



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
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WASHINGTON, DC 20301-1100

MAR 27 2019

COMPTROLLER

The Honorable Nancy Pelosi  
Speaker of the House  
U.S. House of Representatives  
H-209, The Capitol  
Washington, DC 20515

Dear Madam Speaker:

Subsection (b) of section 240 of title 10 of the U.S. Code requires the Secretary of Defense to submit to Congress the results of the financial statement audits of the Department of Defense (DoD) "for a fiscal year by not later than March 31 of the following fiscal year."

The DoD fiscal year (FY) 2018 consolidated financial statement audit consisted of over 24 stand-alone financial statement audits and an overarching consolidated audit. The enclosure summarizes these audit results, supplementing the detailed briefings we delivered to the Congressional defense and governmental affairs committees. The audit reports, available at <https://comptroller.defense.gov/ODCFO/afr2018.aspx>, are included in each organization's annual financial report.

Six entities received unmodified opinions and two entities received modified opinions. The DoD as a whole and the remaining organizations under audit each received a disclaimer of opinion, meaning the auditors were unable to express an opinion. This outcome was expected and is consistent with other federal agencies undergoing initial financial statement audits.

The Department is using audit feedback to drive standardization and improvements across our business operations. We have prioritized correcting findings based on areas that have the largest impact on our mission. The Department will continue to provide regular progress updates to Congress.

A similar letter is being sent to the President of the Senate and the congressional defense committees.

Sincerely,

Elaine McCusker  
Deputy Under Secretary of Defense  
(Comptroller)

Enclosure:  
As stated



**Department of Defense**  
**Annual Report on Audit for Fiscal Year 2018**  
 March 2019



This report is being submitted in fulfillment of the requirement contained in subsection (b) of section 240a of title 10 of the U.S. Code, which requires the Secretary of Defense to submit to Congress the results of the audit performed on the financial statements of the Department of Defense (DoD) “for a fiscal year not later than March 31 of the following fiscal year.”

**Overview**

Fiscal year (FY) 2018 marked the first time that the DoD had undergone an audit of its consolidated financial statements. The audit covered the DoD total asset balance of approximately \$2.6 trillion, involved approximately 1,200 auditors, over 900 site visits and the review of hundreds of thousands of items.

**Who Performed the Audits**

The DoD audit likely was the largest financial statement audit ever undertaken and consisted of over 24 stand-alone financial statement audits and an overarching consolidated audit performed by a combination of independent public accounting firms and the DoD Office of Inspector General. **Figure 1** lists the auditors of the FY 2018 DoD financial statement audits.

Auditor	Reporting Entity
CliftonLarsonAllen LLP	<ul style="list-style-type: none"> <li>• Defense Commissary Agency</li> </ul>
Cotton & Company LLP	<ul style="list-style-type: none"> <li>• U.S. Transportation Command</li> </ul>
Davis & Associates Certified Public Accountants PLLC	<ul style="list-style-type: none"> <li>• Defense Contract Audit Agency</li> </ul>
Department of Defense Office of Inspector General	<ul style="list-style-type: none"> <li>• Department of Defense (Consolidated Audit)</li> </ul>
Ernst & Young LLP	<ul style="list-style-type: none"> <li>• Air Force – General Fund</li> <li>• Air Force – Working Capital Fund</li> <li>• Defense Logistics Agency – General Fund</li> <li>• Defense Logistics Agency – Working Capital Fund</li> <li>• Defense Logistics Agency – Strategic Materials</li> <li>• Navy – General Fund</li> <li>• Navy – Working Capital Fund</li> </ul>
Grant Thornton LLP	<ul style="list-style-type: none"> <li>• U.S. Special Operations Command</li> </ul>
Kearney & Company, P.C.	<ul style="list-style-type: none"> <li>• Defense Health Agency – Contract Resource Management</li> <li>• Defense Health Program</li> <li>• Defense Information Systems Agency – General Fund</li> <li>• Defense Information Systems Agency – Working Capital Fund</li> <li>• Medicare-Eligible Retiree Health Care Fund</li> <li>• Military Retirement Fund</li> <li>• U.S. Marine Corps – General Fund</li> </ul>
KPMG LLP	<ul style="list-style-type: none"> <li>• Army – General Fund</li> <li>• Army – Working Capital Fund</li> <li>• U.S. Army Corps of Engineers – Civil Works</li> </ul>
RMA Associates, LLC	<ul style="list-style-type: none"> <li>• Department of Defense Office of Inspector General</li> </ul>
Williams, Adley & Company-DC, LLP	<ul style="list-style-type: none"> <li>• Defense Finance and Accounting Service – Working Capital Fund</li> </ul>

**Figure 1 – FY 2018 DoD Financial Statement Auditors**

**Department of Defense**  
**Annual Report on Audit for Fiscal Year 2018**  
 March 2019



**Fiscal Year 2018 Audit Results**

For FY 2018, six DoD entities received unmodified (clean) opinions. Two entities received modified opinions for FY 2018. The DoD received a disclaimer of opinion on its consolidated financial statements, meaning the auditors were unable to express an opinion. This outcome was expected and is consistent with other federal agencies undergoing initial financial statement audits. **Figure 2** displays the FY 2018 DoD audit results by entity.

DoD-Wide Consolidated Audit Performed by DoD Office of Inspector General (DoD OIG)									
Stand-Alone Audits 95% Budget, 97% Assets				Included in the Consolidated Audit 5% Budget, 3% Assets					
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).				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.					
Army General Fund	Navy General Fund	Air Force General Fund	U.S. Army Corps of Engineers – Civil Works	WHS	MDA	DSCA	DoDEA	DARPA	
Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund	Military Retirement Fund	DCMA	DTRA	CBDP	JCS (incl. NDU)	DHRA	
DoD Classified	U.S. Marine Corps General Fund	Medicare-Eligible Retiree Health Care Fund	Defense Commissary Agency	DAU	DSS	DTIC	OEA	DMA	
DLA General Fund	DHP	DISA General Fund	DHA-CRM	DOTE	DPAA	DTSA	DFAS GF	MHPI	
DLA Working Capital Fund	USSOCOM	DISA Working Capital Fund	DCAA	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	
DLA Strategic Materials	USTRANSCOM	DoD OIG	DFAS Working Capital Fund	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
<span style="background-color: #006633; color: white; padding: 2px;">Unmodified</span> <span style="background-color: #999999; color: white; padding: 2px;">Modified</span> <span style="background-color: #cccccc; color: black; padding: 2px;">Disclaimer</span>									

**Figure 2 – FY 2018 DoD Audit Results**

**Next Steps**

The results from the FY 2018 audits have provided valuable, independent insight for where the Department must improve its processes, internal controls, and financial management practices. The FY 2019 DoD financial statement audits are already underway. We expect them to be completed toward the end of this calendar year and will submit a report to Congress on the results.