



Auditing the Department of Defense and a Yellow Book Primer

Defense Finance and Accounting Service

Jackie Hall-Carrillo
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- ▶ Defense Finance and Accounting Service (DFAS) Overview
- ▶ Department of Defense (DoD) Overview
- ▶ First Ever DoD-wide Audit
- ▶ Yellow Book Primer
- ▶ Closing Remarks



Background on the Defense Finance and Accounting Service (DFAS)



- ▶ DFAS is a DoD agency established 1991
- ▶ 12,000 employees at five locations
 - ✓ Cleveland OH, Columbus OH, Indianapolis IN, Rome NY, and Limestone, ME
- ▶ We support our troops
 - ✓ Pay All DoD military and civilian personnel, retirees and annuitants
 - ✓ Pay major DoD contractors and vendors
 - ✓ Prepare DoD annual financial statements



■ In FY 2018

- ✓ Processed 135.6 million pay transactions (6.5 million people/accounts)
- ✓ Made 6.2 million travel payments
- ✓ Paid 13.7 million commercial invoices
- ✓ Maintained 110.5 million general ledger accounts
- ✓ Managed \$1.08 trillion in Military Retirement and Health Benefits funds
- ✓ Made \$558 billion in disbursements
- ✓ Managed \$542 billion in Foreign Military Sales
- ✓ Accounted for 1,347 active DoD Appropriations



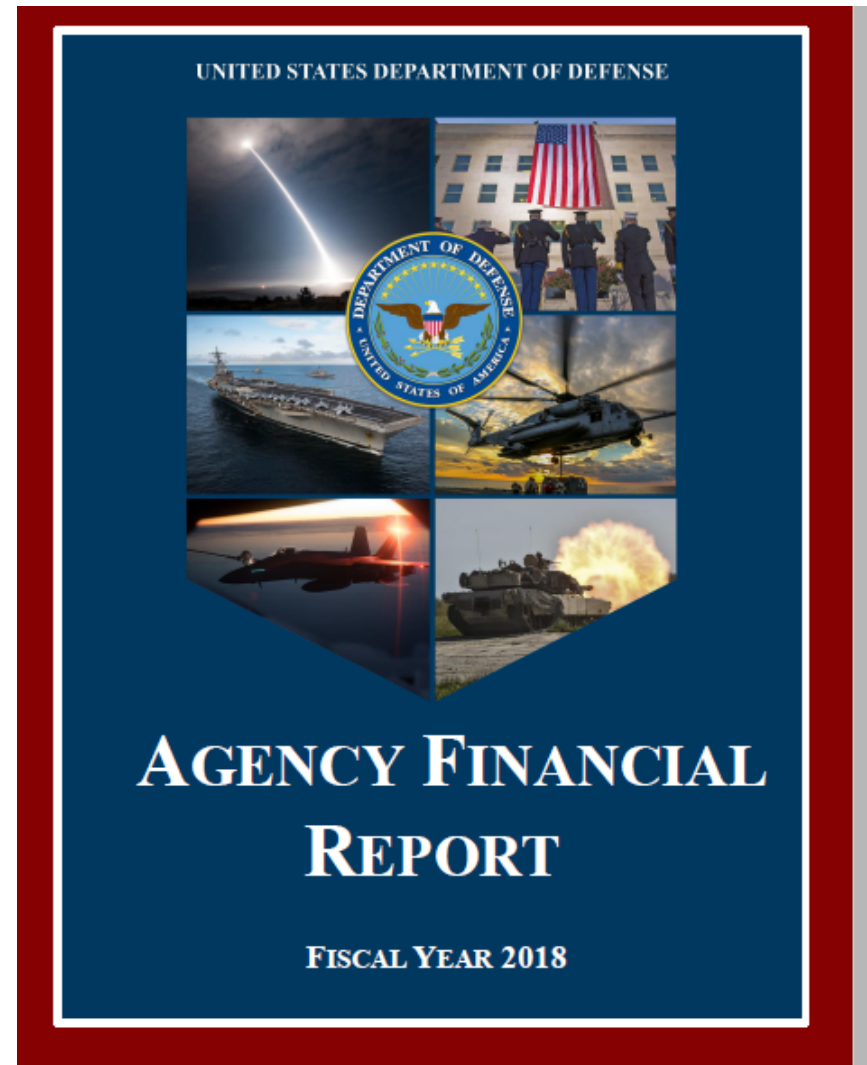
- ▶ Internal Review is Internal Audit
- ▶ 80 employees
- ▶ Conduct internal audits of DFAS
- ▶ Types of work we general do
 - ✓ Performance audits, agreed-upon procedures, investigations
 - ✓ Performance audits provided objective analysis, findings and conclusions to improve performance, operations, reduce costs, facilitate decision making



Sources of Information



- United States Department of Defense, Agency Financial Report, Fiscal Year 2018 (236 pages)
- Understanding the Results of the Audit of the DoD FY 2018 Financial Statements, Inspector General U.S. Department of Defense, January 8, 2019 (40 pages)



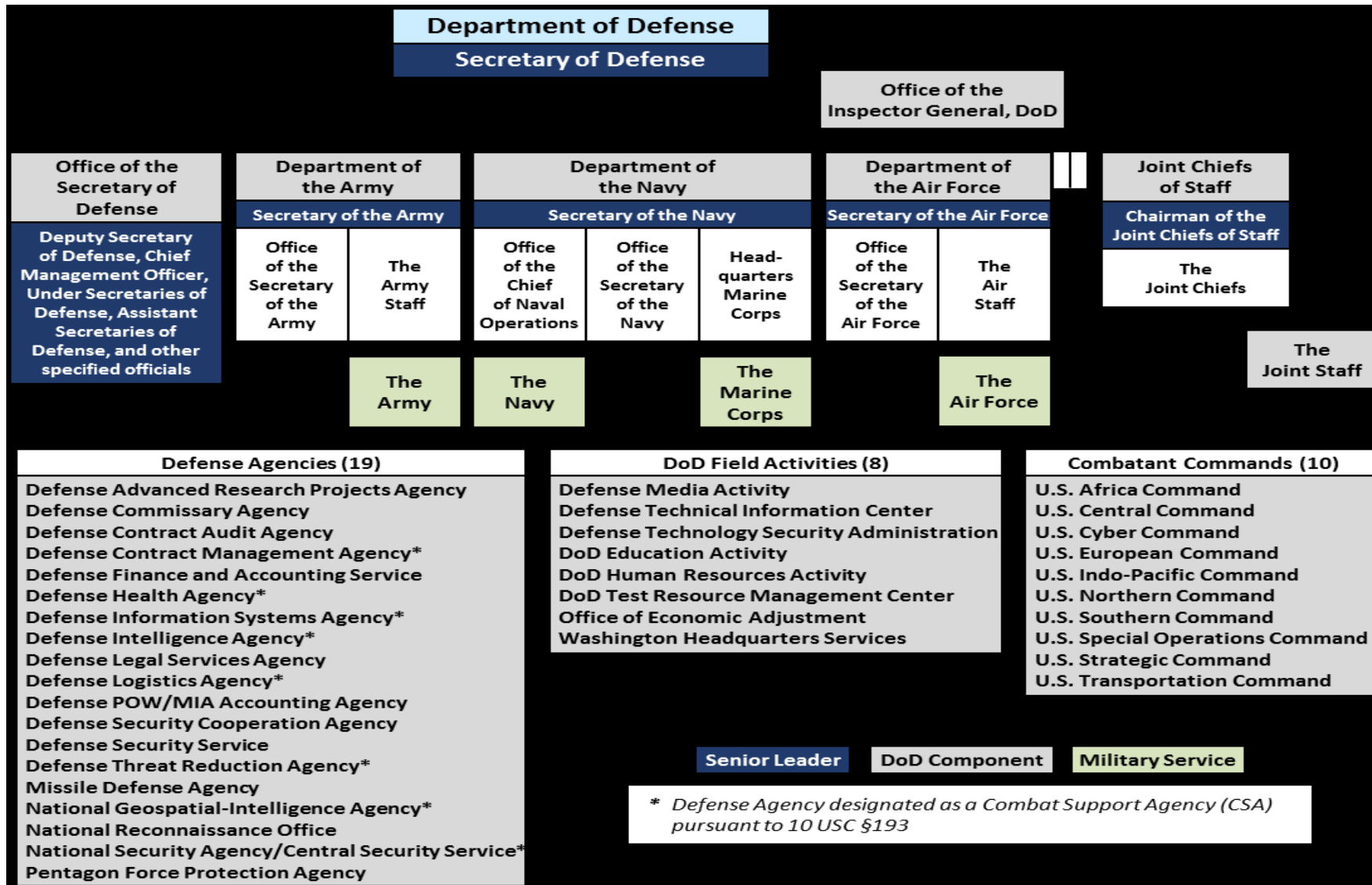
Department of Defense (DoD) Overview



- ▶ Mission: To provide the military forces needed to deter war and protect the security of our country.
- ▶ Employs 2.9 million military and civilian employees
- ▶ Over 585,000 facilities (buildings and structures) located on over 4,700 sites in 160 countries
- ▶ Operate approximately
 - ✓ 15,700 aircraft
 - ✓ Over 280 Battle Force Ships



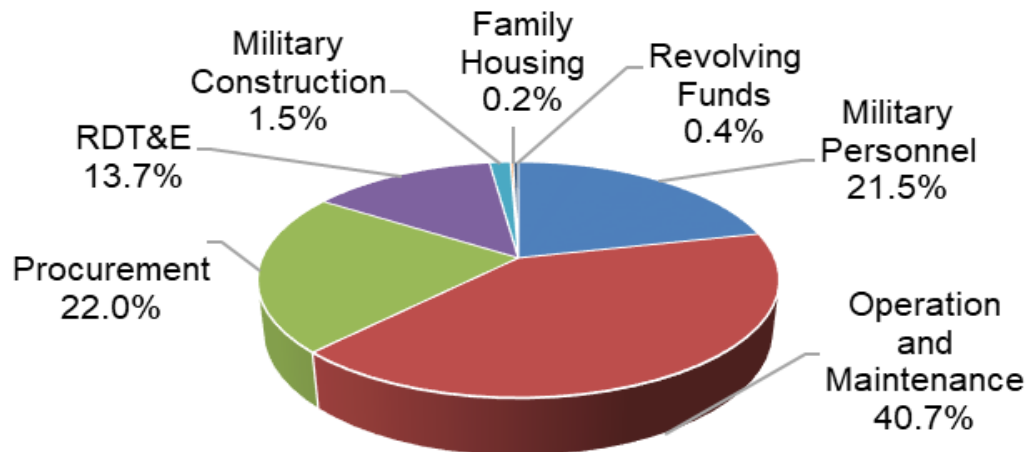
Department of Defense Organizational Structure





► In FY 2018, DoD received

- ✓ \$863.6 billion in congressional appropriations
 - \$193 billion considered mandatory
 - \$670.6 billion considered discretionary
 - DoD's discretionary spending is almost half the U.S. Government's discretionary spending
 - DoD owns \$2.8 trillion in assets, which is approx. 77% of total government assets



Does the Department of Defense (DoD) Get Audited?



Required by

- ✓ Chief Financial Officers Act of 1990 (CFO Act of 1990)
 - Required Federal agencies to prepare financial statements and have them audited by the agency's Inspector General or an independent external auditor
- ✓ National Defense Authorization Act of 2014

1991: DoD started audits with the Department of Army

1996: Began DoD Agency-wide financial audits

1996-2001: Only limited scope audits performed

2002-2018: Congress established due dates for DoD Audit Readiness efforts



Financial Statement Audit Roles and Responsibilities



- ▶ Secretary of Defense and Under Secretary of Defense (Comptroller)/Chief Financial Officer
- ▶ Component Secretaries and Chief Financial Executives
- ▶ Defense Finance and Accounting Service
- ▶ DoD Office of Inspector General
- ▶ Independent Public Accounting (IPA) Firms
- ▶ Government Accountability Office (GAO)



Why does DoD want Audited Financial Statements?



- ▶ Audits provide Congress and the taxpayers an accurate assessment on where DoD spends its funds
- ▶ Can assist in deterring waste, fraud and abuse
- ▶ Audits include reviews of information technology and cyber security, which may help protect information.
- ▶ Help managers improve DoD operations.
- ▶ Audits include reviews of internal controls



Who Audits the DoD?



- ▶ FY 2018: The Department of Defense Office of Inspector General (DoD OIG) conducted FIRST audit of DoD's financial statements
- ▶ One of the largest financial statement audits in history
- ▶ Involved over 1,000 auditors from the DoD OIG and six Independent Public Accounting (IPA) firms
- ▶ Cost approximately \$413 million with \$192 million paid to IPAs and the remainder covering government cost to support the audit
- ▶ Massive scope
 - ✓ 40,000 requests for documentation
 - ✓ Tested over 90,000 sample items
 - ✓ Issued 2,000 notices of findings and recommendations



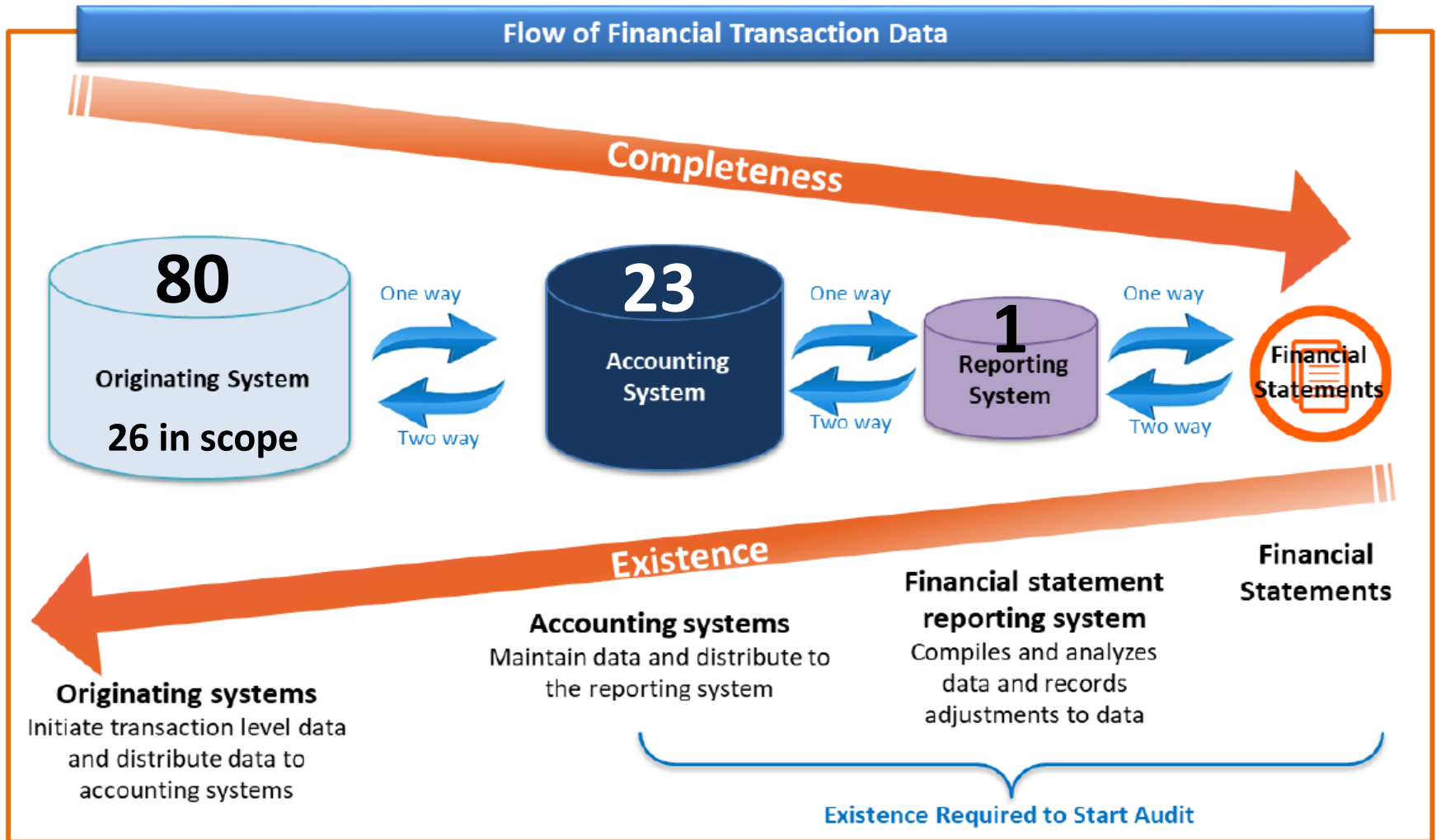
Who Audits the DoD cont'd?



- ▶ Performed 21 audits consisting of audit procedures listed on the DoD's and DoD Components financial statements to determine if the balances were accurately presented.
- ▶ Also audited the DoD Agency-Wide Basic Financial Statements



DFAS Reconciliations Project



DoD Components Audited in FY 2018



- ▶ Department of Army General Fund
- ▶ Department of Army Working Capital Fund
- ▶ U.S. Navy General Fund
- ▶ Department of Navy Working Capital Fund
- ▶ Department of the Air Force General Fund
- ▶ Department of Air Force Working Capital Fund
- ▶ U.S. Marine Corps General Funds
- ▶ Military Retirement Fund
- ▶ U.S. Army Corps of Engineers Civil Works Program



19 Additional Components Submitted Statements



- ▶ Defense Information Systems Agency (DISA) General Fund and Working Capital Fund
- ▶ U.S. Transportation Command (USTRANSCOM) Working Capital Fund
- ▶ Defense Logistics Agency (DLA) General Fund, Working Capital Fund, and National Defense Stockpile Trust Fund



Assertions Made – DoD CAN



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



Outcome of DoD FY 2018 First ever F/S Audit



- ▶ Disclaimer of opinion
- ▶ DoD did not expect clean opinion.
 - ✓ did not certify the financial statements were reliable.
- ▶ The most important outcome was audit identified deficiencies that the DoD is making progress at correcting





- ▶ Of the 21 entities audited
 - ✓ 5 unmodified opinions
 - ✓ 1 qualified opinion
 - ✓ 13 disclaimers of opinion
 - ✓ 2 audits were not completed (as of Jan 2019)

- ▶ DoD did not expect clean opinion.

- ▶ The most important outcome was audit identified deficiencies that the DoD is making progress at correcting



Most Significant Weaknesses Identified per DoD OIG



- ▶ Financial Management Systems and Information Technology
- ▶ Universe of Transactions
- ▶ Inventory
- ▶ Property, Plant, and Equipment
- ▶ Fund Balance with Treasury
- ▶ Financial Statement Compilation



8 Sections of the DoD Agency Financial Report



- ▶ Management Discussion and Analysis
- ▶ Financial Statements
 - ✓ Statement of Budgetary Resources
 - ✓ Balance Sheet
 - ✓ Statement of Net Cost
 - ✓ Statement of Changes in Net Position
- ▶ Notes to the Financial Statements
- ▶ Required Supplementary Stewardship Information
- ▶ Required Supplementary Information
- ▶ DoD OIG Audit Report
- ▶ Other Information
- ▶ Summary of DoD OIG FY 2019 Top Management Challenges



Top 10 DoD Management and Performance Challenges for 2019



- ▶ Implementing DoD Reform Initiatives
- ▶ Countering China, Russia, Iran, and North Korea
- ▶ Countering Global Terrorism
- ▶ Financial Management: Implement Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit
- ▶ Improving Cyber Security Capabilities
- ▶ Ensuring Ethical conduct
- ▶ Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence
- ▶ Improving Readiness Throughout the DoD



Top 10 DoD Management and Performance Challenges for 2019 cont'd



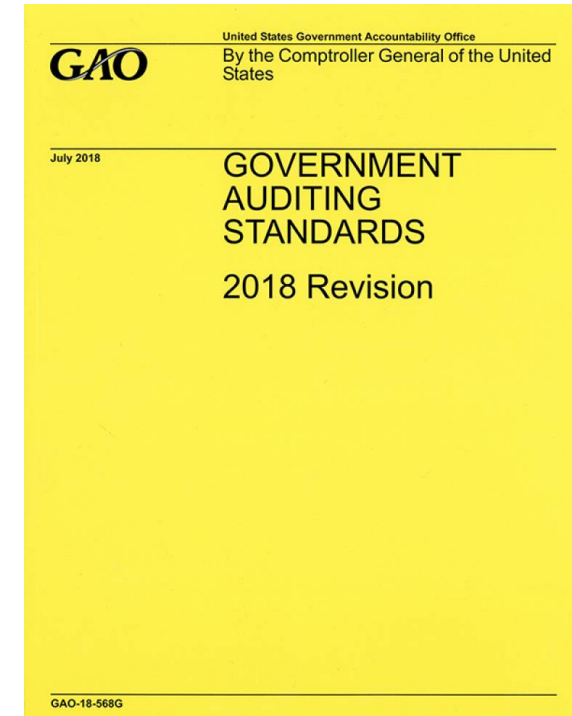
- ▶ Acquisition and Contract Management: Ensuring that the DoD Gets What it Pays for On Time, at a Fair Price, and With the Right Capabilities
- ▶ Providing Comprehensive and Cost-Effective Health Care



Government Auditing Standards

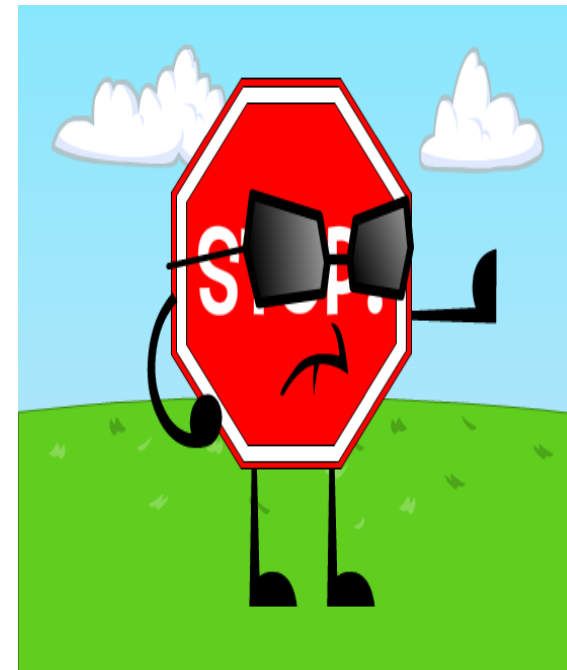


- ▶ United States Government Accountability Office, Government Auditing Standards GAO-18-568G, 2018 Revision. aka...
 - ✓ Government Auditing Standards (GAS)
 - ✓ Generally Accepted Government Auditing Standards (GAGAS)
 - ✓ Yellow Book
- ▶ <https://www.gao.gov/assets/700/693136.pdf>



Effective for

- ✓ **Financial audits, attestation engagements and reviews of financial statements**
 - for periods ending on or after June 30, 2020
- ✓ **Performance audits**
 - beginning on or after July 1, 2019
- ✓ Early implementation is not permitted



Who must do a Yellow Book Audit

- ✓ If required (by law, regulation, contract, grant agreement or policy)
- ✓ Usually if participating in federal programs (i.e., grants or loan programs) over a certain dollar threshold
- ✓ Anyone can voluntarily do one





Key updates from 2011 revision

- ✓ New format and organization
- ✓ Independence requirements
- ✓ CPE
- ✓ Peer Review requirements
- ✓ Finding Guidance
- ✓ Waste and abuse
- ✓ Standards for review of financial Statements
- ✓ Performance Audits





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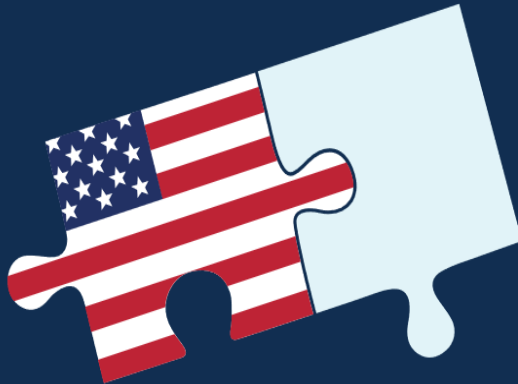
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Contact information



- ▶ Jacquelyn.a.hallcarrillo.civ@mail.mil
- ▶ Work: (216) 204-1825

