weaknesses at the beginning of FY 2022 included eight material weaknesses for the Marine Corps. Due to the 2-year audit opinion, the Marine Corps did not have any projected downgrades in FY 2022.

(U) receive an unmodified audit opinion. The DoD Components' use of FIAR contract funds and resources on non-remediation efforts provides limited benefits toward helping DoD Components achieve an unmodified audit opinion by the December 31, 2028 requirement date. Furthermore, DoD Components' overreliance on contractor personnel knowledge and resources will continue even after they obtain unmodified audit opinions due to DoD Component staffing shortfalls and difficulty maintaining a fully trained workforce needed for sustaining proper accounting and audit readiness.

(U) Army

(U) The Army used its FIAR contracts toward non-remediation efforts such as addressing staffing and process shortfalls. Army officials stated that they used more than half of their FIAR contract funding to facilitate audit responses and support audit requests, with the remaining funds aligned to governance and remediation efforts. The Army's General Fund FIAR contract required the contractor to track and provide accountability for responses to auditor documentation and sample requests, provide command level support for audit documentation and sample responses, and maintain service provider relationships and coordination.¹² Additionally, the Army's Working Capital Fund FIAR contract required the contractor to facilitate the collection and transmission of audit samples, track and provide the status of audit support documentation and sample requests, and maintain audit response tools such as contact lists and checklists. Although there is no clear definition of FIAR contract tasks, if the Army continues to use more than half of its FIAR contract funds for audit support, the Army will limit available resources needed to remediate outstanding audit findings, which will hinder its progress toward its goal of an unmodified audit opinion in FY 2026 for the Working Capital Fund and FY 2027 for the General Fund financial statements.

(U) Furthermore, the Army will not be prepared to sustain its unmodified audit opinions due to its current heavy reliance on contractors. Based on the knowledge gained while undergoing the full financial statement audits since FY 2018, Army officials stated that they plan to add additional trained government staff to the Army's audit effort and modify their FIAR contracts in the future to include more objective-based contract tasks. Therefore, we recommend that the Army develop and implement a strategy to align its FIAR contracts to the annual Secretary of Defense audit priorities and Army-specific roadmap goals to meet the remediation

¹² (U) A service provider is an external party that performs operational processes for an entity.

(U) goals set forth in the FY 2024 NDAA of achieving an unmodified audit opinion by FY 2028. Additionally, we recommend that the Army develop and implement a plan to reduce the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion.

(U) Navy

(U) The Navy used FIAR contract funds toward audit support tasks and producing its quarterly and annual AFRs and financial statements. The FIAR contractors also served as the main liaison between the Navy and the auditors for audit response and coordination. Specifically, the Navy required the FIAR contractors to track auditor documentation requests, samples, and follow-up requests. In addition, the Navy required the FIAR contractors to produce the quarterly and annual Navy AFRs and financial statements, including the balance sheet, statement of net cost, change of net position, and statement of budgetary resources. Although there is no clear definition of FIAR contract tasks, if the Navy continues to use its FIAR contracts to complete non-remediation tasks, the Navy will limit available resources needed to remediate outstanding audit findings, which will hinder its progress toward its goal of an unmodified audit opinion in FY 2028 for the General Fund and Working Capital Fund financial statements.

(U) Furthermore, the Navy will be unable to conduct its normal business operation of compiling its AFRs and financial statements once the Navy receives its unmodified audit opinion if it continues to rely on FIAR contractors to complete this task. Navy officials stated that they plan to see a downward trend of using contractors for FIAR support as the Navy moves toward an unmodified audit opinion; however, the Navy is still multiple years away from achieving this goal. Therefore, we recommend that the Navy develop and implement a strategy to align its FIAR contracts to the annual Secretary of Defense audit priorities and Navy-specific roadmap goals to meet the remediation goals set forth in the FY 2024 NDAA of achieving an unmodified audit opinion by FY 2028. Additionally, we recommend that the Navy develop and implement a plan to reduce the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion.

(U) Air Force

(U) The Air Force used FIAR contract funds toward providing audit liaison support and assisting with the preparation of the annual AFR. The audit liaison task required the contractor to complete tasks such as generating reports to assess the status of audit supporting documentation requests, receiving and consolidating audit samples, and assisting with the logistics of organizing site visits. The AFR

(U) task required the contractor to conduct non-remediation efforts such as developing three options for the overall AFR theme each fiscal year for the Air Force to select, researching and recommending graphics for inclusion in the AFR to improve the presentation of the information, and reviewing and editing various sections of the AFR. Air Force officials stated that they used the Air Force's FIAR contract to address staffing shortfalls, as they were unable to staff their positions with DoD employees because independent public accounting firms offered higher salaries. Although there is no clear definition of FIAR contract tasks, if the Air Force continues to use its FIAR contracts to complete non-remediation tasks, the Air Force will limit available resources needed to remediate outstanding audit findings and hinder its ability to achieve its goal of receiving an unmodified audit opinion in FY 2026 for the General Fund and FY 2028 for the Working Capital Fund financial statements.

(U) Furthermore, the Air Force will not be prepared to complete these non-remediation tasks once it receives an unmodified audit opinion if it continues to rely on the FIAR contractors. Therefore, we recommend that the Air Force develop and implement a strategy to align its FIAR contracts to the annual Secretary of Defense audit priorities and Air Force-specific roadmap goals to meet the remediation goals set forth in the FY 2024 NDAA of achieving an unmodified audit opinion by FY 2028. Additionally, we recommend that the Air Force develop and implement a plan to reduce the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion.

(U) DLA

(U) DLA management officials stated that they used FIAR contract support to respond to auditor requests and facilitate the execution of the audit in prior years, but recently moved toward using their FIAR contract support for professional advice on how to achieve unmodified audit opinions. Even though DLA management officials stated that they made this change, we determined that the DLA still used its FIAR contracts for audit support and the compilation and publication of its AFRs. The DLA required its contractor to support the DLA with technical and functional support of the tool the DLA used to respond to auditor requests, and for managing documentation, meeting, and site visit requests. The AFR task included using the contractor to identify the appropriate party that may provide the information needed to populate the various sections of the AFR and assisting DLA management with gathering data for the AFR. Although there is no clear definition of FIAR contract tasks, if the DLA continues to use its FIAR contracts to complete non-remediation tasks, the DLA will limit available resources

(U) needed to remediate outstanding audit findings and hinder its ability to meet its goal of receiving an unmodified audit opinion in FY 2024 for its Transaction Fund, FY 2025 for its General Fund, and FY 2028 for its Working Capital Fund financial statements.

(U) Furthermore, the DLA will not be prepared to complete non-remediation tasks once it receives an unmodified audit opinion if it continues to rely on the FIAR contractors. Therefore, we recommend that the DLA develop and implement a strategy to align its FIAR contracts to the annual Secretary of Defense audit priorities and DLA-specific roadmap goals to meet the remediation goals set forth in the FY 2024 NDAA of achieving an unmodified audit opinion by FY 2028. Additionally, we recommend that the DLA develop and implement a plan to reduce the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion.

(U) DoD Components Used Unclear FIAR Guidance

(U) The OUSD(C)/CFO updated its FIAR guidance in May 2018 to transition from preparing for the financial statement audits to remediating the financial statement audit findings; however, the OUSD(C)/CFO did not distinguish the types of tasks that it would define as FIAR. Current FIAR guidance provides the DoD Components with information on how to navigate a financial statement audit and reiterates the importance of establishing an effective internal control program, but the guidance does not define appropriate FIAR tasks. We found that the DoD Components had different interpretations of FIAR tasks because there were no guidelines to follow. For example, the Navy, Air Force, and DLA considered helping to prepare the AFRs as a task within their FIAR contracts; however, the Army did not acknowledge this task as FIAR because it was for financial statement preparation and the Army did not include it as a task within its FIAR contract. The AFRs support the reporting requirements from multiple legislations, and the DoD Components will still publish the AFRs once they receive an unmodified audit opinion; therefore, the DoD Components should consider this task to be a part of normal business operations.¹³ Without a clear definition of FIAR tasks, DoD Components will continue to use FIAR contracts inefficiently. Therefore, we recommend that the OUSD(C)/CFO develop and implement guidance to clarify the types of tasks appropriate to support FIAR.

¹³ (U) The AFR satisfies the reporting requirements contained in the Federal Managers' Financial Integrity Act of 1982, Chief Financial Officers Act of 1990, Federal Financial Management Improvement Act of 1996, Reports Consolidation Act of 2000, and Payment Integrity Information Act of 2019.

(U) The Army and Navy Used FIAR Contractors for Tasks Unrelated to Full Financial Statement Audits

(CUI) [REDACTED]

(U) Conclusion

(U) DoD Components have spent more than \$3.56 billion on FIAR contracts since FY 2010 to help meet FIAR goals and move the DoD closer to receiving an unmodified audit opinion; however, we found that the DoD Components did not consistently use their FIAR contracts for remediation efforts that began in FY 2018. Because the DoD Components spent approximately \$75 million of FIAR contract funds on audit support to help facilitate the audits in FY 2022, they were unable to use those funds for remediation efforts that would have helped them meet the Secretary of Defense’s audit priorities, fulfill their individual audit roadmap goals, and achieve the FIAR goal of receiving an unmodified audit opinion.

(CUI) [REDACTED]

(U) Management Comments on the Finding and Our Response

(U) Although not required to comment, the DCFO provided comments on this Finding on behalf of the Department of the Air Force. For the full text of the Department of the Air Force's comments and our response, see Appendix B.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation B.1

(U) We recommend that the following officials develop and implement a strategy to align their Financial Improvement and Audit Remediation contracts to the annual Secretary of Defense audit priorities and their Component roadmaps to meet audit remediation goals. At a minimum the strategy should include how they plan to use their contractors and an evaluation of current contract requirements to meet the remediation goal of receiving an unmodified audit opinion by December 31, 2028:

- a. (U) Assistant Secretary of the Army (Financial Management and Comptroller)

(U) Assistant Secretary of the Army (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Army (Financial Management and Comptroller), partially agreed with the recommendation and stated that the establishment of the base award of the most current Army FIAR contract predates the Secretary of Defense annual audit priorities or Component roadmap requirements; however, the tasks and deliverables executed by the vendors can be aligned to these areas, and the Army is in the process of reevaluating all Army FIAR contracts for future alignment to the audit priorities. Additionally, the DCFO stated that the Assistant Secretary will work closely with the OUSD(C)/CFO to meet the audit readiness goals and will have a corrective action plan in place by August 30, 2024.

(U) Our Response

(U) The DCFO's response addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We acknowledge that the Army's current FIAR contracts predate the creation of the Secretary of Defense annual audit priorities or Component roadmap requirements. We will close the recommendation when the Assistant Secretary of the Army (Financial

(U) Management and Comptroller) provides the corrective action plan and we verify that the corrective action plan describes how the Assistant Secretary plans to use contractors going forward and an evaluation of their current contract requirements to meet the remediation goal of receiving an unmodified audit opinion by December 31, 2028.

b. (U) Assistant Secretary of the Navy (Financial Management and Comptroller)

(U) Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), disagreed with the recommendation and stated that the Department of the Navy already implemented a strategy to include a contract structure that is fully aligned to the DoD financial management strategy and Secretary of Defense annual audit priorities via the Department of the Navy Financial Management Strategy and Department of the Navy audit roadmap priorities. Additionally, the DCFO stated that the Department of the Navy modified its contracting approach to achieve specific outcomes rather than providing “best effort” in FY 2022 and shifted to shorter firm-fixed-price task orders to meet the audit remediation goals as laid out in the audit roadmap and hold the vendor accountable with measurable goals.

(U) Our Response

(U) Although the DCFO disagreed with the recommendation, the DCFO’s response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the strategy the Department of the Navy implemented and the modification of its contracting approach fully address the recommendation.

c. (U) Assistant Secretary of the Air Force (Financial Management and Comptroller)

(U) Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed with this recommendation and stated that their current audit roadmap outlines audit priorities by fiscal year completion through FY 2028 and each task order on their FIAR contract is mapped to Department of the Air Force material weaknesses. Additionally, the DCFO stated that the Department of the Air Force is tracking a qualified opinion by FY 2026 for the General Fund and FY 2028 for the Working Capital Fund; however, the new

(U) mandate from the FY 2024 NDAA will force the Department of the Air Force to accelerate remediation efforts on the audit roadmap, realigning audit priorities and remediation goals.

(U) Our Response

(U) The DCFO's response partially addressed the recommendation; therefore, the recommendation is unresolved. The DCFO stated that the Department of the Air Force has each task order of its FIAR contract mapped to Department of the Air Force material weaknesses; however, the DCFO did not comment on how the Department of the Air Force plans to use its contractors or an evaluation of its current FIAR contract requirements to receive an unmodified audit opinion by December 31, 2028.

(U) We request that the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide comments within 30 days in response to the final report to fully address our recommendation to include how they plan to use their contractors and current FIAR contracts to meet the remediation goal of receiving an unmodified audit opinion by December 31, 2028.

d. (U) Chief Financial Officer of the Defense Logistics Agency

(U) Chief Financial Officer of the Defense Logistics Agency Comments

(U) The DCFO, responding for the Chief Financial Officer of the DLA, agreed with the recommendation and stated that the DLA will expand its current strategy to include the alignment of contractor support with remediation efforts.

(U) Our Response

The DCFO's response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation after we verify that the DLA plans to use their contractors and current FIAR contracts to meet the remediation goal of receiving an unmodified audit opinion by December 31, 2028.

(U) Recommendation B.2

(U) We recommend that the following officials develop and implement a plan to reduce the use of contractors when transitioning their Component from remediation to sustaining an unmodified audit opinion. At a minimum, the plan should include how they will transfer the contractor's knowledge to their workforce and estimate the level of contractor assistance still needed:

- a. (U) Assistant Secretary of the Army (Financial Management and Comptroller)**

(U) Assistant Secretary of the Army (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Army (Financial Management and Comptroller), agreed with the recommendation and stated that the Army has taken preemptive steps to perform a workforce assessment and will include specific transition language in future contract actions to transfer vendor knowledge to the Army. The DCFO stated that a full comprehensive plan will be completed by September 30, 2025.

(U) Our Response

(U) The DCFO's response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Department of the Army's plan addresses reducing the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion, how the Army will transfer the contractor's knowledge to its workforce, and an estimate for the level of contractor assistance still needed.

b. (U) Assistant Secretary of the Navy (Financial Management and Comptroller)

(U) Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), disagreed with the recommendation and stated that the Department of the Navy already has a plan to reduce the use of contractors and structures its contracts to require contractors to provide a plan to transition remediated processes to the Government for sustainment. Additionally, the DCFO stated that the Department of the Navy annually performs a strategic review of both government and contractor resources and will continue to do so through the achievement of an unmodified audit opinion and into sustainment. Furthermore, the DCFO stated that the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) is actively planning for an upskilled workforce beyond FY 2028 through recruiting and retention practices, strengthening and diversifying workforce knowledge and skills, and workplace efficiencies.

(U) Our Response

(U) Although the DCFO disagreed with the recommendation, the DCFO's response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the Department of the Navy's plan addresses reducing the use of contractors

(U) when transitioning from remediation to sustaining an unmodified audit opinion, how the Navy will transfer the contractor's knowledge to its workforce, and an estimate for the level of contractor assistance still needed.

c. (U) Assistant Secretary of the Air Force (Financial Management and Comptroller)

(U) Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments

(U) The DCFO, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed with the recommendation and stated that the level of contractor support significantly decreases based on the transition from remediation to sustaining an unmodified audit opinion on the current approved audit roadmap at FY 2028. Additionally, the DCFO stated that the Department of the Air Force is currently recompeting its FIAR contract and will require contract terms and conditions to transfer knowledge to government personnel.

(U) Our Response

(U) The DCFO's response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the contract terms and conditions within the new Department of the Air Force FIAR contract address reducing the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion and how the Air Force will transfer the contractor's knowledge to its workforce.

d. (U) Chief Financial Officer of the Defense Logistics Agency

(U) Chief Financial Officer of the Defense Logistics Agency Comments

(U) The DCFO, responding for the Chief Financial Officer of the DLA, agreed with the recommendation and stated that the DLA will develop a transition plan to address contractor staff augmentation work and knowledge transfer to the DLA workforce after remediation efforts.

(U) Our Response

(U) The DCFO's response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation after we verify that the DLA's transition plan addresses reducing the use of contractors when transitioning from remediation to sustaining an unmodified audit opinion, how the DLA will transfer the contractor's knowledge to its workforce, and an estimate for the level of contractor assistance still needed.

(U) Recommendation B.3

(U) We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. **(U) Develop and implement updated Financial Improvement and Audit Remediation guidance, including a definition of Financial Improvement and Audit Remediation. At a minimum, the guidance should define the allowable processes and tasks that fall under Financial Improvement and Audit Remediation and the use of contractor personnel to help with Financial Improvement and Audit Remediation tasks.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

(U) The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the USD(C)/CFO is using lessons learned from the Marine Corps' clean audit journey to further accelerate progress toward their FY 2028 goal, and the USD(C)/CFO will develop and implement updated FIAR guidance that includes a definition of FIAR. Additionally, the DCFO stated that the guidance will define the allowable processes and tasks that fall under FIAR and the use of contractor personnel to help with FIAR tasks.

(U) Our Response

(U) The DCFO's response addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation after we review and verify that the updated FIAR guidance has fully addressed the recommendation.

- b. **(U) Develop and implement performance measures to monitor the Financial Improvement and Audit Remediation contracts for overall effectiveness, including verifying the appropriateness of the tasks and funds spent.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments

(U) The DCFO, responding for the USD(C)/CFO, disagreed with the recommendation and stated that the implementation of Recommendation B.3.a will establish the definitions of allowable processes under FIAR and the appropriate use of contractor personnel to help with FIAR tasks. Additionally, the DCFO stated that it would be duplicative for the USD(C)/CFO to conduct the performance measures because contracting officer's representatives, as part of their duties, monitor the overall effectiveness of work performed, including verifying the appropriateness of tasks and funds spent in accordance with a contract's statement of work.

(U) Our Response

(U) The DCFO's response did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We agree that the implementation of Recommendation B.3.a will assist the DoD Components with the effectiveness of their FIAR contracts; however, the USD(C)/CFO needs to provide oversight of the FIAR contracts at the DoD level to verify that the contracts are being executed in accordance with the USD(C)/CFO guidance and the DoD Components use the contract funds to make progress toward an unmodified audit opinion. We disagree that developing and implementing performance measures to monitor the overall effectiveness of FIAR contracts, including verifying the appropriateness of tasks and funds spent in accordance with CFO guidance, is duplicative of the duties conducted by the contracting officer's representatives.

(U) We request that the USD(C)/CFO reconsider their position on the recommendation and provide comments on the final report within 30 days to describe the specific actions they will take to develop and implement performance measures at the DoD level to monitor the FIAR contracts for overall effectiveness.

(U) Appendix A

(U) Scope and Methodology

(U) We conducted this performance audit from May 2022 through May 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(U) To determine whether the DoD Components effectively managed FIAR contracts, we sent audit surveys to financial management leadership and interviewed FIAR officials, contracting officers and contracting officer's representatives, and personnel responsible for submitting the Audit Resources Budget Submission from the following DoD Components.

- (U) Army
- (U) Navy
- (U) Air Force
- (U) USD(C)/CFO
- (U) DLA

(U) We reviewed 11 contracts from the Electronic Data Access system that DoD Components self-identified as supporting their FIAR efforts, as of September 30, 2022, to determine the amount of funds spent and evaluate the requirements within each contract. We compared the requirements with the FY 2022 Secretary of Defense Audit Priorities and Component-specific roadmap goals to determine whether the requirements aligned with these areas. Furthermore, we reviewed the requirements to determine whether the contracts and task orders aligned to audit remediation efforts. Additionally, we conducted an inquiry of FPDS to determine whether DoD Components provided a complete universe of FIAR contracts. We identified 11 contracts within FPDS and met with FIAR officials to discuss the contracts within FPDS that contained FIAR tasks but were not identified by the DoD Components. In addition, we identified one classified FIAR contract that the DoD Components did not identify.

(U) To determine whether DoD Components made significant progress from FY 2018 to FY 2022 within the financial statement audits, we analyzed the DoD Components' annual AFRs to identify downgrades in material weaknesses or significant deficiencies. Additionally, we reviewed the Deputy Management

(U) Action Group slide deck to analyze the DoD Components' progress, money spent on remediation efforts for the FY 2022 Secretary of Defense Audit Priorities, and successes and challenges the DoD Components faced during FY 2022.

(U) This report was reviewed by the DoD Components associated with this oversight project to identify whether any of their reported information, including legacy FOUO information, should be safeguarded and marked in accordance with the DoD CUI Program. In preparing and marking this report, we considered any comments submitted by the DoD Components about the CUI treatment of their information. If the DoD Components failed to provide any or sufficient comments about the CUI treatment of their information, we marked the report based on our assessment of the available information.

(U) Internal Control Assessment and Compliance

(U) We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed control activities, information and communication, monitoring, and control environment significant to determining whether DoD Components effectively managed FIAR contracts and awarded support contracts that met the FIAR goal of providing a reliable financial environment, and whether they used appropriated funds efficiently when obtaining independent public accountant contractor support. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

(U) Use of Computer-Processed Data

(U) We did not use computer-processed data to perform this audit.

(U) Prior Coverage

(U) During the last 5 years, the Government Accountability Office (GAO), the DoD Office of Inspector General (DoD OIG), and the Department of the Navy issued seven reports discussing financial statement audits. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

(U) GAO

(U) Report No. GAO 23-105784, “DoD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DoD’s Financial Statements,” May 2023

(U) The GAO determined that the DoD took steps to achieve an unmodified (clean) audit opinion—when the auditor finds that financial statements are presented fairly in accordance with U.S. generally accepted accounting principles. These steps included developing audit priority areas, a financial management strategy, corrective action plans, and audit roadmaps. However, the GAO found that these DoD plans lacked details that are important to achieving a clean audit opinion. In addition, the DoD’s financial management strategy focused on high-level DoD financial management priorities and was not specific to achieving a clean opinion. The GAO also found that the DoD has consistently missed target remediation dates provided in its DoD-wide roadmap.

(U) Report No. GAO 21-157, “DoD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits,” October 2020

(U) The GAO determined that the DoD continues to face financial management issues and challenges that have prevented it from obtaining a clean audit opinion of the fair presentation of its financial statements. Specifically, financial statement auditors issued disclaimers of opinion on the DoD’s and the Military Services’ FY 2018 and 2019 financial statements. These disclaimers resulted from numerous material weaknesses based on thousands of notices of findings and recommendations (NFRs) that the auditors issued. Of the 2,409 NFRs issued to the DoD and its Components in FY 2018, the DoD’s auditors were able to close 623 (26 percent) in FY 2019; the remaining 1,786 (74 percent) remained open.

(U) DoD OIG

(U) Report No. DODIG-2023-070, “Understanding the Results of the Audit of the DoD FY 2022 Financial Statements,” May 16, 2023

(U) The DoD OIG summarized the results of the Audit of the FY 2022 DoD Financial Statements. Auditors issued a disclaimer of opinion on the DoD Agency-Wide Basic Financial Statements, which did not change from the prior year. Auditors closed 633 prior-year NFRs, reissued 2,505 NFRs, and issued 479 new NFRs. Additionally, the auditors identified 28 material weaknesses, which are weaknesses in internal control that result in a reasonable possibility that management will not prevent, or detect and correct, a

(U) material misstatement in the financial statement in a timely manner. While the number of material weaknesses did not change from FY 2021, the DoD OIG combined three prior-year material weaknesses into repeat material weaknesses and identified three new material weaknesses.

(U) “Understanding the Results of the Audit of the DoD FY 2021 Financial Statements,” May 18, 2022

(U) The DoD OIG summarized the results of the Audit of the FY 2021 DoD Financial Statements. Auditors issued a disclaimer of opinion on the DoD Agency-Wide Basic Financial Statements, which did not change from the prior year. Auditors closed 808 prior year NFRs, reissued 2,678 NFRs, and issued 690 new NFRs. Additionally, the auditors identified 28 material weaknesses, which are weaknesses in internal control that result in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statement in a timely manner. The DoD estimates that it will not obtain a clean audit opinion for at least another 7 years.

(U) “Understanding the Results of the Audit of the DoD FY 2020 Financial Statements,” February 23, 2021

(U) In FY 2020, auditors closed 857 FY 2019 NFRs, compared to 698 NFRs closed the prior year. In addition, the Navy Working Capital Fund, Air Force Working Capital Fund, Marine Corps General Fund, and the Defense Health Program General Fund had FY 2019 material weaknesses that were either downgraded to significant deficiencies or cleared completely. Auditors also noted that the DoD and its Components better understood and developed their business processes and improved supporting documentation for transactions selected for testing. As a result, auditors were able to expand testing in areas previously tested, test in new areas, and draw conclusions on transactions selected for testing. While the auditors noted progress, much more progress is necessary. This year, the DoD OIG again issued a disclaimer of opinion on the DoD’s FY 2020 financial statements. As described in this report, the audits continued to identify new NFRs and reissued a significant number of NFRs from the prior year. Specifically, in FY 2020, auditors reissued 2,641 FY 2019 NFRs and issued 918 new NFRs. Auditors also identified 26 agency-wide material weaknesses.

(U) "Understanding the Results of the Audit of the DoD FY 2019 Financial Statements," January 28, 2020

(U) This year, the DoD made progress in improving its financial management, but much more progress needs to be made. The first year the DoD underwent a full financial statement audit, in FY 2018, in addition to the disclaimer of opinion on the DoD Agency-Wide financial statements, auditors issued 2,595 NFRs to the DoD and its Components. This year, the DoD OIG again issued a disclaimer of opinion on the DoD's FY 2019 financial statements. As described in this report, the audits continued to identify material weaknesses and NFRs. The auditors identified 25 agency-wide material weaknesses, which included 8 new findings and 8 modified FY 2018 findings. The auditors reissued 1,897 FY 2018 NFRs and issued 1,575 new FY 2019 NFRs. As discussed in the report, however, the auditors identified some areas of improvement since last year. First, the auditors closed 698 FY 2018 NFRs. In addition, the DoD, as a whole, has increased its ability to respond to audit requests. However, much more work needs to be done, and the road to a clean opinion is not short. Continued progress requires sustained effort and attention throughout the DoD, from the top on down.

(U) Navy

(U) Report No. N2019-0046, "Follow-up Audit for Controls Over Service and Product Contracts Across Department of the Navy/Assistant for Administration Activities and Field Offices," August 28, 2019

(U) The objective of this audit was to determine whether agreed-upon corrective actions had been taken for audit reports related to controls over the Government Commercial Purchase Card Program (N2016-0043), Service and Product Contracts (N2016-0044), and Military Interdepartmental Purchase Requests across the Department of the Navy/Assistant for Administration Activities and field offices (N2016-0048). The report found that the Department of the Navy/Assistant for Administration Activities implemented corrective actions intended to address the eight recommendations made in Naval Audit Service Report No. N2016-0044. However, even though all eight recommendations were closed, the Naval Audit Service found that further corrective action was required to fully implement two of the recommendations. In addition, the Naval Supply Systems Command issued Naval Supply Systems Command Instruction 4205.3F, which provides policy and guidance addressing the responsibilities of contracting officer's representatives. However, the Naval Audit Service found that improvements could be made in contracting

(U) officer's representative's oversight of contract surveillance. Specifically, for the 12 contracts reviewed in the sample, the Naval Audit Service found that the Department of the Navy/Assistant for Administration Activities requiring activities paid for services not received, paid for services not required, and accepted contract deliverables that did not meet the terms of the contract.

(U) Report No. N2016-0044, "Controls Over Department of the Navy/Assistant for Administration Activities and Field Offices Service and Product Contracts," August 5, 2016

(U) The primary objective of this audit was to verify that internal controls over the process for identifying and validating requirements and awarding, monitoring, and paying for service and product acquisitions across the Department of Navy Budget Submitting Office-12 activities and field offices were in place, functioning effectively, and in compliance with applicable laws and regulations. The report found that Department of the Navy/Assistant for Administration Activities Budget Submitting Office-12 did not have controls in place for identifying and validating requirements and awarding, monitoring, and paying for service and product contracts to ensure these processes were functioning effectively and in compliance with applicable laws and regulations. Specifically, the Naval Audit Service found five significant internal control weaknesses. As a result, the Department of the Navy/Assistant for Administration Activities could not provide assurance that contracts were executed for valid needs; that the Navy received all goods and services for which it paid; and that sufficient internal controls were in place to detect, deter, and prevent fraud and abuse. Additionally, the Department of the Navy/Assistant for Administration Activities was unable to use strategic sourcing practices before contract award, which would result in cost savings for the Department of Navy.

(U) Appendix B

(U) Management Comments on Finding B and Our Response

Department of the Air Force Comments

(U) The Department of the Air Force (DAF) does not concur with Finding B, *DoD Components Used FIAR Contracts for Audit Support and Normal Business Operations*. The DAF stated that FIAR efforts are multi-year strategic initiatives that require many years of preparatory time to design and implement improved business processes and controls, obtain [Independent Public Accountant] IPA feedback on processes, implement the feedback, and finally submit packages to the IPA for testing and validation. As IPAs issue NFRs, the DAF must classify, categorize, and prioritize findings to align with existing audit remediation strategies.

(U) The DAF provided examples of using its Audit Liaison and AFR tasks to move the DAF toward its goal of an unmodified audit opinion in FY 2026 for its Working Capital Fund and FY 2028 for its General Fund. The DAF's audit liaison support includes tracking the IPA's NFRs, the corrective action plans and progress, monitoring the Audit Response Tool, and oversight/reporting of the DAF's Integrated Master Schedules, which align NFRs, corrective action plans, and other critical audit remediation tasks to priority areas and corresponds directly to the DAF's audit roadmap. The DAF's AFR support includes tracking and mitigating findings related to the Entity Level Control material weakness and an NFR directly related to the DAF's inability to produce the AFR in accordance with the Office of Management and Budget Circular No. A-136 and the Federal Accounting Standards Advisory Board Handbook. The DAF views these tasks as directly relevant and intertwined FIAR tasks critical to achieving an unmodified audit opinion.

(U) The DAF recommended that the DoD OIG revise the findings to account for the complexity of multi-year audit remediation efforts and the existing DAF material weaknesses, significant deficiencies, and NFRs that pertain to Audit Liaison and AFR tasks. In addition, the DAF stated that Finding B suggested that the DAF spent significant FIAR contract funding for the AFR and Audit Liaison activities, when in actuality the majority was spent on Audit Remediation.

(U) Our Response

(U) We acknowledge that FIAR efforts are a multi-year strategic initiative and additional remediation efforts will be necessary as the IPAs uncover additional findings, along with requiring contractor assistance for the existing material weaknesses, significant deficiencies, and NFRs pertaining to Audit Liaison and AFR tasks. However, the tasks that we call out in Finding B are tasks that government personnel can complete rather than contractors.

(U) For example, with the Audit Liaison task, government personnel can generate reports to assess the status of audit supporting documentation requests, complete the act of receiving and consolidating audit samples, and organize site visits. We agree that tasks such as tracking NFRs, the corrective action plans and progress, and conducting quality checks of documentation requests and samples to validate that audit evidence is sufficient and appropriate are related to FIAR efforts. Additionally, we do not make reference to the amount of contracting funds spent for the Audit Liaison and AFR tasks for the DAF in Finding B, but rather the DoD Components as a whole. As a result, we did not update the Finding.

(U) Management Comments

(U) Under Secretary of Defense (Comptroller)



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

April 26, 2024

MEMORANDUM FOR PROGRAM DIRECTOR FOR AUDIT, FINANCIAL
MANAGEMENT AND REPORTING, DEPARTMENT OF
DEFENSE OFFICE OF INSPECTOR GENERAL

Enclosed is the Department of Defense (DoD) response to the DoD Office of Inspector General draft report, "Audit of Financial Improvement and Audit Remediation Contracts for DoD Components," dated March 21, 2024 (Project D2022-D000FS-0137.000).

We appreciate the opportunity to provide comments. My point of contact is [REDACTED] or [REDACTED].

Thomas C. Steffens
Deputy Chief Financial Officer

- Attachments:
1. Summary of Responses
 2. Air Force DD Form 818

(U) Under Secretary of Defense (Comptroller) (cont'd)

**DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
DRAFT REPORT DATED MARCH 21, 2024
PROJECT NO. D2022-D000FS-0137.000**

“Audit of Financial Improvement and Audit Remediation Contracts for DoD Components”

**DEPARTMENT OF DEFENSE COMMENTS
TO THE DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
RECOMMENDATIONS**

RECOMMENDATION A.1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. Strengthen Financial Improvement and Audit Remediation Guidance to:
 1. Clarify and define Financial Improvement and Audit Remediation support tasks associated with the Audit Resources Budget Submission. At a minimum, the guidance should define all audit-related tasks required for reporting.
 2. Clarify and define reporting requirements of Financial Improvement and Audit Remediation contracts for classified activities.
- b. Develop and implement a process to oversee that the Audit Resources Budget Submissions the DoD Components report are complete and meet the Financial Improvement and Audit Remediation reporting requirements.
- c. Develop and implement a process to ensure that audit remediation tasks across the DoD components are not conflicting.

DoD RESPONSE:

A.1.a.1. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. The Under Secretary of Defense (Comptroller)/Chief Financial Officer will strengthen Financial Improvement and Audit Remediation (FIAR) Guidance to clarify and define FIAR support tasks associated with the Audit Resources Budget Submission to include all audit-related tasks required for reporting.

A.1.a.2. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD will strengthen FIAR Guidance to clarify and define reporting requirements of FIAR contracts for classified activities.

A.1.b. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with the intent of this recommendation. This recommendation is to instill a detective control at the DoD enterprise level. The true root cause lies with the Components implementing preventive and corrective controls to ensure all budget exhibit submissions are complete and accurate which will

(U) Under Secretary of Defense (Comptroller) (cont'd)

in turn identify any duplicated tasks within each component. These recommendations are addressed in Recommendations A.2.a.b to Army and Navy.

A.1.c. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with the intent of this recommendation. We agree that a process should be developed and implemented to ensure audit remediation tasks across the DoD components are not conflicting. To address the root cause and instill a preventive and corrective control, Components should develop and implement processes to ensure audit remediation tasks within each Component is not conflicting. To create momentum in this effort, Under Secretary of Defense (Comptroller) Memorandum, "Financial Improvement and Audit Remediation Contract Guidance," dated April 22, 2024, advises Military Departments and other Components to request their respective Audit Agencies or internal auditors to annually validate the inventory of FIAR contracts for completeness and accuracy. This should also help confirm audit remediation tasks across the DoD components are not conflicting.

RECOMMENDATION A.2: We recommend that the following officials develop and implement a centralized process to monitor Financial Improvement and Audit Remediation efforts across all commands. At a minimum, the process should include performing annual data calls, identifying Financial Improvement and Audit Remediation contracts, and verifying that the information submitted for the Audit Resources Budget Submission is complete and accurate.

- a. Assistant Secretary of the Army (Financial Management and Comptroller)
- b. Assistant Secretary of the Navy (Financial Management and Comptroller)

DoD RESPONSE:

A.2.a. The Assistant Secretary of the Army (Financial Management and Comptroller) concurs with the recommendation and will implement a corrective action plan by August 30, 2024, to incorporate a centralized overarching process for the FIAR contracts. This plan will also include alignment to the Audit Resources Budget Submission.

A.2.b. The Assistant Secretary of the Navy (Financial Management and Comptroller) concurs with this recommendation. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN (FM&C)) has a centralized process to monitor FIAR efforts across all Commands. OASN (FM&C) centrally funds and administers audit-related contract efforts, including those directly supporting the Department of the Navy (DON) Financial Management Strategy and audit remediation aligned to the DON audit roadmap, using the DON Financial Improvement Program (FIP) IV Indefinite Delivery, Indefinite Quantity (IDIQ) Multiple Award contract, as directed in the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller) (PDASN (FM&C)) memorandum to the commands dated April 2023. To identify any relevant contract support outside of the centrally managed FIP IV IDIQ contract, OASN (FM&C) conducts twice-yearly data calls to Budget Submitting Offices (BSOs). BSO responses are evaluated to determine whether any reported contracts meet the criteria for inclusion in the FIAR Plan Status Report (FPSR) and/or Audit Resources Budget Exhibit as reported in Program Budget Information System.

(U) Under Secretary of Defense (Comptroller) (cont'd)

To further support and strengthen the accuracy of the reporting, the OASN (FM&C) will take the following additional actions:

- Issue a directive memorandum, signed by the PDASN (FM&C), requiring Commands to report any existing FIAR contracts and resources with updated definitions of what constitutes FIAR requirements.
- Conduct periodic searches of the Federal Procurement Data System-Next Generation or other databases to identify any additional unreported contracts.
- Document analysis of reported contracts, based on agreed upon FIAR definitions, including determination of whether the contracts meet requirements for reporting in the FPSR and Audit Resources Budget Exhibit, and obtain OASN (FM&C) leadership concurrence with the analysis.

RECOMMENDATION B.1: We recommend that the following officials develop and implement a strategy to align their FIAR contracts to the annual Secretary of Defense priorities and their Component roadmaps to meet audit remediation goals. At a minimum, the strategy should include how they plan to use their contractor and an evaluation of current contract requirements to meet the remediation goal of receiving an unmodified audit opinion by December 31, 2028:

- a. Assistant Secretary of the Army (Financial Management and Comptroller)
- b. Assistant Secretary of the Navy (Financial Management and Comptroller)
- c. Assistant Secretary of the Air Force (Financial Management and Comptroller)
- d. Chief Financial Officer of the Defense Logistics Agency

DoD RESPONSE:

B.1.a. The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) partially concurs with the recommendation. The establishment of the base award for most current Army FIAR contracts predates the creation of the Secretary of Defense annual audit priorities or the requirement of a Component roadmap. As such, the current contract language does not necessarily use this same verbiage within the Performance Work Statement (PWS). However, all tasks and deliverables executed by the vendors can be aligned to the Secretary of Defense annual audit priorities and Army's audit roadmap. Army is in the process of reevaluating all Army FIAR contracts to ensure future requirements/PWS language are clearly aligned to the audit priorities. Additionally, ASA (FM&C) will work closely with the Office of the Under Secretary of Defense (Comptroller) to assist with strengthening guidance and establishing remediation success criteria to meet audit readiness goals. A corrective action plan will be in place by August 30, 2024.

B.1.b. The Assistant Secretary of the Navy (Financial Management and Comptroller) non-concurs with this recommendation. We agree partially with the recommendation, as we have

(U) Under Secretary of Defense (Comptroller) (cont'd)

already implemented a strategy, to include contract structure, which is fully aligned to the DoD financial management strategy and Secretary of Defense annual audit priorities via the DON Financial Management Strategy and DON audit roadmap priorities. The DON Financial Management Strategy includes five strategic goals: 1) Enhance our highly skilled and engaged financial management (FM) workforce to support DON's mission; 2) Standardize DON business processes and strengthen internal controls to improve accountability; 3) Optimize stewardship and trust in the DON's budget process; 4) Consolidate DON financial systems and enhance cybersecurity controls to improve data integrity; and 5) Leverage data analytics to improve DON financial operations.

Beginning in fiscal year (FY) 2022, the DON modified its contracting approach to provide greater accountability for contractors to achieve specific outcomes (i.e., material weakness downgrade) rather than providing "best effort." Specifically, under the PIP IV IDIQ, the DON has primarily shifted to shorter duration Firm-Fixed-Price task orders, rather than cost-type task orders, which place the onus on the contractors to meet the audit remediation goals as laid out in the audit roadmap and hold the vendor accountable with measurable goals. The shorter duration options incentivize performance, as the DON can decline remaining options if objectives are not met.

The DON has also targeted the use of Statements of Objectives rather than Statements of Work, to the extent possible. The Statement of Objectives incentivize our industry partners to propose creative solutions to meet audit remediation objectives. This approach is intended to align contractor incentives with the DON's audit remediation strategy.

B.1.c. The Assistant Secretary of the Air Force, Financial Management and Comptroller, concurs with this recommendation. Our current audit roadmap outlines audit priorities by FY completion, with each task order on the FIAR contract mapped to Department of the Air Force (DAF) material weaknesses. The audit roadmap clearly defines audit remediation goals through FY 2028. The National Defense Authorization Act for Fiscal Year 2024 now requires an unmodified audit opinion by 2028. DAF was tracking a qualified opinion by FY 2026 for the General Fund and FY 2028 for the Working Capital Fund. This new mandate will force the DAF to accelerate remediation efforts on the audit roadmap, realigning audit priorities and remediation goals.

B.1.d. The Chief Financial Officer of the Defense Logistics Agency concurs with this recommendation. The Defense Logistics Agency (DLA) will expand its current strategy to include the alignment of contract support with remediation efforts.

RECOMMENDATION B.2: We recommend that the following officials develop and implement a plan to reduce the use of contractors when transitioning their Component from remediation to sustaining an audit opinion. At a minimum, the plan should include how they will transfer the contractor's knowledge to their workforce and estimate the level of contractor assistance still needed:

- a. Assistant Secretary of the Army (Financial Management and Comptroller)
- b. Assistant Secretary of the Navy (Financial Management and Comptroller)

(U) Under Secretary of Defense (Comptroller) (cont'd)

- c. Assistant Secretary of the Air Force (Financial Management and Comptroller)
- d. Chief Financial Officer of the Defense Logistics Agency.

DoD RESPONSE:

B.2.a. The Assistant Secretary of the Army (Financial Management and Comptroller) concurs with the recommendation and has taken preemptive steps to perform a workforce assessment to support the sustainment of the Army-wide audit program. In addition, the Army will include specific transition language in future contract actions to require the transfer of vendor knowledge to the government workforce. A full comprehensive plan will be completed by September 30, 2025.

B.2.b. The Assistant Secretary of the Navy (Financial Management and Comptroller) nonconcur with this recommendation. The DON does have a plan to reduce the use of contractors. As part of this plan, the DON structures its contracts to require contractors to provide a plan to transition remediated processes to the Government for sustainment. As noted, the DON expects a downward trend of FIAR contractor support as the Department moves toward an unmodified opinion. In preparation, annually, the DON performs a strategic review of both government and contractor resources and will continue to do so through the achievement of an unmodified opinion and into sustainment. Human capital is OASN (FM&C's) #1 strategic goal: to enhance our highly skilled and engaged FM workforce and to support DON's mission. In addition, toward this goal, OASN (FM&C) is actively planning for an upskilled workforce beyond FY 2028 through recruiting and retaining a diverse, empowered, and high-quality FM workforce of the future; strengthening and diversifying the DON FM workforce knowledge and skills; and building a culture of innovation to enable workplace efficiency. Nevertheless, at this point in the audit journey, and in light of the National Defense Authorization Act for Fiscal Year 2024 requirement to achieve an unmodified opinion by December 31, 2028, contractor support is necessary to achieve the remediation and sustainment of business processes sufficient for an audit opinion.

B.2.c. The Assistant Secretary of the Air Force, Financial Management and Comptroller, concurs with this recommendation. Based on the current approved audit roadmap, at FY 2028, the level of contractor support significantly decreases based on the transition from remediation to sustaining an unmodified audit opinion. The Department of the Air Force is currently re-competing the FIAR contract which will be required by contract terms and conditions to transfer knowledge to government personnel. This may include routine technical trainings, development of reference materials for new personnel, and developing automated solutions to labor intensive manual processes.

B.2.d. The Chief Financial Officer of the Defense Logistics Agency concurs with this recommendation. The DLA will develop a transition plan to address contractor staff argumentation work and knowledge to DLA work force after remediation efforts.

RECOMMENDATION B.3: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

(U) Under Secretary of Defense (Comptroller) (cont'd)

- a. Develop and implement updated Financial Improvement and Audit Remediation guidance, including a definition of Financial Improvement and Audit Remediation. At a minimum, the guidance should define the allowable processes and tasks that fall under Financial Improvement and Audit Remediation and the use of contractor personnel to help with Financial Improvement and Audit Remediation tasks.
- b. Develop and implement performance measures to monitor the Financial Improvement and Audit Remediation contracts for overall effectiveness, including verifying the appropriateness of tasks and funds spent.

DoD RESPONSE:

B.3.a. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. We acknowledge that FIAR funding has been used to accelerate audit progress to meet the 2028 year-end requirement for an unmodified opinion. Additionally, we are using lessons learned from the U.S. Marine Corps' (USMC's) clean audit journey to further accelerate progress toward our 2028 goal. The USMC has shown the path forward for Components without a clean opinion is systemic, cultural, analytical, disruptive in thinking and priorities, and leadership-driven. To improve controls over FIAR resources, the Under Secretary of Defense (Comptroller)/Chief Financial Officer will develop and implement updated FIAR guidance, including a definition of FIAR. The guidance will define the allowable processes and tasks that fall under FIAR and the use of contractor personnel to help with FIAR tasks.

B.3.b. The Under Secretary of Defense (Comptroller)/Chief Financial Officer non-concurs with this recommendation. Implementation of Recommendation B.3.a. will establish definitions for the allowable processes and tasks that fall under FIAR as well as what constitutes the appropriate use of contractor personnel to help with FIAR tasks. As such, we disagree that the Under Secretary of Defense (Comptroller)/Chief Financial Officer should develop and implement performance measures to monitor the FIAR contracts for overall effectiveness, including verifying the appropriateness of tasks and funds spent. This would be duplicative as Contracting Officer Representatives, as part of their duties, monitor the overall effectiveness of work performed, including verifying the appropriateness of tasks and funds spent in accordance with a contract's statement of work.

(U) Under Secretary of Defense (Comptroller) (cont'd)

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DoD OIG Project No. D2022-D0000FS-0137.000						
CLASS	#	PAGE	PARA	BASIS FOR NON-CONCURRENCE?	COMMENTS, JUSTIFICATION, AND ORIGINATOR JUSTIFICATION FOR RESOLUTION	COMPONENT AND POC NAME, PHONE, AND E-MAIL
U	1	21	Finding B	<input checked="" type="checkbox"/>	<p>Coordinator Comment and Justification: DAF does not concur with Finding B.</p> <p><i>Finding B: DoD Components Used FIAR Contracts for Audit Support and Normal Business Operations</i></p> <p>Overall: FIAR efforts are multi-year strategic initiatives that require many years of preparatory time to design and implement improved business processes and controls, obtain IPA feedback on processes, implement the feedback, and finally submit packages to the IPA for testing and validation. As IPAs dig deeper into financial statement line items and business processes, they expand testing areas, uncover additional findings, resulting in additional remediation efforts. As IPAs issue Notice of Findings and Recommendations (NFRs), DAF must classify, categorize, and prioritize findings to align with existing audit remediation strategies. This requires qualified resources with deep expertise in audit remediation and business process experts to execute these strategic tasks under FIAR contracts.</p> <p>Audit Liaison: DAF's audit liaison support includes tracking the IPA's NFRs, the corrective action plans and progress, monitoring the Audit Response Tool (AR Tool), and oversight/reporting of DAF's Integrated Master Schedules (IMS). The IMS aligns NFRs, CAPS, and other critical audit remediation tasks to material weakness and significant deficiency priority areas and corresponds directly to the DAF's Audit Roadmap. DAF views these tasks as directly relevant and intertwined FIAR tasks critical to achieving an audit opinion. DAF has findings that relate to 'inability to provide timely support' or 'insufficient audit evidence / documentation' which directly impact the IPA's ability to obtain audit evidence and therefore directly impact the DAF's disclaimer of opinion (which is acknowledged as a reason for a disclaimer of opinion by the OIG within its report on page 6). In FY 23, DAF responded to over 9,000 PBC and sample requests:</p>	

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(U) Under Secretary of Defense (Comptroller) (cont'd)

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					<p>85% were on-time with 15% late. DAF's audit liaison function performs quality checks of PBC requests and samples to validate that audit evidence is sufficient and appropriate. This includes validating support provided by DAF functional communities and service providers. Until the DAF and its service providers are able to provide the IPA with sufficient, appropriate audit evidence within a timely manner, the IPA will be unable to issue an audit opinion and Audit Liaison tasks will continue to be considered critical FIAR tasks to validate DAF's functional community and service providers.</p> <p>Agency Financial Report: DAF Agency Financial Report (AFR) support includes tracking and mitigating findings related to the Entity Level Control material weakness and an NFR directly related to DAF's inability to produce the AFR in accordance with OMB Circular A-136 and the Federal Accounting Standards Advisory Board (FASAB) Handbook. DAF's AFR support team validates the Management Discussion and Analysis is produced in accordance with the strict requirements laid out in OMB Circular A-136. Additionally, the AFR support team compiles and validates the support provided by assessable units for all significant statements and disclosures in the AFR, tracks and mitigates auditor comments and provides recommendations and updates to bring the AFR in alignment with the requirements in OMB Circular A-136. These tasks are in direct alignment with FIAR and are required to produce an auditable AFR, which is necessary to achieve an audit opinion.</p> <p>In FY22, the DAF tracked and responded to 207 IPA comments on the AFR and 109 IPA comments in FY23, showing significant improvement year-over-year, which is a result of remediation efforts designed and implemented by the AFR support team.</p> <p>In FY23, DAF addressed a portion of the Entity Level Control material weakness related to an AFR finding on the presentation and disclosure of the Statement of</p>	

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					<p>Net Cost (SNC). This AFR improvement, a result of FIAR dollars, was recognized as a significant achievement by the IPA and OUSD. The DAF AFR Team is providing guidance and walkthroughs to OUSD on how to remediate this specific AFR challenge, which is a stand-alone material weakness for the DOD.</p> <p>Coordinator Recommended Change: DAF recommends OIG revise the findings to account for the complexity of multi-year audit remediation efforts and the existing DAF material weaknesses, significant deficiencies, and NFRs that pertain to Audit Liaison and AFR tasks. Contractor support in these areas directly impact DAF's ability to obtain an audit opinion. In addition, Finding B suggests that DAF spent significant FIAR contract funding for the AFR and Audit Liaison activities, when in actuality the majority was spent on Audit Remediation.</p> <p>Originator Response: Choose an item.</p> <p>Originator Reasoning:</p>	

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(U) Acronyms and Abbreviations

AFR	Agency Financial Report
CFO	Chief Financial Officer
DAF	Department of the Air Force
DCFO	Deputy Chief Financial Officer
DLA	Defense Logistics Agency
FIAR	Financial Improvement and Audit Readiness (FY 2010-2017)
FIAR	Financial Improvement and Audit Remediation (FY 2018-Present)
FPDS	Federal Procurement Data System
IPA	Independent Public Accountant
NDAA	National Defense Authorization Act
NFR	Notice of Findings and Recommendation
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
PBIS	Program Budget Information System
SNaP	Select and Native Programming
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD

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