

# FIAR 2020

## The NEXUS Between **Acquisition** and **Audit Remediation**

Mobola A. Kadiri ■ Anna N. Smith ■ Stephen M. Speciale

**A**GILITY, ADAPTABILITY, AND AFFORDABILITY—THESE words have a great deal in common. Not only do they start with the letter “a” but they also are themes of the Department of Defense (DoD) 2018 National Defense Strategy (NDS) and necessary considerations for DoD entities conducting business through various acquisition processes. Furthermore, these words shape DoD’s current initiatives and undoubtedly will drive DoD’s future objectives and performance.

All DoD entities have been conducting separate, yet much related, efforts that will remain woven into the DoD’s DNA. These efforts, referred to as Financial Improvement and Audit Remediation (FIAR), focus on transparency, accountability, and process improvement to enhance operations. The DoD has received record-high annual budgets to maintain a national-security advantage and to achieve crucial modernization objectives.

While the DoD clearly demonstrates success in its warfighting mission, it has been unable to pass a financial audit in accordance with law. A key pillar of the NDS is to “reform the Department for greater performance and affordability.” This objective is equally associated with acquisition as it is with audit remediation. The DoD’s immediate and future success will be directly measured by acquisition outcomes. In addition, success will depend largely on DoD’s ability to transform its business practices and provide audited documentation—proof—to Congress and U.S. taxpayers

---

**Kadiri** is the Director for Financial Improvement and Audit Remediation (FIAR) Directorate within the Department of Defense (DoD), Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). She is DoD Financial Management Level III certified, a Certified Defense Financial Manager (CDFM), and a graduate of the Federal Executive Institute.

**Smith** is a staff accountant within the DoD’s FIAR Directorate Office (OUSD(C)). She is DoD Financial Management Level III certified, a Certified Defense Financial Manager (CDFM), and leads the DoD Consolidated Audit. **Speciale** is a Senior Acquisition Specialist supporting the DoD and is a former Professor of Financial Management at the Defense Acquisition University. He is DoD Financial Management Level III certified, a Certified Defense Financial Manager—Acquisition and a Certified Fraud Examiner.





that DoD is appropriately using, and can be accountable for, the substantial resources received. Let us outline the relationship between DoD's acquisition and audit remediation efforts and review some valuable information on DoD's latest FIAR efforts and future expectations to successfully achieve a favorable audit position.

## **Acquisition—Today**

The 2018 NDS has driven DoD's transformational acquisition activities to support the Warfighter. Specifically, the NDS acknowledged that the United States must enhance its lethal force, strengthen alliances, and modernize business practices to sustain an unmatched competitive advantage. It also explains that longstanding bureaucratic approaches result in immense unresponsiveness and prevent the DoD from capitalizing on opportunities in a timely manner. DoD entities implemented timely actions in recent years to support the NDS. For example, the Army established Army Futures Command in 2018 with the objective of completely modernizing the Army in view of the present environment and expected threats. The Navy created an innovation office in 2019, known as "NavalX," to develop partnerships and networks to enable improved collaboration on Warfighter needs. In addition, the Air Force hosted innovational "pitch day" events in 2019 and 2020 to attract new partners to support the DoD and help deliver state-of-the-art military solutions. The ultimate Air Force objective is to expand the DoD industrial base while conducting business in highly flexible ways. Finally, in January 2020, the Office of the Under Secretary of Defense for Acquisition and Sustainment released official policy and a handbook centered on DoD's Adaptive Acquisition Framework (AAF). The AAF is intended to help DoD entities deliver Warfighter capabilities at the speed of relevance since there is no universal acquisition roadmap for all defense-related procurements. While these examples illustrate some of DoD's impactful initiatives relative to acquisition activities today, it is highly likely that additional changes will continue in future years.

## **FIAR—Today**

FIAR is synonymous with accountability and transparency. It also is a large and ongoing DoD-wide effort that necessitates proper internal controls and risk management. At the broadest level, FIAR efforts require every DoD entity, regardless of size or mission, to provide confidence to U.S. taxpayers and Congress that: (1) financial information is accurate, complete, and fairly presented; and (2) internal controls allow for efficient and effective operations that prevent and deter fraud, waste, and abuse. The effort encompasses many areas, including but not limited to:

- Verifying the location, count, and condition of military equipment, general equipment, inventories, and real property

- Evaluating the methods and documentation used to value DoD's military equipment within major systems
- Testing DoD's business systems to assess data integrity and the risk of security vulnerabilities
- Validating the existence and accuracy of personnel records documentation

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) FIAR Directorate is the lead DoD office spearheading the FIAR efforts across the enterprise. The OUSD(C) coordinates with each DoD entity's senior leaders and provides guidance and support to ensure that the FIAR objectives are met. The OUSD(C) also directly supports the Secretary of Defense and regularly engages with Congress on FIAR-related efforts. Beyond DoD organizations, and their personnel and external service providers, the efforts also involve thousands of independent public auditors (IPAs). IPAs perform audits and examinations and assess the effectiveness of corrective actions implemented in response to audit findings and recommendations.

Fiscal Year (FY) 2020 is an important year for the DoD and its FIAR efforts as the DoD builds on the results of the extensive audits conducted in FYs 2018 and 2019. The DoD proactively identified priority areas and will continue completing remediation efforts to address the audit findings and recommendations.

## **Intersection Between DoD Acquisition and FIAR**

The DoD's acquisition and FIAR efforts are different but very much related. Acquisition typically applies to DoD personnel and entities involved with acquisition programs or other functions directly supporting the Warfighter. These efforts account for the majority of DoD's overall workforce and annual budgets. Alternatively, FIAR applies to all DoD entities and all personnel supporting those entities. This includes the Military Departments, the Joint Chiefs of Staff, the Combatant Commands, DoD's Fourth Estate (civilian) agencies, DoD's field activities, and industry partners. Since FIAR efforts and associated outcomes apply to the entire enterprise across the globe, FIAR efforts remain a priority for all entities ultimately pursuing an unmodified (i.e., clean) audit opinion. As an example, the DoD acknowledged Government Furnished Property as a material weakness and a priority area for remediation in FY 2020.

FIAR efforts include collaborating with the acquisition community to discuss and further understand audit requirements and working closely with industry partners to provide what is needed to support the audit. The benefits of the audit go beyond good stewardship of taxpayer dollars. The audit can improve business operations among acquisition activities and enhance national security by

mitigating cybersecurity vulnerabilities. The DoD also assumes risks by not obtaining a positive audit opinion. For example, the DoD could lose the confidence and support of U.S. taxpayers and experience enterprise-wide or program-specific budget cuts that could affect competitiveness and Warfighter lethality.

The DoD spent approximately \$900 million on audit-related efforts in FY 2019. This amount included the costs of audits, examinations, financial systems, remediation efforts, and personnel supporting the audit. Since DoD's FY 2019 budget was \$687.8 billion, the DoD spent roughly 0.13 percent of its total budget on audit-related efforts last year. Although the dollar amount spent to support the audit is similar to how much DoD organizations could spend on some acquisition programs, the percentage spent on audits is comparable to percentages spent by private sector and non-profit entities on audit efforts in relation to total revenues or operating budgets. Additional funding for FIAR efforts will be required beyond FY 2022 pending the DoD's improvements made or outcomes reached. Congress is closely monitoring the DoD's progress on FIAR efforts, and the DoD's inability to obtain an unmodified audit opinion could directly impact the DoD's ability to complete sound acquisition efforts now and in the future. More time will be needed to complete the changes—the financial management issues were not created overnight.

The DoD's mission remains critical and the primary driver for budget requirements will be based on Warfighter needs. Accordingly, Congress must give careful consideration when making funding decisions so the Warfighters and their operations are not impacted negatively. A favorable audit position will provide immense benefits for DoD's FIAR and acquisition efforts, ultimately fostering efficient processes, better decision making, greater transparency/accountability, fewer audit findings, and better Warfighter support.

### **FIAR—How We Got Here**

FIAR efforts officially began in 2010, but actions to improve the federal government's financial management processes and systems have been ongoing since 1990. The Chief Financial Officers Act (CFO) of 1990 was enacted to improve the federal government's financial management practices. Specifically, the law required the implementation of enhanced accounting systems and internal controls to produce reliable financial information. The law also required that financial statements of all federal executive agencies, including the DoD, be audited annually. The National Defense Authorization Act of 2010 required that DoD's financial statements be prepared for an audit by end of FY 2017. From FY 2010 through 2017, FIAR efforts were associated with "audit readiness" initiatives since the DoD

was prepping itself to successfully undergo its first and highly anticipated audit in FY 2018. FIAR's theme changed from "audit readiness" to "audit remediation" after the DoD underwent its first audit year. Remediation reflects the DoD's efforts to address the Notices of Findings and Recommendations (NFRs) as well as the unfavorable audit opinion issued by the IPAs.

The DoD remains the only executive agency that has not yet obtained a favorable audit opinion. In addition, the Government Accountability Office (GAO) has reported DoD financial management on its high-risk list since 1995 and the DoD's Office of Inspector General (OIG) reported DoD financial management as one of its top management challenges for FY 2020. Findings from prior year FIAR efforts reveal the severity of material weaknesses and how necessary the audits are from a business standpoint. IPAs issued more than 3,400 NFRs and 2,300 NFRs from the audits performed in FY 2018 and FY 2019, respectively. During the audits, some DoD entities uncovered property, such as weapons systems or facilities, not previously recorded in property management systems or for which proper documentation was not available to support purchases. The DoD received 25 material weaknesses from its FY 2019 audit. The sidebar below identifies the weaknesses.

### **Types of Material Weaknesses from FY 2019 Audit**

- Financial Management Systems and Information Technology
- Interdepartmental Eliminations and Intragovernmental Transactions
- Universe of Transactions
- Legal Contingencies
- Fund Balance with Treasury
- Beginning Balances
- Suspense Accounts
- Unsupported Accounting Adjustments
- Inventory and Related Property
- Gross Costs
- Operating Materials and Supplies
- Earned Revenue
- General Property, Plant, and Equipment
- Reconciliation of Net Cost of Operations to Outlays
- Real Property
- Budgetary Resources
- Government Property in Possession of Contractors
- Service Providers
- Joint Strike Fighter Program
- Entity-Level Controls
- Military Housing Privatization Initiative
- DoD-Wide Oversight and Monitoring
- Accounts Payable
- Component-Level Oversight and Monitoring
- Environmental and Disposal Liabilities

Source: OUSD(C) FIAR Directorate.



While the financial management challenges and material weaknesses are significant, the DoD has made meaningful progress toward its goal of obtaining an unmodified audit opinion. For instance, the DoD closed more than 600 (approximately 25 percent) of NFRs issued in the FY 2018 audit. Most of those corrective actions taken to close NFRs were related to business systems and information technology. Furthermore, the DoD ascertained that all major military equipment was successfully verified for existence and completeness, no significant problems were found with payments made to military or civilian personnel, and no evidence or instances of fraudulent activities were found.

The FIAR efforts have resulted in immediate value and enhanced operations across the DoD. Table 1 outlines some of the success stories.

### Where We're Going and How You Fit In

FIAR efforts remain a top priority in FY 2020 and the following years among DoD leadership and all DoD entities. The efforts are accompanied with exceptionally high interest and continuous scrutiny from Congress, the GAO, and the OIG. The DoD began the FY 2020 financial statement audits in January 2020 with the OUSD(C) providing regular updates to Congress on the audit efforts and corrective action plans to better position the DoD toward attaining an unmodified audit opinion. The OUSD(C) expects that the Coronavirus Disease 2019 (COVID-19) will alter the timing and scope of the FY 2020 financial statement audits and delay DoD's remediation activities (particularly those requiring physical access to assets). As a result, the OUSD(C) and the Office of Management and Budget are assessing the full impact of the pandemic relative to financial reporting. The DoD will continue to work with its IPAs to explore alternate testing procedures

**Table 1. DoD FIAR Success Stories**

| DoD Organization | Benefits or Positive Outcomes  |
|------------------|--|
| DoD-Wide         | Began reducing the overall footprint of business systems, primarily legacy systems. The deadline to complete the planned business system reduction process is FY 2023.   |
| DoD-Wide         | Used advanced analytics to complete reviews of dormant accounts. Actions resulted in \$316 million being used for other higher-priority requirements.  |
| Air Force        | Developed and deployed a robotics and process automation solution to monitor and manage user access. Actions allowed the Air Force to improve its cybersecurity for business systems and comply with IT requirements.  |
| Army             | Automated reviews of accounting transactions to ensure appropriate data when compared to the <i>U.S. Standard General Ledger</i> . Actions resulted in faster processing times with an expected savings of about 15,550 labor hours.   |
| Navy             | Identified and recorded \$280 million of assets not previously tracked within a property management system. Actions resulted in the increased availability of materials totaling about \$81 million and the reutilization of space totaling 200,000 square feet.   |
| Navy             | Conducted a 100 percent physical inventory of all materials and supplies. This improved the Navy's property records and identified materials totaling \$167 million to be added to Navy's supply chain.  |
| Navy             | Modernized its ERP system by changing databases and migrating to an analytic, cloud-based platform. These actions, likely the largest ERP cloud migration in North American history, enhanced system access and performance for 72,000 users across six Navy commands.   |
| Navy             | Completed actions in response to the real property-related NFRs from the FY 2018 audit. The efforts entailed a 100 percent physical inventory of the Navy's entire 115,000+ real property assets across 98 installations. Actions allowed the Navy to become compliant and improve its accountability of critical assets that support Sailors, Marines, civilians, and families. |
| DLA              | Efficiently cleared suspended stock, which allowed for the timely filling of 59,000 backorders totaling \$287 million.   |
| DLA              | Partnered with five of its top vendors to ensure compliance with electronic data interchange standards and implement more efficient processes to provide more reliable financial data. Actions allowed DLA to reduce inventory variances by \$358 million and increased the efficiency and reliability of receipting, issuing, and physical inventorying processes.              |
| WHS              | Deployed business process automations, which resulted in significantly fewer problematic transactions and a 77% faster processing time.  |

Key: DLA = Defense Logistics Agency; ERP = Enterprise Resource Planning; IT = Information Technology; NFR = Notice of Findings and Recommendations; WHS = Washington Headquarters Services

Source: OUSD(C) FIAR Directorate.

and adjust as necessary to maintain critical momentum on this important effort.

The NFRs and material weaknesses will not go away on their own and will not be resolved overnight. Improvements will only be made if DoD organizations continue to enhance financial management operations, systems, and other supporting activities that link to the FIAR efforts. Personnel in financial management, along with those in contracting, program management, engineering, logistics, information technology, human resources, and other areas play an intrinsic role to reach the desired end state. The OUSD(C) expects the FY 2020 audits will demonstrate valuable progress across the enterprise, including eliminating and/or downgrading of material weaknesses, improving audit opinions for individual entities, and driving continued cultural changes to help the DoD improve and sustain its progress. Figure 1 shares DoD’s “roadmap” based on its current audit strategy and plans.

In addition to continuous engagement with Congress, the OUSD(C) will take other actions to ensure that the DoD follows its outlined strategy. Specifically, the OUSD(C) will lead financial management events with DoD’s senior leaders and comptrollers. The ultimate intent is to identify

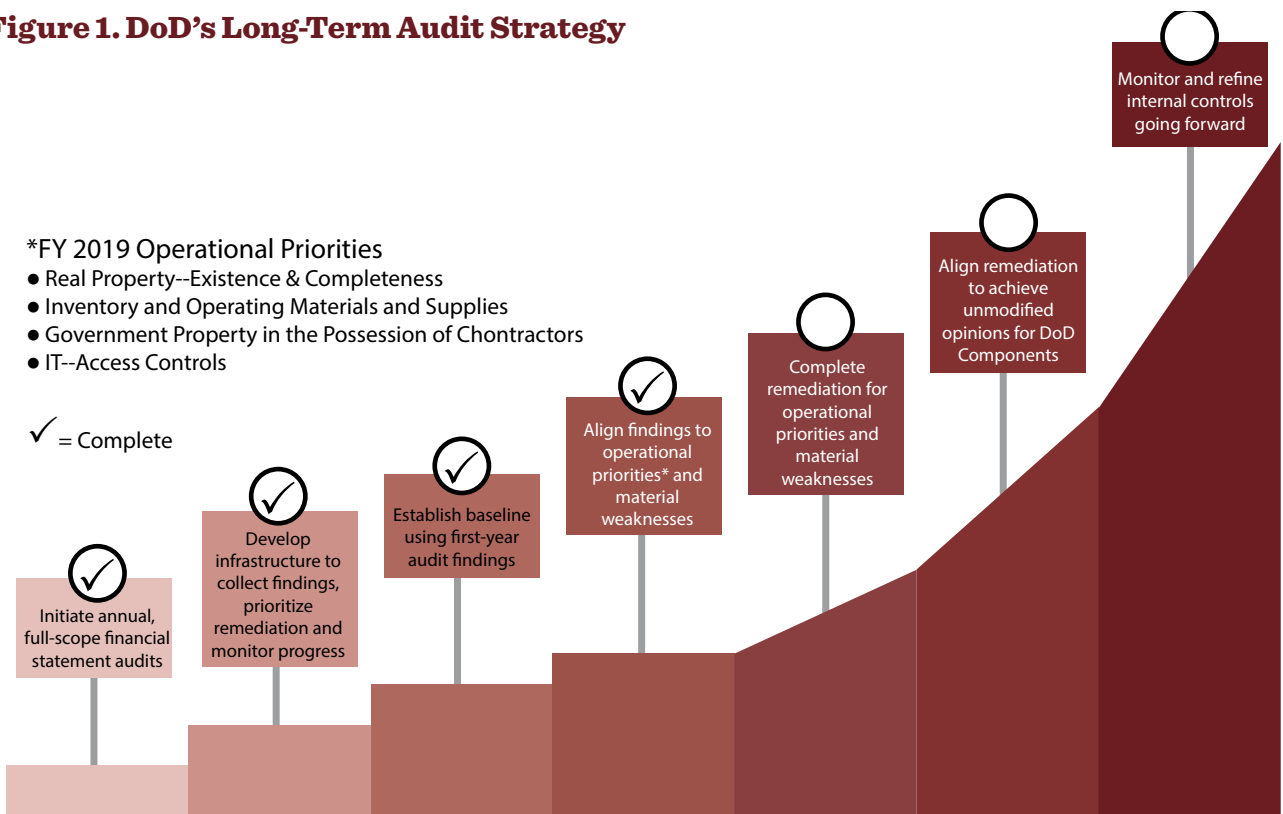
and mitigate significant FIAR-related issues and prioritize corrective actions based on resources.

### Conclusion

“You are not responsible for the past, but insofar as you do nothing, you are complicit in the present created by it” (Jonathan R. Miller, popular author). It is vital for everyone supporting the DoD to be aware of the FIAR efforts and associated initiatives that will drive future actions for continuous performance improvement and compliance with laws and regulations. The future of DoD acquisition must be accompanied by agility, adaptability, and affordability to achieve the NDS objectives; however, efficient and effective acquisition efforts will be possible only if the entire DoD meets the accountability requirements through its ongoing FIAR efforts. The major efforts planned to reach an acceptable financial state unquestionably will involve all DoD entities, supporting industry partners, and IPAs. The efforts also will remain a team sport since the roadmap to success is not solely dependent on financial management personnel. Collectively, the DoD owes it to the Warfighter and U.S. taxpayers to reach that acceptable state so that the DoD can soundly deliver, and continue to deliver, on national defense.

The authors can be contacted at [mobola.a.kadiri.civ@mail.mil](mailto:mobola.a.kadiri.civ@mail.mil); [anna.n.smith15.civ@mail.mil](mailto:anna.n.smith15.civ@mail.mil); [stephen.speciale.ctr@mda.mil](mailto:stephen.speciale.ctr@mda.mil).

**Figure 1. DoD’s Long-Term Audit Strategy**



Source: The OUSD(C)’s DoD FY 2019 Audit Results Briefing to the Professional Members of the House Appropriations Committee (Subcommittee on Defense), November 2019.