



## **All Things Financial Management: Douglas Glenn: Financial Management Improvements at the Department of Defense**

**INTRO:** Welcome to “All Things Financial Management,” an ASMC podcast sponsored by Guidehouse, where we discuss all things under the auspices of the Comptrollers’ Office and address top-of-mind issues in the Financial Management community.

**TOM RHOADS:** Good Morning. My name is Tom Rhoads. I'm a Partner with Guidehouse, where I work with clients across the DoD and other government agencies to transform and optimize their financial management functions. I will be your host for today’s podcast.

For those of you who may be new to this podcast series, let me take just a moment to provide some background on the American Society of Military Comptrollers. The American Society of Military Comptrollers, or ASMC, is the non-profit educational and professional organization for individuals – military, civilian, corporate, or retired -- involved or interested in the field of defense financial management. ASMC promotes the education and training of its members and supports the development and advancement of the profession of defense financial management. The Society provides membership; education and professional development; and certification programs to keep members and the overall financial management community abreast of current issues and encourages the exchange of information, techniques, and approaches.

Mr. Doug Glenn has served as the Deputy Chief Financial Officer (DCFO) in the Office of the Under Secretary of Defense (Comptroller) since December of 2020. He is the principal advisor to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, as well as to Defense senior leaders, on all issues involving the amended Chief Financial Officers Act of 1990 (the CFO Act) and related financial management reforms. He is responsible for the improvement and sustainment of DoD’s financial framework inclusive of policy, systems, audit, and reporting, compliant with government accounting standards, federal regulations and laws, and best practices leading to the effective, efficient, and legal use of DoD resources. Formerly, Mr. Glenn was the DCFO at the Department of the Interior; Finance Director at the National Aeronautics and Space Administration; and DCFO at the General Services Administration (GSA).

Mr. Glenn holds a Bachelor of Science in Finance from the University of Colorado at Boulder.

He has coauthored procedures listed in Office of Management and Budget (OMB) Bulletin No. 07-04, “Audit Requirements for Federal Financial Statements,” and portions of the OMB Circular A-123 Implementation Guide. In addition, he co-chaired OMB Circular A-136 committees from 2008 to 2010; served as President of the Washington, D.C. chapter of the Association of Government Accountants (AGA); served as National AGA president 2016 to 2017; and has landed on and been launched off an aircraft carrier at sea, prior to joining the Department of Defense.

Mr. Glenn, in preparing for this podcast, I found a quote from Thomas Jefferson in April 1829. This is what he said: "We hope to see the finances of the Union as clear and intelligible as a merchant's books so that every member of Congress and every man of every mind should be able to comprehend them."



It seems that from the beginning of our government, the nation's leaders have been concerned with strong financial management and fiscal responsibility, and in the spirit of those priorities, the Department has made significant and important strides in instilling strong accounting and financial reporting priorities. Obviously, there is still work to be done to succeed on a full scope financial statement audit, but from your perspective, what are some of the challenges that make the Department of Defense financial statement audit particularly difficult?

**DOUG GLENN:** Wow that's a great quote, Tom. I really like that. I'm thrilled to note that we will probably see the realization of that goal of Mr. Jefferson's in our lifetime. Hopefully, even in some of our careers. But to answer you directly three things are the big challenges. It's our size, our complexity, and it's our number of systems. Just for size we spent \$817 billion dollars, last year in FY20. Obviously, that's huge, last time I checked, that was about half the discretionary budget of the US.

And then you look at the myriad of our operations. We don't just shoot tanks and drive planes and shoot missiles, we've got healthcare, we've got a military payroll system that we need to administer we've got manufacturing services, we conduct transportation services, logistical services, retail services, research and development, and intel. The variety of what we do as a department, it's pretty daunting.

And then you look at our systems. It changes, because we decommission some and continue to find others that just weren't on our radar as having financially relevant information. But in part, because of our complex mission, we've developed these systems that are tailored to specific needs and uses, and some of them are decades old, and the last thing they were thinking about when they were being designed was face app pronouncements and generally accepted accounting principles. So, they weren't quite designed to capture, record and report financial information, so you mix all that together it's a very daunting challenge. But I'm happy to note, in light of what I just said at the beginning, DoD is on that path, and I should think very much within our lifetimes, we will see DOD get a clean opinion.

**TOM:** And the DOD financial audit or getting a clean opinion, it may very well be the largest in the history of the world, so in terms of breadth and scope, it's enormous.

**DOUG:** Yeah. It is. Just for effort perspective, I tend to compare us to the global 100 list, and last time I checked, Walmart was number one at about \$500 billion a year. And like I said, we spend \$817 billion, so yeah, if we were on the global 100 list, we'd be well into the number one position.

**TOM:** Well now that the audit has been underway for a few years. What is the current status? What are some significant lessons learned, and are there changes that need to be made to date?

**DOUG:** Yes! Yes, there are. All right so stats. The high-level statistics are: we got 25 individual financial statement audits going on. A lot of our services have general funds and working capital funds, and we've chosen a divide and conquer strategy, so instead of merging those two funds within a given service, we broke them up. We're auditing them individually because we really want to drive strong internal control and financial excellence. That's one of the things I'm trying to change within the department. There's been a whole lot of focus on the audit, which I think is a disservice, because it really is about financial excellence. And if you achieve that a clean audit opinion, or unmodified opinion, will naturally shake out of that. So, 25 financial statement audits. Nine of those are unmodified. So far, we've increased that



count by one the last three years. This year, we're not so sure if we're going to increase that number. We've got one modified audit opinion and 15 disclaimers that we're working on. In terms of assets if you go just with unmodified opinion, we're about 1/3 or 35% unmodified. However, if you throw in the modified Medicare eligible healthcare retirement fund, or what we call MERHCF they've got about \$290 billion in assets that take us up to 45% under what we'd say, a favorable opinion. If you look at the reasons for qualifications on the MERHCF statements, it is not related to their securities.

On top of just our financial statement audits, we have 27 SOC 1 examinations, going on. Fifteen of those are unmodified, which we're thrilled with, and seven are modified, with the remaining five being adverse. So that number is going up, not just in terms of unmodified, but also the number that were of systems that are undergoing SOC 1s because there's a lot of intra-DoD, transacting and servicing going on.

In terms of lessons learned there's a lot. We are blessed with 26 material weaknesses, or 3,420 NFRs, or as I like to call them, opportunities for improvements. We are blessed with plenty of feedback for opportunities for improvement. Probably one of the biggest lessons learned, that really surprised me when I came to DoD almost three years ago, was almost a quarter of all of our audit findings relate to access control. Half of our findings are IT, and 40% of the IT findings are access control. And like I said, that shocked me, because if you think, "If there's anything DOD should be good at, it should be access control. Now, I think that's the big difference because the findings we're seeing are obviously on financial systems, which has not been a priority over the years in the past for DoD. That's changing now. But yeah, that was a surprise.

We're learning about, what we call universal transactions, or basically, populations. That was a relatively new concept a couple years ago. The need to get all of the transactions that influence a given account balance in one place and, submit it to our, audit friends for testing was new. That's tough. When you got 300 systems capturing financial information, trying to get that all in one place is a challenge. We're doing it, but not as fast as we'd like. We're undergoing a trust but verify lesson. We have a big challenge with government furnished property. Just take the strike fighter alone, we've got billions of parts and equipment in the possession of Lockheed Martin and Pratt Whitney. And we wrote our contracts to put the responsibility on them to maintain and report, when our IPAs, our independent public accountants, come to us and say, "Hey, how do you know this number's good?" Somehow, the answer of, "Well, because they said it was," just isn't good enough. So yes, we've had to put internal controls around our government furnished property and equipment and be able to demonstrate to our IPA friends that, "Yeah, we know these numbers are good, and here's why. Here's the inventories they do, here's to follow up test procedures we do, to give us that level of comfort."

One of the lessons learned that is occurring and, unfortunately, isn't where it needs to be yet, is that adage around systems, "Don't change the system to match your processes, change your processes to match your system." So, we still have a number of highly customized systems out there that, unfortunately, are fueling a lot of our problems, and quite frankly I can't give you a number, but I'm very confident are probably costing us more than they really should, because every time there's an upgrade, you got to get some special programming to accommodate your customization.

That's it for the for the big lessons learned, I'd say, Tom.



**TOM:** I think, for maybe some of those legacy systems, there's probably cost associated with maintenance of capability. There's probably certain individuals that have the expertise to keep those systems current, and it's quite costly to keep that maintenance of capability alive.

The other thing that I noticed, Mr. Glenn, when you were speaking, was how you emphasized financial improvement and then audit readiness, and I was thinking back to when the fire guidance came out, and that was basically the acronym financial improvement and audit readiness, and so I think the strides that the department's making with financial improvement will lead to a clean audit opinion, and I think that's what you're seeing, and that's the trend that's happening right now.

**DOUG:** Yeah. I mean, and I tell this to people all the time, that having been in this industry since the early 90s I've seen a number of executive branch agencies transition from disclaimers to unmodified opinions. And the conversations we're having, the issues we're wrestling with here at DoD have all come up and been tackled before by other agencies. And when we talk about the solutions and the internal controls we need and how to fix these, they're the same conversations that I was in a while back with other agencies. So yeah, there's a long road ahead, but I know we're on it, and I know we're taking steps in the right direction, because again, I've seen it and been through it with other agencies previously.

**TOM:** Well, Mr. Glenn, what are some of the key initiatives that will contribute to the DoD's achieving a clean audit opinion, and when do you expect that goal to be achieved?

**DOUG:** That's the million-dollar question. So many initiatives. Well, there's something we call Advana. It's basically a system in the analytical system, where we put information in there, all sorts of kinds of information, and then we analyze it. And this financial statement audit process really is driving some, some cultural shifts within the department, and one of them is the value of data. This Advana system and just being able to demonstrate the value and the insides of analysis that can be performed when you've got all that data in a consistent format in one place.

So, we're starting to really look at data as a strategic asset, and we're using that. We're using that to drive score cards and dashboards I was thrilled when the Deputy Secretary of Defense a couple years ago said, "Hey, I don't want PowerPoints anymore. I don't want generals and admirals coming in with PowerPoints and their versions of reality. I'd rather see a real-time database with some metrics that we can all discuss, and we're all looking at the same thing." So yeah, Deputy Secretary level meetings are now being conducted with dashboards, real-time with singular metrics, or single sources of the truth, as opposed to data calls or like I said, PowerPoints, previously.

I've also seen a big transition in DFAS, and I congratulate the heck out of them, because they really have transitioned from a customer service-oriented organization of, "Hey, what does our customer want," to really embracing a need for championing financial excellence. They really have adopted a leadership role, and in many ways are leading the charge for financial improvement, which is just a joy to see.

Also, collaboration. You always hear that joke about the Army/Navy rivalry, and that goes on, that's actually a lot of fun. It's very well-spirited and intended, but you know, there used to be this culture of, "Hey, if we didn't design it, it's not good enough for us." As we sit down in these functional council meetings, when we talk about our material weaknesses and our findings and our corrective action plans, we realize we're all dealing with a lot of the same problems. Valuing our equipment, tracking, capturing



and reporting government furnished property, like I was talking about earlier and it naturally has evolved. Why should we solve these common problems individually when we can solve them singularly?

So, I mentioned access control earlier as our single largest source of audit findings. Well, we have a system coming out, we're getting ready to deploy, actually, next month and into November, nine pilot systems on an identity credential and access management system, which, I'm very happy to note, Guidehouse has been a key contributor to. We've got nine pilots from different services coming onto this, and if we get the results, we're anticipating, there's clearly going to be more, so there's going to be a single corporate solution to this common problem, as opposed to four, five, six, seven, eight different variations or systems all solving the same thing.

Personally, this audit is actually driving cultural shifts in me, as well. Most of my career, or at least before I came to DoD was serving this mythical concept of the public, whatever you perceive that to be. But I was out there serving. I was motivated by what I did, but when I came to DoD, there was serving the public, but it really is more focused on the men and women in uniform, or what we called the tip of the spear. And that's been just kind of a neat, cultural shift, or lesson learned for me, is really appreciating what the men and women in uniform do for us and their families. When you get to know these guys, you realize they're moving around every two years and their families with them. I haven't had to go through that, but you know kids are in high school, letting go of friends, to move to different cities, and make new ones, and that's hard on a family, but that's what these guys put up with.

And then they deploy for six, seven, eight, nine months around the planet. And you know that's got to put stresses on families. So yeah, there really has been a wonderful opportunity to get to know the men and women in uniform, and really appreciate what they're doing for us. That's led me to look at the flag differently. I forget what the occasion was, but about a year ago, I sent out an email to the entire office about how I was just walking in the building and I was looking at the American flag flying, and I really stopped to think what it meant. And before DoD, without that experience that I've had over the last three years here, I wouldn't have had that opportunity to really appreciate the American flag and what it represents.

**TOM:** That's powerful, Mr. Glenn. We think of the sacrifices that our men and women in uniform make overseas, but there's also sacrifices that they make while they're here and relocating their families and taking on unique and different assignments. And it sounds like, from the discussion that you're really doing a great job of arming these individuals with data, with Advana and with synergies from collaborations. So now, sounds like our decision makers can make decisions with data rather than intuition, and are you seeing a difference there, or some efficiencies occurring because they had data?

**DOUG:**

Oh, yeah. Absolutely. I tell you, you hit the nail on the head for me, there. I mean, part of my job is trying to not evangelize the audit but evangelize strong financial management. And the best strategy I can use is translating financial improvements, and better data for decision making is supporting the warfighter. It's so easy to regard the audit and the financial management as a back office, administrative, minimal value, compliance requirement only kind of thing, but for those who've been on the other side of a clean opinion, they know it's way more to that. And the ability to drive analysis to focus, limited resources on the real root causes of issues that are causing a problem is invaluable.



And it started with the audit, but it's translated into so much more than that. I mean, as you know, the Department of Defense was tapped to help respond to the COVID epidemic. And we were looking at medical treatment facilities weekly, about where the problems were, where to deploy our medical treatment services and capabilities so that we really could put it where it was most needed. We look at suicide rates, corporately, because that has been something the department is very much concerned with. Sexual assault rates and complaints, that's something the Department's very, very focused on and committed to eradicating. And we're using data to drive our actions, so it's so much more than the financial statement audit and financial information. But it really was the audit that showed the value of having this data in one place, and the kind of value you can wring out of data and good analysis.

**TOM:** Well, Mr. Glenn, for our final question. Knowing what you know now what advice would you give new careerists who are just starting out in federal service?

**DOUG:** Good question. I made the transition from the private sector to federal service just because I had, at the risk of being dramatic, a near death experience with cancer. And as I was at one of the big firms at the time, and I was looking at work papers at 10:00 at night, shortly after having surgery, I was like, "Gosh, I don't know how much time I got left. Is this really what I want to do?" So, I said, "Look, I want to have a career that I can be proud of but that's not going to kill me in the process, or at least, take over the vast majority of my free time." So yeah, I moved to federal service, and I really have loved the heck out of it, because it's an honorable living, I'm proud of what I do, and I think the most important part is, I feel good about what I do. I am serving, I said the public, and I've also said the men and women in uniform. I'm serving people other than myself. And there's an honesty, or, an honorability that goes with that that I very, very much enjoy. So yeah, even on my bad days, on Monday mornings, like today, I don't mind going to work, because I'm proud of what I do, and for new people coming in, particularly if you're coming into the DoD financial world, there's a huge opportunity to make a difference. And like I said earlier, DOD is on the path to financial excellence. And the day will come, I can't tell you exactly when, but the day is coming when, DOD will get that clean opinion. And then that's just an accomplishment that whoever's associated with it, will be able to carry for the rest of their careers, and even more so for the entire federal financial industry. As soon as DOD gets that clean opinion, I know Treasury's is doing all they can to line up, a clean opinion for the United States government, and they're ready to go, they just need us to do our part. So, that meaning, it's very probable in my lifetime, I'm going to be able to flip on the news one night and hear, for the first time in United States history, the United States government got a clean audit opinion, and Mr. Thomas Jefferson's quote will be realized. So, it's a neat time in federal financial management, I think, and to anybody coming into the industry, hey, jump in, come in, be part of it, because great things are on the horizon.

**TOM:** Well, Mr. Glenn I guess going back to that Thomas Jefferson quote, just want to thank you so much for your leadership and all your efforts in helping the Department of Defense, have its financial records as clear and as intelligible as a merchant's books, so that Congress, or any person of any mind can understand them, and I'm sure that our men and women in uniform appreciate your service, and I know that we appreciate your service. So, thank you so much for your time today.



**DOUG:** Thank you, Tom, very much enjoyed it. And you guys have been a big part of it, so I can't thank you enough for your contributions to everything I said.

**TOM:** Thank you.

**OUTRO:** Thank you for tuning in to “All Things Financial Management,” an ASMC podcast series sponsored by Guidehouse. You can find all our episodes on ASMC’s Engage platform and at <http://www.guidehouse.com/allthingsfinancialmanagement>.