

**CHAPTER 9A—AUDIT**

- Sec.  
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 [251 to 254 Renumbered.]

**AMENDMENTS**

2018—Pub. L. 115–232, div. A, title X, §1002(a)(1)(B), Aug. 13, 2018, 132 Stat. 1945, renumbered items 251 to 254b as 240a to 240f, respectively.

**§ 240a. Audit of Department of Defense financial statements**

(a) **ANNUAL AUDIT REQUIRED.**—The Secretary of Defense shall ensure that a full audit is performed on the financial statements of the Department of Defense for each fiscal year as required by section 3521(e) of title 31.

(b) **ANNUAL REPORT ON AUDIT.**—The Secretary shall submit to Congress the results of the audit performed in accordance with subsection (a) for a fiscal year by not later than March 31 of the following fiscal year.

(Added Pub. L. 115–91, div. A, title X, §1002(b)(1), Dec. 12, 2017, 131 Stat. 1538, §251; renumbered §240a, Pub. L. 115–232, div. A, title X, §1002(a)(1)(A), Aug. 13, 2018, 132 Stat. 1945.)

**AMENDMENTS**

2018—Pub. L. 115–232 renumbered section 251 of this title as this section.

**REVIEW AND RECOMMENDATIONS ON EFFORTS TO OBTAIN AUDIT OPINION ON FULL FINANCIAL STATEMENTS**

Pub. L. 115–91, div. A, title X, §1006, Dec. 12, 2017, 131 Stat. 1544, provided that:

“(a) **IN GENERAL.**—The Secretary of Defense may establish within the Department of Defense a team of distinguished, private sector experts with experience conducting financial audits of large public or private sector organizations to review and make recommendations to improve the efforts of the Department to obtain an audit opinion on its full financial statements.

“(b) **SCOPE OF ACTIVITIES.**—A team established pursuant to subsection (a) shall—

“(1) identify impediments to the progress of the Department in obtaining an audit opinion on its full financial statements, including an identification of the organizations or elements that are lagging in their efforts toward obtaining such audit opinion;

“(2) estimate when an audit opinion on the full financial statements of the Department will be obtained; and

“(3) consider mechanisms and incentives to support efficient achievement by the Department of its audit goals, including organizational mechanisms to transfer direction and management control of audit activities from subordinate organizations to the Office of the Secretary of Defense, individual personnel incentives, workforce improvements (including in senior leadership positions), business process, technology, and systems improvements (including the use of data analytics), and metrics by which the Secretary and Congress may measure and assess progress toward achievement of the audit goals of the Department.

**“(c) REPORTS.**—

“(1) **REPORT ON ESTABLISHMENT OF TEAM.**—If the Secretary takes action pursuant to subsection (a), the Secretary shall, not later than September 30, 2019, submit to the congressional defense committees [Committees on Armed Services and Appropriations of the Senate and the House of Representatives] a report on the team established pursuant to that subsection, including a description of the actions taken and to be taken by the team pursuant to subsection (b).

“(2) **REPORT ON DETERMINATION NOT TO ESTABLISH TEAM.**—If as of June 1, 2019, the Secretary has determined not to establish a team authorized by subsection (a), the Secretary shall submit to the Committees on Armed Services of the Senate and the House of Representatives on that date a report on the determination, including an explanation and justification for the determination.”

**§ 240b. Financial Improvement and Audit Remediation Plan****(a) FINANCIAL IMPROVEMENT AND AUDIT REMEDIATION PLAN.**—

(1) **IN GENERAL.**—The Chief Management Officer of the Department of Defense shall, in consultation with the Under Secretary of Defense (Comptroller), maintain a plan to be known as the “Financial Improvement and Audit Remediation Plan”.

(2) **ELEMENTS.**—The plan required by paragraph (1) shall—

(A) describe specific actions to be taken, including interim milestones with a detailed description of the subordinate activities required, and estimate the costs associated with—

(i) correcting the financial management deficiencies that impair the ability of the Department of Defense to prepare timely, reliable, and complete financial management information;

(ii) ensuring the financial statements of the Department of Defense go under full financial statement audit, and that the Department leadership makes every effort to reach an unmodified opinion as soon as possible;

(iii) ensuring the audit of the financial statements of the Department of Defense for fiscal year 2018 occurs by not later than March 31, 2019.

(iv) achieving an unqualified audit opinion for each major element of the statement of budgetary resources of the Department of Defense; and

(v) addressing the existence and completeness of each major category of Department of Defense assets; and

(B) systematically tie the actions described under subparagraph (A) to business process and control improvements and business systems modernization efforts described in section 2222 of this title.

**(b) REPORT AND BRIEFING REQUIREMENTS.**—**(1) ANNUAL REPORT.**—

(A) **IN GENERAL.**—Not later than June 30, 2019, and annually thereafter, the Under Secretary of Defense (Comptroller) shall submit to the congressional defense committees a report on the status of the implementation by the Department of Defense of the Finan-

cial Improvement and Audit Remediation Plan under subsection (a).

(B) ELEMENTS.—Each report under subparagraph (A) shall include the following:

(i) An analysis of the consolidated corrective action plan management summary prepared pursuant to section 253a<sup>1</sup> of this title.

(ii) Current Department of Defense-wide information on the status of corrective actions plans related to critical capabilities and material weaknesses, including the standard data elements recommended in the implementation guide for Office of Management and Budget Circular A-123, for the armed forces, military departments, and Defense Agencies.

(iii) A current description of the work undertaken and planned to be undertaken by the Department of Defense, and the military departments, Defense Agencies, and other organizations and elements of the Department, to test and verify transaction data pertinent to obtaining an unqualified audit of their financial statements, including from feeder systems.

(iv) A current projected timeline of the Department in connection with the audit of the full financial statements of the Department, to be submitted to Congress annually not later than six months after the submittal to Congress of the budget of the President for a fiscal year under section 1105 of title 31, including the following:

(I) The date on which the Department projects the beginning of an audit of the full financial statements of the Department, and the military departments, Defense Agencies, and other organizations and elements of the Department, for a fiscal year.

(II) The date on which the Department projects the completions of audits of the full financial statements of the Department, and the military departments, Defense Agencies, and other organizations and elements of the Department, for a fiscal year.

(III) The dates on which the Department estimates it will obtain an unqualified audit opinion on the full financial statements of the Department, the military departments, the Defense Agencies, and other organizations and elements of the Department for a fiscal year.

(v) A current estimate of the anticipated annual costs of maintaining an unqualified audit opinion on the full financial statements of the Department, the military departments, the Defense Agencies, and other organizations and elements of the Department for a fiscal year after an unqualified audit opinion on such full financial statements for a fiscal year is first obtained.

(vi) A certification of the results of the audit of the financial statements of the

Department performed for the preceding fiscal year, and a statement summarizing, based on such results, the current condition of the financial statements of the Department.

(vii) If less than 50 percent of the auditing services or if less than 50 percent of the audit remediation services under contract, as described in the briefing required under paragraph (2), are being performed by professionals meeting the qualifications described in section 240d(b) of this title, a detailed description of the risks associated with the risks of the acquisition strategy of the Department with respect to conducting audits and audit remediation activities and an explanation of how the strategy complies with the policies expressed by Congress.

(viii) If less than 25 percent of the auditing services or if less than 25 percent of the audit remediation services under contract, as described in the briefing required under paragraph (2), are being performed by professionals meeting the qualifications described in section 240d(b) of this title, a written certification that the staffing ratio complies with commercial best practices and presents no increased risk of delay in the Department's ability to achieve a clean audit opinion.

(C) ADDITIONAL REQUIREMENTS.—

(i) UNCLASSIFIED FORM.—A description submitted pursuant to clause (vii) of subparagraph (B) or a certification submitted pursuant to clause (viii) of such subparagraph shall be submitted in unclassified form, but may contain a classified annex.

(ii) DELEGATION.—The Secretary may not delegate the submission of a certification pursuant to clause (viii) of subparagraph (B) to any official other than the Deputy Secretary of Defense, the Chief Management Officer, or the Under Secretary of Defense (Comptroller).

(2) SEMIANNUAL BRIEFINGS.—Not later than January 31 and June 30 each year, the Under Secretary of Defense (Comptroller) and the comptrollers of the military departments shall provide a briefing to the congressional defense committees on the status of the corrective action plan. Such briefing shall include both the absolute number and percentage of personnel performing the amount of auditing or audit remediation services being performed by professionals meeting the qualifications described in section 240d(b) of this title.

(3) CRITICAL CAPABILITIES DEFINED.—In this subsection, the term “critical capabilities” means the critical capabilities described in the Department of Defense report titled “Financial Improvement and Audit Readiness (FIAR) Plan Status Report” and dated May 2016.

(Added and amended Pub. L. 115-91, div. A, title X, §1002(c)(1)–(3), Dec. 12, 2017, 131 Stat. 1538, §252; renumbered §240b and amended Pub. L. 115-232, div. A, title X, §1002(a)(1)(A), (2)–(c), Aug. 13, 2018, 132 Stat. 1945, 1946.)

<sup>1</sup> So in original. Probably should be “section 240c”.

## CODIFICATION

Subsec. (a) of this section, as added by Pub. L. 115–91, is based on text of subsec. (a) of section 1003 of Pub. L. 111–84, div. A, title X, Oct. 28, 2009, 123 Stat. 2439, which was formerly set out as a note under section 2222 of this title, prior to repeal by Pub. L. 115–91, div. A, title X, § 1002(c)(4), Dec. 12, 2017, 131 Stat. 1540.

## AMENDMENTS

2018—Pub. L. 115–232, § 1002(a)(1)(A), renumbered section 252 of this title as this section.

Subsec. (a)(2)(A)(iii) to (v). Pub. L. 115–232, § 1002(a)(2), which directed amendment of subsec. (a)(2) by redesignating cl. (iii), relating to unqualified audit opinion, as (iv) and cl. (iv) as (v), was executed by making the amendment in subpar. (A) of subsec. (a)(2), to reflect the probable intent of Congress.

Subsec. (b)(1)(B)(vii), (viii). Pub. L. 115–232, § 1002(c)(1), added cls. (vii) and (viii).

Subsec. (b)(1)(C). Pub. L. 115–232, § 1002(c)(2), added subpar. (C).

Subsec. (b)(2). Pub. L. 115–232, § 1002(b), inserted at end “Such briefing shall include both the absolute number and percentage of personnel performing the amount of auditing or audit remediation services being performed by professionals meeting the qualifications described in section 240d(b) of this title.”

2017—Subsec. (a). Pub. L. 115–91, § 1002(c)(3)(A), which directed substitution of “Financial Improvement and Audit Remediation Plan” for “Financial Improvement and Audit Readiness Plan” in heading, was executed by making the substitution for “Financial Improvement Audit Readiness Plan” to reflect the probable intent of Congress.

Subsec. (a)(1). Pub. L. 115–91, § 1002(c)(3)(B)(i), substituted “Financial Improvement and Audit Remediation Plan” for “Financial Improvement and Audit Readiness Plan”.

Pub. L. 115–91, § 1002(c)(2)(A), struck out “develop and” before “maintain”.

Subsec. (a)(2)(A). Pub. L. 115–91, § 1002(c)(3)(B)(ii)(I)(aa), in introductory provisions, substituted “describe specific actions to be taken, including interim milestones with a detailed description of the subordinate activities required, and estimate the costs associated with” for “describe specific actions to be taken and the costs associated with”.

Subsec. (a)(2)(A)(ii). Pub. L. 115–91, § 1002(c)(3)(B)(ii)(I)(bb), substituted “go under full financial statement audit, and that the Department leadership makes every effort to reach an unmodified opinion as soon as possible;” for “are validated as ready for audit by not later than September 30, 2017, and the statement of budgetary resources of the Department of Defense is validated as ready for audit by not later than September 30, 2014; and”.

Subsec. (a)(2)(A)(iii), (iv). Pub. L. 115–91, § 1002(c)(3)(B)(ii)(I)(cc), added cl. (iii), relating to unqualified audit opinion, and cl. (iv).

Subsec. (a)(2)(B). Pub. L. 115–91, § 1002(c)(3)(B)(ii)(II), inserted “business” before “process and control”, struck out “the business enterprise architecture and transition plan required by” before “section 2222” and substituted period for semicolon at end.

Pub. L. 115–91, § 1002(c)(2)(B), substituted “of this title” for “of title 10, United States Code”.

Subsec. (a)(2)(C), (D). Pub. L. 115–91, § 1002(c)(3)(B)(ii)(III), struck out subpars. (C) and (D) which read as follows:

“(C) prioritize—

“(i) improving the budgetary information of the Department of Defense, in order to achieve an unqualified audit opinion on the Department’s statements of budgetary resources; and

“(ii) as a secondary goal, improving the accuracy and reliability of management information on the Department’s mission-critical assets (military and general equipment, real property, inventory, and operating materials and supplies) and validating its ac-

curacy through existence and completeness audits; and

“(D) include interim goals, including—

“(i) the objective of ensuring that the financial statement of each of the Department of the Army, the Department of the Navy, the Department of the Air Force, and the Defense Logistics Agency is validated as ready for audit; and

“(ii) a schedule setting forth milestones for elements of the military departments and financial statements of the military departments to be made ready for audit as part of the process required to meet the objectives established pursuant to clause (i) of this subparagraph and clause (ii) of subparagraph (A) of this paragraph.”

Subsec. (b). Pub. L. 115–91, § 1002(c)(3)(C), added subsec. (b).

#### § 240c. Audit: consolidated corrective action plan; centralized reporting system

The Under Secretary of Defense (Comptroller) shall—

(1) on a bimonthly basis, prepare a consolidated corrective action plan management summary on the status of key corrective actions plans related to critical capabilities for the armed forces and for the components of the Department of Defense that support the armed forces; and

(2) develop and maintain a centralized monitoring and reporting process that captures and maintains up-to-date information, including the standard data elements recommended in the implementation guide for Office of Management and Budget Circular A–123, for key corrective action plans and findings and recommendations Department-wide that pertain to critical capabilities.

(Added Pub. L. 115–91, div. A, title X, § 1002(d), Dec. 12, 2017, 131 Stat. 1540, § 253; renumbered § 240c, Pub. L. 115–232, div. A, title X, § 1002(a)(1)(A), Aug. 13, 2018, 132 Stat. 1945.)

## AMENDMENTS

2018—Pub. L. 115–232 renumbered section 253 of this title as this section.

#### § 240d. Audits: audit of financial statements of Department of Defense components by independent external auditors

(a) AUDITS REQUIRED.—For purposes of satisfying the requirement under section 3521(e) of title 31 for audits of financial statements of Department of Defense components identified by the Director of the Office of Management and Budget under section 3515(c) of such title, the Inspector General of the Department of Defense shall obtain each year audits of the financial statements of each such component by an independent external auditor.

(b) SELECTION OF AUDITORS.—The selection of independent external auditors for purposes of subsection (a) shall be based, among other appropriate criteria, on their qualifications, independence, and capacity to conduct audits described in subsection (a) in accordance with applicable generally accepted government auditing standards. The Inspector General shall participate in the selection of the independent external auditors.

(c) MONITORING AUDITS.—The Inspector General shall monitor the conduct of all audits by