

**Material Weaknesses in Government Audits:
A Comparative Study**

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Abstract

The Chief Financial Officers Act (CFO Act), enacted by Congress in 1990, called for several financial reform activities among government agencies, including the requirement of annual financial statement audits for federal government agencies. While most agencies had become compliant, the Department of Defense announced in 2017, after 27 years of preparations, that it would undergo its first comprehensive audit in 2018. The results of this comprehensive audit, particularly results regarding material weaknesses in internal controls over financial reporting, were compared to the other government agencies subject to the CFO Act, with the goal of comparing and contrasting each agencies material weaknesses in quantity, type, and time outstanding. The Department of Housing and Urban Development reported the most material weaknesses for the years 2014 to 2018, while the Department of Defense had the most material weaknesses outstanding as of 2018. The Department of Defense also took the longest on average to remediate its material weaknesses. Regarding types of material weaknesses found in government agencies, material weaknesses related to accounting documentation were the most common, and material weaknesses related to valuations took the longest, on average, to remediate.

Introduction

In 1990, the United States Congress introduced the Chief Financial Officers Act (CFO Act) in an attempt to improve government financial management. The act provided for the enhancement of general and financial management functions at the Office of Management and Budget (OMB), as well as increased stewardship across the federal government for taxpayer funding placed in its care. As such, the CFO Act provided for the establishment of chief financial officers and deputy chief financial officers for each government agency to provide financial management leadership and oversee agency financial information and systems.

In addition to the establishment of a chief financial officer, the CFO Act required the director of the Office of Management and Budget to submit an annual financial management status report and a 5-year government-wide financial management plan to Congress each year. Third, the CFO Act required that each CFO Act agency provide its financial statements for the previous year to the Office of Management and Budget no later than March 31. These financial statements were required to be audited in accordance with the United States Generally Accepted Government Auditing Standards, either by an Inspector General or by an independent external auditor. Finally, the Act required for an annual management report to be submitted to Congress including a statement of financial position, a statement of operations, a statement of cash flows, a reconciliation to the budget report of the Government corporation, a statement on the internal accounting and administrative control systems, a financial statement audit report (in accordance with the requirements stated previously), and any other relevant information regarding the entity's financial and operating conditions (101st Congress, 1990).

The following agencies were subject to the act:

1	Department of Agriculture	13	Department of Transportation
2	Department of Commerce	14	Department of the Treasury
3	Department of Defense	15	Department of Veterans Affairs
4	Department of Education	16	Environmental Protection Agency
5	Department of Energy	17	National Aeronautics and Space Administration
6	Department of Health and Human Services	18	Agency for International Development
7	Department of Homeland Security ¹	19	Federal Emergency Management Agency
8	Department of Housing and Urban Development	20	General Services Administration
9	Department of the Interior	21	National Science Foundation
10	Department of Justice	22	Nuclear Regulatory Commission
11	Department of Labor	23	Office of Personnel Management
12	Department of State	24	Small Business Administration

While a majority of these government agencies have already achieved compliance with the CFO Act, the Department of Defense had not. In 2017, the United States Department of Defense announced that it would be undergoing its first agency-wide financial statement audit. Since the CFO Act was issued in 1990, the Department of Defense had been undergoing efforts to reform its financial management policies and procedures to prepare for a comprehensive financial statement audit. While individual agencies within the Department of Defense, such as the U.S. Army Corps of Engineers and the National Reconnaissance Office had previously undergone financial statement audits, this agency-wide financial statement audit was unprecedented. The audit, conducted by nine separate independent public accounting firms in 24 separate sub-audits,

¹ The Department of Homeland Security Financial Accountability Act of 2004 resulted in the Department of Homeland Security's addition as the 24th agency subject to the CFO Act. The Federal Emergency Management Agency (FEMA) was assigned as a sub-agency of this new Department of Homeland Security in 2003. FEMA does not report separate financial statements or separate audit reports from the Department of Homeland Security; therefore, FEMA's metrics were excluded from this study.

cost the Department of Defense over \$413 million, in addition to over \$1 billion in remediation efforts subsequent to the audit. While the audit's scope was limited to the agency's 2018 financial statements, many of the issues identified within the financial statements were linked to weaknesses in internal controls that had been identified within sub-agencies in years past. The Department of Defense received a disclaimer of opinion on its financial statements, indicating that auditors were unable to express an opinion on the reliability of the department's financial statements and the internal processes by which they were compiled (Congressional Research Service, 2019). In addition, auditors also reported on internal controls over financial reporting. While they did not issue an opinion on internal controls or compliance with regulations, laws, grant agreements, and contracts, auditors did identify 38 material weaknesses² in internal controls over financial reporting (United States Department of Defense, 2018).

First, I will describe the research questions and goals for this study, followed by the methods of exploring those questions. Then, I will introduce the 24 government agencies within the scope of this study, along with their respective missions and budgets. Then, I will explain the results of my research, after which I will present a conclusion.

Research Questions and Goals

The purpose of this study is to examine material weaknesses across the 24 agencies subject to the CFO Act, comparing them in quantity, type, and outstanding lengths. The following questions guided my research:

² A material weakness is a “deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, in a timely manner (United States Department of Defense, 2018).”

For the years 2014 to 2018,

- Which agencies had the most material weaknesses?
- Which agencies had the most material weaknesses not remediated at the end of 2018?
- How long do agencies take to remediate material weaknesses?
- Which agencies took the longest to remediate material weaknesses?
- What types of material weaknesses are most common among government agencies?
- What types of material weaknesses take longest to remediate?

Methodology

To compare and contrast the material weaknesses among government agencies subject to the CFO Act of 1990, the following metrics were obtained:

- Annual budgetary resources by agency per year
- Number of material weaknesses in internal controls over financial reporting by agency per year
- Average number of material weaknesses in internal controls over financial reporting by agency over 5 years (2014 to 2018)
- Number of outstanding material weaknesses in internal controls over financial reporting as of the end of 2018 by agency
- Average outstanding length of material weaknesses in internal controls over financial reporting (in years)
- Types of material weakness in internal controls over financial reporting.

Background: Government Agencies Subject to the CFO Act

The government agencies subject to the CFO Act and their budgets are as follows:

ID	Agency	Average Budget (in millions)
6	Department of Health and Human Services	\$1,620,000
3	Department of Defense	\$1,120,000
14	Department of the Treasury	\$827,980
23	Office of Personnel Management	\$256,940
1	Department of Agriculture	\$220,360
15	Department of Veterans Affairs	\$206,440
13	Department of Transportation	\$159,880
8	Department of Housing and Urban Development	\$124,960
4	Department of Education	\$119,620
7	Department of Homeland Security	\$103,680
12	Department of State	\$68,580
11	Department of Labor	\$60,560
10	Department of Justice	\$49,820
5	Department of Energy	\$48,260
9	Department of the Interior	\$35,020
20	General Services Administration	\$30,920
2	Department of Commerce	\$29,360
18	Agency for International Development	\$24,400
17	National Aeronautics and Space Administration	\$23,360
16	Environmental Protection Agency	\$15,160
21	National Science Foundation	\$8,140
24	Small Business Administration	\$3,400
22	Nuclear Regulatory Commission	\$1,040

The agencies' individual missions are as follows:

Department of Agriculture

The United States Department of Agriculture (USDA)'s mission is to "provide leadership on agriculture, food, natural resources, rural infrastructure, nutrition, and related issues through fact-based, data-driven, and customer-focused decisions." Its mission areas include:

- Rural development
- Trade and foreign agricultural affairs
- Food, nutrition, and consumer services
- Farm production and conservation
- National resources and environment
- Food safety
- Research, education, and economics
- Marketing and regulatory programs

Founded in 1862 by President Abraham Lincoln, the USDA was created with the goal of leading the nation on food, agriculture, natural resources, and other related issues; today, it serves millions of Americans each day (United States Department of Agriculture, 2018).

Department of the Treasury

The Department of the Treasury’s mission is “to maintain a strong economy and create economic and job opportunities by promoting conditions that enable economic growth and stability at home and abroad; strengthen national security by combating threats and protecting the integrity of the financial system; and manage the U.S. government’s finances and resources effectively.” The Department of the Treasury was established by Congress on September 2, 1789, out of the need to manage the U.S. government’s finances as well as to levy and collect taxes. Today, the Department of the Treasury is responsible for producing cash, issuing Social Security and other benefit payments, advising the President on policy, making loans to other federal agencies, and managing the country’s debt. On a global scale, the Department of the Treasury serves as a

representative for the United States in economic forums and international financial institutions such as the Group of Seven and the Group of Twenty at their respective annual global foreign policy summits (Department of the Treasury, 2018).

Department of Defense

The Department of Defense's mission is "to provide the military forces needed to deter war and protect the security of our country." Its current strategic goals include the following:

- Rebuilding military readiness and building a more lethal Joint Force
- Strengthening alliances and attracting new partners
- Reforming the Department of Defense's business practices for greater performance and affordability

During the American Revolution, the Army, Navy, and Marine Corps were created in 1775. In 1789 the War Department, was established. In the 1790s, the Army and Coast Guard were established, and finally, in 1947, command over the individual military departments was combined under a "National Military Establishment" led by a Secretary of Defense. Today, the Department of Defense has over 2.1 million military service members and over 770,000 civilian employees (United States Department of Defense, 2018).

Department of Justice

The Department of Justice's mission is to "enforce the law and defend the interests of the United States according to the law; to ensure public safety against threats foreign and domestic; to

provide federal leadership in preventing and controlling crime; to seek just punishment for those guilty of unlawful behavior; and to ensure fair and impartial administration of justice for all Americans.” As such, the Department identifies the following as its core values:

- Equal justice under law
- Honesty and integrity
- Commitment to excellence
- Respect for the dignity and worth of each human being

The Department of Justice began in 1789 as the Office of the Attorney General, but by 1870, the Attorney General’s increasing duties prompted Congress to adopt “An Act to establish the Department of Justice.” Today, the Department of Justice is headquartered in Washington, D.C., with additional field offices in each state and territory as well as in over 100 countries across the globe (U.S. Department of Justice, 2018).

Department of the Interior

The Department of the Interior “conserves and manages the Nation’s natural resources and cultural heritage for the benefit and enjoyment of the American people, provides scientific and other information about natural resources and natural hazards to address societal challenges and create opportunities for the American people, and honors the Nation’s trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities to help them prosper.” The Department’s specific mission objectives are as follows:

- Conserving land and water
- Generating revenue and utilizing natural resources

- Expanding outdoor recreation and access
- Fulfilling trust and insular responsibilities
- Protecting people and the border
- Modernizing organization and infrastructure

The Department of the Interior was established in 1849 to manage programs such as Indian Affairs, western exploration, the District of Columbia jail, and to oversee the construction of the Capitol's water system, the management of universities and hospitals, the improvement of western emigrant routes, the issuance of patents, the conducting of the census, and research of the United States' geological resources. Throughout the years, the Department of the Interior's roles have shifted somewhat; today, the Department of the Interior manages over 20% of the land in the United States. In addition to managing national parks, national wildlife refuges, and public lands, the Department of the Interior is also responsible for resources that provide hydropower energy and water for much of the United States (United States Department of the Interior, 2018).

Department of State

The U.S. Department of State "leads America's foreign policy through diplomacy, advocacy, and assistance by advancing the interests of the American people, their safety and economic prosperity." Specifically, the Department's mission impacts Americans in the following ways:

- Supporting American citizens abroad
- Creating American jobs
- Promoting democracy and fostering stability around the globe
- Helping to make the world a safer place

- Saving lives
- Helping countries feed themselves
- Helping in times of crisis
- Promoting the rule of law and protecting human dignity
- Helping Americans see the world
- Serving as the face of America overseas

The Department of State is the United States' oldest cabinet agency, established by Congress in 1789. Today, the Department is led by the Secretary of State, who advises the President on foreign policy and serves on the President's Cabinet (United States Department of State, 2018).

Department of Labor

The Department of Labor's mission is "to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights." The Department of Labor has the following strategic goals in mind:

- Support the ability of all Americans to find good jobs
- Promote safe jobs and fair workplaces for all Americans
- Administer strong workers' compensation and benefits programs

The Department of Labor has various agencies and offices that manage its programs, which are carried out through regional offices as well as field, district, and area offices in addition to grantees and contractors (United States Department of Labor, 2018).

Department of Health and Human Services

The United States Department of Health and Human Services' mission is to “enhance the health and well-being of Americans, by providing for effective health and human services and by fostering sound, sustained advances in the sciences, underlying medicine, public health, and social services. The Department of Health and Human Services has the following strategic goals:

- Reform, strengthen, and modernize the nation's healthcare system
- Protect the health of Americans where they live, learn, work, and play
- Strengthen the economic and social well-being of Americans across the lifespan
- Foster sound, sustained advances in the sciences
- Promote effective and efficient management and stewardship

The Department of Health and Human Services works closely with state, local, and tribal governments as well as private sector grantees and organizations to provide its services. Through the Department of Health and Human Services' numerous public and private partnerships, it provides healthcare through Medicare, Medicaid, and the Children's Health Insurance Program and ensures the safety of patients and health care quality by health care providers and in health care facilities (Department of Health and Human Services, 2018).

Department of Housing and Urban Development

The Department of Housing and Urban Development's mission is to “create strong, sustainable, inclusive communities and quality affordable homes for all.” Its policy and management agenda include the following goals:

- Support fair, sustainable homeownership and financial viability
- Reduce homelessness
- Remove lead-based paint hazards and other health risks from homes
- Enhance rental assistance
- Reduce regulatory barriers to affordable housing and urban development
- Develop envision centers
- Increase effectiveness in responding to disasters
- Opioid response
- Promote Section 3, Opportunity Zones, and track positive exits

The Department of Housing and Urban Development manages several offices and programs, including the Government National Mortgage Association (Ginnie Mae), the Office of Community Planning and Development (CPD), the Office of Lead Hazard Control and Healthy Homes (OLHCHH), the Office of Fair Housing and Equal Opportunity (FHEO), the Office of Public and Indian Housing (PIH), and the Office of Housing (U.S. Department of Housing and Urban Development, 2018).

Department of Transportation

The Department of Transportation’s mission is “to serve the United States by ensuring a fast, safe, efficient, accessible, and convenient transportation system that meets our vital national interest and enhances the quality of life of the American people today and into the future.”

The Department of Transportation was established in 1966; since, it has partnered with state, local, and private partners to promote a comprehensive system of national transportation

including roads, pipelines, airways, seaways, and railways. The Department has over 54,000 employees between the Office of the Secretary and its 10 Operating Administration and Bureaus across the United States. Its agencies include the Federal Aviation Administration (FAA), Federal Transit Administration (FTA), National Highway Traffic Safety Administration (NHTSA), Federal Highway Administration (FHWA), Federal Railroad Administration (FRA), Saint Lawrence Seaway Development Corporation (SLSDC), Maritime Administration (MARAD), Federal Motor Carrier Safety Administration (FMCSA), and the Pipeline and Hazardous Materials Safety Administration (PHMSA) (U.S. Department of Transportation, 2018).

Department of Energy

The Department of Energy's Mission is "to enhance United States security and economic growth through transformative science, technology innovation, and market solutions to meet our energy, nuclear security, and environmental challenges. Its strategic plan includes the following goals:

- Promote American energy dominance
- Advance science discovery and National Laboratory innovation
- Ensure America's nuclear security
- Advance national nuclear waste management
- Enhance cybersecurity across U.S. energy sector and DOE infrastructure

The Department of Energy was established after World War II, when Congress created the Atomic Energy Commission in 1946, with the goal of supervising the Manhattan Project and maintaining civilian government control over nuclear research and development. The Department

of Energy was officially organized in 1977. The Department of Energy's focus has changed over the years as the country's needs have shifted between nuclear research, environmental cleanup, and now, stewardship of the nation's nuclear stockpile (U.S. Department of Energy, 2018).

Department of Education

The U.S. Department of Education's mission is to "promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access." Its four primary activities include:

- Establishing policies related to federal education funding, including distributing funds, collecting on student loans, and using data to monitor the use of funds
- Supporting data collection and research on America's schools
- Identifying major issues in education and focusing national attention on them
- Enforcing federal laws promoting equal access and prohibiting discrimination in programs that receive federal funds

The Department of Education was founded in 1867 after the federal government recognized the need for furthering education through collecting and reporting statistical data. In 1980, the Department of Education was established as a cabinet-level agency; today, preschool through postdoctoral level education is supported by the Department of Education (U.S. Department of Education, 2018).

Department of Veterans Affairs

The Department of Veterans Affairs is, in the words of President Abraham Lincoln, “to care for him who shall have borne the battle and for his widow, and his orphan.” The Department of Veterans Affairs provides medical care, benefits, social support, burial services, and memorials for those who have served the nation.

The Department of Veterans Affairs is comprised of the following 3 agencies:

- Veterans Benefit Administration (VBA), which provides transition assistance, disability compensation, pensions, fiduciary services, educational opportunities, vocational rehabilitation and employment services, home ownership promotions, and life insurance benefits
- Veterans Health Administration (VHA), which provides primary care, specialized care, and related medical and social support services to veterans
- National Cemetery Administration (NCA), which provides burial and memorial benefits to veterans as well as cemetery grants, headstones and markers, presidential memorial certificates, outer burial receptacles, and medallions (U.S. Department of Veterans Affairs, 2018)

Department of Homeland Security

The Department of Homeland Security’s mission is to “prevent terrorism and enhance security, secure and manage borders, enforce and administer our immigration laws, safeguard and secure cyberspace, and strengthen national preparedness and resilience.

The Department of Homeland Security was established by the Homeland Security Act of 2002 in an effort to counter terrorism and enhance national security. Today, the Department of Homeland Security consists of the following sub agencies (U.S. Department of Homeland Security, 2018):

- U.S. Customs and Border Protections
- U.S. Coast Guard
- U.S. Citizenship and Immigration Services
- Federal Emergency Management Agency
- Federal Law Enforcement Training Centers
- National Protection and Programs Directorate
- U.S. Immigration and Customs Enforcement
- U.S. Secret Service
- Science and Technology Directorate
- Transportation Security Administration

Environmental Protection Agency

The Environmental Protection Agency's mission is to "protect human health and the environment". As such, the Environmental Protection Agency strives to accomplish the following objectives:

- Enforce environmental laws
- Respond to the release of hazardous substances
- Give grants to states, local communities, and tribes

- Study environmental issues
- Sponsor partnerships

Founded in 1970, the Environmental Protection Agency has focused on identifying, evaluating, and execute sustainable and scientifically feasible solutions for environmental issues, both present and future. The agency's efforts include cleanup efforts for existing environmental issues, monitoring and regulating the current use of pollutants, and examining new potentially environment-impacting chemicals before they are approved for public use (United States Environmental Protection Agency, 2018).

The National Aeronautics and Space Administration

The mission of the National Aeronautics and Space Administration is to “lead an innovative and sustainable program of exploration with commercial and international partners to enable human expansion across the solar system and bring new knowledge and opportunities back to earth; and to support growth of the nation's economy in space and aeronautics, increase understanding of the university and our place in it, work with industry to improve America's aerospace technologies, and advance American leadership.” As such, the agency supports national priorities with the following goals in mind:

- Fostering new discoveries and expanding human knowledge
- Global engagement and diplomacy
- Interactions with the nation's security and industrial base posture
- Economic development and growth
- Addressing national challenges

- Leadership and inspiration

Founded in 1958, the National Aeronautics and Space Administration was originally created with the aims of national security and the advancement of United States leadership in aeronautics, communications satellites, and Earth remote sensing. Today, the agency's technology is utilized not just in space exploration; the products of its research can be found on each U.S. aircraft and in each U.S. traffic control facility (National Aeronautics and Space Administration, 2018).

Agency for International Development

The Agency for International Development's mission is to "promote and demonstrate democratic values abroad, and advance a free, peaceful, and prosperous world." In addition, the Agency for International Development "leads the U.S. Government's international development and disaster assistance through partnerships and investments that save lives, reduce poverty, strengthen democratic governance, and help people emerge from humanitarian crises and progress beyond assistance.

The Agency for International Development was established in 1961 as a result of the Foreign Assistance Act, which was passed by Congress to "administer long-range economic and humanitarian assistance to developing countries." Today, the Agency for International Development serves to expand democracy and free markets, while assisting other nations in their times of need (United States Agency for International Development, 2018).

Federal Emergency Management Agency

The Federal Emergency Management Agency's mission is to "lead America to prepare for, prevent, respond to and recover from disasters with a vision of 'A Nation Prepared.'" Established in 1979 during the Carter administration, the Federal Emergency Management Agency serves as the coordinator for the Federal Government in "preparing for, preventing, mitigating the effects of, responding to, and recovering from all domestic disasters, whether natural or man-made, including acts of terror."

In 2003, the Federal Emergency Management Agency, along with 22 other federal programs, became part of the Department of Homeland Security. After the terrorist attacks of September 11, 2001, the Agency's efforts shifted to issues of homeland security and national preparedness. Since then, the Federal Emergency Management Agency has undergone coordination efforts to be better equipped for disasters such as the September 11, 2001 terror attacks and Hurricane Katrina, the worst natural disaster in United States history (Federal Emergency Management Agency, 2019).

General Services Administration

The General Services Administration's mission is to "deliver value and savings in real estate, acquisition, technology, and other mission support services across the government." The General Services Administration operates with the following goals in mind:

- Save taxpayer money through better management of Federal real estate
- Establish GSA as the premier provider of efficient and effective acquisition solutions across the Federal Government

- Improve the way Federal agencies buy, build, and use technology
- Design and deliver expanded shared services within GSA and across the Federal Government to improve performance and save taxpayer money

Established in 1949, the General Services Administration consolidated many of the Federal Government's administrative functions, eliminating duplicated efforts and streamlining operations. Today, the agency manages over \$55 billion across the Government in procurement and manages over 8,700 properties for tenant agencies (General Services Administration, 2018).

National Science Foundation

The National Science Foundation's mission is to "promote the process of science; to advance the national health, prosperity, and welfare; and to secure the national defense; and for other purposes." To advance this mission, the National Science Foundation focuses its research agenda around "10 Big Ideas," six of which are focused around research ideas, while the other four focus on the implementation of new processes in the scientific field.

Founded in 1950, the National Scientific Agency is the only federal agency to focus fully on science, technology, engineering, and mathematics (STEM) research and education. Today, the agency boasts discoveries such as the first detection of gravitational waves, engineering of early web browsers, and implementation of Global Positioning Systems (National Science Foundation, 2018).

Nuclear Regulatory Commission

The U.S. Nuclear Regulatory Commission “licenses and regulates the Nation’s civilian use of radioactive materials to provide reasonable assurance of adequate protection of public health and safety, and to promote the common defense and security, and to protect the environment.”

Established in 1975, the Nuclear Regulatory Commission’s original aim was to regulate commercial and institutional uses of nuclear material. Today, the Commission’s mission has expanded to include civilian use of nuclear materials, as well as promoting public health, security, the common defense, and security. The Commission also oversees nuclear medicine programs and nuclear academic programs, as well as the transport, storage, and disposal of nuclear waste (United States Nuclear Regulatory Commission, 2018).

Office of Personnel Management

The Office of Personnel Management’s mission is to “lead and serve the Federal Government in enterprise human resources management by delivering policies and services to achieve a trusted effective civilian workforce.” As such, the Office of Personnel Management operates with the following four strategic goals in mind:

- Transform hiring, pay, and benefits across the Federal Government to attract and retain the best civilian workforce
- Lead the establishment and modernization of human capital information technology and data management systems and solutions
- Improve integration and communication of OPM services to Federal agencies to meet emerging needs

- Optimize agency performance

Today, the Office of Personnel Management has 16 locations across the country, and manages over \$2 trillion in funding. The Office of Personnel Management is also charged with overseeing the Office of the Inspector General (United States Office of Personnel Management, 2018).

Small Business Administration

The Small Business Administration's mission is to "maintain and strengthen the nation's economy by enabling the establishment and visibility of small businesses and by assisting in the economic recovery of communities after disasters." The Small Business Administration operates with the following strategic goals in mind:

- Support small business revenue and job growth
- Build healthy entrepreneurial ecosystems and create business-friendly environments
- Restore small businesses and communities after disasters
- Strengthen SBA's ability to serve small businesses

The Small Business Administration was established by Congress in 1953 to protect the interests of small businesses. Today, the Administration assists America's 30 million small businesses by promoting access to capital, counseling, federal contracting, and disaster assistance to help drive a healthy economy (U.S. Small Business Administration, 2018).

Results/Analysis

The Department of Housing and Urban Development reported 15 material weaknesses, followed by the Department of Veterans Affairs, with 4 material weaknesses. Thirteen agencies, including the Department of Defense, reported no new material weaknesses for the years 2014 to 2018.

Table 4 details the number of material weaknesses (MW's) found for each agency each year as well as the total material weaknesses identified for the years 2014 to 2018.

ID	Agency	MW's 2014	MW's 2015	MW's 2016	MW's 2017	MW's 2018	Total MW's
8	Department of Housing and Urban Development	6	3	5	1	0	15
15	Department of Veterans Affairs	0	1	2	1	0	4
1	Department of Agriculture	0	3	0	0	0	3
14	Department of the Treasury	2	0	0	0	0	2
13	Department of Transportation	1	0	1	0	0	2
11	Department of Labor	0	1	1	0	0	2
9	Department of the Interior	1	1	0	0	0	2
16	Environmental Protection Agency	1	0	1	0	0	2
6	Department of Health and Human Services	1	0	0	0	0	1
23	Office of Personnel Management	0	1	0	0	0	1
3	Department of Defense	0	0	0	0	0	0
4	Department of Education	0	0	0	0	0	0
7	Department of Homeland Security	0	0	0	0	0	0
12	Department of State	0	0	0	0	0	0
10	Department of Justice	0	0	0	0	0	0
5	Department of Energy	0	0	0	0	0	0
20	General Services Administration	0	0	0	0	0	0
2	Department of Commerce	0	0	0	0	0	0
18	Agency for International Development	0	0	0	0	0	0
17	National Aeronautics and Space Administration	0	0	0	0	0	0
21	National Science Foundation	0	0	0	0	0	0
24	Small Business Administration	0	0	0	0	0	0
22	Nuclear Regulatory Commission	0	0	0	0	0	0

This may seem surprising, since the Department of Defense's first comprehensive audit report identified 38 material weaknesses. Although the Department of Defense had never undergone a fully comprehensive financial statement audit prior to 2018, many of its sub-agencies had been audited before. The non-remediated material weaknesses identified in those individual audits, some of which had been identified as early as 2005, were included in the Department of Defense's 38 overall material weaknesses in internal controls over financial reporting as of the fiscal year 2018. In fact, none of the 38 material weaknesses were newly identified by the Department of Defense's 2018 audit, perhaps indicating that the Department of Defense had indeed been undergoing efforts internally to exercise increased control over its financial resources.

On average, the Department of Housing and Urban Development identified three new material weaknesses in internal controls over financial reporting annually, followed by the Department of Veterans Affairs with 0.8 new material weaknesses per year. However, there was some variation in the number of material weaknesses identified from year to year; for example, the Department of Agriculture was issued 3 new material weaknesses in 2015, but was issued 0 new material weaknesses for the years 2014, 2016, 2017, and 2018. While the Department of Defense had no newly identified material weaknesses from the years 2014 to 2018, it did have 38 outstanding material weaknesses at the end of 2018. The Department of Housing and Urban Development followed with 5 non-remediated material weaknesses, and the Department of Veterans Affairs had 3. It is also worth noting that 18 of the 24 agencies had no material weaknesses outstanding at the end of 2018.

Table 5 details the number of material weaknesses (MW's) identified each year and the average annual material weaknesses identified for the years 2014 to 2018.

Table 5: Average Material Weaknesses (MW's) and Total Material Weaknesses for the Years 2014 to 2018

ID	Agency	MW's 2014	MW's 2015	MW's 2016	MW's 2017	MW's 2018	Average Annual MW's
8	Department of Housing and Urban Development	6	3	5	1	0	3
15	Department of Veterans Affairs	0	1	2	1	0	0.8
1	Department of Agriculture	0	3	0	0	0	0.6
14	Department of the Treasury	2	0	0	0	0	0.4
13	Department of Transportation	1	0	1	0	0	0.4
11	Department of Labor	0	1	1	0	0	0.4
9	Department of the Interior	1	1	0	0	0	0.4
16	Environmental Protection Agency	1	0	1	0	0	0.4
6	Department of Health and Human Services	1	0	0	0	0	0.2
23	Office of Personnel Management	0	1	0	0	0	0.2
3	Department of Defense	0	0	0	0	0	0
4	Department of Education	0	0	0	0	0	0
7	Department of Homeland Security	0	0	0	0	0	0
12	Department of State	0	0	0	0	0	0
10	Department of Justice	0	0	0	0	0	0
5	Department of Energy	0	0	0	0	0	0
20	General Services Administration	0	0	0	0	0	0
2	Department of Commerce	0	0	0	0	0	0
18	Agency for International Development	0	0	0	0	0	0
17	National Aeronautics and Space Administration	0	0	0	0	0	0
21	National Science Foundation	0	0	0	0	0	0
24	Small Business Administration	0	0	0	0	0	0
22	Nuclear Regulatory Commission	0	0	0	0	0	0

The Department of Defense did have material weaknesses that were outstanding for multiple years, as did other governmental agencies. On average, material weaknesses in internal controls over financial reporting were outstanding for 4.6 years before being remediated. The Department of Defense had the longest outstanding material weaknesses, with an average of 16.1 years between the initial identification of the material weakness to its remediation, followed by the Department of the Treasury with 5.5 years. Three agencies, the Office of Personnel Management, the Department of Veterans Affairs, and the Department of Housing and Urban Development, did not report the timeframe in which they planned to remediate their material weaknesses. In addition, 12 agencies did not report new material weaknesses from 2014 to 2018.

While the Department of Defense, one of the highest funded federal agencies, reported the highest number of material weaknesses, there does not appear to be a correlation between higher budgetary resources and number of material weaknesses. When comparing average agency funding for the years 2014 to 2018 to the total number of material weaknesses identified in those years, there was a correlation coefficient of $-.006$, which, while extremely weak, may indicate that agencies with lower funding may be more susceptible to material weaknesses in internal controls over financial reporting. The Department of Housing and Urban Development, the agency with the eighth-highest budget, reported the highest number of material weaknesses (15), followed by the Department of Veterans Affairs, with 4 material weaknesses.

Table 6 shows average annual budget by agency for the years 2014 to 2018, the total number of new material weaknesses, average annual material weaknesses, outstanding length of material weaknesses, and non-remediated material weaknesses at the end of 2018.

Table 6: Agencies, Average Annual Budgets, Total Number of New Material Weaknesses, Average Annual Material Weaknesses, Average Outstanding Length of Material Weaknesses, and Non-Remediated Material Weaknesses as of 2018

ID	Agency	Average Annual Budget for 2014 to 2018 (in millions of dollars)	Total Number of New MW's	Average Annual MW's	Average Outstanding Length of MW'S	Non-Remediated MW's at End of 2018
6	Department of Housing and Urban Development	124,960	15	3	Not Reported	5
1	Department of Agriculture	220,360	5	1	4.4	2
15	Department of Veterans Affairs	206,440	4	0.8	Not Reported	3
14	Department of the Treasury	827,980	2	0.4	5.5	0
13	Department of Transportation	159,880	2	0.4	2	0
11	Department of Labor	60,560	2	0.4	1.5	0
9	Department of the Interior	35,020	2	0.4	1	0
16	Environmental Protection Agency	15,160	2	0.4	2	0
6	Department of Health and Human Services	1,620,000	1	0.2	4	0
23	Office of Personnel Management	256,940	1	0.2	Not Reported	1
3	Department of Defense	1,120,000	0	0	16.1	38
4	Department of Education	119,620	0	0	N/A	0
7	Department of Homeland Security	103,680	0	0	N/A	0
12	Department of State	68,580	0	0	N/A	0
10	Department of Justice	49,820	0	0	N/A	0
5	Department of Energy	48,260	0	0	N/A	0
20	General Services Administration	30,920	0	0	N/A	0
2	Department of Commerce	29,360	0	0	N/A	0
18	Agency for International Development	24,400	0	0	N/A	0
17	National Aeronautics and Space Administration	23,360	0	0	N/A	0
21	National Science Foundation	8,140	0	0	N/A	0
24	Small Business Administration	3,400	0	0	N/A	0
22	Nuclear Regulatory Commission	1,040	0	0	N/A	0

While there appears to be little relationship between agency budgets (average annual budget over the years 2014 to 2018) and annual number of new material weaknesses, there were particular types of material weaknesses that appeared more than others. Between all of the material weaknesses identified in the Department of Defense’s 2018 audit report as well as material weaknesses identified in audits of other federal government agencies for the years 2014 to 2018, 26 were related to accounting documentation, policies, and procedures. Next, there were 13 material weaknesses related to information technology, followed by 12 end of period reporting and accounting policy issues.

Table 7 shows the types of material weaknesses found in government audits for the years 2014 to 2018 and the total number of each type of material weakness identified.

Table 7: Number of Material Weaknesses by Type	
Type of Material Weaknesses	# MW'S
Accounting Documentation, Rules, and Procedures	26
Information Technology Issues	13
End of Period Reporting and Accounting Issues	12
Account Reconciliations	10
Estimates	7
Inventory	5
Third Party Relations	5
Liabilities	3
Departure from GAAP	3
Tracing	3
Loans/Grants	3
Accounts Receivable	2
Accounting Personnel Issues	2
Taxes	2
Budgetary Transactions	2
Pensions/Benefits	2
Existence/Occurrence	2
Routine Transactions	2
Accounting Rule Application Failure	1
Consolidations	1
Valuations	1
Completeness	1
Unearned Revenue	1
Financial Management/Governance	1

Material weaknesses related to existence and occurrence took 18 years to remediate on average, followed by accounting rule application failure issues, departure from GAAP issues, and inventory issues, which each took, on average, 17 years to remediate. While issues related to accounting, documentation, policies, and procedures were the most prevalent in the material weaknesses identified among government agencies, they took only 14.6 years to remediate on average.

Table 8 shows the types of material weaknesses found in government audits for the years 2014 to 2018 and the average years outstanding for each type of material weakness.

Table 8: Material Weakness by Average Time Outstanding	
Type of Material Weakness	Average Years Outstanding
Valuations	21.0
Tracing	18.7
Existence/Occurrence	18.0
Accounting Rule Application Failure	17.0
Departure from GAAP	17.0
Inventory	17.0
Third Party Relations	16.8
Account Reconciliations	15.8
Accounting Documentation, Policies, and Procedures	14.6
Completeness	14.0
Routine Transactions	13.0
Information Technology Issues	10.3
End of Period Reporting and Accounting Policies	9.1
Accounting Personnel Issues	9.0
Accounts Receivable	7.0
Budgetary Transactions	4.0
Consolidations	4.0
Taxes	4.0
Estimates	2.7
Unearned Revenue	0.0
Financial Management/Governance	Not Reported
Liabilities	Not Reported
Loans/Grants	Not Reported
Pension/Benefits	Not Reported

Conclusion

For the most part, the 24 government agencies subject to the Chief Financial Officer's Act of 1990 reported few to no material weaknesses in internal controls over financial reporting during the years 2014 to 2018. That being said, for the years 2014 to 2018, the Department of Housing and Urban Development had the most material weaknesses (15). The Department of Defense reported the most material weaknesses not remediated at the end of 2018 (38). Regarding the length of time that material weaknesses are outstanding, on average, agencies take 4.6 years to remediate material weaknesses. The Department of Defense took the longest to remediate its material weaknesses, with an average of 16.1 years between the initial identification of a material weakness to its remediation. Of the various types of material weaknesses that were identified within the 24 CFO Act agencies, there were 26 related to accounting documentation, rules, and procedures, making these issues the most frequent. While those issues occurred most often, material weaknesses related to valuations took 21 years on average to remediate.

Based on the results of this research, it is difficult to conclude whether certain agencies had "better" or "worse" audit results, particularly concerning material weaknesses, due to varying budgets and other non-financial constraints surrounding their daily operations. However, it does reveal that, as a whole, government agencies are making efforts to remain transparent to its stakeholders, the American people.

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