



October 2020

# DOD FINANCIAL MANAGEMENT

## Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits

Accessible Version

# GAO Highlights

Highlights of [GAO-21-157](#), a report to congressional committees

## Why GAO Did This Study

DOD is responsible for about half of the federal government's discretionary spending, yet it remains the only major federal agency that has been unable to receive a clean audit opinion on its financial statements. After years of working toward financial statement audit readiness, DOD underwent full financial statement audits in fiscal years 2018 and 2019.

This report, developed in connection with fulfilling GAO's mandate to audit the U.S. government's consolidated financial statements, examines the (1) actions taken by DOD and the military services to prioritize financial statement audit findings; (2) extent to which DOD and its components developed CAPs to address audit findings in accordance with OMB, DOD, and other guidance; and (3) extent to which DOD improved its ability to monitor and report on audit remediation efforts.

GAO reviewed documentation and interviewed officials about DOD's and the military services' audit remediation prioritization, monitoring, and reporting. GAO selected a generalizable sample of 98 NFRs to determine whether CAPs to address them were developed according to established guidance.

## What GAO Recommends

GAO is making five recommendations to DOD to improve the quality of CAPs to address audit findings and information in the NFR Database and related reports provided to internal and external stakeholders to monitor and assess audit remediation efforts. DOD concurred with three of GAO's recommendations, partially concurred with one recommendation, and disagreed with one recommendation. GAO continues to believe that all the recommendations are valid.

View [GAO-21-157](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

October 2020

## DOD FINANCIAL MANAGEMENT

### Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits

#### What GAO Found

The Department of Defense (DOD) continues to face financial management issues and challenges that have prevented it from obtaining a clean audit opinion on the fair presentation of its financial statements. Specifically, financial statement auditors issued disclaimers of opinion on DOD's and the military services' fiscal year 2018 and 2019 financial statements. These disclaimers resulted from numerous material weaknesses based on thousands of notices of findings and recommendations (NFR) that the auditors issued. Of the 2,409 NFRs issued to DOD and its components in fiscal year 2018, DOD's auditors were able to close 623 (26 percent) in fiscal year 2019; the remaining 1,786 (74 percent) remained open. These results provide useful insights on DOD's remediation progress since beginning department-wide full audits in fiscal year 2018; it is important for DOD to equal or exceed this progress in the future.

Financial statement audits have value beyond the audit opinion and can help management save resources and improve military readiness. DOD leadership identified a number of benefits that resulted from these financial statement audits. For example, the Navy identified a warehouse that was not in its property records that contained approximately \$126 million in aircraft parts. The Navy was able to fill over \$20 million in open orders for these parts. By using these parts, aircraft were repaired quicker and made available for use, which improved military readiness. To help guide and prioritize department-wide efforts, DOD identified eight audit remediation priority areas (four in 2019 and four in 2020), seven of which specifically related to material weaknesses that its auditor reported. The military services also developed methodologies to prioritize NFRs and determined that over half of their fiscal year 2018 NFRs are high priority and significant to their financial statement audits.

DOD and its components have taken steps to develop corrective action plans (CAP) to address NFRs. However, most of the CAPs that GAO tested did not include at least one data element or evidence that a root-cause analysis was performed, as directed by Office of Management and Budget (OMB) and other related guidance, in part, because DOD guidance and monitoring efforts did not clearly identify the need for such documentation. As a result, DOD and its components may lack sufficient information and assurance that their remediation efforts will resolve the underlying causes associated with the NFRs and related material weaknesses. Based on these issues, DOD and its components are at increased risk that their actions may not effectively address identified deficiencies in a timely manner.

DOD developed an NFR Database that contains useful information on deficiencies that financial auditors identified and actions to address them, which has improved its ability to monitor and report on audit remediation efforts using dashboard reports based on real-time data contained in the database. However, certain database information on which these reports are based may not be accurate, reliable, and complete. For example, although DOD reviews NFR Database information monthly, it does not follow up on instances of outdated information or other exceptions identified to ensure components resolve them timely. Without complete and reliable information on DOD's audit remediation efforts, internal and external stakeholders may not have quality information to effectively monitor and measure DOD's progress.

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**Abbreviations**

CAP	corrective action plan
CMO	Chief Management Office
DOD	Department of Defense
DOD OIG	DOD Office of Inspector General
FIAR	Financial Improvement and Audit Remediation
IPA	independent public accountant
NDAAs	National Defense Authorization Act
NFR	notice of findings and recommendations
NFR Database	Office of the Deputy Chief Financial Officer NFR Database
ODCFO	Office of the Deputy Chief Financial Officer
OMB	Office of Management and Budget

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October 13, 2020

### Congressional Committees

The Department of Defense (DOD) is responsible for about half of the federal government's discretionary spending and about 15 percent of its total spending.<sup>1</sup> Sound financial management practices and reliable, useful, and timely financial information are important for ensuring accountability over DOD's extensive resources and for efficiently and effectively managing the department's assets and budgets. Yet it remains the only major federal agency that has been unable to receive a clean audit opinion on its department-wide financial statements.<sup>2</sup> Since 1995, GAO has designated DOD financial management as high risk because of pervasive deficiencies in the department's financial management systems, business processes, internal controls, and financial reporting.<sup>3</sup> These deficiencies have adversely affected DOD's ability to prepare auditable financial statements, which is one of three major impediments preventing us from expressing an audit opinion on the U.S. government's consolidated financial statements.<sup>4</sup>

Congress mandated in the National Defense Authorization Act (NDAA) for Fiscal Year 2014 that the Secretary of Defense ensure that a full audit was performed on DOD's fiscal year 2018 financial statements and

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<sup>1</sup>Discretionary spending refers to outlays from budget authority that are provided in and controlled by appropriation acts, unlike mandatory spending, such as Medicare and other entitlement programs. For fiscal year 2019, DOD reported that it received congressional appropriations of \$874.4 billion, approximately \$186.6 billion of which is considered mandatory; the remaining \$687.8 billion is discretionary.

<sup>2</sup>An auditor expresses an unmodified opinion or clean opinion when the auditor concludes that the financial statements are presented fairly, in accordance with Generally Accepted Accounting Principles.

<sup>3</sup>GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

<sup>4</sup>The other two impediments preventing us from rendering an opinion on the federal government's consolidated financial statements are (1) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities and (2) weaknesses in the federal government's process for preparing the consolidated financial statements. GAO, *Financial Audit: FY 2019 and FY 2018 Consolidated Financial Statements of the U.S. Government*, [GAO-20-315R](#) (Washington, D.C.: Feb. 27, 2020).

submit the results to Congress no later than March 31, 2019.<sup>5</sup> Prior to this mandate, the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, required that federal agencies prepare financial statements and have those financial statements audited.<sup>6</sup> DOD began submitting financial statements for audit for selected components beginning in fiscal year 1991, and DOD agency-wide financial statements for audit in fiscal year 1996.

After many years of working toward financial statement audit readiness, DOD underwent full financial statement audits in fiscal years 2018 and 2019. These audits resulted in disclaimers of opinion;<sup>7</sup> numerous material weaknesses in internal control over financial reporting (20 in fiscal year 2018 and 25 in fiscal year 2019);<sup>8</sup> and thousands of findings issued by auditors, referred to as notices of findings and recommendations (NFR).

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<sup>5</sup>Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (Dec. 12, 2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, *United States Code*. In addition, the National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, div. A, § 1008(d), 115 Stat. 1012, 1206 (Dec. 28, 2001), required the Secretary of Defense to annually report on whether a financial statement issued by DOD or a DOD component was reliable, and limited the audit procedures that the DOD OIG was allowed to perform on statements asserted to be unreliable. This provision allowed the DOD Office of Inspector General (OIG) to perform procedures required by generally accepted government auditing standards consistent with this assertion on reliability. Prior to fiscal year 2018, only a limited number of DOD components asserted that their information was ready for audit, such as the Military Retirement Fund financial statements and the U.S. Army Corps of Engineers-Civil Works financial statements. Accordingly, the DOD OIG performed limited scope audits on DOD's department-wide financial statements for fiscal years 2002 through 2017.

<sup>6</sup>Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), *as amended by* Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994).

<sup>7</sup>A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit, the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, and accordingly does not express an opinion on the financial statements.

<sup>8</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

DOD has acknowledged that achieving a clean opinion will take time. Such efforts also provide value beyond the audit opinion, such as more accurate financial statements and assessments of how DOD spends its resources and helping DOD to prevent wasteful practices and improve operational decisions.

Given the magnitude and wide range of deficiencies identified in these audits, DOD's ability to effectively oversee and monitor efforts to address them is essential. However, the DOD Office of Inspector General (DOD OIG) reported a material weakness that focused on certain aspects of DOD oversight and monitoring based on both of its fiscal year 2018 and 2019 department-wide audits.<sup>9</sup> The DOD OIG also reported that while DOD components are responsible for taking timely and effective action to correct deficiencies and ensure that corrective action plans (CAP) are developed for all material weaknesses, some DOD components had not developed corrective actions for all of them.<sup>10</sup> The DOD OIG reported that without effective oversight and monitoring, these material weaknesses will continue to affect DOD's ability to provide reasonable assurance that internal controls over financial reporting are effective.

In addition, in February 2017, we reported that DOD did not obtain comprehensive information from the military services on the status of their CAPs, such as interim milestones, completion dates, and other indicators or targets.<sup>11</sup> We also found that DOD's audit-readiness status reports did not include this type of information even though it is needed by external stakeholders, such as the Office of Management and Budget (OMB), DOD OIG, GAO, and Congress, to help evaluate DOD's progress toward correcting the deficiencies that are preventing the department from obtaining an audit opinion on its financial statements.

We performed this audit in connection with fulfilling our mandate to audit the U.S. government's consolidated financial statements, which cover all

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<sup>9</sup>Department of Defense, *Agency Financial Report, Fiscal Year 2018* (Nov. 15, 2018), and *Agency Financial Report, Fiscal Year 2019* (Nov. 15, 2019).

<sup>10</sup>According to the Implementation Guide for Office of Management and Budget Circular A-123, CAPs are plans developed by management to present the procedures that an agency plans to follow to resolve its deficiencies. CAPs should include measurable indicators of compliance and resolution to assess and validate progress throughout the resolution cycle.

<sup>11</sup>GAO, *DOD Financial Management: Significant Efforts Still Needed for Remediating Audit Readiness Deficiencies*, [GAO-17-85](#) (Washington, D.C.: Feb. 9, 2017).

accounts and associated activities of executive branch agencies, such as DOD, because of the significance of the military services' audit activities to that audit.<sup>12</sup> Our objectives were to examine the (1) actions taken by DOD and the Army, Navy, and Air Force (military services) to prioritize financial statement audit findings; (2) extent to which DOD and its components have developed CAPs to address audit findings in accordance with OMB, DOD, and other relevant guidance; and (3) extent to which DOD has improved its ability to monitor and report the status of financial statement audit remediation efforts department-wide.

To address our first objective, we interviewed DOD and military service officials to determine actions taken to identify audit remediation priority areas and prioritize financial statement audit findings preventing DOD from obtaining an unmodified opinion. We reviewed NFR prioritization guidance, policies, and procedures and analyzed DOD's and the military services' documentation demonstrating implementation of their respective NFR prioritization strategies.

To address our second objective, we selected a generalizable sample of 98 NFRs (and their related CAPs) issued from the fiscal year 2018 audits contained in the Office of the Deputy Chief Financial Officer (ODCFO) NFR Database (NFR Database).<sup>13</sup> For these sample items, we reviewed the NFRs and compared the CAP summary information included in the NFR Database with CAP documentation that the DOD components provided to identify any inconsistencies. We developed and used a data collection instrument to determine whether selected CAPs included root-cause analysis and other data elements in accordance with OMB and DOD guidance and standards defined in the *Implementation Guide for Office of Management and Budget (OMB) Circular A-123, Management's*

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<sup>12</sup>31 U.S.C. § 331(e)(2).

<sup>13</sup>We limited the population of NFRs that we reviewed to those that according to the NFR Database, were associated with at least one material weakness (individually or in the aggregate) and related to nonsensitive activity. The NFR Database is a centralized database that ODCFO manages and DOD uses to contain all audit findings from each financial statement audit, among other things. According to DOD, this database provides accurate, real-time, independent information on the progress of DOD's financial statement audits. DOD managers use database reports to identify best practices, focus remediation efforts, and facilitate the development of solutions to department-wide challenges.

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*Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting* (Implementation Guide for OMB Circular A-123).<sup>14</sup>

To address our third objective, we met and conducted walk-throughs with ODCFO officials to gain an understanding of how the NFR Database is used, the types of reports generated, and selected control activities used to confirm the completeness and accuracy of the NFR and CAP information recorded in the database. We also reviewed the NFR Database data dictionary to gain an understanding of the types of information included in the database for each NFR and CAP, the purpose of the data fields and parties responsible for populating them, and how information in one data field may affect information in another. In addition, we obtained and analyzed an extract from the NFR Database with information as of April 1, 2019, to determine if data elements were populated and prioritized in accordance with ODCFO guidance and consistent with the actual NFR or CAP documentation.

We conducted this performance audit from November 2018 to October 2020 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.

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## Background

DOD financial management has been on GAO's high-risk list since 1995, and DOD remains one of the few federal entities that cannot accurately account for and report on its spending or assets.<sup>15</sup> DOD continues to face long-standing financial management issues and challenges—primarily because of its decentralized environment; cultural resistance to change; lack of skilled financial management staff; ineffective processes, systems,

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<sup>14</sup>Chief Financial Officer's Council, *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting* (July 2005). See also, Office of Management and Budget, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016).

<sup>15</sup>[GAO-19-157SP](#).

and controls; incomplete corrective action plans; and need for more effective monitoring and reporting.

Congress has passed legislation over the years addressing DOD's financial management and the auditability of its financial statements. For example, the NDAA for Fiscal Year 2018 mandates that the Secretary of Defense ensure that a full audit is performed on DOD's financial statements for each fiscal year and requires that the Under Secretary of Defense (Comptroller) develop and maintain a centralized monitoring and reporting process that captures and maintains up-to-date information, including the standard data elements recommended in the Implementation Guide for OMB Circular A-123, for key CAPs and findings and recommendations department-wide that pertain to critical capabilities.<sup>16</sup> In addition, DOD is required to maintain a Financial Improvement and Audit Remediation (FIAR) Plan that describes the specific actions to be taken and estimates the costs associated with, among other things, correcting the financial management deficiencies that impair DOD's ability to prepare timely, reliable, and complete financial management information.<sup>17</sup> DOD is also required to ensure that its financial statements undergo a full financial statement audit and that DOD leadership makes every effort to reach an unmodified opinion as soon as possible.<sup>18</sup>

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## DOD Department-Wide Financial Statement Audit Strategy and Fiscal Year 2018 and 2019 Results

The DOD Comptroller is the principal advisor to the Secretary of Defense for budgetary and fiscal matters, including audit administration.<sup>19</sup> The

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<sup>16</sup>Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538–41 (Dec. 12, 2017), *codified at* 10 U.S.C. §§ 240a, 240c.

<sup>17</sup>Pub. L. No. 115-91, div. A, § 1002(c), 131 Stat. 1538 (Dec. 12, 2017), *codified at* 10 U.S.C. § 240b.

<sup>18</sup>Pub. L. No. 115-91, div. A, § 1002(c), 131 Stat. 1538 (Dec. 12, 2017), *codified at* 10 U.S.C. § 240b.

<sup>19</sup>The DOD Comptroller is responsible for budgetary and fiscal matters related to financial management, accounting policy and systems, management control systems, budget formulation and execution, contract and audit administration, and general management improvement programs. The DOD Comptroller consists of the following organizations: (1) Budget and Appropriations Affairs, (2) Office of the Deputy Chief Financial Officer, (3) Program/Budget, (4) Resource Issues, and (5) Human Capital and Resource Management.

FIAR Directorate, within ODCFO, helps DOD components prepare for financial audits by providing guidance and helps address deficiencies resulting from these audits by reviewing CAPs.<sup>20</sup> In May 2018, the DOD Comptroller issued the *Department of Defense Financial Statement Audit Guide* as a reference for DOD personnel to use while supporting financial statement audits. The DOD Comptroller also issued the *Department of Defense Internal Control Over Financial Reporting Guide* as a reference for DOD personnel involved in financial reporting internal control activities within the department. These two guides replace the FIAR guidance that ODCFO previously issued as the department transitions from “audit readiness” to an “audit remediation” state.

The DOD OIG is responsible for managing and completing the audits of the DOD agency-wide financial statements. To help it carry out this responsibility and perform DOD component financial audits, the DOD OIG contracts with independent public accounting firms (IPA) to audit certain DOD components. The OIG monitors and oversees the IPAs’ work to ensure that the audits comply with contract requirements and audit standards. The DOD OIG reviews, consolidates, and uses the results of these audits to support its conclusions on the audit of the DOD agency-wide financial statements.

Fiscal year 2018 marked an historic achievement for DOD, as it completed its entity-wide financial statement audit. The DOD OIG issued a disclaimer of opinion on DOD’s fiscal year 2018 department-wide financial statements and reported 20 material weaknesses. In addition, the IPAs that audited the financial statements of DOD components reported 129 component-level material weaknesses, many of which are similar among the components. According to DOD, its fiscal year 2018 financial statement audit consisted of 24 stand-alone component audits representing 95 percent of DOD’s budget and 97 percent of DOD’s assets. In addition, the DOD OIG performed audit testing of activities and balances of other DOD components that represent the remaining 5 percent of DOD’s budget and 3 percent of DOD’s assets. Of the 24 stand-alone audits, 16 components—including the military services—received disclaimers of opinion, while six components received unmodified

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<sup>20</sup>According to DOD, the FIAR Directorate helps DOD components to be audit ready, remediates audit findings, and works toward achieving post-audit sustainment as well as improving the overall quality of financial information. This directorate is also responsible for developing and issuing detailed financial improvement and audit preparation strategy, plans, and guidance with a positive audit opinion as the desired outcome.

opinions and two received qualified opinions on their respective fiscal year 2018 financial statements.<sup>21</sup> According to the NFR Database as of April 1, 2019, auditors issued a total of 2,409 NFRs in connection with DOD's fiscal year 2018 department-wide audit that capture deficiencies requiring corrective action.

In November 2019 the DOD OIG completed its audit of DOD's department-wide financial statements for fiscal year 2019 and again issued a disclaimer of opinion. For fiscal year 2019, the DOD OIG reported 25 DOD-wide material weaknesses—five more than reported in fiscal year 2018—and the IPAs responsible for auditing the military services and certain other DOD components reported a total of 152 material weaknesses, many of which are similar among the components, that could adversely affect DOD's financial statements. In connection with the fiscal year 2018 and 2019 audits, rather than stopping audit activities when a basis for the disclaimer of opinion has been reached, DOD auditors have continued to perform additional limited testing. Such testing is conducted in accordance with audit continuation plans and may include using probe, statistical, or judgmental samples. The continued testing provides components with an independent assessment of selected internal controls, processes, and systems related to certain areas material to the financial statements; key financial statement line items; and progress in remediating reported deficiencies. This continued testing has resulted in additional NFRs and provided valuable feedback that enhance department-wide efforts to improve systems, processes, and internal controls. In November 2019, the Deputy Secretary of Defense stated that unlike periodic program audits, the repetitive nature of these financial statement audits will go deeper each year, providing the department with feedback on whether DOD corrective actions are addressing the root causes of identified deficiencies, are being sustained, and are helping to improve the quality of financial management information used for decision-making.

DOD financial statement audits have provided feedback regarding the effectiveness of component business systems, processes, and controls

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<sup>21</sup>An auditor expresses an unmodified opinion when the auditor concludes that the financial statements are presented fairly, in accordance with Generally Accepted Accounting Principles. An auditor expresses a qualified opinion when the auditor concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

that can help save resources and improve military readiness. Some material weaknesses that the DOD OIG reported are significant to certain operations, such as inventory management. For example, if inventory records are not accurate the department may order parts that are already on hand, which would be wasteful. Conversely, the department may not order parts that are needed, which could impact operational readiness. DOD leadership identified cost savings and other benefits through improved inventory management and better data for decision-making from these department-wide audits. Some of these benefits include the following:

- The Air Force inspected its largest contractor inventory sites, identifying approximately 41,000 excess, obsolete, or unserviceable inventory items and potential reductions in warehouse costs.
- Navy personnel at multiple bases found \$167 million of usable supplies that addressed unmet demands for things that were on back order.
- The Navy identified a warehouse that was not in its property records that contained approximately \$126 million in aircraft parts. Within weeks of recording the inventory, the Navy was able to fill over \$20 million in open orders for these parts. By using these parts, the aircraft were repaired quicker and made available for use, which improved military readiness.
- DOD automated the quarterly review process of its obligations, eliminating inefficiencies and providing analysts the time and insights needed to identify \$316 million that could be put to better use before these funds expired or were canceled.
- The Army worked on Fund Balance with Treasury reconciliation and was able to reduce differences between its records and the Department of the Treasury's from \$256 million to \$36 million.<sup>22</sup>

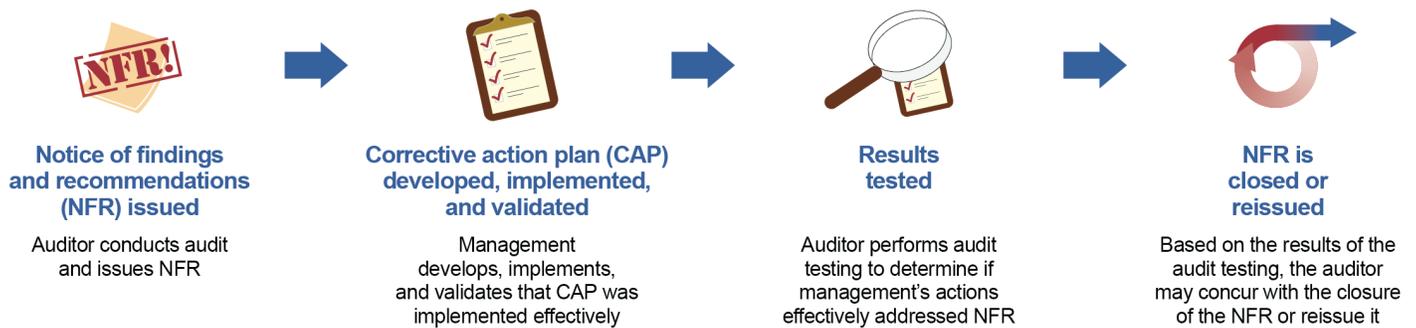
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<sup>22</sup>In the federal government, an agency's Fund Balance with Treasury account is similar in concept to a corporate bank account. The difference is that instead of a cash balance, Fund Balance with Treasury represents unexpended spending authority in appropriation accounts. Similar to bank accounts, the funds in DOD's appropriation accounts must be reduced or increased as the department spends them or receives collections that it is authorized to retain for future use.

## Notices of Findings and Recommendations and Corrective Action Plans

DOD's process for addressing NFRs issued by financial statement auditors involves several steps, as shown in figure 1.<sup>23</sup> After receiving an NFR, DOD and component management develop one or more CAPs that outline how the finding will be remediated; establish key milestones, including projected implementation and validation dates; and assign responsibility for completing identified tasks. DOD reported in June 2019 that it had developed CAPs to address over 90 percent of the fiscal year 2018 NFRs its auditors issued. After CAPs are developed, management is responsible for implementing the corrective action(s) and monitoring progress to assess whether sufficient actions have been taken or if additional actions are needed to resolve an NFR. If sufficient actions have been taken, management performs tests to validate their effectiveness. After management validation, auditors perform audit procedures to determine if the actions effectively addressed the NFR. According to DOD, auditors were able to close 77 percent of the CAPs related to fiscal year 2018 NFRs that management validated as effectively addressing the audit deficiencies. Based on audit test results, auditors may determine to concur with the closure of an NFR if it was effectively addressed or reissue the NFR if it was not effectively addressed.

Figure 1: DOD's Process for Addressing NFRs Issued by Financial Statement Auditors



Source: GAO analysis of the Department of Defense (DOD) documentation. | GAO-21-157

<sup>23</sup>NFRs outline the condition, criteria, cause, effect, and recommendation(s) to correct specific issue(s) identified by auditors in connection with DOD and component financial statements audits.

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ODCFO instructs the components to develop CAPs that include, at a minimum, the data elements described in the Implementation Guide for OMB Circular A-123. In addition, the FIAR Directorate provides guidance and best practices for developing CAPs and developed a CAP template that provides a standardized and consistent format for documenting CAPs and related milestones to help components meet these instructions.<sup>24</sup> The data elements listed in the CAP template are a compilation of elements outlined in Implementation Guide for OMB Circular A-123 as well as data fields established in the ODCFO NFR Database. DOD components may use a different template but must ensure that these data elements are included and that the CAP contains the level of detail necessary to demonstrate a comprehensive CAP.

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## DOD and the Military Services Have Ongoing Efforts to Prioritize Financial Statement Audit Findings

In connection with DOD and the military services' fiscal year 2018 and 2019 financial statement audits, auditors issued thousands of findings that contributed to numerous material weaknesses and resulted in disclaimers of opinion. As we reported in 2017, prioritizing DOD financial statement audit findings is an important aspect of managing efforts to address them and improving audit results.<sup>25</sup> To help guide and prioritize department-wide efforts, DOD identified eight audit remediation priority areas intended to provide the greatest potential value to DOD operations and the warfighter. In addition, the military services have taken steps to develop methodologies for categorizing and prioritizing NFRs based on their impact and significance and other factors. These efforts have evolved, in part, because DOD issued additional financial statement audit remediation priorities in May 2020, and as a result, NFR prioritization efforts are ongoing.

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<sup>24</sup>Milestones are quantifiable targets (e.g., completion dates) or otherwise qualitative characteristics that help measure and monitor corrective action activities and progress. Uploading milestone information into the NFR Database is not currently an ODCFO requirement, but the DOD components can use it to track all of their information in one database.

<sup>25</sup>[GAO-17-85](#).

In February 2019, the Acting Secretary of Defense issued a memorandum that identified four financial statement audit priorities for fiscal year 2019: (1) real property; (2) inventory, operating materials, and supplies; (3) government property in the possession of contractors; and (4) information technology.<sup>26</sup> The memorandum also stated that the CAPs associated with the material weaknesses and significant deficiencies for these audit priorities should be available for review by the Under Secretary of Defense (Comptroller), and that the department is to ensure it has a robust process to sustain audit areas where auditors provided positive feedback.<sup>27</sup> According to the memorandum, these priorities were identified because they were expected to provide the greatest potential value to DOD operations and the warfighter, consistent with the 2018 National Defense Strategy.<sup>28</sup> In May 2020, the Secretary of Defense added four audit priorities for fiscal year 2020: (1) Fund Balance with Treasury, (2) financial reporting internal controls, (3) Joint Strike Fighter Program, and (4) audit opinion progression.<sup>29</sup> Of the eight audit remediation priority areas for fiscal year 2020, seven are also reported as material weaknesses by the DOD OIG.<sup>30</sup> ODCFO officials told us that additional audit remediation priorities will likely be added at the end of each audit, but existing audit remediation priorities will be retained.

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<sup>26</sup>Department of Defense, *Acting Secretary of Defense Memorandum, Fiscal Year 2019 Financial Statement Audit Priorities* (Feb. 5, 2019).

<sup>27</sup>A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>28</sup>Department of Defense, *Summary of the 2018 National Defense Strategy of the United States of America, Sharpening the American Military's Competitive Edge*. The three strategic approaches in the 2018 National Defense Strategy are (1) Build a More Lethal Force, (2) Strengthen Alliance and Attract New Partners, and (3) Reform the Department for Greater Performance and Affordability. In the third strategic approach, DOD states that it must transfer to a culture of performance where results and accountability matter. To accomplish this, DOD states that it will continue plans to achieve full auditability of all its operations and improve financial processes, systems, and tools to understand, manage, and improve costs.

<sup>29</sup>Department of Defense, *Secretary of Defense Memorandum, Subject: Fiscal Year 2020 Financial Statement Audit Priorities* (May 18, 2020).

<sup>30</sup>Audit opinion progression is not reported as a DOD material weakness by the DOD OIG. This audit priority area was added as a fiscal year 2020 financial statement audit priority to emphasize that the department will support individual components each year to obtain and sustain a positive audit opinion.

In November 2019, ODCFO officials told us that department-wide efforts to align fiscal year 2018 NFRs to DOD's fiscal year 2019 audit remediation priorities in the NFR Database were ongoing. In addition, efforts to categorize and prioritize the NFRs related to the four audit remediation priorities issued in May 2020 also need to be completed. According to the DOD Comptroller's audit guide, ODCFO is responsible for certain remediation tasks, such as proposing corrective actions and issuing guidance, if needed, to remediate NFRs categorized as DOD-wide issues. DOD components are responsible for categorizing, prioritizing, and tracking their NFRs in the NFR Database as well as developing and implementing related CAPs to address them. In addition, ODCFO may work with the components to categorize and track NFRs in the NFR Database as well as to develop and implement CAPs.

Based on information and documentation that ODCFO and military service officials provided, the military services are also taking actions to prioritize NFRs. For example, the military services have designated responsibility for developing and implementing CAPs for certain NFRs to the offices or departments that have the expertise to remediate the specific findings identified. They have also included the DOD fiscal year 2019 audit remediation priorities (when applicable) in their respective fiscal year 2019 audit remediation priorities.<sup>31</sup> In addition, the military services are at various stages and using different methods to prioritize their respective NFRs and related CAPs for remediation. For example, the Army prioritizes NFRs based on a risk analysis performed by management and review of the information provided by its auditor; whereas the Navy categorizes NFRs into three priority levels using a scoring methodology that involves assigning numeric values to NFRs based on specific prioritization criteria.<sup>32</sup> The Air Force assigns an overall

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<sup>31</sup>If a DOD audit priority was also reported as a military service's material weakness in the prior year, then the military service prioritizes its audit remediation efforts for those DOD audit areas.

<sup>32</sup>The Navy uses five prioritization criteria to determine NFR scores: (1) critical path, (2) organizational impact, (3) material weakness, (4) materiality, and (5) Navy leadership direction. The three NFR priority levels (and related numeric scores) are as follows: Priority 1 (75 or higher), Priority 2 (41 to 74), and Priority 3 (40 or less).

impact and complexity score for its NFRs using specific criteria, with each criteria assigned a numeric value.<sup>33</sup>

The military services have also issued policies and procedures for prioritizing and remediating financial statement audit findings. The Army issued an overall auditability plan that identifies Army organizations for certain audit areas (i.e., property, plant, and equipment) and assigns NFRs to Business Mission Area Champions that are responsible for prioritizing and addressing them. The Navy has issued many audit-related policies and procedures, including the *Evaluate, Prioritize, Remediate (EPR) Program: Deficiency Prioritization Reference Guide*, which describes the procedures and methodology for prioritizing NFRs.<sup>34</sup> The Air Force uses the Air Force Deficiency Acceptance and Corrective Action Plan Process Desk Guide as a reference document for staff involved in the NFR acceptance, prioritization, and remediation process.

Using their respective methodologies and processes, the military services determined that over half of their fiscal year 2018 NFRs are high priority and significant to the financial statement audit. In addition, they are in the process of prioritizing fiscal year 2019 NFRs and linking them to DOD's updated audit remediation priorities. Department-wide efforts to prioritize NFRs are ongoing as the department continues to undergo annual financial statement audits, which likely will result in additional NFRs, and identify audit remediation priorities.

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## DOD and Its Components Did Not Always Prepare CAPs in Accordance with OMB, DOD, and Other Guidance

CAPs that DOD and its components developed to address a sample of fiscal year 2018 NFRs that we selected for testing did not always contain all of the data elements recommended in the Implementation Guide for OMB Circular A-123. In addition, components' CAPs did not always indicate that root-cause analysis had been performed, and many CAPs

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<sup>33</sup>The Air Force used eight criteria to prioritize its fiscal year 2018 NFRs: (1) financial impact, (2) critical capability, (3) reputational risk, (4) deficiency type, (5) Secretary of Defense priority area, (6) responsible organizations/stakeholder, (7) remediation timeline, and (8) CAP assessment.

<sup>34</sup>Navy, *Evaluate, Prioritize, Remediate (EPR) Program: Deficiency Prioritization Reference Guide*, Office of Financial Operations (FMO), Version 5.0 (December 2019).

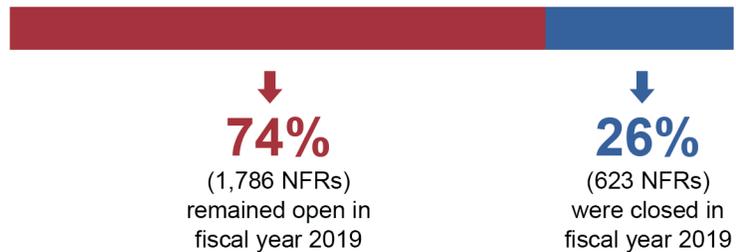
that indicated the analysis was performed failed to document it. Further, some components did not develop CAPs to address certain NFRs that the auditors identified because they were willing to accept the risk associated with them; however, they did not document a clear risk mitigation strategy or why the risk was acceptable or why other alternatives were unacceptable. Based on these issues, DOD and its components are at increased risk that their corrective actions may not effectively address identified deficiencies in a timely manner.

As shown in figure 2, our analysis of the NFR Database as of April 1, 2020, identified that of the 2,409 NFRs issued to DOD and its components for fiscal year 2018, DOD's auditors closed 623 (26 percent) and 1,786 (74 percent) remained open. According to DOD officials, DOD and its components generally agreed with the open findings and have corrective actions planned to address them. These results provide useful insights on DOD's remediation progress since undergoing a full audit of its entity-wide fiscal year 2018 financial statements. It is important for DOD to equal or exceed this progress in the future.

**Figure 2: Status of DOD Fiscal Year 2018 NFRs**

During fiscal year 2019 audits, auditors determined if the notices of findings and recommendations (NFR) issued in fiscal year 2018 remained open or were closed.

**Of 2,409 NFRs issued in fiscal year 2018,**



Source: GAO analysis of NFR Database information as of April 1, 2020. | GAO-21-157

## Some CAPs Were Missing Certain Data Elements Defined in the Implementation Guide for OMB Circular A-123

Developing and documenting corrective actions is an essential part of DOD’s financial statement audit remediation efforts. Recognizing the importance of having sufficient information to help manage corrective action efforts and in line with requirements contained in the NDAA for Fiscal Year 2018 to develop and maintain a centralized monitoring and reporting process that captures and maintains up-to-date information, ODCFO instructs DOD components to ensure that their CAPs include, at a minimum, the data elements defined in the Implementation Guide for OMB A-123. In addition, ODCFO developed a CAP template to help components to meet this instruction.

However, based on our analysis of 113 CAPs associated with a generalizable random sample of 98 fiscal year 2018 NFRs that were associated with at least one material weakness, we found that the CAPs for more than half of these NFRs were missing at least one of the data elements defined in the Implementation Guide for OMB Circular A-123.<sup>35</sup> The estimated percentage of NFRs with CAPs that did not include these data elements, based on our sample results, are summarized in table 1.

**Table 1: Estimated Percentage of Selected DOD Fiscal Year 2018 NFRs with CAPs That Did Not Include Defined Data Elements**

<b>Data elements defined in the Implementation Guide for OMB Circular A-123</b>	<b>Selected NFRs with CAPs that did not include a data element (percent)</b>
Year the deficiency was first identified	59.8
Summary description of the deficiency	9.2
Indicators to gauge resolution progress	5.9
Quantifiable target or qualitative characteristic	2.4
Targeted corrective action date	1.2
Agency official responsible for monitoring progress	0

<sup>35</sup>The sample frame of NFRs contained 1,459 unique, nonsensitive NFRs that according to the NFR Database, were associated with at least one material weakness and 1,649 CAPs. The number of CAPs associated with NFRs differ because NFRs may be addressed by one or more CAPs and a CAP may address one or more NFRs. In addition, the number of data elements we tested varied depending on the number elements applicable to each CAP. Estimated percentages are based on a 95 percent confidence interval with a margin of error less than or equal to 10.8 percent. See app. I for additional details about these estimates.

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Legend:

CAP = corrective action plan

DOD = Department of Defense

Implementation Guide for OMB Circular A-123 = *Implementation Guide for Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal control over Financial Reporting*

NFR = notice of findings and recommendations

OMB = Office of Management and Budget

Source: GAO analysis of documentation supporting CAPs associated with sampled NFRs. | GAO-21-157

Note: Estimated percentages are based on a 95 percent confidence interval with a margin of error less than or equal to 10.8 percent. See app. I for additional details about these estimates.

Although ODCFO performs CAP reviews using a checklist to determine whether CAPs follow the Implementation Guide for OMB Circular A-123 and DOD best practices, we found that ODCFO did not always identify data elements that were not included in the CAPs it reviewed. In addition, the ODCFO CAP template did not include a data element for the year the deficiency was first identified, and the NFR database does not have a field to record this specific element. Rather, the NFR database includes three data elements that according to ODCFO officials can be used to derive the year deficiencies are first identified.<sup>36</sup> ODCFO officials also stated that NFR Database users are able to view and track this information using functionality available in the database and ODCFO plans to enhance this functionality so that it can be exported for use by others. In June 2020, ODCFO revised the CAP template to also include these three data elements. However, because the NFR Database and updated template do not specifically capture the year that deficiencies are first identified, such information may not be identified or readily available in components' actual CAPs or in database extracts used to monitor progress. As a result of not clearly capturing all the data elements, DOD and its components may lack sufficient information to ensure the effectiveness of their corrective actions to address identified deficiencies in a timely manner.

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## Most CAPs Did Not Have Evidence That a Root-Cause Analysis Was Performed

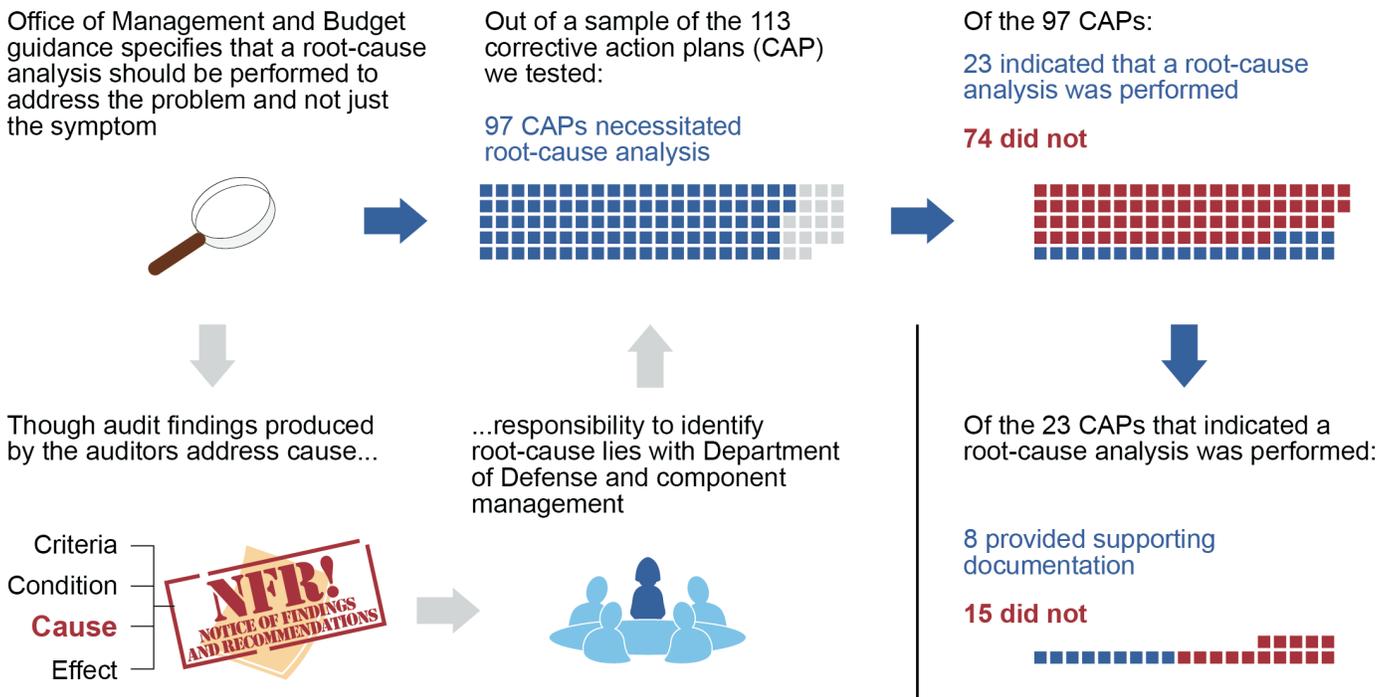
Performing a root-cause analysis is an essential part of remediating identified audit findings as it helps to identify underlying issues that caused or contributed to them—not just the symptoms—that are needed to develop an appropriate solution. However, DOD and its components did not always document that a root-cause analysis was performed for the

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<sup>36</sup>The three data elements are NFR Issue Type, Previous NFR Reference, and Audit Fiscal Year.

CAPs we tested. Specifically, as illustrated in figure 3, a root-cause analysis was needed for 97 of the 113 CAPs associated with the NFRs in our sample and, of these 97, 74 CAPs did not indicate that a root-cause analysis was performed.<sup>37</sup> As a result, we estimate that 75.9 percent of the NFRs in the population were supported by CAPs that did not indicate that a root-cause analysis was performed. Further, we found that 15 of the 23 CAPs that indicated a root-cause analysis was performed did not include supporting documentation of the steps performed and related results.<sup>38</sup>

**Figure 3: Performance and Documentation of Root-Cause Analysis in CAPs That GAO Reviewed**



Source: GAO analysis of documentation supporting CAPs associated with sampled NFRs. | GAO-21-157

<sup>37</sup>A root-cause analysis was not needed to address certain NFRs in our generalizable sample. For example, a root-cause analysis was not needed to address NFRs related to updating or issuing policies and procedures.

<sup>38</sup>A CAP that stated or implied the existence of a root-cause analysis was considered to include evidence that a root-cause analysis was performed. A CAP that included documentation of the root-cause analysis steps performed, either within the CAP or in a separate document, was considered to have documentation of a root-cause analysis.

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OMB Circular A-123 states that management should (1) perform a root-cause analysis of the deficiency to ensure that subsequent strategies and plans address the root of the problem and not just the symptoms, (2) identify and develop an understanding of the root cause of control deficiencies, and (3) consider alternative risk-mitigation strategies and perform a cost-benefit analysis to determine the best or most cost-effective solution.

Although many DOD components' policies and procedures recommend a root-cause analysis, officials told us that the CAP development guidance does not include the documentation of root cause. Indeed, while ODCFO CAP guidance specifies that root-cause be considered so that CAPs will be outcome based, it does not specifically instruct that CAPs include documentation that analysis was conducted and the steps that were performed. Also, the standard CAP template did not include a field for such indication or documentation. However, some components' CAP templates include a field to indicate whether a root-cause analysis was conducted. ODCFO revised its CAP template to include a field for DOD and its components to document that a root-cause analysis was performed. However, as of June 2020 it had not updated its guidance to specifically instruct the components to document that a root-cause analysis was performed.

Without documented root-cause analyses of deficiencies auditors identified, DOD lacks assurance that its components are taking appropriate actions that will resolve the underlying causes associated with the NFRs and related material weaknesses that collectively prevent the auditability of its financial statements.

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## DOD Components Did Not Always Document Their Rationale for Accepting the Risk of Certain Deficiencies

DOD components did not prepare CAPs for 16 of the 98 NFRs in our sample because they accepted the risks associated with the deficiencies the auditors identified. However, we found that the components did not document their rationale for accepting such risks and a clear risk-mitigation strategy for three of these 16 NFRs. For example, DOD components did not prepare CAPs for NFRs related to certain systems that are expected to be retired. Although transactions these systems process are expected to be subsumed by new systems in the future, it is unclear whether the new systems will be deployed on schedule and with the expected capabilities that will effectively address identified

deficiencies. In addition, the components did not indicate in the NFR Database that the risks were accepted for nine of these 16 NFRs. Further, for one of the 98 NFRs, the component accepted the risk in the NFR Database but did not indicate this in the CAP.

According to *Standards for Internal Control in the Federal Government*, management should identify, analyze, and respond to risks related to achieving defined objectives.<sup>39</sup> Designing responses to such risks may include the following:

- **Acceptance** - No action is taken to respond to the risk based on the insignificance of the risk.
- **Avoidance** - Action is taken to stop the operational process or the part of the operational process causing the risk.
- **Reduction** - Action is taken to reduce the likelihood or magnitude of the risk.
- **Sharing** - Action is taken to transfer or share risks across the entity or with external parties, such as insuring against losses.

According to ODCFO officials, components were instructed to prepare a risk analysis if they decide to accept the risk associated with deficiencies identified in NFRs or defer actions on low-impact and low-priority CAPs. In addition, ODCFO guidance defines scenarios for selecting the “Risk Accepted” field in the CAP section of the NFR Database and states that ODCFO is to monitor all low-impact CAPs and follow up with components as needed.<sup>40</sup> We found that this guidance does not specify what components should do when they decide to accept the risk of a deficiency. However, in March 2020 ODCFO officials issued guidance along with a template to document, at a minimum, key information to substantiate the component’s rationale for considering an NFR as a low-impact NFR.

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## DOD Developed the NFR Database to Help Monitor and Track Remediation Efforts, but

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<sup>39</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>40</sup>According to ODCFO officials, risk-accepted and low-impact CAPs are synonymous.

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## Reports Used to Assess Progress Are Based on Data That May Not Be Reliable

In February 2017, we reported that DOD did not have comprehensive information on the status of CAPs throughout the department needed to fully monitor and report on the progress being made to resolve financial management–related deficiencies and recommended that DOD develop and implement a centralized monitoring and reporting process to address this need.<sup>41</sup> DOD addressed our recommendation by developing the NFR Database to track, monitor, and communicate the status of financial statement audit remediation efforts. In addition, ODCFO has taken steps to determine the accuracy and completeness of certain information contained in the database, such as confirming the total number of NFRs with IPAs and performing monthly reviews to determine if certain CAP data are not populated or are outdated, including remediation milestones that may have passed. However, ODCFO’s monthly review process does not include steps to determine the extent to which identified CAP-related exceptions are resolved timely. In addition, because information in the NFR Database may be incomplete and unreliable as discussed above, status reports provided to internal and external stakeholders may lack certain quality information needed to monitor DOD’s efforts and measure its progress toward achieving improved financial statement audit results.

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### ODCFO Developed the NFR Database, but the Monitoring Process Does Not Ensure the Accuracy and Completeness of Certain Data

ODCFO developed a centralized NFR database to track and monitor NFRs issued during financial statement audits and the related CAPs DOD components developed to remediate them. The initial population of NFRs in the database includes over 2,400 NFRs issued in connection with DOD’s entity-wide full-scope financial statement audit in fiscal year 2018, and over 1,500 additional NFRs issued in connection with the fiscal year 2019 audit.<sup>42</sup> DOD components are expected to update milestones and other CAP-related information regularly in the NFR Database. According

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<sup>41</sup>[GAO-17-85](#).

<sup>42</sup>While full-scope financial statement audits began in fiscal year 2018 for certain DOD components, such audits began earlier for some components. For example, full-scope audits began in fiscal year 2017 for the Marine Corps, Defense Logistics Agency, and Defense Information Systems Agency.

to ODCFO and military service officials, the Army and the Air Force are using the NFR Database as their primary tool for tracking their financial statement audit findings, while the Navy has developed its own tracking tool.

According to DOD, the NFR Database provides DOD and its components access to department-wide information on NFRs and CAPs at any time, a holistic view of pervasive issues affecting overall DOD financial management, and a means for capturing information needed to prioritize and assign responsibilities for addressing them. The NFR Database also provides a centralized source of information for communicating progress on the status of the NFRs and CAPs to internal and external stakeholders, such as formal presentations provided for bimonthly FIAR Governance Board meetings and congressional briefings.

A few IPAs and the DOD OIG have access to the NFR Database to upload NFRs. However, because of challenges related to providing most IPAs access to the database, ODCFO developed an alternative method for obtaining this information using a template containing NFR information that the IPAs provided, which ODCFO uploaded into the NFR Database. ODCFO also implemented a process to confirm the number of NFRs (based on information extracted from the NFR Database) with the IPAs and to update any missing or new ones at the end of the fiscal year 2018 financial statement audits.

As part of this confirmation process, ODCFO identified differences between the number of fiscal year 2018 NFRs contained in the NFR Database and those confirmed by the IPAs. In April 2019 and June 2019, we discussed these differences and ODCFO's efforts to reconcile them to ensure the accuracy and completeness of the number of NFRs in the NFR Database. ODCFO officials acknowledged that IPA NFR information submitted during the audit may lead to discrepancies at the end of the audit. As a result, in November 2019, ODCFO changed its approach for confirming the number of NFRs issued at the end of the fiscal year 2019 financial statement audits. Beginning in fiscal year 2019, ODCFO requested that the IPAs complete and sign a prepopulated checklist to help confirm the total number of NFRs recorded in the database and their status (new, reissued, or closed).

In addition, ODCFO performs monthly reviews to determine if any CAP data in the NFR Database are outdated, such as remediation milestones that have passed, and whether required attachments have been uploaded. These reviews provide a general assessment on the

completeness and accuracy of the CAP information reported in the database. According to ODCFO guidance, these reviews also (1) verify that DOD components responsible for remediating NFRs uploaded a CAP (or CAPs) within 60 days of NFR upload, (2) verify that DOD components entered all required CAP information, (3) verify that the DOD component responsible for creating the CAP actually created it, (4) monitor the original estimated CAP completion dates to ensure that DOD components are not changing them, and (5) confirm that the required validation fields in the NFR Database have been filled out when DOD components validate CAP completion.<sup>43</sup>

ODCFO notifies CAP action officers, or other key contacts designated by each component, of any exceptions it identifies that require attention. For example, ODCFO uses system processes to identify CAP implementation dates that are past due based on information in the NFR Database at that specific time and notifies DOD components of the exceptions identified. In addition, these exceptions are summarized and communicated, along with other information to senior leadership to help improve information in the NFR Database. The exceptions identified each month include those that were identified in previous months and remain unresolved. However, ODCFO's process does not include steps to separately identify exceptions identified in previous months or determine how long they have remained unresolved. As a result, ODCFO's ability to (1) evaluate the timeliness of component efforts to address identified exceptions associated with NFR Database CAP information and (2) determine the need for possible additional focus or resources to address those that remain unresolved for numerous months is limited.

In addition, based on our testing of CAPs associated with NFRs included in our generalizable sample, we found that NFRs were not always linked to the correct CAPs in the NFR Database. For example, an NFR was linked to three CAPs, one that was not related to the NFR, another that had been superseded, and another that actually addressed the NFR. We found other instances where NFRs were linked to two CAPs in the NFR Database—one developed by the DOD component responsible for remediation and another that was not developed but was recorded in the NFR Database as a placeholder for actions to be performed by, or in coordination with, another DOD component. We also found that information in the NFR Database was not always consistent with

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<sup>43</sup>The four CAP validation fields are (1) date CAP considered closed, (2) source of validation, (3) method of validation, and (4) responsible party that validated the CAP.

information contained in the CAP. For example, as discussed above, we found instances where components did not prepare CAPs for NFRs because they were willing to accept the risk of the deficiency but did not always indicate that the risks were accepted in the NFR Database or document their rationale for doing so. Although ODCFO performs CAP reviews using a checklist, the checklist does not have questions specifically related to risk acceptance and whether the CAPs were linked to the correct NFRs in the database. Moreover, ODCFO does not follow up with DOD components regarding such CAPs or assess the appropriateness of their risk acceptance decisions or lack of risk acceptance documentation.

*Standards for Internal Control in the Federal Government* requires that management implement control activities through policies. To do so, management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the organization's objectives or addressing related risks.<sup>44</sup> Also, management should establish and operate monitoring activities to monitor the internal control system and remediate identified internal control deficiencies on a timely basis.

According to ODCFO officials, because fiscal year 2018 was the first year of DOD's full department-wide financial statement audit, some of the processes for maintaining the NFR Database have not yet been finalized or formalized. Although components are responsible for confirming the accuracy and completeness of their CAP information regularly, ODCFO officials also told us that ODCFO is still developing some of its processes for monitoring components' efforts and related audit remediation progress. In June 2020, ODCFO officials told us that they were working to update all applicable user guides and standard operating procedures related to the NFR Database and expect to issue the updated guidance in late summer 2020. Until ODCFO implements effective processes to monitor the quality of the CAP information included in the NFR Database on a regular basis, DOD lacks adequate assurance that the information obtained from the database and provided to internal and external users is accurate and complete as discussed further below.

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<sup>44</sup>[GAO-14-704G](#).

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## ODCFO's Reports Used to Measure Progress Are Based on Data That May Not Be Reliable

Reliable, complete, and timely information on DOD audit remediation efforts is essential for monitoring the effectiveness of such efforts and measuring progress. In February 2017, we reported that DOD's reports to internal and external stakeholders, such as OMB, GAO, and Congress, on the status of DOD audit readiness efforts do not provide comprehensive information and recommended that DOD prepare a consolidated CAP management summary on a bimonthly basis on the status of all CAPs related to critical capabilities.<sup>45</sup> DOD's efforts to address this issue are ongoing. However, as discussed above, DOD developed the NFR Database that contains useful information on deficiencies financial auditors identified and actions to address them, which has improved its ability to report more comprehensive information. DOD produces various reports generated from information contained in the NFR Database, such as the DOD Financial Improvement and Audit Remediation Reports, the DOD Semiannual Audit Corrective Action Plan Status Briefing for Congress, and other reports for internal stakeholders such as the FIAR Governance Board. For example, in June 2020, DOD submitted its report on the status of department-wide corrective actions to congressional defense committees, as required, which was based, in part, on information contained in the NFR Database.<sup>46</sup>

According to ODCFO guidance, to help facilitate such reporting and reduce data calls for information from DOD components that may be inefficient or unreliable, ODCFO uses a reporting tool to produce dashboard reports for high-level decision-making and reporting based on real-time data contained in the NFR Database. Importantly, this tool enables ODCFO to produce reports that link information in the NFR Database on NFRs and related CAP efforts to DOD audit priority areas and material weaknesses. According to ODCFO officials, such reporting provides information on component progress, including the status of CAPs and related aging reports and NFR projected closure dates.<sup>47</sup> However, as discussed above and illustrated in figure 4, the NFR

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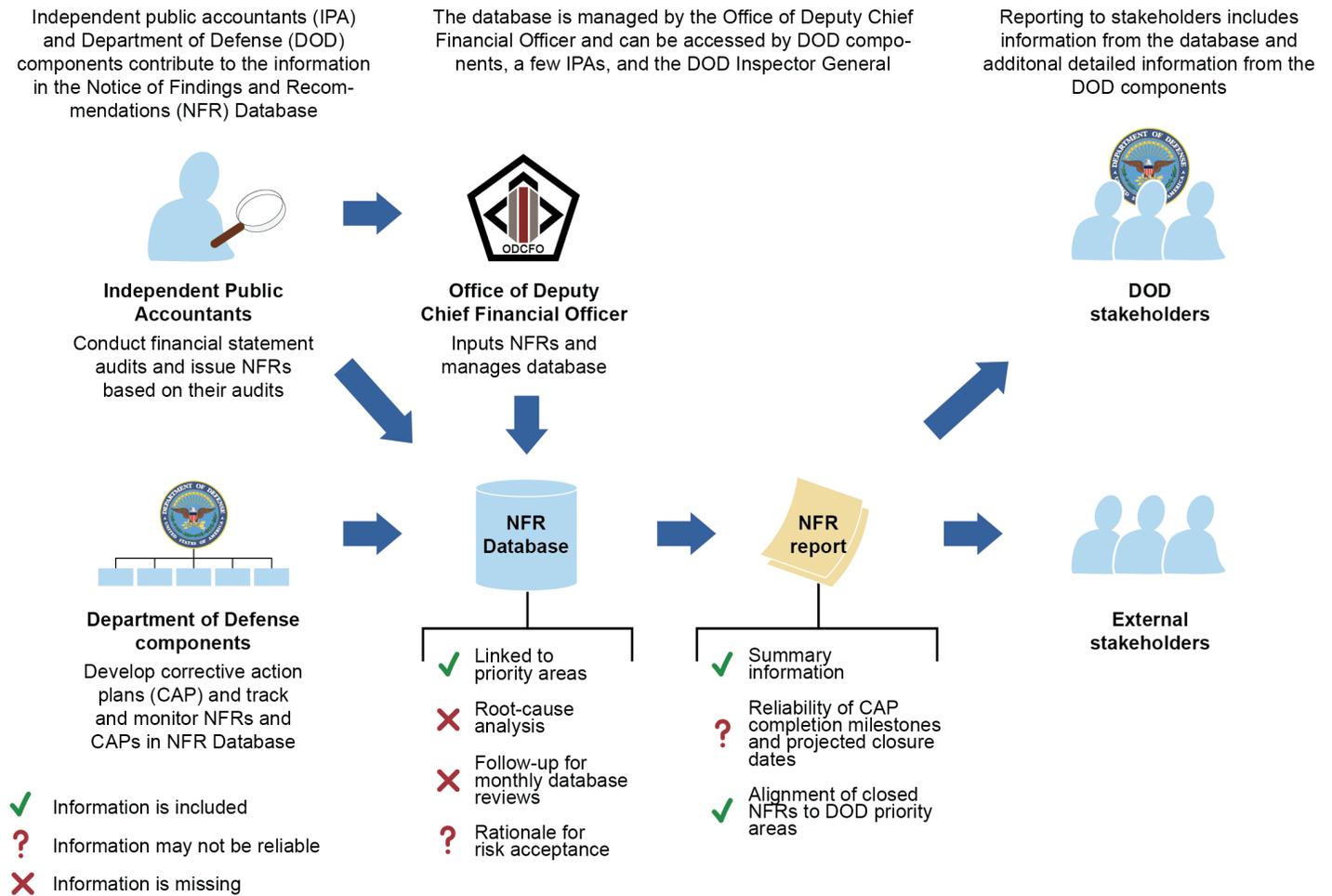
<sup>45</sup>[GAO-17-85](#).

<sup>46</sup>Pub. L. No. 115-91, div. A, § 1002(c)(3)(C), 131 Stat. 1283, 1540 (Dec. 12, 2017), *codified at* 10 U.S.C. § 240b(b)(2).

<sup>47</sup>According to ODCFO, the CAP aging report organizes CAPs by current status and expected implementation dates.

Database information on which these NFR dashboard reports are based may not be accurate, reliable, and complete.

**Figure 4: Issues Affecting the Usefulness of NFR Dashboard Reports**



Source: GAO analysis of the NFR Database and the reports from the NFR Database. | GAO-21-157

According to *Standards for Internal Control in the Federal Government*, management should use quality information to achieve the entity's objectives and communicate such information internally and externally. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. In addition, management

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should establish and operate monitoring activities to monitor the internal control system and evaluate results.<sup>48</sup>

Given the growing number of NFRs issued with the ongoing department-wide financial statement audits and disclaimers of opinion, quality information on DOD efforts to address NFRs that financial statement auditors reported, and how such efforts relate to DOD's audit remediation priority areas and material weaknesses, is essential. Without accurate, reliable, and complete NFR Database information, stakeholders will continue to lack quality information to effectively monitor DOD and component efforts and measure progress.

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## Conclusions

The DOD OIG issued disclaimers of opinion and reported numerous material weaknesses in internal control over financial reporting based on its audits of DOD's fiscal year 2018 and fiscal year 2019 department-wide financial statements. These results were based, in part, on audits of the military services' and other DOD components' financial statements that IPAs conducted and based on which issued thousands of findings and recommendations. DOD leadership expects the results of the audits to assist the department in implementing corrective actions that will improve financial management department-wide.

Recognizing the magnitude and wide range of deficiencies identified in these audits, DOD and its components have taken some actions to prioritize audit remediation efforts, develop CAPs to address NFRs, and improve their ability to monitor and report on such efforts. DOD identified eight financial statement audit remediation priority areas (four in fiscal year 2019 and four in fiscal year 2020), and ODCFO has efforts under way to link NFRs to these priority areas. Components are working to further prioritize their remediation efforts to focus on critical findings that contribute to material weaknesses. In addition, ODCFO developed the centralized NFR Database to help track, monitor, and report on NFRs and the status of CAPs developed to address them.

However, CAPs that DOD and its components developed do not always include data elements defined in the Implementation Guide for OMB Circular A-123 or indicate that root-cause analysis was conducted to help

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<sup>48</sup>[GAO-14-704G](#).

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ensure their effectiveness. Further, ODCFO does not take appropriate steps in its monthly NFR Database review process to evaluate and follow up previously identified exceptions to ensure that they are resolved timely. As a result, DOD's ability to ensure the completeness and reliability of information contained in the NFR Database, as well as NFR dashboard reports provided to internal and external stakeholders to monitor progress and measure progress, is hampered.

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## Recommendations for Executive Action

We are making the following five recommendations to DOD.

- ODCFO should update the CAP template provided in its guidance to assist components in developing CAPs to include the year deficiencies are first identified data element defined in the Implementation Guide for OMB Circular A-123. (Recommendation 1)
- ODCFO should update the NFR Database with a field to record the year deficiencies are first identified. (Recommendation 2)
- ODCFO should incorporate appropriate steps to improve its CAP review process, including ensuring that (1) data elements not included in CAPs are appropriately identified and communicated to components and resolved, (2) NFRs are appropriately linked to the correct CAPs to address them, and (3) components document their rationale for accepting the risk associated with certain deficiencies and appropriately identify such instances in the NFR Database. (Recommendation 3)
- ODCFO should update DOD guidance to instruct DOD and components to document root-cause analysis when needed to address deficiencies auditors identified. (Recommendation 4)
- ODCFO should include appropriate steps in its monthly NFR Database review process to evaluate and follow-up on previously identified exceptions to ensure that they are resolved timely. (Recommendation 5)

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## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for comment. In its written comments, reproduced in appendix II, DOD concurred with three of our

recommendations (1, 2, and 4), partially concurred with recommendation 3, and did not concur with recommendation 5. DOD also provided technical comments and other related documentation, which we incorporated as appropriate.

For the three recommendations that DOD concurred with related to ODCFO updating the CAP template and NFR Database to include fields for the year deficiencies are first identified and updating DOD guidance on documenting root-cause analysis, DOD described certain planned actions in its comments that if effectively implemented will address these recommendations. In addition, DOD provided additional documentation on its efforts to address our first two recommendations that we have not verified. We plan to assess these efforts to determine if they fully address these recommendations as part of our follow-up process. With regard to our second recommendation, DOD noted that the NFR Database includes three data elements that combined will allow users to track the original issue dates of the NFRs. DOD also recognizes that capturing this information in a single field would simplify the process for users to obtain it. We acknowledged DOD's ability to derive the year the deficiency was first identified in our report and are encouraged that ODCFO plans to add the field in the NFR Database.

DOD partially concurred with our third recommendation that ODCFO incorporate appropriate steps to improve its CAP review process. In its comments, DOD stated that it ensures that NFRs are appropriately linked to the correct CAPs and that data elements missing from CAPs are identified and communicated to components through its CAP quality and monthly data control review processes. Although DOD relies on these processes, as discussed in our report, we found that certain CAPs associated with the NFRs in the generalizable sample we tested did not include certain data elements defined in the Implementation Guide for OMB Circular A-123, and that certain NFRs were not always linked to the correct CAPs in the NFR Database. For example, the CAPs associated with 9.2 percent and 5.9 percent of the NFRs we tested did not include a summary description of the deficiency or indicators to gauge resolution progress, respectively. As discussed in our report, these instances occurred, in part, because ODCFO did not always identify data elements that were not included in the CAPs it reviewed and its CAP review checklist does not have questions specifically related to whether the CAPs were linked to the correct NFRs in the database.

In addition, DOD stated that ODCFO's CAP quality review process ensures that components document their rationale for accepting risk, risk

response, and risk identification for deferring remediation activity associated with low-impact deficiencies. However, as discussed in our report, we found that components did not always document their rationale for accepting the risk associated with certain NFRs, including some related to systems that are expected to be retired. As noted in our report, in March 2020 ODCFO officials issued guidance along with a template to document, at a minimum, key information to substantiate components' rationales for considering an NFR as a low-impact NFR. In addition, DOD stated in its written comments that it plans to incorporate appropriate steps to improve its monthly data controls review process to ensure risk acceptance rationale documentation is included in the NFR Database. We acknowledge that this additional step could help confirm that components have documented their risk acceptance rationale. However, we continue to believe that including appropriate steps in the CAP review process, such as reviewing the components' risk acceptance rationale for reasonableness and appropriateness, are needed and that our recommendation is valid.

With regard to our fifth recommendation, DOD stated that it did not concur with our recommendation that ODCFO include appropriate steps in its monthly NFR Database review process to evaluate and follow up on previously identified exceptions to ensure they are resolved. DOD also stated that our report failed to recognize the risk-based approach it deploys to track and review CAPs and described various steps already being performed to address these exceptions. However, as discussed in our report, ODCFO's process does not include steps to determine how long these exceptions have existed, and as a result, DOD lacks important information regarding the timeliness of efforts to resolve them. We clarified our report to incorporate DOD's efforts to summarize and communicate information on exceptions to senior leadership, and also clarified our recommendation to focus on the need to resolve them in a timely manner. DOD also stated that its FIAR Governance structure provides a more active evaluation and follow-up, at all levels of leadership, to ensure that DOD components improve the accuracy of NFR Database information. However, in its response, DOD did not describe or provide documentation on the specific steps it takes to monitor the timeliness of efforts to resolve exceptions identified from ODCFO's monthly review process. Resolving these exceptions in a timely manner would help improve the quality of NFR Database information. Accordingly, we continue to believe that our recommendation to incorporate additional steps in ODCFO's review process to ensure that such exceptions are resolved timely is valid.

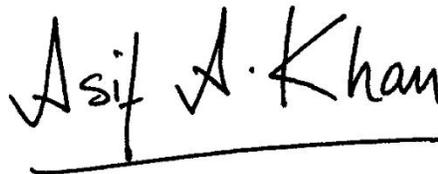
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**Letter**

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We are sending copies of this report to the Secretary of Defense; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Deputy Chief Financial Officer; the Director, Financial Improvement and Audit Remediation; the offices of the Assistant Secretaries of the Air Force, Army, and Navy (Financial Management & Comptroller); the Director of the Office of Management and Budget; and appropriate congressional committees. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Asif A. Khan  
Director, Financial Management and Assurance

*List of Committees*

The Honorable James M. Inhofe  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate  
The Honorable Ron Johnson  
Chairman  
The Honorable Gary C. Peters  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Adam Smith  
Chairman  
The Honorable Mac Thornberry  
Ranking Member

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Letter

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Committee on Armed Services  
House of Representatives  
The Honorable Carolyn Maloney  
Chairwoman  
The Honorable James Comer  
Ranking Member  
Committee on Oversight and Reform  
House of Representatives

# Appendix I: Objectives, Scope, and Methodology

This report examines the (1) actions taken by Department of Defense (DOD) and the Army, Navy, and Air Force (military services) to prioritize financial statement audit findings; (2) extent to which DOD and its components have developed corrective action plans (CAP) to address audit findings in accordance with Office of Management and Budget (OMB), DOD, and other relevant guidance; and (3) extent to which DOD has improved its ability to monitor and report the status of financial statement audit remediation efforts department-wide.

To determine the actions taken by DOD and the military services to prioritize financial statement audit findings, we interviewed Office of the Deputy Chief Financial Officer (ODCFO) and military service officials and reviewed documentation on audit remediation and prioritization efforts, including the audit remediation governance framework used to manage and mitigate notices of findings and recommendations (NFR). We also reviewed audit remediation priority areas identified in DOD's and the military services' guidance and tools used to report, manage, and monitor auditor-issued NFRs and develop CAPs. We also met with DOD and military service officials to gain an understanding of actions taken by the military services to categorize their fiscal year 2018 NFRs by priority level and link them to the audit remediation priorities that DOD identified.

To determine the extent to which DOD and its components have developed CAPs to address audit findings in accordance with OMB, DOD, and other relevant guidance, we selected and performed tests on a random generalizable sample of 98 fiscal year 2018 NFRs and their related CAPs. To select our sample, we obtained a data extract from the NFR Database as of April 1, 2019, that included data for all NFRs issued for fiscal year 2018. We limited our population to NFRs that according to the NFR Database, related to nonsensitive activity and were associated with at least one material weakness (individually or in the aggregate) that financial statement auditors identified. The focus of this testing was to determine whether selected CAPs included the six data elements listed in the *Implementation Guide for Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting* (Implementation

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Guide for OMB Circular A-123)<sup>1</sup> and the root-cause analysis in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Our original population contained 1,907 NFR-CAP clusters, with clusters comprising 1,505 unique NFRs and 1,746 unique CAPs. We used the list of unique NFRs as our sample frame and selected a simple random sample of 100 NFRs. We computed the sample size for a simple random sample of NFRs for an estimated proportion to achieve a minimum precision of plus or minus 10 percentage points, at the 95 percent confidence level. We also designed the sample to allow for proportion estimates of CAPs. Since NFRs were associated with from one to 13 CAPs, we tested all CAPs associated with each selected NFR. Additionally, because a CAP could support more than one NFR, it could be selected more than once. To account for this, we computed separate sample weights for CAPs by reducing the weights for CAPs that were associated with more than one NFR. Through our simple random sample of NFRs, we selected 123 unique CAPs.

The quality of CAPs may be associated with the number of CAPs associated with an NFR (NFRs with more CAPs may be more complex) and the DOD component that produced it. To ensure adequate sampling of cluster sizes and military services, we selected a systematic sample of NFRs from the list of NFRs sorted by (1) number of CAPs per NFR and (2) NFR identification number. The format of NFR identification number is highly variable, so including the identification number in the sort increased the probability that NFRs were selected from different DOD components. Based on a population size of 1,505 NFRs and desired sample size of 100 NFRs, we selected every 15th observation for our sample with a random starting point. The sample included 100 NFRs and 123 CAPs. All of the CAPs sampled were unique. The systematic sample provided a range of cluster sizes, from one to six CAPs per NFR. CAP data were analyzed with samples weighted for selection probability, because a CAP could support more than one NFR.

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<sup>1</sup>Chief Financial Officer's Council, *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting* (July 2005). See also Office of Management and Budget, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016).

During our review of sample items, we identified two clusters containing one CAP each that were out of scope because they related to sensitive-activity NFRs. Thus, our final sample included 98 NFRs and 113 CAPs.<sup>2</sup> Because we followed a probability procedure based on our design of systematic selections, other samples could have been drawn that could have provided different estimates. Accordingly, our particular sample results are expressed using a 95 percent confidence interval (e.g., plus or minus 10 percentage points). This interval would contain the actual population value for 95 percent of the samples we could have drawn. Unless otherwise noted, all percentage estimates in this report have confidence intervals of 10.8 percentage points.

To document our review of each CAP, we developed and used a data collection instrument. For our sample, we obtained CAPs and any related documents that were uploaded to the NFR Database. We conducted attribute testing of the CAPs in our sample but did not comment on the quality or sufficiency of individual CAPs.<sup>3</sup> To assess the reliability of the CAP information in the database, we requested the CAPs and any related supporting documentation, such as root-cause analyses, from the respective DOD components. We reviewed the CAPs and related documents to determine if entities developed them to address audit findings in accordance with OMB, DOD, and other relevant guidance.

Specifically, using our data collection instrument, we reviewed CAP documentation to determine if the CAPs (1) included the six data elements defined in the Implementation Guide for OMB Circular A-123 and DOD guidance; (2) indicated whether coordination with external entities was performed, if needed, as noted in the Financial Improvement and Audit Remediation (FIAR) CAP Review checklist; and (3) indicated that root-cause analyses were conducted, as directed by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and if supporting documentation demonstrated that root-cause analysis was performed. To assess the NFRs, we summarized the results of attribute testing for all CAPs supporting each NFR. For CAPs

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<sup>2</sup>The original population included 1,907 records (NFRs) and our original sample of 100 NFRs included 123 CAPs. Of the 1,907 records, 108 related to sensitive-activity NFRs for one DOD component and were excluded from our scope, leaving a population of 1,799 records. Two of the 100 NFRs in the original sample also related to sensitive activity and they each related to one CAP. We excluded these two NFRs and CAPs, resulting in our final sample of 98 NFRs and 121 CAPs.

<sup>3</sup>An attribute is a descriptive quality or characteristic of a sampling unit. Attribute testing is testing that reaches a conclusion about a population in terms of a rate of occurrence.

that failed an attribute test, we classified the associated NFR as failing that attribute test. Therefore, NFRs with multiple CAPs have more opportunities to fail an attribute test. An NFR that failed an attribute test has at least one CAP that failed that attribute.

To determine the extent to which DOD has improved its ability to monitor and report the status of financial statement audit remediation efforts at the military services and at the department, we reviewed relevant criteria from OMB Circular A-123, *Standards for Internal Control in the Federal Government*,<sup>4</sup> and DOD guidance. We interviewed ODCFO officials to gain an understanding of the process for capturing and maintaining up-to-date information on NFRs and CAPs in the database and the types of reports generated from it.

We reviewed documentation regarding the ODCFO NFR Database processes and responsibilities of the DOD components and their financial statement auditors. We reviewed the NFR Database data dictionary to understand the purpose of the data fields, parties responsible for each field, and how information in one field may affect information in other fields. We also reviewed the database to determine whether the NFRs in the database were categorized by the DOD-wide material weakness identified in DOD's Statement of Assurance or the material weaknesses that the DOD Office of Inspector General identified in the fiscal year 2018 financial statement audit report.

To evaluate the reliability of NFR Database, we obtained an extract of the database as of April 1, 2019, that included data for all NFRs issued for fiscal year 2018. We analyzed information in the database to determine how many NFRs in the database did not have corresponding CAPs. We also assessed other fields in the database for completeness and accuracy. We met with ODCFO officials and reviewed relevant documents to gain an understanding of ODCFO's efforts to (1) reconcile the total number of NFRs in the database with the number of NFRs the IPAs issued and (2) monitor the reporting entities' updates to the CAP information in the database. We also reviewed the checklist ODCFO officials used to review and assess the quality of the CAPs based on criteria in OMB Circular A-123, the Implementation Guide for OMB Circular A-123, and DOD guidance.

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<sup>4</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

To gain an understanding of how DOD uses the information in the NFR Database to report on the status of audit remediation, we interviewed knowledgeable ODCFO officials and obtained demonstrations of how reports are generated from the NFR Database reporting tool, which provides dashboard visualizations of any selected data in the database.<sup>5</sup> The demonstrations included examples of how the dashboards are interactive and allow users to isolate specific information using drop-down menus within the database. ODCFO selects options for filters and graphs based on experience from data calls and produces high-level reports for decision makers, working groups, FIAR Governance Board meetings, and congressional briefings. The tool has the ability to present a real-time snapshot of projected and expected closures of NFRs and CAPs and other information contained in the NFR Database.

Although we reviewed certain control activities associated with DOD's and the military services' efforts to remediate financial statement audit findings, we did not evaluate all components of internal control and all control activities associated with ODCFO's NFR Database processes and the CAP development processes performed at the DOD component level. If we had done so, we may or may not have identified additional deficiencies related to such processes that could also affect department-wide audit remediation efforts.

We conducted this performance audit from November 2018 to October 2020 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.

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<sup>5</sup>Reporting of information from within the ODCFO NFR Database is offered as several dashboards using Qlik Sense™ interactive data visualizations. Each dashboard has a particular theme and offers an interactive experience to pull customized reports.

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# Appendix II: Comments from the Department of Defense

**Appendix II: Comments from the Department  
of Defense**



COMPTROLLER

**OFFICE OF THE UNDER SECRETARY OF DEFENSE**

1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

August 28, 2020

Mr. Asif A. Khan  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Khan:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GAO-20-510, "DoD Financial Management: Continued Efforts Needed to Correct Material Weaknesses Identified in Financial Statement Audits," dated July 15, 2020 (GAO Code 103072). I am enclosing the Department's responses to the five recommendations for inclusion in your final report.

Your report offers valuable recommendations for strengthening the detailed processes that we use to update the Department's Enterprise Notice of Findings and Recommendations (NFR) Database. However, it fails to recognize the risk-based approach that we deploy in tracking and reviewing corrective action plans, given the size and complexity of our organization. We are using the repository as a single source for accurate, real-time, independent information on DoD financial statement audit remediation and progress. The database provides a strategic view of pervasive issues and visibility into findings and progress. Senior leaders use customized dashboards to track NFRs, conditions, and corrective action plans. The monthly corrective action plan (CAP) review process and elevation to leadership is already in place to address lack of corrective action plans or progress. This process doesn't equate to all findings being resolved at the same time; rather, it allows leadership to help focus in on areas that are more impactful. As a result, we non-concur with recommendation 5, as we already have the measures in place to continue to resolve exceptions. For example, if CAPs are not developed within 60 days of NFR issuance, we follow up with the components and use the metrics to drive discussions during senior leadership meetings. These oversight structures and forums go as high as the Deputy Secretary of Defense and help leadership identify Department-wide issues and trends necessary to streamline remediation efforts.

The Department appreciates the opportunity to comment on the draft report. Should you need further information, my point of contact for this matter is Ms. Mobola Kadiri at 571-256-2670 or [mobola.a.kadiri.civ@mail.mil](mailto:mobola.a.kadiri.civ@mail.mil).

Sincerely,

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Mark E. Easton  
Deputy Chief Financial Officer

Enclosure: As stated

cc: Assistant Secretaries of the Military Departments (Financial Management and Comptroller)

**DOD FINANCIAL MANAGEMENT: CONTINUED EFFORTS NEEDED TO  
CORRECT MATERIAL WEAKNESSES IDENTIFIED IN FINANCIAL STATEMENT  
AUDITS (GAO-20-510)**

**DEPARTMENT OF DEFENSE COMMENTS**

**RECOMMENDATION 1:** The ODCFO should update the CAP template provided in its guidance to assist components in developing CAPs to include the year deficiencies are first identified data element defined in the Implementation Guide for OMB Circular A-123.

**DoD RESPONSE:** Concur. The Office of the Deputy Chief Financial Officer (ODCFO) Corrective Action Plan (CAP) template includes data elements defined in the Office of Management and Budget (OMB) Implementation Guide for OMB Circular A-123, except the data element to record the year deficiencies are first identified. This missing data element will be added to the CAP template no later than August 31, 2020.

**RECOMMENDATION 2:** The ODCFO should update the NFR database with a field to record the year deficiencies are first identified.

**DoD RESPONSE:** Concur, however it is important to note that the Notice of Findings and Recommendations (NFR) database currently meets the objective of the OMB Implementation Guide for OMB Circular A-123. The NFR Database includes data elements that allow the users of the NFR Database to track the original issue date of the NFRs. The users can track the year deficiencies are first identified with a combination of the following three fields: NFR issue type, previous NFR reference, and audit fiscal year. The ODCFO recognizes that a single field titled “year deficiencies are first identified” may simplify the process of obtaining the original issue date and will add this single field in the NFR Database no later than August 31, 2020.

**RECOMMENDATION 3:** The ODCFO should incorporate appropriate steps to improve its CAP review process, including ensuring that (1) data elements not included in CAPs are appropriately identified and communicated to components and resolved, (2) NFRs are appropriately linked to the correct CAPs to address them, and (3) components document their rationale for accepting the risk associated with certain deficiencies and appropriately identify such instances in the NFR Database.

**DoD RESPONSE:** Partially concur. Currently, the ODCFO monitors the completeness of data in the NFR Database through the monthly data controls review process. During this process, we provide feedback to components on missing data elements. In addition, we monitor the quality of the CAPs through the CAP quality review process. Through these two processes, we ensure that NFRs are appropriately linked to the correct CAPs and that data elements missing from CAPs are appropriately identified and communicated to components. The CAP quality review process ensures components document their rationale for accepting risk, risk response, and risk identification for deferring remediation activity associated with low-impact deficiencies. The ODCFO will incorporate appropriate steps to improve the monthly data controls review process to ensure risk acceptance rationale documentation is included in the NFR Database.

Enclosure

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**Appendix II: Comments from the Department of Defense**

**RECOMMENDATION 4:** The ODCFO should update DOD guidance to instruct DOD and components to document a root-cause analysis when needed to address deficiencies identified by auditors.

**DoD RESPONSE:** Concur. The DoD Internal Control over Financial Reporting Guide, dated May 2018, instructs DoD components to perform root-cause analysis of an internally identified or audit-identified deficiency to identify the underlying cause and ensure that the CAP is designed to address it. The ODCFO will update appropriate DoD guidance no later than December 31, 2020, so it specifically instructs that CAPs include documented evidence that a root-cause analysis was conducted and an explanation as to how it was conducted.

**RECOMMENDATION 5:** The ODCFO should include appropriate steps in its monthly NFR Database review process to evaluate and follow-up previously identified exceptions to ensure they are resolved.

**DoD RESPONSE:** Non-concur. This is already being performed and can be evidenced. Currently, the ODCFO performs monthly reviews to determine if any CAP data in the NFR Database are outdated. Email correspondence is sent to the reporting entities identifying relevant exceptions. The reporting entities are responsible for remediating the exceptions. ODCFO maintains oversight over the data by sharing the exceptions on a monthly basis, which includes any exceptions that were not remediated since the last communication. The identified exceptions are communicated to the reporting entities on a monthly basis until they are resolved. In addition to the monthly NFR Database review process, the Department's FIAR Governance structure provides a more active evaluation and follow-up, at all levels of leadership, to ensure DoD components improve the accuracy of information in the NFR Database.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Arkelga Braxton (Assistant Director), Doris Yanger (Assistant Director), Tulsi Bhojwani (Analyst-in-Charge), Kristi Karls (Analyst-in-Charge), Sharon Byrd, Anthony Clark, Jason Kelly, Sarah Lisk, Brian Paige, Edward Romesburg, and Khristi Wilkins made key contributions to this report.

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# Appendix IV: Accessible Data

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## Data Table

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### Accessible Data for Figure 2: Status of DOD Fiscal Year 2018 NFRs

Of 2,409 NFRs issued in fiscal year 2018:

- 1,786 NFRs (74 percent) remained open in fiscal year 2019
- 623 NFRs (26 percent) were closed in fiscal year 2019

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## Agency Comment Letter

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### Accessible Text for Figure 2: Status of DOD Fiscal Year 2018 NFRs

#### Page 1

August 28, 2020

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Director, Financial Management and Assurance

U.S. Government Accountability Office

441 G Street, NW

Washington, DC 20548

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Sincerely,

Mark E. Easton

Deputy Chief Financial Officer

Enclosure: As stated

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Page 2

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Enclosure

Page 3

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**Appendix IV: Accessible Data**

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evaluation and follow-up, at all levels of leadership, to ensure DoD components improve the accuracy of information in the NFR Database.

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## Public Affairs

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