

AUDIT ADVANTAGE: IMPROVING MISSION READINESS

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THE CHALLENGE: MOVING FROM AUDIT READINESS TO SUSTAINED AUDIT SUCCESS

“Everything you have heard about the size and complexity of the Department is true, and this legitimately makes any endeavor, like an audit, harder. But that is not a reason to delay the audit - it is the reason to begin.” – David Norquist, DoD Comptroller¹

In 2010, Congress mandated the Department of Defense (DoD) produce audit-ready financial statements by September 30, 2017. While DoD has made significant progress towards audit readiness over the last seven years, there is still much to do.

The DoD’s strategy directed the financial management community to focus most audit readiness activities on a limited set of financial statements. Thus, many uniformed and civilian leaders relied on - and still view - the financial community as being solely responsible for audit success. This creates the perception that an audit resides in the realm of the higher headquarters, or the

staff, and is not the commander’s business. Unfortunately, this couldn’t be further from the truth. The coming full-scale audits will touch organizations, individuals, and systems involved in acquiring, distributing, operating, or maintaining personnel, equipment, property, ammunition, or supplies. With 26 stand-alone audits as well as an overarching consolidated audit, audit activities will begin to touch every DoD organization, commander, and leader.

Fortunately, the DoD Financial Improvement and Audit Readiness (FIAR) Guidance provides a roadmap. It establishes the Department’s goals, priorities, strategy, and methodology as well as the roles and responsibilities of reporting entities and service providers. These responsibilities and tasks often cross organizations, at an enterprise level, as well as direct critical tasks at organizational levels. Broad engagement is expected across the five phases of effective audit readiness, shown in Figure 1 below.



Figure 1. DoD Financial Improvement and Audit Readiness Phases

As organizations transition from audit readiness to an annual audit regimen for the multiple full-scale audits, a persistent challenge is reinforcing an inclusive culture of accountability. Commanders and leaders across DoD, at every echelon of decision-making affecting dollars and assets, will be accountable for driving progress and demonstrating eventual success. This means audit engagement and activity is no longer the sole responsibility of the leaders in the financial community. The expansion to full-scale audits means auditors will be examining much more than front-office compliance.

Financial management leaders recognize preparing for and undergoing audits creates additional demands on an already-busy workforce. In fact, FIAR guidance warns that organizations undergoing a first-year audit “frequently underestimate the workload and level of effort needed to support their auditors.”² They acknowledge the likely spike in requests for evidence and documentation can be a challenge for organizations to produce on short notice, especially for large sample sizes. In addition, as their auditors draft and finalize their Notifications of Findings and Recommendations (NFRs), organizations must find the time and resources to “develop corrective action plans to remediate control deficiencies, material weaknesses and other audit findings.”³ This requires analyzing, prioritizing, and addressing NFR items in preparation for the next audit. And, because audits will continue every year or so, organizations will need sustainment efforts to implement their corrective actions, including training their workforce (financial and functional staff) to improve performance.

What’s more, DoD leaders expect organizations to maintain their higher level of performance and do so in the face of constrained budgets and gaps in enterprise and legacy IT systems. In short, operational commanders and leaders across DoD will be accountable for solving

audit-related challenges across the FIAR phases to achieve continued audit success.

As a result, the challenge many DoD financial managers are now facing is how to engage operational commanders and leaders, who are fully engaged in their primary mission priorities, to also address their responsibilities for audit progress and sustained success.

OUR PERSPECTIVE: AUDIT SUCCESS STRENGTHENS MISSION READINESS

Auditability is about much more than just financial management and compliance. Operational commanders and leaders who align audit actions with their mission priorities can build long-term solutions that reduce future audit demands while benefiting their mission. Specifically, progress towards a clean audit means commanders and leaders get better situational awareness of their dollars and assets, have more confidence in their data for faster decisions on allocating those resources, and ultimately make more effective use of their resources to improve their mission readiness and lethality.

The Secretary of Defense has charged the Department through his budget guidance to build a military that is as effective and efficient as possible. As such, financial leaders should look beyond individual NFR responses to emphasize a holistic perspective across processes, systems, and workforce development.

Achieving sustained improvement requires continued emphasis to enable culture change across financial, operational and functional communities to connect their actions to each other and a broad view mission readiness. In this way, audits can be a driver of strategic reform and help synchronize priorities for financial efficiency *and* operational effectiveness.

There are multiple mechanisms by which audit activities can improve mission readiness. For example:

- Refining internal controls can identify waste and fraud.
- Workforce development can reduce data errors leading to unmatched transactions and unliquidated-obligations and over obligations.
- Streamlining business processes can curb or eliminate redundant or non-essential spending.
- Investment in activities that improve financial data accuracy and transparency enables more timely resource management.

All of these audit-focused activities allow organizations to better see, prioritize and allocate their resources to meet mission needs.

In addition to improving financial/functional activities and processes, broadening the perspective on the role of audits builds a culture where staff view audit activities as means for improving organizational and enterprise performance. An organization able to shift to an enterprise understanding of audits will see audit activities migrate, over time, from extra-ordinary tasks to ordinary, routine activities that are part of daily life. As organizations become more successful with their audits, their workforces will be less stressed as they benefit from a higher level of skill and performance.

OUR APPROACH: INCLUDING MISSION UNDERSTANDING IN AUDIT INSIGHTS

While a finance-first view of audit readiness has produced positive results for many DoD organizations, our experience has repeatedly demonstrated that achieving sustained audit success requires more than accounting and financial expertise; it also requires deep domain understanding of an organization and its mission. Mission understanding begins with the organization's purpose and outputs but goes well beyond. It includes being intimately familiar with financial, operational and functional workforces, processes, systems (data) and

how they work together in the organizational culture to generate the outputs needed to meet the mission. We group audit-related activity support into three areas, Response, Remediation, and Sustainment. (These align to the DoD FIAR methodology so organizations can diagnose their needs in a consistent manner.)

- **Audit Response** activities help organizations surge to meet the auditors' demands. These include detailed planning and support for auditor engagement as well as managing key supporting documentation. Establishing an audit response infrastructure of processes and tools promotes efficiency in responding to auditor requests. Response often requires in-depth knowledge of the organization's processes and systems to meet the short timelines for auditors, especially for large numbers of samples.
- **Audit Remediation** activities help organizations analyze the NFRs to develop and prioritize corrective action plans (CAPs) and then to implement the CAPs to create enduring solutions. Given the range of potential NFR items, the analysis and CAPs may require a broad array of financial or functional knowledge as well as in-depth knowledge of the organization's processes and systems. CAPs may be short-term or long-term solutions based on the item complexity. Mission understanding is critical for the analysis to recommend priorities and sequencing of CAPs in time to show progress for the next audit while also taking a long-term perspective on improving organizational mission readiness over time.
- **Audit Sustainment** activities build organizational maturity across a wide array of management and technical areas. By focusing on key management processes, organizations can maintain improvements from remediation while continuing to respond to findings from their internal reviews. Knowledge management, workforce development/training, refining internal controls, and continuous monitoring

can all contribute to continuous reform and improvement of organizational performance. Sustainment also includes collaborating with service providers to create a unified approach to the strategy and plans for change. Finally, at the commander and leader level, oversight, governance, and strategic communications reinforce progress and drive necessary cultural change. The sustainment goal is to create an auditable environment as a normal part of everyday business to support the mission.

The activities associated with Response, Remediation and Sustainment can occur simultaneously, especially as remediation CAPs often continue from one year into the next as in Figure 2. Our approach addresses Response and Remediation activities as needed while using Sustainment activities consistently to help clients become more self-sufficient. Investing in CAPs and sustainment activities help organizations mature their processes, tools and training, resulting in reduced surge requests, smaller sample sizes and ready workforce. By providing leaders with better insights into how their organizations are operating while improving performance

and access to resources to increase mission readiness, audit activities increase their value over time.

Each area of Response, Remediation and Sustainment can benefit from cross-functional capability to achieve auditability with processes/systems that work both internally for an organization and within the DoD's overall financial management system. Relevant capabilities often include:

- **Business Process Reengineering:** designing and implementing standards to meet FIAR requirements.
- **Financial Management and Analytics:** conducting financial analysis, accounting, and advanced analytics to develop the “audit intellectual capital” within an organization.
- **Systems Delivery:** developing systems/tools for collaboration, controls, and training at all levels.
- **Predictive Analytics:** managing data and driving solutions at both the headquarters and field levels.
- **Management Consulting:** ingraining process/systems improvements into organization and cultures.



Figure 2. Response, Remediation, and Sustainment can occur simultaneously and reduce surge over time.

BOOZ ALLEN: YOUR ESSENTIAL PARTNER IN AUDIT SUCCESS

Booz Allen has a rich history of delivering strategy and technology solutions for financial and readiness challenges in DoD. We bring our deep mission understanding of DoD organizations into our audit insights to create holistic views of issues and tailored solutions. In addition to our financial experts, we build blended teams to integrate expertise in consulting, advanced analytics, engineering, digital solutions and cyber to solve audit challenges with a positive return on investment. Our teams tailor their role to the need, including working side-by-side on site or supporting across multiple sites remotely to deliver results. For example, one DoD client recouped nearly \$11M in purchasing power as we built processes to identify aged/canceled supply obligations and erroneous, reimbursable double obligations posted to the General Ledger requiring de-obligation. Other organizations have seen their audit performance mature significantly through combinations of workforce development, financial systems training, analysis and support, reviews of

internal controls, sample testing, and process streamlining.

As a long-standing partner with DoD organizations, we know mission readiness is a priority. Our approach creates synergy across mission needs and audit needs through proper alignment of Response, Remediation, and Sustainment activities. We can turn perceived tension between audit and mission into unity of effort. By including mission understanding with audit insights, Booz Allen can help commanders and leaders leverage their audits to improve their mission readiness.

NOTES

1. David Norquist Opening Statement, Senate Armed Services Nomination Hearing, May 10, 2017, https://www.armed-services.senate.gov/download/norquist_05-09-17
2. Financial Improvement and Audit Readiness Guidance 2017, April 28, 2017, page 234, comptroller.defense.gov/Portals/45/documents/fiar/FIAR_Guidance.pdf
3. Financial Improvement and Audit Readiness Guidance 2017, April 28, 2017, page 244, comptroller.defense.gov/Portals/45/documents/fiar/FIAR_Guidance.pdf

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