

Are We There Yet?

The Unfinished Journey to DoD Auditability

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Like the summer road trip with children riding in the back seat, the question lingers. Amid the Marine Corps accomplishment and subsequent withdrawal of a clean audit opinion, the Department of Defense (DoD) still, as a whole, is not yet there in terms of being auditable. Former DoD Comptroller Robert Hale advised in a May 13, 2014, congressional hearing that not all DoD budgets would be ready for audit by the end of Fiscal Year (FY) 2014.

Hale was correct—what we have seen comes as little surprise for most observers. Progress was promising for the 2017 deadline, but Congress' 2013–2017 partisan run-ins, featuring government shutdowns, numerous continuing resolutions (CRs), hiring freezes and furloughs have hampered efforts. It seems each time I consider DoD's status as it moves toward undergoing a full-blown independent public accounting firm's review, the DoD is continually distracted by threats of government shutdowns, CRs, hiring freezes and continued implementation of the world's largest enterprise resource planning (ERP) system. There truly does seem to be a point at which bone is cut and doing more with less really means doing less. Senators and Representatives at the May 2014 hearing made valid points about the benefits of audits for decision support and stewardship of funds: The fragmented, duplicative and

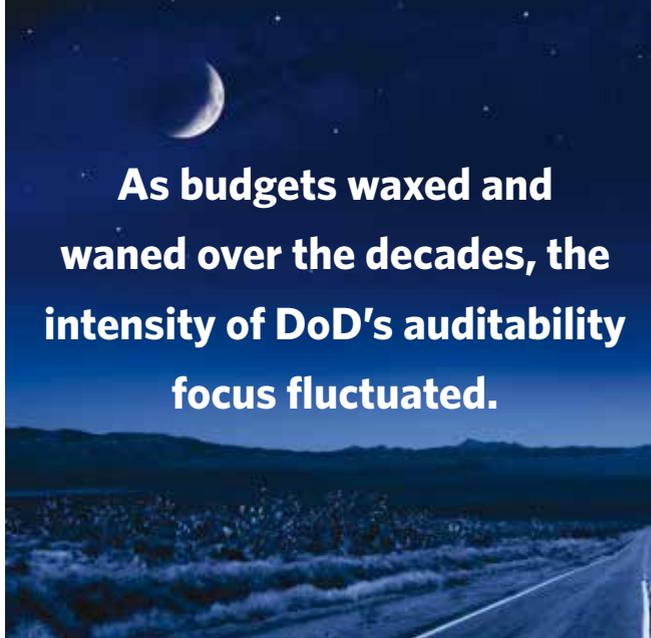
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overlapping DoD programs and services for which alternatives exist are viewed as easily cut in contrast with the more singular and mission-critical programs. Congress also is not alone among the three branches of government in seeing its value. Plenty of my executive branch peers readily admit the benefits of and need for auditable financial statements.

The difficulty in becoming auditable has been an obstacle for several years and originated in the early legislation regarding comptroller activities. The Chief Financial Officer's (CFO) Act of 1990 was arguably the most comprehensive and far-reaching legislation in 40 years for improving financial management. That single law was the original source of an accountable CFO for the country. Government-wide conformity and standardization of financial statements emerged, and the annual independent audits of federal financial statements were mandated. There was even some consideration about the need for appropriate practices applicable to the federal government's circumstances. The CFO Act was followed by a series of other acts such as the Government Performance and Results Act (GPRA) of 1993, Government Management and Reform Act (GMRA) Act of 1994, the Federal Financial Management Improvement Act (FFMIA) of 1996, the GPRA Modernization Act of 2010, the Budget Control Act (BCA) of 2011, and the Bipartisan Budget Act of 2013, to name a few prominent ones. While the BCA may be less memorable, the Bipartisan Budget Act of 2013 probably rings with a word we all continue living with: sequestration.

As budgets waxed and waned over the decades, the intensity of DoD's auditability focus fluctuated. The focus now is stringent: Reports, attestations and audits reveal programs are ripe for reduction even before the DoD is auditable. In recent years, Congress identified the priorities of the Financial Improvement and Audit Readiness (FIAR) initiative. These included (a) strengthening processes, controls and systems that produce budgetary information and support the DoD's Statement of Budgetary Resources and (b) improving the accuracy and reliability of management information on mission-critical assets—including military equipment and real property. FIAR priorities directly connect to the intentions behind the CFO Act.

In sorting the people, placement and priorities, the terms used should be reviewed. The nonpartisan Government Accountability Office (GAO) 2014 *Annual Report for Improving Efficiency and Effectiveness* stated that overlap "occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries," whereas duplication "occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries." Completing the triad of efficiency and effectiveness improvement definitions, the GAO report provided that fragmentation "refers to those circumstances in which more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need, and oppor-



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tunities exist to improve service delivery." I submit that, given better internal controls, DoD would have less overlap, duplication and fragmentation and that this would make it easier to produce auditable financial statements.

Throwing more terms around, there are the "leaders" and "managers." Expert researchers of each group captured the mire of definitions in comparison to the nature of management and managerial work in the book *Leadership: Building Sustainable Organizations* by Gary A. Yukl, Jennifer M. George and Gareth R. Jones, published in 2010 by Pearson Prentice Hall. Leaders and managers often are identified as separate individuals despite the mutually beneficial combination of the roles, as found in government. Both managers and leaders serve a critical role in internal control in the federal government, especially the control environment let alone the "tone at the top." In Jayme Baumgardner's April 29, 2014, article in *Government Executive*, "Why Leader-Managers Are the Key to Thriving Organizations," leader-managers were identified as the key to organizational success, because the leader role infuses the organization with influence and innovation while the manager role provides traditional structure devoted to planning, execution and achieving goals. From the capacity and toolsets available to leader-managers, it is possible to institute successful change through control and delegation of authority among DoD personnel. Specifically, 5 U.S. Code Section 1104, "Delegation of authority for personnel management," provides for a window of opportunity to delegate and control authority among government personnel. As DoD's preparatory audit exercises continue, delegation of authority is a key focus.

An increasing number of mission and support services are transformed to reduce duplication and overlap and achieve efficiencies and effectiveness. This sharing and better controlling of authority supports leadership and management goals. Reasons for such transformations include vulnerabilities, legislative mandates, regulatory compliance and a wish to fulfill customer demands. Successful recommended transformation efforts may utilize:

- Objective business cases
- Identification of commonalities across agencies
- An invitation for the submission of ideas
- Cultivation of organization-wide governance
- Securing of early stakeholder buy-in—and caring for people and organizational cultures
- Monitoring of implementation and accountability and making applicable adjustments
- Allowing for the recognition of “change leaders”

Internal control components, objectives and all levels of organizations are involved here, too. DoD services are leveraging lessons learned. One notable tactic for controlling the delegations of authority is the inventory of such delegations utilized by the Housing and Urban Development Department.

What are managers and leaders to do with the pressures and punts? Press on. The President’s Budget for FY 2015 included proposals for pinpointed reductions and consolidation of more than 130 programs. This spurred government leaders and managers to embrace an immediate attack on duplication and overlap of programs and services. Just as Rome wasn’t built in a day, all of those reductions and consolidations were not accomplished in a single year and many of them were rolled into the President’s Budget for FY 2016. In their effort to rapidly respond to the recommendations and requests from leadership and management, intermediaries and citizens have been actively prodding for results, such as a National Public Radio (NPR) report of disputes among the Life Science Laboratory and the Joint Prisoners of War/Missing in Action Accounting Command in identifying the nation’s fallen soldiers. That report, “Pentagon Reorganizing: How It Brings Home America’s War Dead,” exposed delays and bureaucratic tendencies that contributed to former Defense Secretary Chuck Hagel’s decision to order streamlined and single office efforts as an immediate way to reduce these delays. To accomplish short-term or progressive and long-term management-directed changes, collaboration is required throughout organizations. Collaboration may come in various forms through internal information and communication.

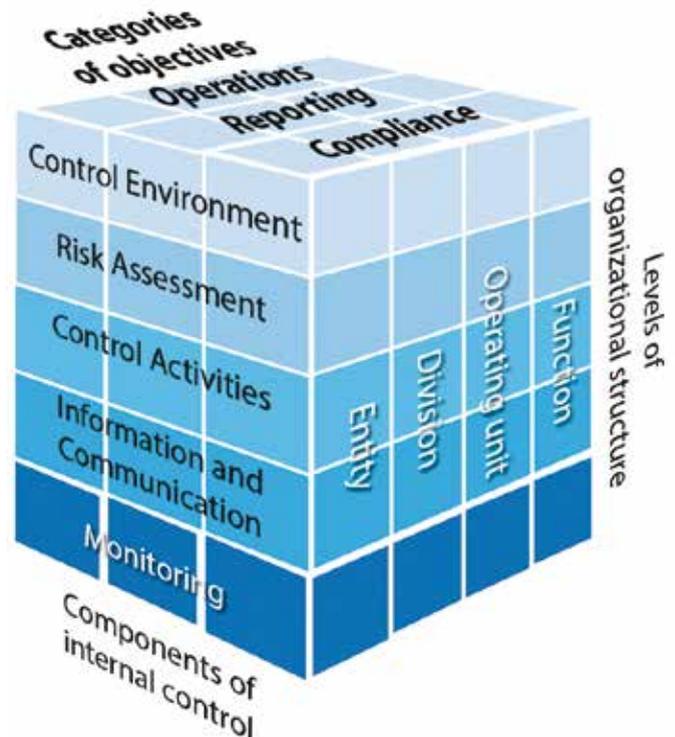
Techniques for overcoming audit-related challenges include involving the right people in a position with appropriate power to apply knowledge and expertise and foster connections. Also, the tangible and intangible benefits for the agencies participating should be specified since streamlining commonly reduces personnel and budgets in the interest of mission effectiveness and efficiency. A third recommendation is that interagency collaboration be fostered by requiring managers to lead the effort and affirm its relevancy and value through monitoring and repeated articulation of the end goal. This aspect was reviewed in an April 14, 2014, *Government Executive* article by Clare Gallaher, “3 Tips for Effective Interagency Collaboration.” Finally, leveraging GAO’s Standards for Internal Control in the Federal Government (also known as the *Green Book*) would be helpful, given the five useful components applicable to staff members at all levels of organizations and all categories of objectives.

Figure 1 shows the five sweeping components and a handy acronym you can begin touting in your workplace. Just remember CRIME—Control Activities, Risk Assessment, Information and Communication, Monitoring, Control Environment. Then, there are the objectives in operations, reporting and compliance. Finally, the third internal control aspect includes the levels of organizational structure: function, operating unit, division and entity. After all, audit is everyone’s objective, and we all have a stake in achieving the goal. Defense managers and leaders may have tackled low-hanging fruit during the past 3 years, but the steps needed to eliminate the remaining auditability barriers will be steeper as deadlines approach. Thus, there will be great demand for successful interagency collaboration through leveraging managers’ and leaders’ personal and positional power. We also will need the right people at the right time to support internal control and eventual auditability.

We are not yet auditable. Some within the DoD see the department reaching an auditable state in another decade or two. However, Congress—which holds the purse strings—hasn’t sent us out to hitchhike our way to that destination. Moving from a crawling pace to walking and then sprinting is building our progress, which Congress has promised to watch for. Studies, reports and resulting decision support that are developed from endeavors to address issues also provide recommended techniques to combat our timeline tardiness and excess activities. 

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Figure 1. Federal Standards for Internal Control



Source: Government Accountability Office