



UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MAR 06 2018

The Honorable Michael B. Enzi
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510-6100

Dear Chairman Enzi:

Thank you for your February 8, 2018, letter regarding the importance of the Department of Defense's (DoD) ability to gain taxpayers' confidence over its spending. Secretary Mattis asked me to respond to your letter. He has specifically made business reform, including going under audit, a priority, emphasizing the vital importance of taxpayers' confidence in our stewardship over every dollar entrusted to us.

We appreciate your support and understanding of the complexities of conducting a consolidated audit of the DoD. As you noted in your letter, it will take time to correct all findings. Using auditor feedback to measure progress and hold organizations accountable is an essential part of our strategy to achieve a clean audit opinion. The Department has established a tool and a process to capture, prioritize, assign responsibility for, and develop corrective actions to address audit findings. Each year audit results will provide an independent assessment of which organizations effectively implemented corrective action plans as well as insight into what issues remain. I anticipate the audit will uncover many areas needing improvement and, as you noted, the Defense Logistics Agency audit report highlights some of those issues. We are committed to the audit and implementing necessary changes and fixes to be good stewards of taxpayer dollars.

Below are your specific questions with my responses.

- DoD will spend more than \$900 million on audit-related programs in Fiscal Year (FY) 2018, 60 percent of which will be used to rectify problems identified by the independent auditor. Please provide a line-item breakdown of the \$551 million in spending for remediation to allow Congress to better understand how the DoD is translating audit findings into changes in its business practices.

Response: The table below provides a line-item breakdown of DoD's estimated FY 2018 resources for audit remediation, as well as amounts for internal controls sustainment and financial systems fixes.



FY 2018 DoD Audit Remediation Resources (In Millions)		DoD-Wide	Military Departments	Defense Agencies
Audit Remediation	\$	368	\$ 235	\$ 134
Counting and Valuing Property	\$	89	\$ 72	\$ 17
Developing Data Analytics Capabilities and Tools	\$	57	\$ 47	\$ 10
Improving Financial Statement Preparation	\$	103	\$ 46	\$ 57
Addressing Findings Related to Other Business Processes, such as Pay and Personnel, Acquisitions and Logistics	\$	119	\$ 70	\$ 50
Internal Controls Sustainment (FMFIA/OMB A-123)	\$	48	\$ 27	\$ 21
Financial Systems Fixes	\$	135	\$ 108	\$ 26
Legacy System	\$	78	\$ 65	\$ 12
ERP System	\$	57	\$ 43	\$ 14
Total Audit Remediation Resources	\$	551	\$ 370	\$ 181

- To aid Congress in its fiscal planning, please provide, separately or as part of DoD's congressional budget justification, a standard annual Future Years Defense Program (FYDP) outlook for spending related to the consolidated audit.

Response: The table below outlines our projected FY 2018 to FY 2022 resource requirements to conduct the audits and correct findings. These projections will be further refined and extrapolated to a full FYDP once informed by the magnitude of initial FY 2018 audit findings.

DoD Audit, Audit Support & Remediation Resources (In Millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Remediation	\$ 368	\$ 347	\$ 309	\$ 308	\$ 314
Audits and Examinations	\$ 367	\$ 343	\$ 343	\$ 343	\$ 344
Audit Support Infrastructure	\$ 165	\$ 174	\$ 173	\$ 174	\$ 173
Independent Public Accounting Firms Audit Contracts	\$ 181	\$ 148	\$ 146	\$ 144	\$ 147
Service Provider Internal Control (SSAE No. 18) Examination Contracts	\$ 21	\$ 20	\$ 24	\$ 25	\$ 25
Financial Systems Fixes	\$ 135	\$ 135	\$ 133	\$ 108	\$ 110
Internal Control Sustainment (FMFIA/OMB A-123)	\$ 48	\$ 53	\$ 53	\$ 54	\$ 54
Total Resources	\$ 918	\$ 878	\$ 839	\$ 813	\$ 821

- As the consolidated audit effort continues, there will surely be many more painful findings. When does DoD estimate it might achieve a clean overall opinion?

Response: At this point, there is not enough information to provide a projection. It depends on what the auditors find and how difficult it will be to implement the appropriate corrective action plans. Based on my experience at the Department of Homeland Security, a relatively new and much smaller enterprise, it took about ten years to implement all the process and system changes necessary to achieve a clean opinion.

- Comptroller Norquist has mentioned in testimony that audit-related training has been implemented for the financial management community but must be expanded throughout DoD. Are there other areas in which increased funding might hasten the achievement of a clean audit or contribute meaningfully to improved business practices?

Response: Yes. As DoD moves forward with audit, your continued support of our budget requirements for information technology fixes and remediation of audit findings, to include improving or retiring legacy financial management and business feeder

systems, is critical to moving the Department towards achieving a clean audit opinion.

- Understanding how the audit's findings are translating into better business practices at DoD will be crucial to continued congressional support of the audit. Please provide a list of savings identified to date from actions taken in response to the consolidated audit's findings.

Response: The consolidated audit is currently underway and we expect to receive our first audit results in November 2018, providing us a baseline to track progress. Initially, we need to make investments in business process changes, system fixes, and training our workforce. Some of these changes will lead to savings or cost avoidance that can be reinvested toward other mission priorities. Savings can be grouped into three categories:

- The first category results from streamlining and automating manual processes. For example, in preparing for the audit, the Navy implemented automatic feeds of electronic data, reducing bill paying costs by \$65 million.
 - The second category results from improving existing automated processes. For example, during audit preparations the Air Force (AF) discovered that initial enlistment records were incorrectly populating the terms of enlistment in its personnel system. As a result, basic military training personnel had to manually correct the information for hundreds of recruits each week. By making system changes, the AF realized an 80 percent reduction in promotion issues and saved 30 to 40 hours per week in manual corrections.
 - The third category results from improved data quality and visibility of assets. For example, during an initial audit of the Army, auditors found 39 Blackhawk helicopters that had not been recorded in its property system. By knowing where assets are located and how many are on hand at a given time, Army senior leaders are able to make better decisions regarding asset acquisition, maintenance, and positioning.
- Comptroller Norquist has also mentioned the potential of the consolidated audit to discover inefficiencies created by disruptions in normal budgeting, such as continuing resolutions. Please explain how such discoveries might help us understand how the broken budget process creates waste and inefficiency within DoD.

Response: Budget uncertainties, which continuing resolutions amplify, result in inefficient contracting practices and an inability to lock in negotiated prices when provisional funding is made available in insufficient amounts and with new start restrictions. Once funding becomes available, the compressed remaining timeline

available for obligating funds increases the risk that expedited spending will be wasteful, that internal controls will break down, and that documentation required for financial statement audits will be insufficient. The same tools developed to attain financial statement auditability can be applied to counter wasteful spending. For example, DoD has developed data analytics that provide the ability to drill down into various business processes and identify the root causes for irregular transactions. We will be able to free up funding much faster when comparing orders from one DoD component with the actual cost and status of execution by the component fulfilling the order.

I am grateful for your interest in this important effort and look forward to working with you to improve DoD financial management practices.

A handwritten signature in black ink, appearing to read "David L. Norquist", with a stylized flourish at the end.

David L. Norquist

cc:

The Honorable Bernie Sanders
Ranking Member