DoD Financial Management Reform
Building on Annual Audit Feedback

Presentation
to
2019 DoD Procure-to-Pay Training Symposium

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Agenda

• What is Reform?

• Elements of FM Reform
  - FY 2018 Audit Results
  - Data Management
  - Process Improvement

• CFO of the Future

• What’s Different this Time?

• Final Thoughts
What is Reform?

- Reform is a catalyst for changing our business processes.

- The National Defense Strategy’s third line of effort is to “Reform the Department for greater performance and affordability.” We’ll achieve this by:
  - Delivering performance at the “speed of relevance”;
  - Organizing for innovation; and
  - Driving discipline and affordability to achieve solvency.

- Reform should result in better use of resources.

Reform = Change that reduces cost, improves performance or both.
TRADITION

Just Because You’ve Always Done It That Way Doesn’t Mean It’s Not Incredibly Stupid.
FY 2018 Audit Results

DoD-Wide Consolidated Audit Performed by DoD Office of Inspector General (DoD OIG)

<table>
<thead>
<tr>
<th>Stand-Alone Audits</th>
<th>Included in the Consolidated Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>95% Budget, 97% Assets</td>
<td>5% Budget, 3% Assets</td>
</tr>
</tbody>
</table>

DoD OIG (as the Consolidated Auditor) assumed responsibility for or made reference to the audit opinions of each Component auditor (performed by an independent public accounting firm).

<table>
<thead>
<tr>
<th>DoD OIG</th>
<th>U.S. Army Corps of Engineers – Civil Works</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoD OIG</td>
<td>Military Retirement Fund</td>
</tr>
<tr>
<td>DoD OIG</td>
<td>Medicare-Eligible Retiree Health Care Fund</td>
</tr>
<tr>
<td>DoD OIG</td>
<td>Defense Commissary Agency</td>
</tr>
<tr>
<td>DoD OIG</td>
<td>DHA-CRM</td>
</tr>
<tr>
<td>DoD OIG</td>
<td>DCAA</td>
</tr>
<tr>
<td>DoD OIG</td>
<td>DFAS Working Capital Fund</td>
</tr>
<tr>
<td>DoD OIG</td>
<td>DoD OIG</td>
</tr>
</tbody>
</table>

Those DoD components not undergoing stand-alone audits were included in the consolidated audit.

DoD OIG performed internal controls and substantive testing over activities and balances.

<table>
<thead>
<tr>
<th>WHS</th>
<th>MDA</th>
<th>DSCA</th>
<th>DoDEA</th>
<th>DARPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCMA</td>
<td>DTRA</td>
<td>CBDP</td>
<td>JCS (incl. NDU)</td>
<td>DHRA</td>
</tr>
<tr>
<td>DAU</td>
<td>DSS</td>
<td>DTIC</td>
<td>OEA</td>
<td>DMA</td>
</tr>
<tr>
<td>DOTE</td>
<td>DPAA</td>
<td>DTSA</td>
<td>DFAS GF</td>
<td>MHPI</td>
</tr>
</tbody>
</table>

Other TI-97 Funds Provided to Army by OSD
Other TI-97 Funds Provided to Navy by OSD
Other TI-97 Funds Provided to Air Force by OSD

Burden Sharing Account by Foreign Allies, Defense
Support for U.S. Relocation to Guam Activities, Defense
Host Nation Support for U.S. Relocation Activities, Defense

DoD Education Benefits Fund
Emergency Resp. Fund, Defense
Homeowners Assistance Fund, Defense
Defense Gift Fund

Voluntary Separation Incentive Trust Fund
Mutually Beneficial Activities
Defense Cooperation Account
National Security Education Trust Fund
FY 2018 Audit Outcome Snapshot

- A substantial percentage (94%) of NFRs from DoD FY 2018 audits pertained to Cyber / IT, Fund Balance With Treasury / financial reporting or property, plant and equipment.

<table>
<thead>
<tr>
<th>Component</th>
<th>Cyber / IT</th>
<th>FBWT / Financial Reporting</th>
<th>Property, Plant and Equipment</th>
<th>Other</th>
<th>Total # of FY 2018 NFRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Army</td>
<td>172</td>
<td>115</td>
<td>69</td>
<td>47</td>
<td>403</td>
</tr>
<tr>
<td>U.S. Navy</td>
<td>316</td>
<td>95</td>
<td>97</td>
<td>20</td>
<td>528</td>
</tr>
<tr>
<td>USMC</td>
<td>86</td>
<td>35</td>
<td>25</td>
<td>11</td>
<td>157</td>
</tr>
<tr>
<td>U.S. Air Force</td>
<td>169</td>
<td>106</td>
<td>58</td>
<td>14</td>
<td>347</td>
</tr>
<tr>
<td>Fourth Estate and DoD Consolidated</td>
<td>406</td>
<td>359</td>
<td>131</td>
<td>46</td>
<td>942</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,149</strong></td>
<td><strong>710</strong></td>
<td><strong>380</strong></td>
<td><strong>138</strong></td>
<td><strong>2,377</strong></td>
</tr>
</tbody>
</table>

- Other NFR category includes compliance issues, payroll findings, environmental liabilities, etc.
- Data is as of April 15, 2019
- Fourth Estate and DoD Consolidated totals are comprised of NFR data from DISA, DLA, SOCOM, TRANSCOM, DHP and the consolidated audit.
- U.S. Army NFR count does not include Service Provider NFRs for GFEBS and Ammunitions.
As we continue to make good on our promise to American taxpayers, it is clear we have much to fix. The priority will be corrective actions that provide the greatest value to our operations and warfighters.” – Patrick Shanahan, Acting Secretary of Defense
Key Financial Audit Takeaways

• Too many systems
• Lack of Standardization
• Poor quality Data
• Lack of documentation (e.g., audit evidence)
• Inconsistent or ineffective control access
Data Management: The DRCED Solution

Prior to the Defense Repository for Common Enterprise Data (DRCED) tool, interacting with GL data has been:

- Very difficult due to limited system access for each system
- Further limited as each system has different reporting, querying, and data structures
- Incapable of querying multiple systems for common data fields

• This complex environment has challenged the Department for decades due to:
  - Point solutions with no overall IT business system strategy
  - Redundant processes, data, and systems
  - Complex crosswalks are required to link source business events to summary statements and reports
  - Agency-specific, non-interoperable systems
  - And much more …

The DRCED tool will serve as a shared data discovery and analytic provider, supporting DoD Common Enterprise Data to develop actionable insights that lead to outcomes that help the DoD achieve the National Defense Strategy.
CHANGE

When the Winds of Change Blow Hard Enough, the Most Trivial of Things can turn into Deadly Projectiles.
Data Management: Financial Reporting

- DRCED has automated numerous financial reporting tasks:
  - Financial Statement Drilldown (FSD)
  - Feeder variance summaries
  - Automated Mapping of 30+ General Ledger (GL) Systems
• DRCED is helping improve compliance and control:
  – Robotic process automation
  – Audit workbooks
  – Automated data quality tracking
  – Dormant Account Review Quarterly (DAR-Q)
DRCED is bringing new decision analytics to financial performance:

- Financial management hygiene
- General Ledger (GL) mapping to other business systems
- Financial management workforce tracking
- Detailed contract analytic capabilities
- Cost management
DRCED will help modernize mission performance analytics:
- Budget analytics
- Human resource analytics
- Contract analytics
- Real property analytics
- Medical analytics
- Readiness analytics
- Acquisition analytics
- and more…
CFO of the Future

Role of the CFO

- **CFO Role: Financial Reporting**
  - Analytics Performed:
    - Sound transaction processing (e.g., receivables, payables)
    - Ability to link transaction process data to traditional finance reports (e.g., balance sheet, obligation and expenditure reports)
  - Time: Quarterly/Annually
  - Data Architecture: Distributed, non-standard
  - Role of UoT:
    - Disaggregated systems (e.g., GFESB, RPA, PRIS-ID, NAV-ITAS, Navy ERP, ITPRAS, SABRS, CIS/DEAMS, WAAS, DAU)
    - No enterprise view

- **CFO Role: Compliance/Control**
  - Analytics Performed:
    - Provide assurance on strength of internal controls over financial reporting and other financial risks (e.g., debt, collections, erroneous payments)
  - Time: Quarterly
  - Data Architecture: Distributed, standard
  - Role of UoT:
    - Disaggregated systems
    - Central "translation" ability (e.g., CODE frameworks, FIAR)
    - UoT collecting multiple sources

- **CFO Role: Decision Analytics on Financial Performance**
  - Analytics Performed:
    - Perform cost management analysis
    - Provide reporting on risk and performance of transaction processing (e.g., improper payments, prompt pay, debt collection)
  - Time: Monthly or Better
  - Data Architecture: Centralized, standard
  - Role of UoT:
    - UoT central host system
    - UoT leveraging existing data and accessing key data extracts from source systems for cost and audit

- **CFO Role: Decision Analytics on Mission Performance**
  - Analytics Performed:
    - Link cost performance data to related priority mission objectives
    - Strategic partner on cost and mission analytics
  - Time: Daily/Real Time
  - Data Architecture: Centralized, standard, automated
  - Role of UoT:
    - UoT central host system
    - Automated feeds for cost & audit
    - Shared service provider for analytics on financial performance and cost

Timeliness of Data

- From: Quarterly/Annually
- To: Daily/Near Real Time

CFO Organizational Impact

- Lower
- Higher
What’s Different This Time?

- **Enlighted Leadership Engagement**
  - Bi-weekly meetings with the Deputy Secretary of Defense and the Deputy Under Secretary of Defense (Comptroller) to discuss CAP status and progress.

- **Audit**

- **Technology**

- **We are actually doing things and seeing value**
  - DoD plans to continue to use the audit to improve our internal controls, mitigate material weaknesses and reform key business processes.
  - DoD must transition to a culture of performance results and accountability.
The Elements of Reform Appear in Legislation, Strategy, and Policy

- FY 2020 Budget Request
- 2018 National Defense Strategy
- CFO Act of 1990
- National Defense Authorization Act
- President’s Management Agenda
Comptroller Recruitment Video
Final Thoughts