

AGA Welcomes DoD to CEAR Program; CFO Zakheim Discusses CEAR

AGA is pleased to welcome the U.S. Department of Defense (DoD) as a participant in the Certificate of Excellence in Accountability Reporting (CEAR) Program. Dov S. Zakheim, Ph.D., Under Secretary of Defense (Comptroller) and Chief Financial Officer, has agreed to allow AGA the opportunity to follow the agency's journey toward achieving excellence in performance and accountability reporting.

Any federal government entity that prepares a Performance and Accountability Report (PAR), including components of agencies or departments that are not required by law, is welcome to participate in the CEAR Program. By participating in the CEAR Program, agencies receive detailed recommendations for improving their Performance and Accountability Reports (PAR), even after they have received a clean opinion on their audited financial statements. DoD's participation is to be particularly commended given that DoD does not anticipate achieving a clean opinion until at least Fiscal Year 2007. DoD's willingness to submit its PAR for evaluation and to publicize its efforts sends a message about its commitment to the rest of the federal government. AGA will be publishing a regular series of updates on DoD's progress.

Although Dr. Zakheim indicates below that he does not expect DoD components to participate in the AGA CEAR Program because they were not required to prepare PARs, AGA wants to emphasize that ANY federal government entity, including components of agencies or departments, that prepares a PAR is welcome to participate in the CEAR Program and benefit in the same way as DoD hopes to. Several entities that are not required by law to prepare PARs do in fact prepare them and some already participate in the CEAR Program.

Dr. Zakheim, who has had a distinguished career in government and the private sector, was sworn in as Under Secretary of Defense (Comptroller) and Chief Financial Officer on May 4, 2001. He plans to leave his post at DoD on April 15.

He recently agreed to discuss DoD's financial management efforts and its participation in the CEAR Program. Below is the text of that interview.

AGA: The Department of Defense (DoD) comprises numerous military Services and defense agencies, five of which received unqualified audit opinions. How close are the other components to receiving clean opinions?

Dr. Zakheim: Actually, what we published in our Performance Accountability Report (PAR) was that four DoD components: the Military Retirement Trust Fund, the Defense Commissary Agency, the Defense Contract Audit Agency and the

Defense Finance and Accounting Service received clean audit opinions in fiscal year (FY) 2003. Since the PAR's publication, the National Reconnaissance Office received a clean audit opinion and the Medicare-Eligible Retiree Health Care Fund received a qualified audit opinion. The remaining DoD components are working hard to obtain clean audit opinions and improve the timeliness and reliability of their financial information. To that end, components recently submitted financial improvement plans to obtain a clean audit opinion on their FY 2007 financial statements.

Does DoD's participation in Certificate of Excellence in Accountability Reporting (CEAR) gives these agencies a thumbs-up for participating in the future?

Dr. Zakheim: I don't believe DoD components will participate in the CEAR Program in the near future because they are not required to prepare an annual PAR. However, I do hope that DoD's participation in the program will emphasize the Department's commitment to improving its financial and performance reporting.

Over the past few years, the federal government has undertaken an ambitious audited financial reporting effort. As a result, the majority of the Chief Financial Officer Act agencies have been able to obtain—although not always maintain—unqualified audit opinions. However, the DoD has struggled in its financial reporting and audit efforts. Can you tell us how close or how far away you are from an unqualified opinion and what are the issues standing in your way?

Dr. Zakheim: Although the Department has not yet obtained an unqualified opinion on its financial statements, we are improving our financial reporting. We are aggressively tackling all of the 13 financial statement weaknesses identified by the Inspector General, DoD and cleared two of these weaknesses in FY 2003 relating to military retirement health care liabilities and problem disbursements. We also obtained favorable audit results on almost 50 percent of the Department's \$1.5 trillion in liabilities (\$739 billion for the Military Retirement Trust Fund). As you know, the Department is an immense organization and clearing all of its financial statement weaknesses and other internal control weaknesses necessary to obtain a clean audit opinion will take time.

Is there a timeframe set for achieving an unqualified opinion?

Dr. Zakheim: Yes, our goal is to have a clean audit opinion on the Department's FY 2007 financial statements.

Will the Business Enterprise Architecture project succeed in enabling DoD to reach this goal?

Dr. Zakheim: Yes, the Business Enterprise Architecture will help, but many of the “systems” solutions (for example, logistics, real property, human resources, etc.) that will evolve from our Business Management Modernization Program will not be implemented until after the FY 2007 goal, as these are longer term corrective measures. So, as I mentioned earlier, we are developing detailed financial improvement plans highlighting key actions and milestones for each financial statement area by DoD component and from an agency-wide perspective. Successful implementation and execution of these plans will ensure we meet this goal.

You have agreed to participate for the first time this year in AGA's CEAR Program. We realize the preparation of an award-winning P&A report is a journey, one that you have decided to begin this year. Can you tell us why you decided to submit your P&A report for review, despite knowing that it will not receive the CEAR due to the lack of an unqualified opinion?

Dr. Zakheim: I agree that preparing a world-class PAR will take a lot of time and effort. We feel we already made tremendous improvements in FY 2003, only our second year preparing a PAR. We've improved its readability, usefulness and presentation. However, we also know we still have room to improve in creating a world-class PAR. We believe that by participating in the CEAR program we will obtain invaluable feedback for improving our PAR, so that it more clearly presents the Department's mission, the initiatives underway and our performance.

Why did you agree to publicize your participation?

Dr. Zakheim: We believe that it is critical for the Department's decision-makers to have timely, reliable and accurate information and wanted DoD personnel and others to know that improving financial and performance reporting is one of the Department's top priorities.

How important is it to the DoD financial management team to send a message to the rest of the federal government financial management community that your agency is serious about its efforts to get its financial house in order and to one day achieve an unqualified opinion?

Dr. Zakheim: We know that the Department's inability to obtain a clean audit opinion is one of the key reasons that the federal government has not been able to obtain a clean audit opinion on its financial statements. We also know that this may be discouraging to others. By participating in this program and being actively involved in other government-wide initiatives, we strongly believe that other agencies will realize that DoD is truly working hard to improve its financial and performance reporting. We have actively engaged OMB, Treasury and GAO in the discussions related to improving our financial and performance information.

Each year after the consolidated government-wide financial statements are issued with a disclaimer of opinion, the media reports that the "government flunked" and often points the finger at DoD as the weak link. How important is it to your agency to overcome this stigma and what steps are being taken to address these concerns?

Dr. Zakheim: As I just stated, we know that DoD is a large reason for the government-wide statements not receiving a clean audit opinion. Clearly, this is not only a concern for us and others in government, but also the general public. The Department takes its stewardship role very seriously and wants to ensure the public that it can accurately account for its resources. We are aggressively working to clear our financial statement weaknesses, improving our business processes and systems through the Business Management Modernization Program, and implementing our financial improvement plans to obtain a clean audit opinion on our FY 2007 financial statements. We truly believe these actions will help instill the public's trust in DoD's resource management abilities.

What role do you see your participation in the CEAR program playing in this effort?

Dr. Zakheim: We feel that improving our annual PAR will help assure the public that the Department is properly utilizing its resources. After all, the main focus of the PAR is to report the Department's annual financial and performance information to the public, the President, and Congress.

Are there any points we've missed that you'd like to add?

Dr. Zakheim: I'd like to say that the Department looks forward to participating in the CEAR Program and we are quite excited about the invaluable feedback we expect to receive.

AGA thanks Dr. Zakheim for his candor and we look forward to working with him and his team as DoD works toward the Certificate of Excellence in Accountability Reporting.

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