

ALL THINGS FINANCIAL MANAGEMENT PODCAST

Striving Towards an Unmodified Audit Opinion

Featuring Mike McCord, Former Under Secretary of Defense (Comptroller) & CFO



Welcome to the All Things Financial Management Podcast presented by Guidehouse and the Society of Defense Financial Management. I'm your host, Tom Rhoads. Join us as we discuss top of mind issues facing defense financial managers.

MIKE MCCORD: Thank you, Tom. Great to be here.

TOM RHOADS: Would you mind telling us about your background and what brought you to your recent position as the Undersecretary of Defense Comptroller? In other words, Mr. McCord, could you share with us your story?

MIKE MCCORD: Sure. Yeah, I'm happy to. So in college, going back 40 years or so, I trained as a policy analyst, especially on fiscal policy, but I was not a defense analyst. So my first job out of college was at the Congressional Budget Office 40 years ago as a defense analyst of military personnel pay and benefits. After two years there, I was offered an opportunity to work for a harder, but more interesting work on the Senate Armed Services Committee, one of the four committees that oversees the Defense department, where I ended up spending 21 years going from the late Cold War, end of the Cold War through the end of the second Bush administration at the end of 2008. So that prepared me well for moving over to DOD with the Obama administration as the Deputy Comptroller for five years, and then as the Comptroller for the last three.

I was also fortunate enough to work for Bob Hale there in my first tour at DOD, after having worked with Bob at CBO way back in my first job in the mid-1980s. So interesting to reconnect there. As you may know, I left as political appointees do when Trump was elected in 2016 and the Obama administration ended, and then the Biden administration asked me to come serve as a Comptroller again, which is unusual to

have someone come back and do the same job twice. So by the time I got to be the Comptroller the first time in 2016, I had 30 years of experience in national security and budgeting. I had undergrad and grad school training in things like economics and statistics, and policy modeling, fiscal policy and accounting. I had good contacts by then in both parties from my time on Capitol Hill, House and Senate.

I already knew the Comptroller shop quite well from my Senate committee work. And then, I got my Pentagon experience going in as a Deputy Comptroller for five years with Bob. So I'm going to say a combination of good preparation, good mentors for sure, some good luck, and then some hard work. The Senate job that I had for two decades was hard. Being Comptroller, its hard work as well, but fulfilling. So last point I'd make is I'm of course not the only person who was qualified at either juncture to do the job or get the job. So hard work and preparation goes into it, getting yourself prepared for the opportunity if it comes your way, as well as some luck. As I said, I had good contacts. I had a lot of experience. I had a reputation in my field when I was selected for this job.

But I also, like a good high school student who wants to get into a good college, I did some extracurricular work to enhance my chances. I volunteer for the Obama campaign. I volunteer for the Biden campaign, both times as a defense expert, and I worked on both their transition teams. So if you aspire to that role, not only do you want to master your craft, but I'd recommend some of these other things as well to show that you're interested and involved. So again, I was not one of those people who knew way back in college they wanted to work in national security. There are a lot of people like that that I've met, but I found defense to be such an interesting and challenging area once I get into it, where every year is different and unpredictable that I got hooked early on. So that's my story in a nutshell.

TOM RHODES: Mr. McCord, it's an exciting story. I crossed paths with you back when you were the Deputy Comptroller. I'm sure you wouldn't remember that, you've talked to lots of people, but it was exciting for me to see you come back as the Comptroller. And with your experience, you're well positioned to supervise and kind of help guide the department through its journey to achieve unmodified opinion. And there's multiple challenges facing the Department of Defense with the financial management workforce. Can you share some of your thoughts on those challenges?

MIKE MCCORD: Right now, I got to say top of mind is that the new administration, in my view, has come in with a pretty heavy-handed and I think counterproductive management style, that seems to assume the average duty employee is somehow not to be trusted and has to be overcome. So instead of working with the career civilians and career military, they seem to have more of an interest in some low value added exercises, like having the entire workforce report not to their chain of command as they already do, and as I did when I was there, but to a new Elon Musk central bureaucracy that has no context to interpret the information they're demanding, everybody feed them. Also, I'm seeing some kind of herky-jerky policy shifts, like the fork in road emails to the workforce, which were, to my understanding then taken back from some of the FM workforce or attempts to root out the very positive impacts that a diverse workforce brings in today's world.

And I think these things are distracting from mission accomplishment. Add to that, the uncertainty that you normally have of when a new administration comes in, what direction are they going to go on top line or key programs, not known there yet and very few of the new team is in place. And we've seen some troubling steps, to me at least, on how we treat allies and partners like Ukraine. So honestly, I see a lot of unnecessary stress and turbulence when the opportunities are always there to make DOD or other agencies more efficient and more effective, and try new things. So I'm hopeful that the new team can start to focus on that, how to make DOD better. DOD work is already challenging. I don't see a reason to make it needlessly challenging, some of these personnel actions.

TOM RHOADS: Mr. McCord, speaking of challenging, as we record this, the house has just passed a full year continuing resolution for the Department of Defense. This is the first time in history the department has not gotten a full year regular funding bill. What challenges in particular does this represent?

MIKE MCCORD: Well, as you say, Tom, for our audience, we're recording this the afternoon of March 14th, and the government's a few hours away from either a shutdown, which now seems less likely or the better, but still far from good alternative of the first full year continuing resolution in DOD's history, as you say. And that's going to bring its own set of challenges. For many years, the department, when faced with this repeated pattern of lengthy CRs that we've had, averaging three, four months a year, we've talked about the problems that CRs have with the normal rules that come with CRs of no new starts, no increases in production rates, things like that. Don't do anything new is not really a good way for the Department of Defense to operate, because the world doesn't cooperate with nothing new. I don't get a lot of pleasure out of seeing Dave Norquist or myself, or other DOD officials proved right, as Congress has in the CR recognize that they need to give DOD more flexibility on these points than they have in past CRs, and they've done so in this bill.

But if they give DOD enough flexibility, we'll have to find out now as DOD lives through the last six months of its first full-year CR. And conversely, will the administration used the flexibility they did get in the CR wisely when they develop and implement their spend plan, because there are some voices, especially at the new OMB about not really heeding necessarily what Congress wants on spending money. So they've been given an opportunity here to show some good faith, and we'll have to see how that plays out. So in parts of the budget, the operating side, the personnel side, if you get the funding levels about right and you provide some flexibility, you're going to be able to get it done. I'm not too worried about the department writ large, but it's unknown territory, to have a full-year CR. And of the known things, the known problems that DOD has talked about for years on the acquisition programs of new starts and rate increases, Congress backed off and tried to address that, and we'll have to see if that's enough.

TOM RHOADS: Thank you, Mr. McCord, and another challenge that the department is facing is the legislative mandate to obtain an unmodified opinion by December 2028, and there's much to be done for that to occur. Can you share any positive views or signs of progress for our listeners?

MIKE MCCORD: Yeah, thanks for asking. We have made, we, I say we, I don't work at DOD anymore. The department has made real progress over the past decade, but it helps if you know where to look for it. If all you focus on is does the entire Department of Defense have a clean opinion, yes or no, right? That's the simplest way to look at it. The answer has been no, and it will continue to be no for another year or two at least. But underneath that, there's a lot to see and understand. And I tried to point this out last November when I did my annual press conference on this. First of all, the DOD audit's really comprised of more than two dozen audits of its various components, whether they're as large as the Army or relatively small as a single defense agency.

As of the end of the FY 24 audits, so this is the one that just completed the audit of FY 24, we're up to 12 unmodified component opinions inside the department, most notably the Marine Corps, right? As of FY 23, repeated again last year, and that 12 is up from seven when we did the first DOD consolidated audit seven years ago. So two more joined the club just in FY 24, Defense Threat Reduction Agency and one of DLA's three audits that they do. So we've added Marine Corps in 23 and added two more last year. So that's point one. Second thing, because DOD is so large, we have a lot of processes that are common across the department. Things like paying the military, paying civilians, paying our vendors. So if you get the process squared away, then all the different components that use that process can rely on it. And we're in good shape on most of those processes, I'm happy to report.

We don't get credit in the same visible way for those opinions on those processes, but it is a solid foundation. Happy to say that DFAS, which is in the FM family, the Comptroller family has done a lot of that work. So then the third and final point I want to make about progress underneath the surface, if you will, you often think of the audit as accounting for the assets on a balance sheet, right? You've got money and you've got property, basically. And of course there's more to it than that. Your processes, as I just noted, have to be passing the audit. Your access controls have to be appropriate and in place to satisfy the auditor. So there's process points, as well as balance sheet points. But assets are the biggest part of an asset, of an audit. And while we don't have a positive opinion yet for the entire Army or the entire Navy, or the entire Air Force, in the past two years, all of them have removed or mitigated material weaknesses on their funding side.

So we've moved over 700 billion of funding assets into positive territory, most of that in the past two years. So you want to keep that up, keep the funding squared away while you then hone in on the physical assets, which is harder. And even on that front, the Army, Navy and Air Force have all over half of their physical assets now clear of material weaknesses. Again, most of that progress pretty recent. So there's a lot of progress that people are, not everyone at least is aware of on the funding side, the process side, and now on the property side. The team does have real momentum that you're not going to see if you're only looking at, well, does the entire department have everything squared away to the point where the entire department has a clean opinion, we are moving in the right direction, or they are moving in the right direction though.

TOM RHOADS: Mr. McCord, you have such a perspective that I think a lot of people don't, because obviously your role and the experiences you've had. I was just curious from your lens, do you feel like the processes are getting better, we're having real success and unmodified opinions, do you think the data's getting better, that decision makers have to make decisions?

MIKE MCCORD: It is. It's just not getting better as fast as we would like. I had a good perspective on this, I think because, not because I'm an expert on this per se, but because when you're the Comptroller, you have two bosses, right? Not counting, say the president of the Congress, but in the department you have two bosses, you have the Secretary and you have the Deputy Secretary, and the Comptroller has always worked more closely with the deputy secretary, right? The COO of the department, while the secretary's out traveling and meeting MODs of other countries, and all those sort of things. Our deputy, when I was there the second time in particular, Kath Hicks, was super focused on being more analytical, using data to make decisions. If you had her on now, I would think she would say we made a lot of progress, but again, not as fast as she would like.

We had discussions about moving to where nobody brought PowerPoint to a meeting. Everybody would bring say a notebook computer or something, and everybody could dive into whatever data all at the same time. Everybody see the same data. We didn't quite get there at senior levels, but the team in some areas more than others, made a lot of progress. Of course, FM is a field that's pretty open to data. I mean, numbers are data by definition, I guess, but it was harder than it looked to get, say, Ukraine data in a form that could be analyzed and manipulated, as opposed to doing a data call when you wanted to know the answer to something. We had a team, Advana was sort of birthed under Greg Little in the FM community in Comptroller, and then kind of went DOD-wide, got used for all kinds of things to good effect.

So we rebranded a team that had been in the DCFO world when Greg was there and called it, gave it a new name, and then gave it yet another new name, Enterprise Financial Transformation during the last couple of years. And I hope that that team will grow and prosper. I don't know, the new team's going to have to arrive. It has to be a new Comptroller and they got to work with it. But one of our real opportunities there is to have this group of people who are not responsible for the budget per se, or the audit per se, but are enablers that help the teams solve their problems, get better analytics, help provide analytic expertise where maybe the budget expert doesn't have it yet. And there were some growing pains with getting the different teams to work with these other folks, and why are you asking me for that information?

Letting other people have your information and start manipulating it. We saw it pay off, where we could finally get to the questions that senior managers want to know, that we could get there faster by having people have done all the hard work of loading stuff in a system that had the kind of capabilities that Advana had, as opposed to having stuff just in the spreadsheet. Which is useful, but we're moving to a more useful stage. I talk sometimes, maybe not so much in public, but about how there's what I call the Hollywood version of national security, where first of all, everybody's in assassin or a retired assassin, right? In Jason Bourne movie or whatever. But in these movies, the government knows everything in real time. They know that Tom's walking down the street and then he turned left, and there's four cameras watching him, and they can pull up your...I mean, the real world is not like that.

So I sort of think of where the department was when I left. It's sort of like a version 1.0 of going to where you actually could start to get the information you wanted really fast, like in a movie. Not exactly like a movie, but more like the movie. And we saw an example of that with something that most people would not consider a success necessarily. The Afghanistan withdrawal, their movement up of 120,000 Afghans out of Afghanistan as we were leaving. Now, I think what most people would say, their negative opinion of what happened in Afghanistan was not that we got 120,000 people out. It was that we didn't get more out, or that the 13 people that were killed, or what did we get for the whole 20 years when the government collapsed? But specific to the withdrawal of the people, I got there in June of 2021, and things were starting to look pretty bad within a month in terms of the withdrawal was going to be chaotic.

When we first started having these meetings that the secretary organized, we'd have central command people there, obviously, but also TRANSCOM, who is going to have to move people, and the policy folks, and the acquisition folks, all these sorts of things. And at first, we didn't all agree on the numbers, which were actually pretty important, right? Because this was a huge logistic mission. If you think back to it, right? It was you've got thousands of people at one airport in Kabul, or actually about half of an airport that was left functioning, and you've got to move them to Kuwait, move them to Qatar. But those countries have limitations of X number of days that any one person can stay there before I expect you to move them someplace else, which turned out to be Europe, like Ramstein and some other places. So you had clock number one in CENTCOM, clock number two in Europe, and then you were going to move them again to CONUS, where you didn't have the infrastructure even built yet.

So while people are out there turning guard training areas into places where you can house people, clocks are running in Europe and clocks are running in the Middle East, and people have to move, and you have to synchronize the transportation problem of how many thousand people are here, how many of those people need to move today, how many C-17s can even fit on this runway to do that work? When you went after two or three days using Advana, everybody at least had the same numbers of how many people are here, how many people are there, how many people are going to move today, you could really see the difference. So Advana proved its worth pretty quickly in non-financial, which is how you got a CDAO, how got Greg Little stolen by the deputy secretary to move up and help the whole department. For good reason, is it proved useful in managing COVID.

If you want to look at vaccination rates or infection rates at every base in the world, give me a database, a tool, I can easily see where's my problems and where am I good? And so, we've seen real world success that hopefully the career people will be able to demonstrate to the new team when they get there of here's the things that are done and here's what could still be done better, because it could definitely still be done better. And I say that as an example of someone who is not a digital native, didn't grow up with these tools. I grew up where I was in high school, we were just leaving the slide rule era and going into the calculator era when I was in high school, I declined to learn how to use a slide rule. I didn't think it turned out to be correct that I would need to know that.

And we've moved quite a few generations since then. I had a summer job or a part-time job, actually, not just in the summer, in college as a research assistant for an economist. He would write down an equation that he wanted to study about the labor market in particular. That was the kind of economist he was. He would hand those equations to me, which I could understand from my economics training, and I had to turn them into programming language.

And then I would go take that program I had written to run the test that he wanted to run on the data that he had, and go hand it to the computer guy, who would type my equations into punch cards and run them through the mainframe, and then go bring me back the thing and we'd see whether I got the equations right or not, and then I'd go take my stuff back to the economist. Needless to say, one person would do all three of those things now, right?

TOM RHOADS: Yeah. It's amazing.

MIKE MCCORD: But I'm a good example of someone who doesn't know analytics from birth, from college. I can see the potential, but I can't teach it to you. You know what I mean?

TOM RHOADS: Yeah. Oh, I do. I guess I'll date myself. My first job out of college was with the big four, but we did all of our audits on paper.

MIKE MCCORD: Was it down to four by then?

TOM RHOADS: Well, no, it wasn't. It was big eight.

MIKE MCCORD: I was going to say.

TOM RHOADS: Yeah, it was the big eight then. All of our audits were pencil and paper. The big projects had a central desktop computer that you could go to and borrow and do a spreadsheet. But other than that, everything was pencil and paper. It's very different.

MIKE MCCORD: When I went to the Senate, I had a, I think it was a 286 in a closet about three feet wide and five feet deep maybe. And they had me on this 286, because they had a mainframe that everybody wrote the words on that go into a defense authorization bill, the bill language, the report language. And having me do all the numbers slowed the whole system down so much that none of us could get our work done, so I had to go sit off the system in a closet on a 286 to do stuff that now, the memory there was probably one zillionth of a flash drive memory or whatever.

TOM RHOADS: It's amazing. But yeah, so there's-

MIKE MCCORD: There's a lot of potential there, but you need to upskill some of the more senior people who are going to be there a while and leading it, as well as of course hire people in who know the newest, coolest stuff.

TOM RHOADS: Yeah. I thought it was fascinating your examples of how Advana are using that tool provided real operational impact. I don't know that the public really sees that piece.

MIKE MCCORD: No, I'm sure they don't. And I've said that again in public once or twice. Whatever you think of how the mission ended there, if you saw how the department handled that logistic mission of getting those people out, you would be proud of the job that the team did. TRANSCOM, most notably, but many people other than just Transcom.

TOM RHOADS: Yeah. Yeah. Fascinating. Thank you for sharing that, Mr. McCord. We'd like to wrap up each episode with some advice for the early careerists who may be listening. Knowing what you know now, what advice would you give those individuals who are just starting out their careers?

MIKE MCCORD: Okay. Well, for starters, I would say join SDFM. The professional development and the networking is going to help you learn your field, grow your contacts, and get better at your job. If you're in the DoD FM field, you're also going to have, if you don't know this already, the internal DoD FM certification program to work with, as well as SDFM generated opportunities to learn. So figure out, learn how those two work together and see where you can do something with SDFM that you're going to get credit for in your DoD in-house certification. The two do fit together. Second, we're now seeing the post-COVID return to more time in the office, not return to work, but return to the office, if you will. And for some that's even going to be full-time. And there's been a lot of change on that front over the last six years as COVID got worse, got better, got worse again, got better.

I think an element of telework and remote work's going to remain. I know that there's a real push now to reduce it, because it's been shown it can work. In that environment though, if you are doing a lot of teleworking or a lot of remote working, your opportunities for networking for on-the-job training and mentoring with your colleagues in person can be diminished if you're doing that teleworking good bit of the time. So this is another place I think something like SDFM membership can help you fill that gap. So that's kind of on the professional development as an FM person side, SDFM in particular. Beyond that, I would say that defense and national security, the thing that's always attracted me is how broad the set of challenges are. They're constantly evolving. How fascinating, important challenges in the defense world. Every year is different than every other year.

So I would encourage people to learn and absorb some of the whys that underline what the FM community is doing. FM is a support function. I was always saying that to my team. We're a support function. Like a logistics team, we're there to help the mission succeed. We're not about our own glory in the FM world. We're about making the team succeed. So your work's going to be more effective and more interesting the more you understand about the underlying missions that you're supporting. I'm not saying, not recommending that you try and know it all. I think the Department of Defense, let alone the broader definition of national security, that includes the intelligence community, the state department, all of that. It's too big to really master everything that goes on from healthcare to logistics, to engineering, and to foreign policy, to acquisition

policy. Nobody can be an expert on everything the department does, but seize the opportunities to understand the missions that the department supports, in particular, the missions that you are supporting, and that will make your job more interesting. It'll make you better at your job.

And then final point, I would say learn the new tools of data analytics. I've been making this point the last few years when I've been at PDI sessions in particular, as well as more in-house talks with the workforce. I think it's the key to the future of FM, and it's going to make FM jobs. People can be able to do those jobs faster, to do them more effectively, and that in turn is going to make the work even more interesting.

So a lot out there, colleges are starting to have majors in analytics, and there's, I'm sure SDFM is going to be offering that as well as in-house, find your opportunity to learn some of the new tools so that as the department is able to bring them in, and of course the department can't turn on a dime in terms of bringing new tools in, but you're seeing a real movement, not just in the FM field, but in many fields of the department to be more analytics-based. And Advana was birthed in the FM community, as I think most of your listeners will know. So it's the future, and I think it is really a key thing to make part of your professional development.

TOM RHOADS: That's great advice and just want to express our gratitude and thank you Mr. McCord for your time today.


MIKE MCCORD: You're welcome, Tom. Thank you. It's great to be here.

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