

Agency Theory: An Examination of the Intra-Organizational Relationships within the
Department of Defense, Office of the Inspector General, Office of the Chief Financial
Officer and Embedded Chief Financial Officers in the Context of the Chief Financial Act
of 1990

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DEDICATION

To all the men and women warfighters of the Department of Defense, military, civilian and contractor personnel that freely and selflessly take the oath of office “to support and defend the Constitution of the United States against all enemies, foreign or domestic...I take this obligation freely...I will well and faithfully discharge the duties of the office upon which I am about to enter; so help me God” (5 U.S.C. §3331).

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ABSTRACT

This research study seeks to explain the intra-organizational relationship phenomenon of goal conflict that may exist between the Department of Defense Inspector General (DOD IG), Department of Defense Chief Financial Officers (DOD CFO) and the ingrained DOD Component Chief Financial Officers in the context of the Chief Financial Officer Act (CFOA) of 1990. The qualitative case study research design was the appropriate approach to explain the phenomenon within the context of the principal-agent relationship of the auditor (DOD IG) and the auditee (DOD CFO and the ingrained DOD Component CFOs). A qualitative case study approach was used to gain a comprehensive understanding of the impact of goal conflict within the DOD intra-organizational relationships. Using the agency theory as the theoretical framework, this research focused on three factors of how 1) CFOs within DOD Components impact DOD goals to achieve financial accountability and auditability; 2) divided loyalty, embeddedness and information protection affect the DOD's efforts to achieve auditability; and 3) divided loyalty, embeddedness and information protection differ based on the DOD Components workforce structure. The evidence indicates that auditability continues to elude the DOD twenty-nine years after the passage of the CFOA of 1990. The study puts forward possible explanations for DOD's inability to achieve financial accountability and auditability by exploring intra-organizational relationships within DOD, as well as theoretical suggestions on ways to mitigate audit deficiencies and advance financial accountability. The implications of intra-organizational relationship loyalty and information protection is the result of a shared commitment to the agency's financial accountability, and auditability is not only applicable to the DOD but commercial organizations as well as a measure of success.

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INTRODUCTION

This study seeks to explain the intra-organizational relationship phenomenon of goal conflict that may exist between the Department of Defense Inspector General (DOD IG), Department of Defense Chief Financial Officers (DOD CFO), and the ingrained DOD Component Chief Financial Officers within the DOD, in the context of the CFO Act of 1990. Due to the DOD's mere size, diversity, and complexity of its financial processes and systems along with Congressional pressure, the Department has initiated an unprecedented effort to achieve audit readiness and auditability. Previous research revealed factors that have been proven to impact the Department of Defense, consolidated unmodified audit opinion to include 1) complexity, 2) size, 3) legacy financial systems and processes, 4) workforce competencies, and 5) geographic dispersity (McConnell and Wang, 2014). The scope of many of these factors are confirmed in the Department's 2017 Financial Report, which detailed an asset base of \$2.6 trillion, roughly 1.3 million active duty military service members, more than 809 thousand National Guard and Reserve forces, and approximately 750 thousand civilian employees. Furthermore, the department personnel and its operations are geographically dispersed across all 50 states and around the world (DOD Financial Report, 2017). Nevertheless, the present study explores how understanding the dynamics of organizational relationships might be utilized across multiple agencies within the DOD to achieve financial statement auditability. The production of reliable accounting information is essential to monitor and enforce the terms of economic, social, and political contracts. As the federal government participates in financial market transactions, it becomes subject to commercial financial and economic accountability. When the government levies taxes on the income, property, and purchases of its citizens, it is

obligated to political accountability. Fiscal transparency facilitates limited government and to disseminate information is to cede authority (Chan, 2003).

Even before the ratification of the United States Constitution, the history of the United States Department of Treasury served as the fundamental commitment to the public to demonstrate accountability of taxpayer resources. This offered a form of governmental accountability and checks and balances. On November 15, 1990, Congress enacted the Chief Financial Officer Act (CFOA) of 1990 as an accountability mechanism to measure the financial and economic performance of the executive branch agencies (Public Law 101-576). The CFOA encouraged accountability across governmental organizations through the creation of the position of the Chief Financial Officer and levied long term planning requirements on agency CFOs in addition to requiring audited financial statements. Additionally, the CFOA required the agency's Inspector General (IG) or an Independent Professional Auditor (IPA) appointed by the organization's IG, to audit the agency's financial statements in accordance with the Generally Accepted Audit Standards (GAAS). The primary goal of federal financial reporting is to fulfill the governmental entity's accountability for revenues raised from the public (taxpayers) and the spending of those resources in accordance with congressional intent and guidance. The CFOA underpinned the government's commitment to the public by requiring all twenty-four executive branch agencies to produce auditable financial statements.

In Fiscal Year 2013, the Department of Homeland Security (DHS) achieved its first-ever unmodified (clean) audit opinion over its financial statements, thereby becoming the twenty-third executive branch agency to achieve financial statement auditability. This resulted in the Department of Defense (DOD) as the lone executive branch agency yet to

produce auditable financial statements. It has been roughly twenty-nine years since the passage of the CFOA and the DOD still has not produced auditable financial statements as determined by an IPA. With mounting congressional pressure and public demand for the DOD to produce auditable financial statements, it has become increasingly more crucial that the DOD achieves auditability (NDAA 2010). DOD News in a March 2018 article titled, “*Officials Discuss DOD’s Audit, Business Operations on Capitol Hill*”, reported that the Department of Defense Comptroller and Chief Financial Officer David L. Norquist had stated, “We are committed to the audit and implementing the necessary reforms to be good stewards of the taxpayers' dollars” (Cronk, 2018). It is essential that public administrators embrace financial audits as a performance indicator, which informs the public of how governmental agencies spend taxpayer resources in the execution of their mission. Audits produce many non-financial benefits such as transparency and business process reform that drive enterprise-wide change management in the achievement of agency strategic goals and objectives. This research study is not only significant to the DOD’s financial accountability but seeks to explain the goal conflict that may surface for various reasons under different pretexts (e.g., mission conflicts, divided loyalty, organizational structure (ingrained positions, i.e., CFOs) and information protection).

Background of the Study

The intent of this study is to provide a greater understanding of the DOD intra-organizational relationships relative to financial accountability. The DOD relationships include: 1) the Department of Defense Inspector General (DOD IG) and Department of Defense Chief Financial Officers (DOD CFO; and 2) Department of Defense Chief Financial Officers (DOD CFO and ingrained DOD Component Chief Financial Officers).

The Inspector General has been part of the Armed Services since the American Revolutionary War as well as the history of the Department of the Treasury, when the Congress had no power to charge or collect taxes. The Treasury was born out of necessity of the Continental Congress to address the issue of financing the war of independence against England. Since its origin, one of the primary functions of the Department of the Treasury has been to raise the finances required to support the nation's wars. In April of 1776, the Congress established a Treasury Office of Accounts comprised of an Auditor General and clerks charged with the settling of claims and managing the public records of the government of the United Colonies. The epicenter of financial management policy reforms have been and continue to be to improve public understanding of the federal government's true financial condition. The First Congress under the governance of the United States Constitution established the permanent institutional structure for the management of government finances. The first official act of Alexander Hamilton, the first Secretary of Treasury, was to present a report to Congress of the government's financial health (www.treasury.gov/about/history/Pages/edu_history_brochure.aspx). At the foundation of the United States Constitution are the commitment of fiduciary responsibility and the accountability of the federal financial managers, as the founding fathers understood the need for checks and balances to ensure funds are executed in a manner that fulfilled the needs of its shareholders (i.e., taxpayers). A variety of studies have been conducted to determine best practices to monitor and ensure accountability of revenues generated through public receipts. These studies date back to the 18th Century, when on April 1802, Thomas Jefferson stated,

"[T]here is a point...on which I should wish to keep my eye...a simplification of the form of accounts...so as to bring everything to a single centre [;] we might

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 any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them (CFOA Council, 2011)."

Oversight and fiduciary responsibility of public revenue are fundamental to governmental accountability, while federal financial statements provide the data that substantiate and validate accountability. These studies focused largely on the primary tenants of federal legislation relative to financial reporting: 1) the Constitution grants Congress "the power of the purse" but requires regular published reports of receipts and expenditures; 2) good accountable officials and trustees of public revenues; 3) ensure accountability and transparency in reporting financial information to the public; and 4) the ability to use financial information to conduct oversight, policies, and decision-making (CRS, 2013). Several legislative measures were enacted with the intent to achieve these tenants but the CFOA 1990 is the most comprehensive financial accountability legislative in more than 60 years. In the 1990s, Congress purposefully enacted a series of laws intended to improve and reform financial management practices in the executive branch of the federal government to include the Chief Financial Officers Act, (CFOA), 104 Stat. 2838; (Public Law 101-576). At the cornerstone of this groundbreaking legislation was the requirement for federal agencies to produce comparable, commercial-style financial statements based on Generally Accepted Accounting Principles (GAAP) which in turn would be subjected to Generally Accepted Audit Standards (GAAS) by an IPA. This legislation required agencies "to provide for the production of complete, reliable, timely and consistent information" to demonstrate accountability in the execution, management, and evaluation of federally funded programs (Section 102(b)) for use by executive branch agencies and Congress. Initially, the CFOA only required that financial statements be prepared for the following:

1) revolving and trust fund operations; 2) agency fee for service programs (predominately commercial functions); and 3) the agencies included in the financial statement pilot project (i.e., Agriculture, Labor, Veterans Affairs, General Services and Social Security Administration, Housing and Urban Development, Army, Air Force, Internal Revenue, and Customs Service) (GAO/AFMD-12-19-4, 1991). The Government Management Reform Act (GMRA) of 1994 expounded upon the requirements by further extending the requirement for federal financial statement audits to all twenty-four executive branch agencies.

According to Kettl (2015), departments and agencies of the executive branch represent approximately 80 percent of all federal spending. The goals of the CFOA and the GMRA were “to create reliable, relevant financial and performance information for sound management decisions about programs, budgets and fiscal accountability, all of which should lead to higher performance” (Amos, Paolillo & Joseph, 1997, p.28). The Government Accountability Office (GAO/AFMD-12-19-4, 1991) asserted, “Several of the CFOA’s requirements aim to improve the financial information available to agency managers, the Congress and others.” This includes “accounting and financial systems which report cost information, [...] integration of accounting and budget information, [...] and the systematic measurement of performance” (p. 14).

Table 1: FASAB Objectives of Federal Financial Reporting

Objectives of Federal Financial Reporting

Budgetary Integrity

Federal financial reporting should provide information that helps the reader to determine:

- How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization
- The status of budgetary resources
- How information on the use of budgetary resources relates to information on the costs of program operations

Operating Performance

Federal financial reporting should provide information that helps the reader to determine:

- Costs of providing specific activities and programs and the composition of and changes in these costs
- Efforts and accomplishments associated with federal programs and the changes over time and in relation to costs
- Efficiency and effectiveness of the government's management of its assets and liabilities

Stewardship

Federal financial reporting should aid in assessing the impact on the nation of the government's operations and investments and the implications for the future of the nation.

Systems and Controls

Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate:

- Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with federal accounting standards
- Assets are properly safeguarded to deter fraud, waste, and abuse
- Performance measurement information is adequately supported

Source: Federal Accounting Standards Advisory Board, Overview of Federal Accounting Concepts and

Standards, Report 1, December 31, 1996, pg. 8-9.

Source: CRS, Federal Financial Reporting: An Overview, (2013).

Overview of the Department of Defense

The Department of Defense (DOD) was established in 1949. It is the largest of the twenty-four executive branch agencies, with 43 Component organizations and approximately 2.9 million employees dispersed across the globe making it by far one of the most complex self-contained organizations in the world. Each of the DOD’s military components is larger than most American companies. The organizational chart in Figure 1 identifies the Department’s 43 Component organizations.

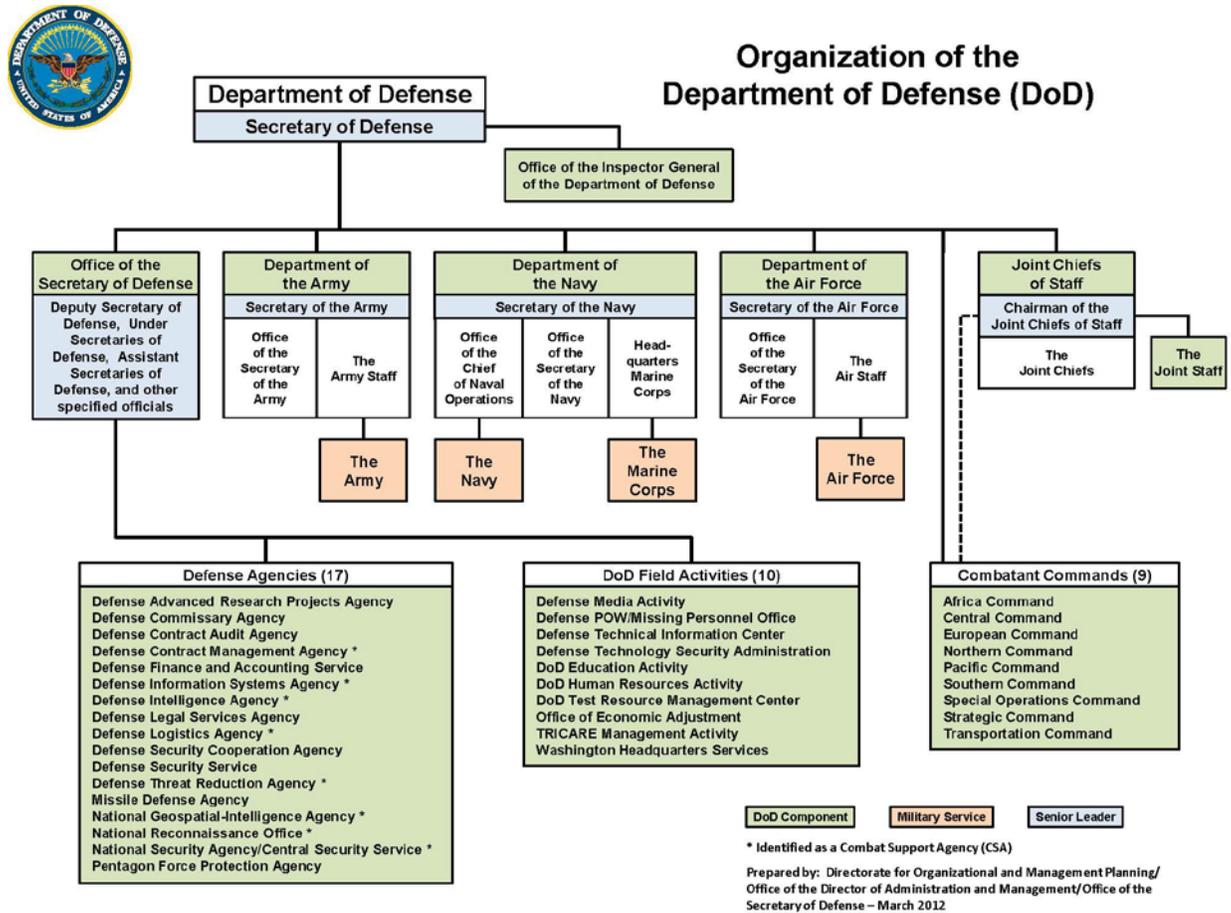


Figure 1: Organizations of the Department of Defense (DoD)

The DOD’s Fiscal Year 2015 annual budget is represented below in Figure 2 and equates to approximately fifty-four percent or 598.5 billion dollars of the federal

government's discretionary budget of 1.11 trillion dollars.

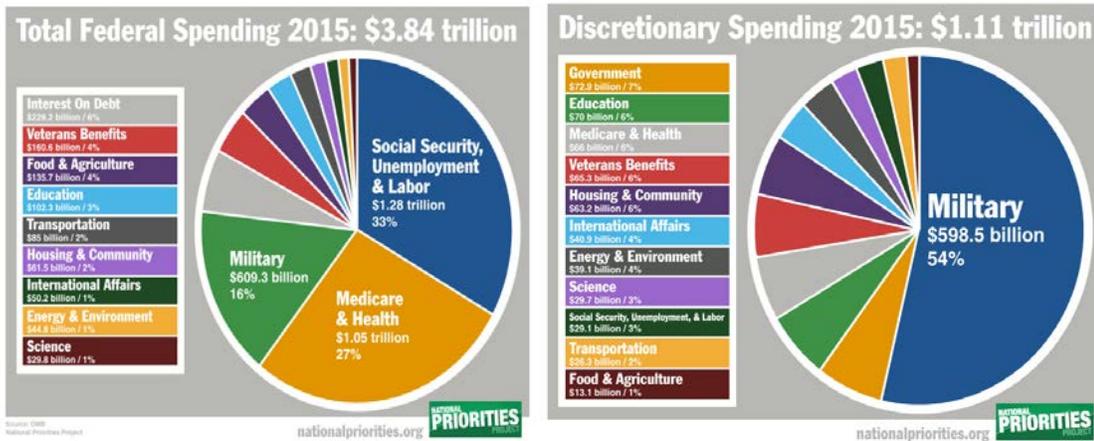


Figure 2: 2015 Total Federal Spending (<https://www.nationalpriorities.org>)

In fiscal year 2018, according to the Government Accountability Office, Congress authorized and appropriated approximately \$660 billion in funding to the DOD, which is roughly an increase of \$55.2 billion from the previous fiscal year. At the fiscal year 2018 funding levels, the DOD’s discretionary spending represents nearly fifty percent of the federal government’s discretionary budget and upwards of seventy percent of the federal government’s physical assets (GAO-19-86R, 2018).

Since the enactment of the CFOA of 1990, the Department of Defense (DOD) has struggled to achieve compliance with the act. As of FY 2013, of the twenty-four executive branch agencies covered by the CFOA of 1990 and GMRA, the DOD is the only agency that has not received an unmodified or “clean” audit opinion over its consolidated financial statements. Yet, in recent years, several components within the DOD have successfully achieved an unmodified opinion. These components include the US Army Corp of Engineers, Defense Commissary Agency, Defense Contract Audit Agency, Defense Finance and Accounting Service, Defense Health Agency, and Military Retirement Fund. The DOD has continually failed to produce reliable department-wide consolidated financial

data to demonstrate accountability and good management of public resources. An in-depth review of the audit strategy of the DOD components that have received unmodified audit opinions reveals the following insights:

- a) Steady commitment and “Tone at the Top” from agency management (leadership);
- b) Centralized end-to-end business functions i.e. accounting, budget, acquisition, payment, receipt, and inventory;
- c) Relatively smaller budgets with narrowly focused mission area;
- d) Ability to produce financial data, universe of transactions, key supporting documents
- e) Maximum use of data automation tools, less dependency on legacy systems;
- f) Minimum manual transactions such as adjusting entries;
- g) Commitment to hiring and retaining qualified accountants and budget professionals; and
- h) Robust standardized, consistent, and documented operating procedures

Figure 3 below describes the audit process methodology flow required for the DOD to achieve auditability over its financial statements.

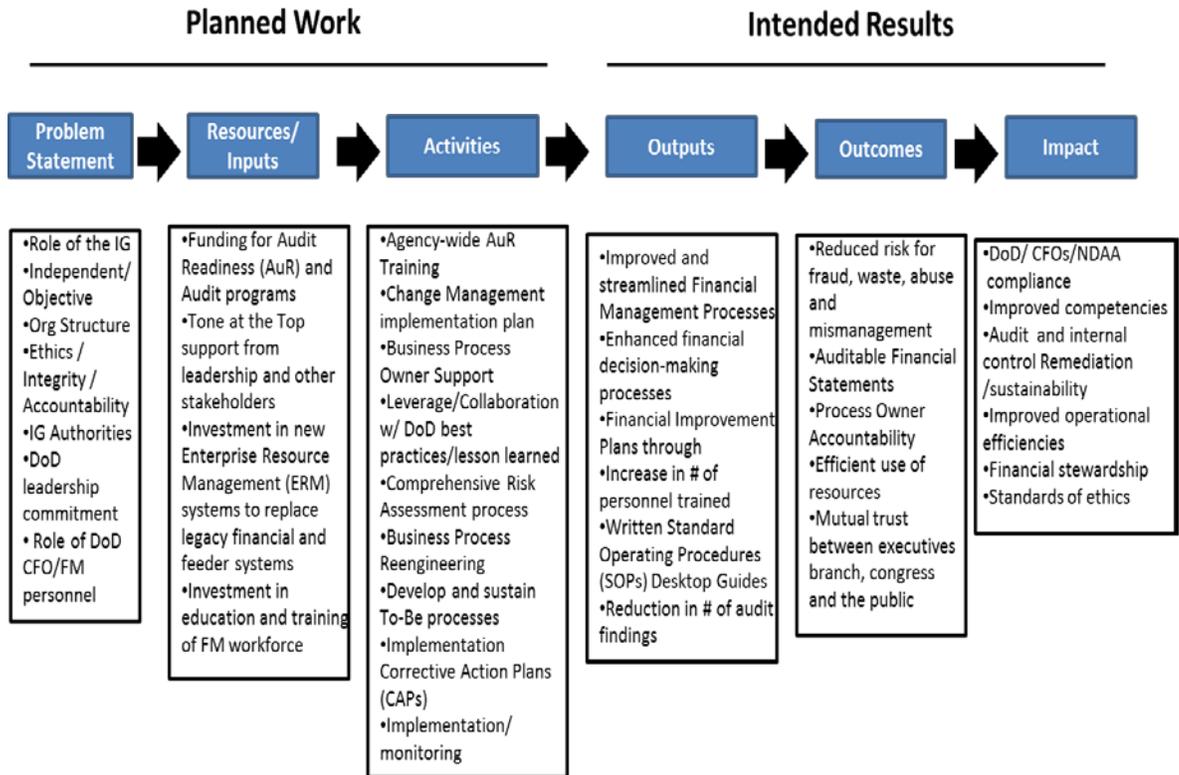


Figure 3: DOD Audit Process Flow above depicts the methodology required for DOD to achieve the goal of an “unmodified opinion” over its financial statements

Prior to the CFOA of 1990, President George Herbert Walker Bush approved the Defense Management Report in 1989 that identified the DOD's need for improved financial management reforms. This led to the consolidation of DOD finance and accounting operations from over 300 military base level sites to nine sites and decreased the volume of operational IT financial systems from 330 to 111 (McConnell and Wang, 2014). Shortly thereafter in 1990, the DOD began preparing auditable financial statements. These statements were determined by the GAO to possess pervasive long-standing material weaknesses and were deemed "un-auditable," which is equivalent to an auditor's disclaimer of opinion. The material weaknesses cited by GAO included decentralized legacy accounting systems, data and document repositories, inconsistent data attributes, and a general lack of institutional/cultural enthusiasm toward the department's audit efforts (GAO-04-907T, 2004). The literature demonstrated that, in 2016, United States Treasury and the Office of Management and Budget represented to GAO that the DOD previously cited long-standing material weaknesses continued to exist (GAO-11-835T, 2011). Furthermore, the Pentagon reported in a June 2017 Federal News Radio article that there are several issues exclusive to the DOD that provide insight into why auditability continues to elude the Department: 1) excessively complicated financial (IT) structures not easily understood by external auditors, 2) contradictory laws governing DOD facilities, 3) FASAB governance to protect classified programs and 4) the DOD size and complexity (Serbu, 2017).

The DOD is perhaps the largest and most complex organization in the world to undergo a stand-alone full scope financial audit. The rules promulgated by FASAB governance does not give consideration for the need to protect the DOD's financial

programs and systems that operate in a classified, covert, counterintelligence environment and as such, risk the exposure of classified programs to adversaries or bad actors that pose threats to national security. Thus, classified data and systems further complicate the auditability of the DOD's consolidated financial statements. Conversely, other intelligence agencies such as the Office of the Director of National Intelligence (ODNI), Federal Bureau of Investigation (FBI), and the Central Intelligence Agency (CIA) are officially designated as non-CFOA federal agencies.

Due to the DOD's continued non-compliance with the CFOA and expansion of DOD programs due to wartime efforts, the National Defense Authorization Act of 2010 mandated that the DOD be audit ready by 30 September FY 2017. The historical cultural fallacy within the DOD's preparation of auditable financial statements stem from the narrow interpretation of the word "financial" vice operational. Prior to the Secretary of Defense (SECDEF) Panetta establishing the "Tone at the Top" and making a commitment to the achievement of auditable financial statements as a high priority for the department, auditable financial statements received very little or no attention beyond the DOD IG/CFOs and financial management community of interest. In October 2011, the SECDEF heightened the visibility of the DOD audit readiness program. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) was tasked with leading the Financial Improvement and Audit Readiness (FIAR) Directorate efforts to produce auditable financial statements by FY2017. The National Defense Authorization Act (NDAA) for fiscal year 2010, required the DOD Comptroller provide reports to relevant congressional committees on the status of the DOD's implementation of the FIAR Plan twice a year—no later than May 15 and November 15, respectively, to include a risk assessment. DOD components have

aggressively worked towards meeting the congressionally mandated FY2017 timeline through the development and deployment of modern enterprise resource planning (ERP) systems that automate and integrate end-to-end business functions and mandatory certification and professionalization of all financial professionals within the department.

Additionally, Secretary of Defense Panetta in an all-hands videotaped message in June 2012 declared, “the Department’s effort to become audit ready is a Department-wide priority” and called for “all DOD personnel to manage their books as tightly as they manage their operational mission.” Secretary Panetta issued the following guidance that everyone in the department should do right away:

“Check expense information for accuracy and completeness, and be sure expenses are entered into the right financial system.; treat every dollar as if it was your own and build accurate, complete and reliable property, equipment and supply records, and turn-in unused equipment” (Panetta, 2012, p.1).

The goal of the audit efforts across the Department is to improve decision-making, comply with laws, and provide the public reasonable assurance that the DOD is a trustworthy manager of public/taxpayer funds. The DOD has made partial progress toward demonstrating leadership’s commitment and developing staff augmentation capacity and action plans. The DOD continues to address its financial management challenges through the following corrective actions:

- a) Aggressive standup and implementation of the Financial Improvement and Audit Readiness (FIAR) Directorate, Plan and the FIAR Guidance,
- b) Development and deployment of establishing modern enterprise resource planning systems to automate and integrate end-to-end business functions and
- c) Professionalizing the financial management workforce requiring mandatory financial management certification for all financial professionals within the department

On February 6, 2014, it was reported that the United States Marine Corps (USMC), a subset of the Department of the Navy of the United States Department of Defense, became the first branch of the military to pass a financial statement audit almost twenty-four years after the passage of the CJOA 1990. Even though the USMC audit only covered a fraction of the accounts on the USMC fiscal year 2012 financial statements, any level of success was viewed as a major accomplishment for the Department's financial community. This small audit win by the USMC barely scratched the surface of the enormous task faced by the DOD to produce a consolidated auditable financial statement inclusive of all 43 components to meet the intent of the CJOA. The Marine Corp audit provided the department with valuable insights and lessons learned. The most significant insight was the diversity and complexity of resources required to accomplish a successful audit. Additionally, breaking down the financial statements into small manageable parts deemed a more successful methodology to demonstrate continuous progress toward the overall consolidated statements. The USMC experience served to demystify the myth that auditing is purely an accounting/financial management function. It further encouraged the DOD to celebrate smaller, repeatable, and measurable wins since they result in progress toward aggregated goal attainment.

As the Department has historically failed to provide substantiated evidence of its progress toward audibility, the announcement of the audit success of the USMC rose to the level of an official celebration ceremony in the Pentagon's Hall of Heroes, normally reserved for presenting medals of Honor and other significant ceremonies. This ceremony served to demonstrate further the SECDEF's commitment to achieve audibility. As evidenced in the *"U.S. Defense Department auditor signed off on flawed Marine Corps*

books” article, the then Secretary of Defense Chuck Hagel stated, “I know that it might seem a bit unusual to be in the Hall of Heroes to honor a bookkeeping accomplishment, but, damn, this is an accomplishment” (Paltrow, 2015). However, in just over a year, on March 23, 2015, the DOD’s Office of the IG over financial audits, the Department’s equivalent to private industry IPA, withdrew its “unmodified” approval of the USMC’s accounts. The DOD IG’s office later posted a statement on its website retracting the opinion based on new evidence that cast doubt on the reliability of the audit opinion issued by Grant Thornton, one of the world’s leading audit firms. According to Paltrow (2015), it was later revealed that DOD IG staff members were pressured by their supervisor, the then DOD IG of Audits, Dan Blair, to ensure the IG’s audit results supported the unmodified opinion issued to the USMC by Grant Thornton (GT). Astonishingly, the DOD IG’s team found grave errors in the USMC books and the GT’s audit plan, which exposed the vulnerabilities of the DOD IG’s role as an independent arbiter between the auditor and auditee. The IG’s staff had reasonable assurance to substantiate the USMC only deserved a modified opinion. This is essential to attaining accountability because financial audits void of integrity and creditability fail to meet the intent of auditability.

The Office of the DOD IG must function as an independent and impartial agency to provide oversight for programs and operations under the purview of the Secretary, Department of Defense. The IG’s office is expected to support the efforts of the warfighter through the resources generated from the collection of revenues from the taxpayer by conducting field audits and assessments that may result in improvements (financial or otherwise) to the Department. In the context of the retraction of the USMC unmodified audit opinion in 2015, the DOD IG’s role as the independent and impartial accountability

watchdog of DOD operations and financials appeared to be compromised and has come under intense scrutiny due to political and administrative pressures. The USMC audit retraction by the DOD IG amplified the agency theory of goal-conflict between the principal/agent (DOD IG/IPA) relationships.

The DOD is currently the lone executive branch agency that has not achieved auditability, which prevents the production of a U.S. government-wide consolidated financial statement audit. The DOD continues to face challenges in the implementation and monitoring of corrective actions to demonstrate progress. The newly confirmed DOD CFO David Norquist suggested during his confirmation hearing that “the best way to improve internal controls and eliminate material weaknesses are to let itself be audited and see what the experts turn up” and the DOD is currently undergoing its first-ever full-scope financial audit (Serbu, 2017).

Problem Statement

Research indicates that the DOD has made a significant number of attempts to fundamentally reform its financial management and business systems and processes dating as far back as the early 1990s to achieve auditable financial statements, yet efforts have not resulted in auditable financial statements. These efforts included: 1) the Defense Reform Initiative, aimed at improving the effectiveness and efficiency of DOD business operation, specifically financial management; 2) Defense Business Operations Funds represented the consolidation of the industrial and stock fund into a business operation; and 3) Corporate Information Management, an effort to support business operation through streamlining and deploying standardized information systems (GAO-02-784T, 2002). Despite significant efforts, the department has remained non-compliant with the CIOA of 1990. There is little

research data that examines the intra-organizational relationships of DOD IG, DOD CFO and ingrained component CFOs, and how these relationships may affect the department's ability to achieve financial accountability and financial statement auditability.

Purpose of Study and Research Questions

The purpose of this qualitative case study is to examine the responses of 36 DOD IG, DOD CFO, and DOD Component CFOs personnel, relative to their perceptions of how the intra-organizational relationships affect the Department's ability to achieve accountability and auditable financial statements in context of CFOA of 1990. Data were collected from research participants through 1) an electronic survey (Appendix D) and 2) semi-structured focused interviews with targeted DOD financial and audit stakeholders. To better understand the problem, the following central research questions are addressed:

RQ1: How do DOD intra-organizational relationships (i.e., DOD IG, DOD CFO or ingrained DOD Component CFOs) impact the department's goal to achieve financial accountability and auditability?

RQ2: How do divided loyalty (goal conflicts), CFO embeddedness and information protection in the Department of Defense affect the DOD's efforts to achieve auditability?

RQ3: How do the effects of divided loyalty (goal conflicts), CFO embeddedness, and information protection differ between the Services (Army, Air Force, Navy and Marines), Defense Agencies with mixed workforce (combined military services and Civilians) and civilian only Defense Agencies?

Research Methodology

The qualitative case study research design was the appropriate approach to explain the phenomenon within the context of the principal-agent relationship of the auditor (DOD IG) and the auditee (DOD CFO and the ingrained DOD Component CFOs). The design

ensured that the unique relationship factors are examined through various data collection sources, which allowed for greater flexibility, discovery, and understanding of the phenomenon (Yin, 2010). Insights derived from this case study research may directly affect the enactment of legislation, regulations, application, and future research (Merriam, 1998, p.19). Other qualitative research methods were evaluated but rejected since the case study approach in administrative sciences allow the researcher to focus on the department, agency or profession under study, opposed to dealing with variables (Schwandt, 1997). The case study research design also allowed the researcher to conduct an in-depth examination of DOD intra-organizational relationships between the DOD IG and CFO and the DOD CFO and ingrained DOD Component CFOs within the context of the agency theory and with specific emphasis on goal conflict (divided loyalties) and information asymmetry (information protection).

A phenomenological research method could be used to explore the lived experiences of a phenomenon or individual persons, which is the research design that is often most useful for psychological research (Moustakas, 1994). However, phenomenological research approach was determined inappropriate because the study does not focus on the lived experiences from a “first-person” perspective. Furthermore, the data collection methodology for phenomenological research studies typically relies upon narratives (audio- or video-taped) and detailed interviews, whereas case study data collection methods are not restrictive to one data type (Yin, 2010).

Research Gap

The significance of understanding the relationships between the DOD IG, DOD CFO, and the ingrained CFOs within DOD components is crucial to DOD achieving

auditability over its consolidated financial statements. The literature review has provided insight into some of the most common factors that may contribute to the DOD's inability to achieve CFOA compliance. These factors include size, complexity, antiquated legacy financial and feeder systems, congressional reorganizations, and the lack of competent financial/accounting personnel with expertise and experience relative to GAAP and GAAS. However, this empirical research is focused on the generalizable factors of ingrained DOD Component CFOs and information protection that contribute or compromise the DOD's efforts to achieve auditability. It also examines less obvious relationships that might influence and provide informed explanations of why the DOD continues to struggle with CFOA compliance.

Previous research described the principal agent relationship as a relationship characterized by goal conflict and the imbalance of information between the principal and the agent that creates an opportunity for exploitation by the agent for self-gain (Van Slyke, 2006). Van Slyke further notes the principal-agent model relationships are characterized by two assumptions: 1) goal conflict between the balance of power and 2) asymmetric information (imbalance), as the agents have more information than the principal which creates an opportunity for exploitation by the agent for self-gain. Eisenhardt's (1989) assessment and evaluation of the agency theory suggest two problems exist with agency theory: 1) "goal conflict", when the desires of the principal and agent are in conflict and 2) the difficulty that the principal has in validating what activities the agent is engaged in, specifically whether the agent's behavior is appropriate under the contract. Thus, these principal-agent relationships carry with them an imbalance in power resulting in goal conflicts, which is further exacerbated by the asymmetric information. Shapiro (2005)

describes agency embeddedness relationships as a state where the principal often knows the agent's characteristics because of personal affiliation with agents or through trusted social circles in which both the principal and agent are members. However, this research examines the impact of embeddedness as an element of divided loyalty and/or information protection within organizations rather than the traditional influences of moral hazard, adverse selection, and self-gain. It questions the loyalty and protection of information of the DOD intra-organizational relationships (i.e., DOD CFO and embedded DOD Component CFOs) and the DOD Inspector General's ability to apply the American Institute of Certified Public Accountants (AICPA) independence and ethical standards to effectively facilitate the audit processes of the DOD enterprise.

Study Rationale

The rationale for this study originated from the researcher's desire to uncover impediments that thwart the DOD's effort to produce auditable financial statements. This research may provide meaningful explanations and data findings to Congress, DOD leadership, financial community, and IPA interested in the DOD's achievement of auditable financial statements. The findings may contribute to the understanding of how principal-agent factors of goal conflict, embeddedness, and information protection affect the ability of DOD intra-organizational relationships to produce auditable financial statements.

The study may also provide insights beneficial to the development of DOD financial management policy reform and decision-making relative to CFOA compliance.

LITERATURE REVIEW

Introduction

The intent of this study is to investigate the impact of goal conflict (divided loyalties) as an explanation of embeddedness by not divulging unsolicited information (information protection) relative to DOD intra-organizational relationships between the DOD IG, DOD CFO, and embedded DOD Component CFOs. The aim is to gain insightful information that could be potentially significant to help identify impediments to the DOD's attainment of governmental financial statement auditability. This chapter contains a review of historical documents and available research literature on the evolution of financial legislation and DOD relationships within the context of the CFOA of 1990. The researcher utilized various electronic databases to include SAGE, JSTOR, ProQuest, EBSCOhost, Harvard Business Review, and Thomas Jefferson Library of Congress as well as Google and Bing search engines in the pursuit of related scholarly peer-reviewed published studies. The key words and phrases used to select articles for inclusion in this study were CFOA 1990, DOD audits, DOD IG, GAO Audit Reports, OMB Circular, internal controls, GAAP, AICPA, "principal agent theory", "principal-agent relationships," PA conflicts, incentives, information asymmetry, moral hazards, accountability, goal and interest conflicts, steward theory, and stewardship. The chapter is organized into various subsections and begin with a section on the evolution of federal financial legislation and DOD Audit Reform initiatives to achieve CFOA compliance. An examination of the literature on principal agency reveals, at least on the surface, that the various aspects of goal conflict may explain the DOD's lackluster progress towards financial statement auditability. Next, an introduction of the complementary theory of stewardship is discussed as well as why it was deemed

inappropriate to explain the intra-organizational relationships in the DOD (i.e., DOD IG and CFO). The chapter concludes with a summary of the theoretical social landscape problematic to the agency relationship construct, all of which are aimed at determining significant factors for governmental agencies to arrive at effective sustainment of financial statement auditability and accountability systems.

Overview of the Evolution of Federal Financial Management Legislation and Financial Accountability

Financial accountability is the responsibility of governmental departments and agencies to be publicly answerable for the expenditure of resources that it collects from taxpayers, which is the primary purpose of governmental financial statements (Brook, 2010). Analysis of federal financial management policies has been at the center of the ecosystem of improving the public's understanding of the federal government's true financial condition for more than two hundred years. At the cornerstone of the United States Constitution is the commitment to fiduciary responsibility and accountability (CRS, 2013). The Founding Fathers understood the need for checks and balances to ensure that funds are executed in accordance with the enacted authorization and appropriation acts used in a manner that fulfills the needs of its shareholders (i.e. taxpayers). In 1789, the U.S. Constitution established the basic appropriations structure in which it, states, "...no money shall be drawn from the Treasury but in the consequence of an appropriation made by law and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time" (U.S. Const. art. I, § 9, clause 7). This clause gave Congress the "power of the purse", but the Constitution created the fundamental ideology of checks and balances through the separation of power between the three branches of

government linking the appropriations to accountability. In 1833, United States Supreme Court Justice Joseph Story stated, “Congress is made the guardian of this treasure; and to make their responsibility complete and perfect, a regular account of the receipts and expenditures is required to be published, that the people may know, what money is expended, for what purposes, and by what authority” (1833). The United States Supreme Court reaffirmed the theme by stating, “However much money may be in the Treasury at any one time, not a dollar of it can be used in the payment of anything not... previously sanctioned [by a congressional appropriation].” Federal agencies are a creation of law and can only function to the extent authorized by law. The Supreme Court further reaffirmed the principles of fiscal law established rules that revenues generated from public receipts can only be spent when authorized and appropriated by Congress (*United States v. MacCollom*, 426 U.S. 317, 321 (1976)).

The business of governance in the United States has not only expanded, but experienced significant growth due to the implementation and execution of the Office of Management and Budget (OMB) Circular A-76 Performance of Commercial Activities in 1980, which has caused greater need for governmental oversight to prevent fraud, waste, and abuse of public resources. The continuous increase in government contracts, contractors, and public-private partnerships has significantly increased the federal business enterprise footprint. This growth in governmental operations has thereby increased the need for oversight, accountability, and to detect, deter, and mitigate material weaknesses within internal controls, because of their threat to auditability. These actions led to the need for more comprehensive regulatory requirements to allow Congress to make informed decisions in their oversight role regarding the use of public funds. Table 1 below depicts

the historical infrastructure of laws and regulations enacted to provide taxpayers’ assurance that the spending of public funds is in accordance with their intended purposes as authorized and appropriated by Congress.

YEAR	LEGISLATURE	DESCRIPTION	SOURCE
1789	The Constitution	“Gives Congress the power to levy taxes and requires appropriations by Congress before funds are disbursed”	U.S. Const.
1894	Dockery Act	“Established financial accounting practices, central auditing, and the federal financial management system.”	Willoughby, 2014, p. 68
1905-1906	Anti-Deficiency Act	“Requires apportionment of funds to prevent over expenditures”	Public Law 97–258, 96 Stat. 92
1921	Budget and Accounting Act	“Title 31 of the <i>United States Code</i> established the statutory basis for an executive budget process by requiring the President to submit to Congress annually a proposed budget for the federal government. It also created the Bureau of the Budget (reorganized as the Office of Management and Budget (OMB) in 1970) to assist him in carrying out his responsibilities, and the General Accounting Office (GAO) to assist Congress as the principal auditing agency of the Federal government”	Public Law 67–13, 42 Stat. 20,
1950	Budget and Accounting Procedures Act	“Requires executive agencies to provide reports and information on their financial condition to the Secretary of the Treasury”	31 U.S.C. §3512 (1950)
1974	The Congressional Budget and Impoundment Control Act	“This act established the statutory basis for a congressional budget decision making process, and provided for the annual adoption of a concurrent resolution on the budget congressional budgetary	(Public Law 93–344, 88 Stat. 297, 2 U.S.C. §§ 601–688)
1982	Federal Managers' Financial Integrity Act	“Requires on-going evaluations and reports on each agency's system of internal controls so as to provide assurance that obligations and costs are in compliance with law”	Public Law 97-255)
1990	Chief Financial Officers Act	“Provides for a CFO in all major agencies to oversee financial management and integrate accounting and budgeting”	Public Law 101–576
1993	Government Performance and Results Act	GPRA is designed to improve the government’s performance management by requiring agencies to establish 5-year strategic plans, annual performance plan and annual performance reports to showcase success and failures against the established plans.	Public Law 103–62

YEAR	LEGISLATURE	DESCRIPTION	SOURCE
1994	Government Management Reform Act	“Provide a more effective, efficient and responsive government”	Public Law No. 103–356
1996	Federal Financial Management Improvement Act	“Requires CFO agencies to implement and maintain federal compliance for financial management system”	Public Law 104–208, Title VIII (31 U.S.C. 3512 note).
2002	Accountability of Tax Dollars Act	“Requires preparation and audit of annual financial statements to include most other federal agencies”	Public Law 107–289
2010	Government Performance and Results Modernization Act	GPRMA established a new government wide planning and reporting framework, amended GPRA requirements and required agencies to reduce duplicative and outdated planning and reporting.	Public Law 111–352

Table 1 Retrieved from <https://www.whitehouse.gov/omb/legislative-affairs>

The History of the Chief Financial Officers Act of 1990 and DOD, in Relation to Financial Accountability and Auditability

This section summarizes relevant literature and the evolution of relationships that occurred in the DOD in the wake of the enactment of the CFOA of 1990. Congressional interest to regulate and reform federal finance and accounting standards and reporting predates the 1990s; however, the DOD continues to struggle to arrive at sound accountability structures. The researcher sought to understand how DOD intra-organizational relationships may have inhibited its progress to conduct and carry out successful accountability of financial statement auditability. Many reforms date as far back as the Dockery Act of 1894, which sought to “establish financial accounting practices, central auditing, and the federal financial management system” (Willoughby, 2014, p. 68). Nevertheless, the reform initiatives of the 1990s are the most comprehensive in more than 60 years. The CFOA of 1990, established: 1) a powerful financial management organizational structure, with the creation of a statutory Chief

Financial Officer accountable official reporting directly to department and/or agency leadership; 2) required agencies develop plans and produce audited financial statements to strengthen accountability reporting; and 3) formed the foundation for expansive financial reform in federal financial accountability practices (Public Law 101–576). Even though it has been more than 29 years since the passage of the CFOA, the DOD continues to struggle to correct long-standing material weaknesses and deficiencies within its official financial management systems, reporting practices, and the management of the finances entrusted to the department to secure the defense of the nation (GAO-17-85, 2017). According to the GAO, the DOD accounts for nearly 70 percent of the federal government’s discretionary spending yet the DOD is unable to reasonably substantiate its financial records. In June 2017, the DOD awarded a full-scope Independent Professional Auditor contract that required the contractor maintain a database repository to document findings to benchmark current status, practices, and accountability (Serbu, 2017).

Of the twenty-four executive branch departments and agencies, the DOD is the only one that is not yet auditable, which is essential to the nature of the present study. As early as 2002, the Friedman study cited that the DOD’s organizational structure was void, relative to designing and deploying a comprehensive financial management strategy (Friedman, 2001). The DOD’s lack of auditability prevents the entire executive branch of the federal government from being able to achieve a consolidated annual financial statement (Serbu, 2017). Congress continues to levy legislative pressures upon the department to comply with the CFOA through the National Defense Authorization Act (NDAA) of 2010, Public Law 111-84 —OCT. 28, 2009, 123 STAT. 2440, Section

1003. The NDAA required the DOD to establish Financial Improvement Audit Readiness Plan to ensure the financial statements of the DOD are validated as ready for audit by not later than September 30, 2017. Recently, the former Arizona Senator, John McCain, Chairman of the Senate Armed Services Committee, threatened Pentagon Officials with legislative action to withhold funding authorization and appropriation authorities because of the DOD's failure to comply with CFOA (Serbu, 2017). This public appeal of accountability could be perceived as the congressional showdown with the DOD, prior to the award of DOD contracts to IPAs in fiscal year 2018 to initiate the activities for the department's first-ever full scope audit over its financial statements.

In the context of CFOA of 1990, the two critical stakeholders in the DOD organizational structure are the Inspector General (IG) and Chief Financial Officer (CFO). The Inspector General (IG) Act of 1978 created the office of Inspector General in 12 federal departments, with the aim to create an office of independence with no undue influence from agency leadership. However, the office of the DOD IG was not created until 1982 to serve as an independent and unbiased arbiter in the DOD intra-organizational structure to promote integrity and accountability. The DOD IG by statute is tasked to further departmental efficiencies and effectiveness and, tackle fraud, waste and abuse of governmental resources through assessments, audits, and investigations of DOD operations. As an independent advisor to the Secretary of Defense (SECDEF) on agency performance and compliance, the office of the DOD IG reports its findings to the SECDEF and Congress, while attempting to remain independent of agency and congressional influence. The independence and integrity of the Office of the DOD IG is important, given its responsibility to conduct financial audits while ensuring financial

managers serve as good official managers and are accountable for taxpayer resources. This study investigates the impact of goal conflict (divided loyalties) relative to the DOD intra-organizational relationships between the DOD IG to conduct financial audits and remain independent and DOD CFO to produce auditable financial statement as the accountable official for the department's resources (Serbu, 2017).

The CFO Act of 1990 (Public Law 101–576) resulted in the creation of the position of the Chief Financial Officers but did not necessarily increase staffing levels. The Act imposed long-term fiscal planning requirements on agency CFOs, required audited financial statements, and ultimately encouraged accountability across federal departments and agencies. At the present time, the enactment of this measure has resulted in 23 of the 24 executive branch agencies achieving auditability in support of government-wide financial management accountability (Serbu, 2017). The DOD remains the only executive branch agency that has yet to achieve audit. Despite a concerted effort by both the DOD IG and DOD CFO staff in attaining accurate preparation and auditability over its financial statements, an unmodified opinion continues to elude the DOD.

The CFOA required the agency IG or his or her appointed agent (i.e., Independent Professional Auditor) to audit the agency's financial statements in accordance with GAAS. Both the DOD IG and CFO positions were created to oversee financial management activities and reforms related to the programs and operations of the DOD to combat fraud, waste, and abuse on behalf of taxpayers for the revenue entrusted to the government. Thus, understanding the dynamics and complexities of the relationship between the department's two critical compliance components, the DOD IG and CFO,

are central to understanding why auditability of departmental finances remains elusive to its stakeholders (Congress and taxpayers) (NDAA, 2010).

The CFOA of 1990 and the subsequent GMRA are widely proclaimed as the most comprehensive federal financial management improvement reforms in more than 60 years. Since the passage of the CFOA of 1990, federal financial reform and accountability has resulted in successful financial statements audits of twenty-one of the twenty-four executive branch agencies under the CFO (Executive Office of the President, 2011). That said, do the successful production of auditable financial statements and the achievement of an unmodified audit opinion demonstrate to the public that federal agencies are accountable and notable managers of the revenue generated through public receipts? In addition, do the financial reports required by statute provide Congress, the President, federal agency leadership, and the public the financial data required to make informed financial decisions or provide transparency into how the government raises, manages, and expends taxpayer money? Finally, the underlying theme of the CFOA within the DOD is the achievement of an “unmodified opinion” by the DOD IG or an IPA appointed by the DOD IG, which is directly related to the intra-organizational relationship structure of the present study. IPAs are experts in the analysis and the application of accounting and auditing standards. When an executive agency receives a favorable opinion from an IPA, the auditor is only issuing a limited judgment that financial records and statements are “reasonably” in compliance with Generally Accepted Accounting Principles (GAAP) (GAO-18-568G, 2018).

Historically, the federal government has relied primarily on budgetary accounting principles since the enactment of the Budgeting and Accounting Act of 1921. Budgetary accounting allows federal agencies to track obligation authority and budgetary resources

to the congressional authorizations and appropriations processes. The federal Planning, Programming, Budgeting and Execution (PPBE) is the resource allocation system for the government's budgetary process to promote financial planning and control. The PPBE process involves analysis of past government receipts, expenditures, and outlays and presents future proposed receipt and expenditure plan for the federal entity. Hanks (2009), "*Financial Accountability at the DOD: Reviewing the Bidding*", argues whether it make sense for the DOD to continue its pursuit of CFOA compliance to produce commercial-style financial statements or transition its efforts to the development of a managerial accounting systems. This school of thought could lend credibility to some of the shortcomings of the applicability of commercial-style financial statements in the DOD, namely 1) the lack of a direct linkage to resource-allocation and 2) budgetary decision-making. According to a survey conducted by Coopers and Lybrand (now Price Waterhouse Cooper), it found agreement amongst financial manager and IGs that the CFOA had contributed to improved financial operation. In addition, the survey stated both financial managers and IGs "suggested that the process of preparing statements was more valuable than the actual statement themselves because the process contributed to a better understanding of program costs and what drives the costs" (McCaffery & Jones 2001, p.401).

DOD Audit Reform Initiatives and Financial Accountability

The DOD, in its effort to become audit ready, established a Financial Improvement and Audit Readiness (FIAR) directorate (FIAR, 2014). The core objective of this directorate was to establish a standardized comprehensive audit readiness plan, guidance, tools, and templates that may help the DOD and its components to achieve its audit

readiness goals. The FIAR guidance outlines the detailed strategy for the DOD and its components to comply with GAO audit requirements. This guidance is less restrictive in nature, allows management significant discretion, and departs from “Yellow Book” and Financial Audit Manual (FAM) requirements. For example, the GAO FAM allows only one exception (error) per 45 samples (transactions/data) for a control to operate effectively, however, FIAR guidelines allowed three to four exceptions per 45 samples for a positive determination. It is also important to note that FIAR guidance does not supersede any AICPA/GAO guidelines. Therefore, a successful audit readiness testing effort may not necessarily result in a successful measure for audit unless the audit readiness activities comply with the GAO/FAM guidelines (Kearney, Fernandez, Green & Zavada, 2013). In addition to the above guidelines, the DOD IG published its own DOD Audit Manual, DODM 7600.07, August 3, 2015, as a form of rulemaking to advise and check the discretion of DOD program managers and the financial management community of interest. This manual is important as it demonstrates how the DOD uses rulemaking to influence DOD financial program auditability. The DOD audit manual leveraged the guidelines of AICPA, OMB, and GAO to fit the DOD business model environment while maintaining independence and ethical principles. The DOD's financial management accountability has been on GAO's high-risk list since 1995. According to the GAO, the DOD is unable to produce reliable and auditable financial information due to the pervasive deficiencies in financial and related business management systems, processes, and controls. DOD staff loyalty and information disclosure are essential elements in the DOD's public accountability to explicitly understand who is accountable to whom (Gailmard, 2012).

GAO contends that the DOD's financial management deficiencies have impaired its ability to:

- a) Establish effective financial management information that can provide managers with timely, accurate, reliable, and useful information for informed decision-making;
- b) Prevent, detect, and report fraud, waste and abuse of taxpayer resources
- c) Sustain a full consolidated audit of its Financial Statements to demonstrate accountability and responsible officials (GAO-11-864T, 2011)

The National Defense Authorization Act (NDAA) of Fiscal Year (FY) 2010 required the DOD to provide progress status reports to congressional committees on their FIAR efforts twice a year. The Congress has mandated that the DOD validate that it is audit ready by 30 September FY 2017. The DOD's non-compliance with the CFOA of 1990 is currently on a dangerous collision course with potential congressional legislative consequences, such as withholding funding authorization, baseline budget cuts, incremental appropriations, and in-depth scrutiny and investigative congressional hearings. These actions are critically important to the present study, given their implications for attaining ideal governmental financial accountability (GAO-18-568G, 2018). Thus, the findings of this research study, relative to the impact of intra-organizational relationships (goal conflict/divided loyalty), as an explanation for embeddedness by protecting unsolicited information, may influence future accountability policies and rules.

Financial Statements, Federal Audits and Financial Accountability

The 1921 Budgeting and Accounting Act and its many amendments over the years, strengthened the role of the Executive Branch in budget preparation, alignment, and implementation. This was achieved largely through the role of the Bureau of the Budget (now OMB), but also through the Congressional monitoring of the original General

Accounting Office (now Government Accountability Office---GAO), which supports governmental financial accountability (GAO-14-704G, 2014). The OMB Circular A-123 Management's Responsibility for Internal Controls revised December 21, 2004, places a great deal of responsibility on federal administrators to provide assurance to the taxpayers that federal agencies are good, accountable officers of public resources. The DOD CFO suggests that the most effective approach to sustain favorable audit opinions is to strengthen internal controls to mitigate material weaknesses (Serbu, 2017). The Budgeting and Accountability Act of 1921 established the modern framework of the federal budgetary system and the requirement of an independent audit of federal accounts (Pub.L. 67-13, 42 Stat. 20, enacted June 10, 1921). The present study continues to examine the DOD's non-compliance to produce auditable financial statements.

According to OMB Circular A-123, Management's Responsibility for Internal Controls indicates that:

“...management has a fundamental responsibility to develop and maintain effective internal control. The proper accountable officer of Federal resources is an essential responsibility of agency managers and staff. Federal employees must ensure that Federal programs operate, and Federal resources are used efficiently and effectively to achieve desired objectives. Programs must operate and resources must be used consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.”

Financial statements and related footnote disclosures provide public agencies with a reflective assessment of its past financial performance through a structured set of data. These financial statements present the entity's resources and obligations for a specific period, governed by a widely accepted uniform structure known as Generally Accepted Accounting Principles (GAAP). The GAAP construct facilitates data analysis and comparisons through established tools such as ratio and variance analysis. The applicable

disclosures generally provide a detailed synopsis of noteworthy accounting policies and guidelines as well as other entity-specific clarifying information to include core mission, stakeholders, and budgetary data. All federal executive branch entities, including the Department of Defense (DOD) and its components are obligated to prepare financial statements in accordance with requirements set forth in the OMB Circular A-136 Financial Reporting Requirements revised September 18, 2014. This research study seeks to understand the impact of DOD intra-organizational relationships between the DOD IG, DOD CFO, and DOD Component CFOs (relative to goal conflict/divided loyalty), as an explanation for embeddedness by means of protecting information that could prove useful to the discovery learning processes to conduct and prepare financial statement audits.

Federal Accounting Governance and Accountability

The DOD's public accountability to the taxpayer is a function of the competencies of the DOD IG to perform oversight and review the financial statement audit conducted by the IPA based on the information provided by the DOD CFOs and embedded DOD Component CFOs. The OMB circular A-136 recognizes the Federal Accounting Standards Advisory Board (FASAB) as the authoritative body, assigned by the American Institute of Certified Public Accountants (AICPA), as the author of the GAAP. Hence, FASAB, in coordination with the Federal Accounting Standards Board (FASB), is responsible for establishing the GAAP for federal reporting entities. The AICPA was originally established in 1887 as the *American Association of Public Accountants* (AAPA), the national professional organization of Certified Public Accountants (CPAs) in the United States.

AICPA is the organization charged with setting the ethical standards for the profession and U.S. auditing standards for private companies, non-profit organizations, and federal, state

and local governments. Table 2 below defines the AICPA code of professional conduct articles:

Table 2: AICPA Code of Professional Conduct

Article	Title	Description
I	Responsibilities	In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.
II	The Public Interest	Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.
III	Integrity	To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.
IV	Objectivity and Independence	A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.
V	Due Care	A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.
VI	Scope and Nature of Services	A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.

The GAAP for federal entities was established through coordinated efforts of FASB, FASAB, and GAO. AICPA establishes audit principles and procedures for auditors of federal financial statements through the GAO's Yellow Book. The Yellow Book, also known as Generally Accepted Government Auditing Standards (GAGAS), provides guidelines for auditors to conduct audits of financial statements, programs, grants, and internal control. In the federal environment, auditors rely on the GAO Financial Audit Manual (FAM) in conjunction with the professional standards issued by AICPA. Therefore, auditors and financial managers must consider all authoritative guidelines to include the A-136 Financial Reporting Requirements, A-123 Management's Responsibility for Internal Controls, and the A-127 Financial Management Systems, GAGAS, GAO FAM while assessing and developing the entity's audit and audit readiness strategy.

According to Kerwin and Furlong (2011), legislation and rulemaking are two vital components of American public policy and law, and are essential to financial accountability. Legislation occurs when statutes are enacted by Congress to provide the legal authority to implement rules. The Administrative Procedures Act (APA) requires executive branch agencies to develop detailed procedures for agency rulemaking, which must include provisions for judicial review of agency actions. Rulemaking, as defined by Burrows and Garvey is the “agency process for formulating, amending, or repealing a rule, where a rule is defined as an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, procedure, or practice requirements of an agency” (2011, p.1). In the construct of auditable financial statements, the CFOA of 1990 serves as the legal authority ultimately directing the production of auditable financial statements by executive branch agencies. All public accounting firms and professional Certified Public Accountants (CPAs) in private and public practice must comply with AICPA’s code of professional conduct. Since the AICPA lacks the jurisdiction and enforcement authority in the federal government, the role to promulgate and enforce accounting and auditing guidance and standards rests with the GAO. The GAO maintains and supplements the AICPA professional standards based on the unique federal accounting and auditing needs. Consequently, all Inspector Generals in the federal government are required to follow GAO standards. Hence, the DOD IG has adopted the AICPA professional conduct guidelines to establish its independence and ethics benchmarks. Moreover, a code of ethics such as the ethical standards established by the American Institute of Certified Public Accountants (AICPA) for the accounting profession and United States auditing standards for private

companies, non-profit organizations, and federal, state, and local governments creates expectations and standards of conduct and professionalism among members of the profession. Thus, the public can also expect the same from their leaders. The Office of the DOD IG must maintain independence while concurrently conducting or overseeing the financial audit activities of the DOD in collaboration with the DOD CFO to achieve auditability.

Financial Statements, Audit Opinions and Financial Accountability

Financial statements and audit opinions are necessary tools required for governmental departments and agencies to provide accountability for the expenditure of public resources. This study will examine the impact of DOD intra-organizational relationships relative to goal conflict (divided loyalty) as an explanation for embeddedness by protecting information that is not solicited by the DOD auditor(s) or IPA(s). According to the AICPA Auditing Standards, auditor opinions range from best to worst as follows (GAO-18-568G, 2018, p.201):

- a) **Unmodified opinion**, most often referred to as a clean opinion, is issued when an auditor determines that each of the entity's Financial Statements are free of material misrepresentations and that the financial records are in accordance with Generally Accepted Accounting Principles (GAAP);
- b) **Modified opinion** concludes the entity's financial records have not been maintained in accordance with GAAP but no material misrepresentations are identified; however, the opinion will include the reason why the audit report is not unmodified;
- c) **Adverse opinion** indicates that the entity's financial records do not conform to GAAP, financial records provided are grossly misrepresented and often is an indication of existing or prospective fraud;
- d) **Disclaimer of opinion** is issued when an opinion of the entity's financial status could not be determined.

The federal financial statements provide pertinent information about assets and liabilities (what the agency owns and owes), expenses and revenues (period costs and

earnings), and obligations incurred during the period, as well as related expenditures and outlays recorded for current and previous unliquidated obligations. The General Purpose Federal Financial Report (GPFRR) also includes the “Management Discussion and Analysis” which seeks to “communicate the managers' insights about the reporting entity, increase the understandability and usefulness of the GPFRR, provide accessible information about the entity and its operations, service levels, successes, challenges, and future” (FASAB, 2015, p.1). According to OMB Circular A-136 *Financial Reporting Requirements*, DOD and its components are required to prepare, produce, and include the following as part of their Annual Financial Statements:

- a) Balance Sheet is a representation of the department’s assets, liabilities, and net position at the end of the fiscal year;
- b) Statement of Net Cost (SNC) reflects the gross costs of operations for the period minus any exchange revenues earned from its activities;
- c) Statement of Changes in Net Position (SCN) provides the sum of operations since inception plus unexpended appropriations at the end of the period;
- d) Statement of Budgetary Resources (SBR) reports the use and availability of budgetary resources at the end of the period; and
- e) Management Discussion and Analysis (MD&A) provides management thoughts and opinions of previous and forecast for future operations based on performance indicators

The OMB Circular A-136 recognizes and requires the above-mentioned financial statements as the only set of financial statements and holds management responsible for the preparation and presentation of these financial statements. The circular clearly states, the following: “*Preparation of the annual financial statements is the responsibility of agency management (i.e., CFO)*”. In addition to the above, the Public Companies Accounting Oversight Board (PCAOB) states the following: Management is responsible and accountable for the annual financial reports of the departments and agencies. Management is also accountable for the implementation of rigorous accounting policies,

processes and maintain and sustain a robust internal controls program. While the auditor is responsible for rendering an opinion of the departments or agencies financial statement reports (Kearney, Fernandez, Green & Zavada, 2013). Through such proclamations issued by GAO and PCAOB, management has an implicit responsibility to produce the fair presentation of relevant and reliable financials statements in conformity with GAAP. It is ultimately the responsibility of the DOD CFO to produce auditable financial statements on behalf of the department that can withstand the rigor and scrutiny of an Independent Professional Auditor in accordance with GAAP. The DOD has not achieved financial statement auditability since the enactment of the CFOA of 1990. The intent of this research study is to examine the impact of DOD intra-organizational relationships between the DOD IG, DOD CFO, and Component DOD CFOs relative to goal conflict (divided loyalty) as an explanation for embeddedness by protecting unsolicited information within the DOD financial management community.

Management Assertions and Financial Accountability

The Management Assertions highlight the promises or assertions of an entity's management, while presenting financial statements to the public or other stakeholders for scrutiny to ensure financial accountability. The accounting literature identifies these implicit or explicit assurances as "management representations" or "financial statements management assertions" in Auditing Standard 15 Section 11 of Financial Statement Assertions (Kearney, Fernandez, Green & Zavada, 2013). An entity's auditor tests (opines on) the validity of the management assertions as well as uses it to plan while conducting the audit and consideration for the final opinion. The management assertions are further elaborated in the audit literature (AS 15, 2010) as to completeness, existence or occurrence,

accuracy, valuation, obligations and rights, presentation and disclosure. Below is an example of the financial statement assertions for the property, plant, and equipment (PP&E) line item on an entity's balance sheet from the management perspective, which provides assurance that:

- a) All PP&E assets that should be recorded, have been recorded and are reported in the Financial Statements (Completeness assertion)
- b) All PP&E assets reported in the entity's balance sheet existed at the end of the reporting period end (Existence)
- c) All PP&E assets are reported accurately (Accuracy/Valuation)
- d) All the reported PP&E assets are owned by the entity (rights and obligations)
- e) Disclosed events, transactions, balances and other financial data related to PP&E assets have been classified and presented in the financial statements in accordance with GAAP

The following literature review attempts to familiarize the reader with available literature on the principal-agent (PA) or agency theory and how the structural framework of this theory may explain the intra-organizational relationships between the DOD IG and CFO and the CFO and embedded DOD Component CFOs. Applying the principal-agent theory can examine how these relationships might influence the DOD requirement of the DOD CFO to produce auditable financial statements. The intent of this study is to provide a greater understanding of the impact of goal conflict (divided loyalties) as an explanation for embeddedness by means of protecting information not solicited. For the purpose of this research study, a theoretical understanding of the following terminology is critical:

- a) goal conflict (divided loyalty) – opposing views or opinion; relationship or organizational devotion or commitment struggle;
- b) embeddedness – the position, roles, and responsibilities of the DOD IG, the DOD CFO, or DOD Component CFOs being ingrained into the DOD intra-organizational structure and culture (i.e., DOD or a DOD Component)
- c) information protection – principal lacks information known by the agent, but the agent will share if the principal inquires

First, the study will examine the impact of the goal conflict (divided loyalty) of the

intra-organizational relationships between the DOD IG/DOD CFO and DOD CFO/DOD ingrained Component CFOs as an explanation for embeddedness. Next, it will examine the impact of goal conflict (divided loyalty) as a means for protecting unsolicited information between the DOD IG/DOD CFO and DOD Component CFO. Eisenhardt's (1989) assessment and evaluation of the agency theory suggests two struggles exist with agency theory: 1) "goal conflict," exists when the desires of the principal and agent are in conflict and 2) the difficulty that the principal has in validating which activities the agent is engaged in, specifically whether the agent's behavior is appropriate under the contract. The principal agent theory is the framework aimed to explain the possibilities of how these relationships may influence the Department's ability to achieve auditability. Therefore, this study may shed light on the significance of understanding how intra-organizational relationships between the DOD IG, DOD CFO, and the embedded DOD Component CFOs within DOD components may be crucial to the DOD achieving auditability over its consolidated financial statement audits. It is this fundamental problem this study seeks to evaluate.

Agency Theory Context

The literature on principal-agent theory is important for framing this research because it allowed the researcher to focus on analyzing the landscape of professions, embeddedness, fiduciaries, goal conflict, and monitoring, whereas making agency relationships appears to be the likely problem in providing the most theoretical findings (Shapiro, 2005). In the DOD, the embedded organization is an independent variable that represents the possible causes of the goal conflict, which is the dependent variable (the outcome) and information asymmetry is the instrument used to protect the embeddedness

circle of the organization. The application of the agency theory was used to explain the relationship between the DOD IG/CFO and DOD CFO/DOD embedded Component CFOs in the context of the CFOA of 1990. This theory provides significant insights into how the conflicted relationship between the actors will eventually help guide the DOD to achieve auditability systems (Mitnick, 2012).

The primary focus of the principal-agent theory is to understand the relationship and interaction between two parties (Miller, 2005). The principal-agent relationship involves appointment of an agent by the principal to accomplish a specialized task, which the principal may lack the capacity or competence to achieve. The principal's expectation is that the agent will act in the best interest of the principal. As such, the principal relies heavily on the agent's knowledge, skills, recommendations, and guidance to accomplish the task or mission. Agents are needed to augment the DOD financial management workforce knowledge gap. The principal-agent theory is important to examine the goal conflict (divided loyalties) between the Department of Defense Inspector General (DOD IG), Department of Defense Chief Financial Officers (DOD CFO), and embedded DOD Component Chief Financial Officers as an explanation for embeddedness by protecting information that is not solicited by the auditors to opine over governmental financial statement auditability and accountability. In the hierarchical structure of the DOD and for the purposes of this research, several DOD principal-agent relationships were examined. For example, in the DOD, principal-agent relationships exist between the following positions: 1) the SECDEF is the principal and the DOD IG and CFO are the agents; 2) from an audit readiness perspective, the DOD IG serves as the principal, while the CFO acts as the agent to produce evidence substantiating the reasonableness and accuracy of

reported receipts and expenditures; and 3) the DOD CFO is the principal and the embedded DOD Component CFOs are the agents. The premise of the principal-agent theory agreement is to determine how much authority the principal should allow the agent to exercise in the relationship. Thus, the principal-agent theory dichotomy can be used to help understand the DOD intra-relationships and delegation of authority between the SECDEF, DOD IG, DOD CFO, and Component CFOs (Tumbat & Grayson, 2016; Van Slyke, 2007). The top three DOD leadership positions (SECDEF, DOD IG, and CFO) are all presidential appointees and confirmed by the senate (https://ballotpedia.org/Appointment_confirmation_process). Therefore, it is necessary to trace, understand, and analyze the DOD accountability hierarchy. Dubnick and Frederickson (2010) denote that accountability is a relationship between two or more parties, where one party is obligated to give an account of their behavior to others, and where consequences are taken to achieve desired behavior in an accountable manner. Both the DOD IG and CFO act as principal advisors to the SECDEF. As a principal, the SECDEF delegates the authority to execute the CFOA compliance activities to his agents, the DOD IG and the CFO. Under the IG Act 6.a.9., the DOD IG may determine that the Department's Office of the IG for Audit lacks the capacity to conduct in-house department-wide financial audit activities, thereby outsourcing program services, audit support, and expertise to an IPA. This action results in creating yet another relationship making the IPA an agent to the DOD IG. The outsourcing of the financial audit activities to an IPA may also enhance the DOD IG's credibility and commitment, and avoid the optics of a conflict of interest as these principal-agent relationships provide greater independence, while simultaneously seeking to ensure accountability (Majone, 2001). The principal (DOD IG) and the agent (IPA) must agree on

the terms and conditions of the contract, to include the level of expertise required, quality, performance-reporting, compensation, monitoring, and punishment/consequences. This contractual agreement between the DOD IG and IPA establishes the principal-agent relationship which makes the IPA accountable to the DOD IG to conduct an independent audit over the department's financial statements on behalf of the DOD IG (Serbu, 2017).

Many researchers' contributions provided valuable insights into the agency theory literature. For instance, Eisenhardt (1989, p.64) notes that the principal-agent model is often used in organizational economics and management literature as a theoretical framework“to explain the behaviors of principal and agent but my intent is to use the principal agent model to analyze goal conflict as an explanation for (divided loyalties) and information protection within organizations.” Furthermore, Eisenhardt's (1989) assessment and evaluation of the agency theory suggest two problems exist with agency theory: 1) “goal conflict,” exists when the desires of the principal and agent are in conflict and 2) the difficulty that the principal has in validating which activities the agent is engaged in, specifically whether the agent's behavior is appropriate under the contract.

Additionally, Shapiro (2005) provides a fundamental assessment of classic or traditional agency theory and posits the theory has inherent problems: 1) adverse selection — principal lack of information (information asymmetry) to select the best agent for the task; and 2) the principals are unaware of the actions of agents once selected, who are acting on their behalf. Per Shapiro (2005), the construct of the agency relationship results in clear incompatible goals, where the principals are risk neutral and agents are risk-averse. Shapiro also asserts the agency relationship is not static but rather dynamic. For example, the DOD CFO is an agent in the organizational relationship with the SECDEF but would

be the principal in a relationship with the department Component CFOs. According to Shapiro (2005, p. 278), the primary source of goal conflict between the principal and agent is that the agent is generally attempting to serve multiple principals with conflicting interests simultaneously. Therefore, how do the agents navigate through the intertwined web of competing loyalties? Esprit de corps and doctrine are ingrained in military personnel from the very onset, starting with basic training, officer training school, military academies, and Reserve Officer Training Corps, to enforce a common, shared loyalty by the members of the group (and not self-gain). The alliances of military loyalty extend far beyond the boundaries of commitment and trust. The DOD and military loyalty is partially inspired by the oath of office to “support and defend the Constitution of the United States against all enemies, foreign or domestic...I take this obligation freely...I will well and faithfully discharge the duties of the office upon which I am about to enter; so help me God” (5 U.S.C. §3331). Rohr (1998) also asserts the federal civilian workforce’s code of conduct must be based in the oath to uphold the nation’s Constitution. This form of unwavering allegiance and selflessness is rare but built upon the reliance of Soldiers, Sailors, Airmen, and Marines place upon loyalty to one another, the mission, and the military. Oftentimes, this loyalty entails a willingness to make the ultimate sacrifice to die for each other in the defense of the nation. This research examined the divided loyalties relationship between the DOD CFO and the embedded DOD CFOs relative to the accountability requirement of the DOD CFO to produce auditable financial statement. Therefore, the central focus of this research is to explain the influence of divided loyalties (goal conflict) in principal-agent relationships within the DOD and the DOD's compliance with the CFOA of 1990.

Professions (Expertise/Asymmetry Information)

The literature demonstrates that professions may offer insight into and/or solutions to many problems present in the landscape of agency theory to include the imbalance of asymmetry information, adverse selection, and specifying the agency contract terms of the services to be rendered or performed. Shapiro asserts that a potential solution to these problems could be achieved through “training, credentialing, licensing, recertification and mandatory continuing training and education to solve the problem of adverse selection” (Shapiro 2005, p. 276). For instance, to achieve auditable financial statements and develop a skilled and knowledgeable financial management workforce, the department requires a competency-based financial management training and educational framework with a focus on decision support and audit readiness to professionalize the workforce. The National Defense Authorization Act for FY2012 (Public Law 112-81) provided the SECDEF with the authority to prescribe professional certification and credentialing standards for both the DOD military and civilian financial management workforce. Shapiro (2005) further identifies “best practices to limit agent discretion. . . establish code of ethics to curtail self-interest and opportunism of service providers. . . to ensure a standard and quality service are provided, professions are also self-regulating. . . as well as offer malpractice insurance to protect principals from errors and incompetent agents” (Sharipo, 2005, p. 276). Finally, professions are strategies that can be deployed to constrain agency cost thus reducing moral hazards.

Embeddedness (Organizational structure and culture) and Accountability

Shapiro (2005) describes agency embeddedness relationships as a state where the

principal often knows an agent's characteristics because of personal affiliation with agents or through trusted social circles in which both principal and agents are members. Principals are usually privy to insider information relative to the agent's experience, accomplishments and reputations. Network relationships often include individuals who share similar interest, principles, and values with a certain level of familiarity and trust between principals and agents. Frequently, the principal's recruitment efforts target agents from their inner circle of associates, which can help to reduce the consequences of the agency problems of goal conflict. Social networks provide a wide-range of self-regulating sanctions for non-compliant agents (public embarrassment and damage of reputation). Conversely, embeddedness does have its downsides; adverse selection could lead the principal to select a less competent candidate or perform relaxed monitoring of the agent and may provide the agent a sense of protection for unfettered opportunism (Shapiro, 2005). Similar situations exist in the DOD organizational structure as many key leadership positions are filled with members from the retired military community, government contractors, or professionals from private industry with DOD affiliations. Additionally, functions and responsibilities of the DOD IG and CFO are embedded in the DOD components (i.e., Services, Defense Agencies, Field Activities, and Combatant Commands). The Heads of DOD Components (Services, Defense Agencies and Field Activities) are responsible for directing, completing, and managing financial management and inspector general activities within their respective components in compliance with the policies, principles, standards, and practices prescribed by the DOD IG and CFO. Intrinsically, these multiple principal and agent relationships allow for competing goals and interests, agency cultures and loyalties, potentially increasing informational

asymmetry and difficulties of performing oversight and monitoring (Eisenhardt, 1989). Therefore, the complexities of the organizational structures become prime breeding ground for inter-agency or departmental fraud, waste, and abuse to go under-discovered for extended periods.

The embeddedness of agency relationships in the context of the DOD intra-organizational structure is extremely complex, as depicted in Figure 4 below.

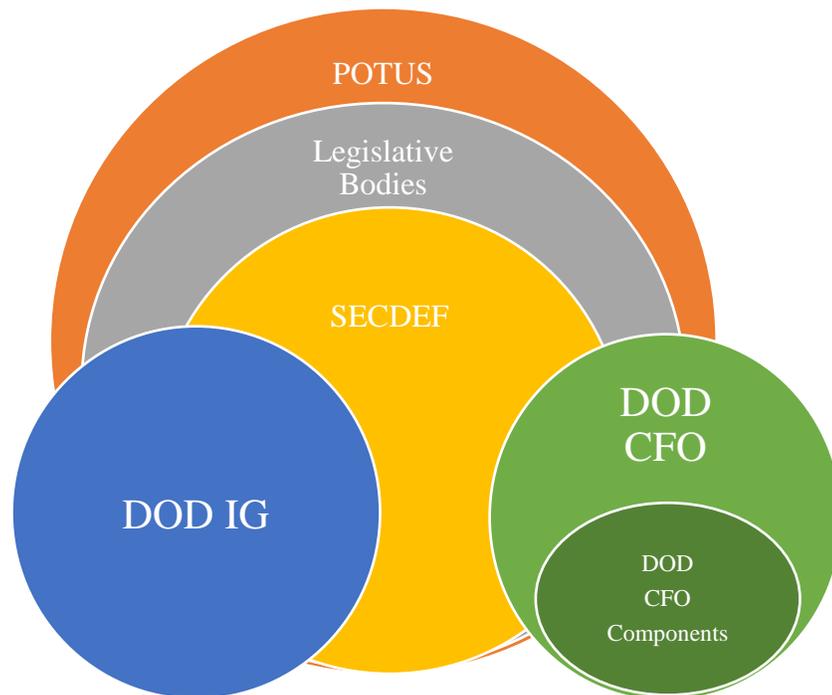


Figure 4: DOD Embedded Organizational Structure

Moreover, the recent research contends that the agency relationship is broader than the assumptions of the economic paradigm (Ponser, 2000). Scholars across many disciplines suggest the parties of the agency relationships are not solely principals or agents but often both simultaneously, “even in the same transaction or hierarchical structure” (Shapiro, 2005, p. 267). The assumption of a single principal and agent relationship is invariably expanded to include multiple principals and agents. Bureaucracies of the DOD are composed of persons with many interests, different professions, and policy objectives

within the agency, results in conflicting policy goals. Thus, the agency is caught in a maze of conflicting goals supported by Congress, the President, and regulations, resulting in more complex theories, relationship designs, and competition over interests and goals (Shapiro, 2005).

Goal Conflicts

Goal conflict is the classic agency paradigm in which the interest of the agent diverges from those of the principal, which is critical to understanding the dynamics of the DOD intra-organizational relationships between the DOD IG, DOD CFO, and embedded Component DOD CFOs to attain financial accountability and auditability. Hence, the solution to this dilemma relevant to accountability, for example, is to determine what incentives or punishments will realign the interests of the agents with those of the principal. Shapiro asserts the “real problem is that the agent is most likely serving many masters, many with conflicting interest” (Shapiro, 2005, p. 278). In the DOD, each of the Military Services, Defense Agencies and Defense Field Activities (Components) organization have an embedded Chief Financial Officer. This research is unique and provide contributions because it looks at embeddedness not as a response to agency theory but as an explanation for divided loyalty (duty to service) to another principal by protecting the information of the embedded circle (i.e., Military Services, Defense Agencies, and Defense Field Activities (Components)) by not divulging any more information than solicited, such as the “Don’t Ask, Don’t Tell” law.

However, when the agency is bound by multiple principals, such as the President, Congressional committees (authorization and appropriation), and the OMB, the principals compete for influence over the agency (Waterman & Meier, 1998). This results in the

agency finding itself under undue pressure, “forced to make compromises and trade-offs favoring competing principals or demands over others” and for self-gain (agency self-interest) employing strategies that create competition amongst principals (Waterman and Meier, 1998, p. 178). Conversely, within the DOD organizational structure, goal conflict and competition does not exist for self-gain but for component loyalty and information protection.

In the context of the CFO Act of 1990, the primary goal conflict between the DOD IG and the CFO is how the Department should achieve auditable financial statements. The purpose of the Office of the DOD IG is to audit the department's financial statements in accordance with Generally Accepted Audit Standards. In contrast, the purpose of the Office of the DOD CFO is to prepare financial statements in accordance with the requirements set forth in the OMB Circular A-136 Financial Reporting Requirements. How do these multiple agents of the SECDEF strategically maneuver through the intertwined loyalties to the department and the Congress, while simultaneously negotiating opposing interest and occasionally irreconcilable differences? The DOD CFO attempts to resolve and align the agent interest conflicts by incentivizing agency Heads through public recognition and/or potential budget reductions (i.e., punishment). This study will examine the impact of DOD intra-organizational relationships between the DOD IG, DOD CFO, and embedded Component DOD CFOs relative to the agent theory elements of goal conflict (divided loyalty).

Agency Theory Critics

Critics of the agency theory as a model argue that relationship imbalance exists between the principal and the agent because it unfavorably characterizes the agent’s moral

and collective behavior as self-serving. The self-serving attribute of principal agent theory is not relevant in the context of this study. The DOD is a mission-centric organization based on the alliance and reliance of intertwined interdependent relationships with a single mission to equip the warfighters (military forces) with tools necessary to deter war and protect the security of the nation. The pillars of DOD are built upon loyalty, pride, and an alliance to organizational culture, mission, and goals. This theory is examined to determine the connective tissues of DOD intra-organizational relationships relative to accountability and auditability of DOD financial reports. Likewise, the critics discount the opportunistic behavior of the principal (Van Slyke, 2006). The theory is further criticized as an inappropriate framework to evaluate or assess service outputs that cannot be easily measured or observed. This is important to financial accountability because it informs the public of how expenditures were used to secure the nation. Waterman and Meier (1998) posit another weakness is that the theory discounts the evolution of relationships over time. For example, in 2015, the DOD CFO told Congress that continuous DOD reorganizations are disruptive to building strong intra-organizational relationships responsible for the financial auditability and accountability of the department. Finally, the theory is criticized because it is deemed too simplistic, defined as a relationship between two parties in which one party, the “principal”, benefits when the other party, the “agent”, performs a specific task with care or effort (Posner, 2000). Mitnick (1986) further criticizes the agency theory as model variables: information and goal conflict are assumed as constants with little change over time and across relationship setting in the model. Regardless of its critics, the agency theory has proven to be applicable to understanding a variety of organizational phenomena.

In summary, the literature on principal agency theory and the Department of Defense intra-organizational relationships between the DOD IG and the DOD CFOs functions in a highly embedded network of information. The unique contribution of this research to the literature is that it addresses the question of organizational embeddedness, not as a response to agency theory, but as divided loyalty to another principal to protect information of the embedded circle by not volunteering any more information than is required. According to the literature, many factors could potentially affect or influence the relationship of the DOD IG/CFO and the embedded DOD Component CFOs. The theoretical framework for this case study design examines the principal agent relationship of the DOD IG/CFO and embedded DOD Component CFOs relative to goal conflict, embeddedness, and information asymmetry in the context of the CFOA of 1990 (Shapiro, 2005; Gailmard, 2012).

Stewardship Theory and Governmental Financial Accountability

Stewardship theory was examined to determine its suitability for analyzing the impact of organizational relationship structures relative to DOD financial statement accountability and auditability for the expenditure of public revenues. This theory emphasizes cooperative efforts and conditions in which leaders are not driven by their own goals but are stewards whose goals are aligned with the objectives of their principals and provides management an alternative to the agency theory (Davis, Donaldson & Schoorman, 1997). The stewardship theory was not appropriate for this research study because the relationship of the DOD IG and CFO violate the assumptions that stewardship theory is operating in a cooperative environment. The goal of the DOD IG/IPA is to conduct an independent examination of the department's financial statements in

accordance with GAAP/GAAS and issue an impartial reasonable judgment or opinion of the department's financial health. For example, by statute, the DOD IG is granted complete independence over their decision-making from departmental influence to evaluate or conduct audits or investigations on all aspects of DOD operations. Hence, the core mission of the office of the DOD IG is to “promote integrity, accountability, and improvement of DOD personnel, programs and operations to support the department’s mission and serve the public interest.” On the other hand, the DOD CFO is accountable for producing the department’s financial statement audits to demonstrate accountability for taxpayer resources.

The independence and integrity of the office of the DOD IG, in turn, helps foster a relationship of public trust. When public administrators create an environment of trust, it helps to communicate and demonstrate to the public that the administration is working in their best interests. When an individual is serving the greater good of the public, they are clearly placing a higher priority on public interest than on self-interest which is an essential component of the agency theory. These characteristics tend to provide substantial complimentary evidence that would support the stewardship theory, which focuses on the alignment of the principals and agents behavior and interest. The primary goal of the DOD CFO is to implement sustainable standardized operational processes in accordance with GAAP that demonstrate responsibility and accountability of taxpayer resources to defend the security of the nation. On the other hand, the goal of the DOD IG is to ensure DOD operations and financial statements meet GAAS. Conversely, the fundamental difference between the theories is the source of motivation (intrinsic rewards to the steward such as promotion or duty or extrinsic motivation to the agent such as wealth or incentives). The

intent of this research study is to examine the impact of DOD intra-organizational relationships between the DOD IG, DOD CFO, and ingrained Component DOD CFOs relative to the agent theory elements of goal conflict (divided loyalty) as an explanation for embeddedness by protecting information that is not solicited by the DOD auditor(s) within the DOD financial management community.

Theoretical Framework

This principal-agent theoretical framework allows the researcher to use a variety of lenses to examine the complex relationship of the DOD IG/CFO and embedded DOD Component CFOs. This theoretical framework suggests that the relationship between the embedded organization and their protection of information provides an explanation for the goal conflict. In the DOD, the embedded organization is an independent variable that represents the possible cause of the goal conflict, which is the dependent variable, the outcome (result). Information asymmetry is the instrument used to protect the embeddedness circle of the organization.

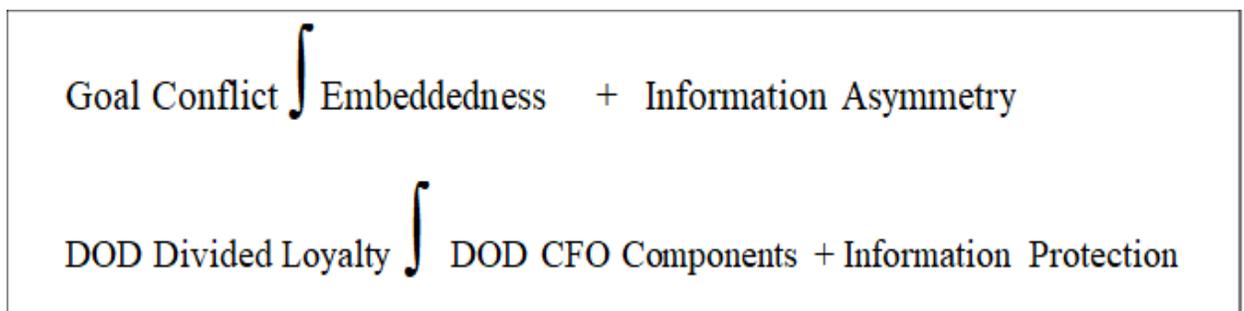


Figure 5 below suggests the imbalance of goal conflict and information asymmetry are central tenets of the relationship between the DOD IG (principal), DOD CFO (principal/agent), and the embedded DOD component CFOs (agents).

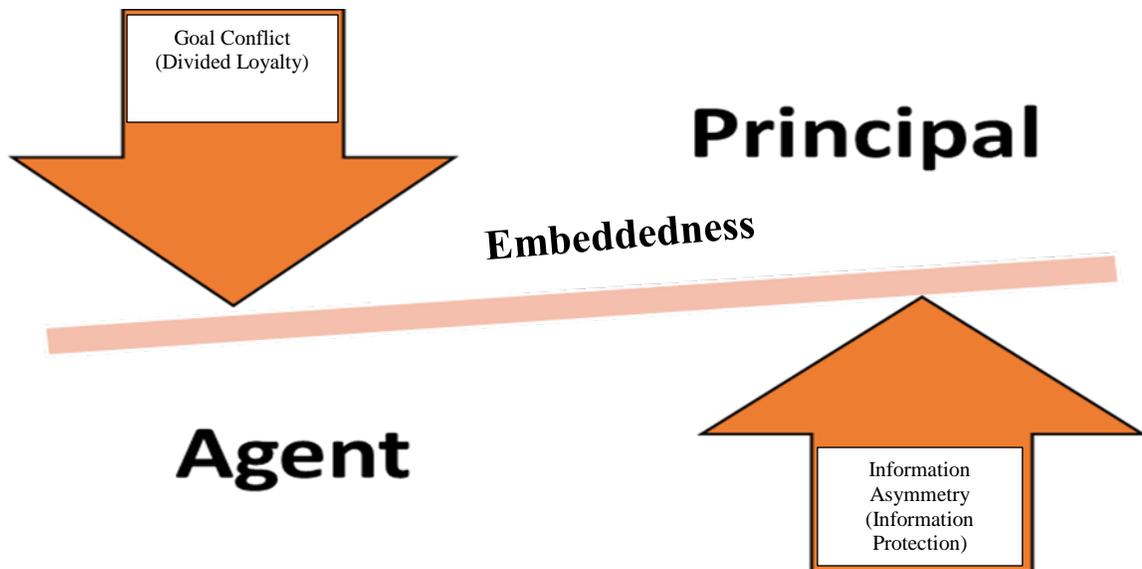


Figure 5: Agency Theory Model

The application of the relationship phenomenon of principals and agents demonstrated potential utility as far back as sharecropping, where the landowner is the principal and the farmer-tenant is the agent. The theory is utilized extensively in the disciplines of law, finance, accounting, and economics. According to Mitnick (1986), agency theory is the simple contractual relationship between two parties as pay for performance. Two fundamental assumptions of the agency theory are 1) “goal conflict exists between principals and agents” and 2) “that agents have more information than their principals, which results in an information asymmetry between the parties” (Waterman & Meier, 1998, p.173). This research rejects the perceived assumption of goal conflict as characterized by Shapiro as “the departure of agents from the interests of the principal and the agent will leverage/exploit information for self-gain” (Shapiro, 2005, p.278). This research study focused on the premise that goal conflict is an explanation for embeddedness, as a probable cause of divided loyalty to another principal by protecting information of the embedded network not necessarily based on familiarity and trust

between principals and agents. The classic agency paradigm is that the agent possesses more information than the principal, which the agent will exploit for self-gain; and the agency problem of goal conflict exists when the agent diverts from the goal or interest of the principal resulting in conflict. Agency theory is deemed to be the most applicable theoretical framework for examining the DOD intra-organizational relationships in the context of CFOA compliance. The relationship between the DOD IG/CFO and embedded DOD Component CFOs is manifested through the existence of the protection of information and conflict of divided loyalties between the embedded organizations. The conditions of adverse selection and moral hazard are valuable contributions to principal agent theory research but are not relevant in explaining the embeddedness of divided loyalties that might impede the flow of information that could contribute to the DOD becoming auditable. This study is not only significant for the DOD but seeks to explain many manifestations of goal conflict for a myriad of reasons to include embeddedness. The study investigates embeddedness as an explanation of the source of conflict between the principal and agent. The goal of the DOD CFO is to create and employ sustainable standardized operational and system processes and procedures in accordance with GAAP. The execution of these activities serves to demonstrate accountability of taxpayer resources, which are then opined by the DOD IG (i.e., independent professional auditor) to ensure that the DOD operations, systems, and financial statements meet GAAS. This relationship creates a conflict of interest resulting in divided loyalty and information protection between the DOD IG, CFO, and the embedded DOD Component CFOs. Therefore, this research study concentrates on the relationship between the DOD IG, DOD CFO, and embedded DOD Component CFOs and the findings that could potentially offer

unique insight into how relationships between parties relative to goal conflict, embeddedness, and information protection compromise the department's efforts to support the warfighter in defense of the nation.

RESEARCH METHODOLOGY

Introduction and Overview

For this study, a qualitative research methodology is selected to investigate and examine the DOD intra-organizational relationships between the DOD IG, DOD CFO, and the embedded DOD CFOs within Component organizations (Services, Defense Agencies, Field Agencies, and Combatant Commands). The intent of this research study is to address the gap in the literature on the impact of embeddedness phenomenon among DOD intra-organizational relationships, divided loyalty (goal conflict), and the protection of information (information asymmetry) to achieve financial auditability and CFOA compliance. The qualitative research design allowed the researcher to focus on the DOD intra-organizational relationships between the DOD IG, DOD CFO, and embedded DOD Component CFOs. The investigator believed a better understanding of these principal-agency relationships would allow the DOD to advance its audit efforts from a more informed evaluation position of potential non-traditional audit impediments. An explanatory case study design was used to gain a comprehensive understanding of the relationships involved in the DOD audit processes. Towards this end, the study was guided by the below research questions to examine the DOD IG, DOD CFO, and embedded DOD Component CFOs relationship relative to the principal-agent theory. The central research questions of this study are:

RQ₁: How do DOD intra-organizational relationships (i.e., DOD IG, DOD CFO, or ingrained DOD Component CFOs) impact the department's goal to achieve financial accountability and auditability?

RQ₂: How do goal conflicts (divided loyalty), CFO embeddedness, and information protection in the Department of Defense affect the DOD's efforts to achieve auditability?

RQ3: How do the effects of divided loyalty (goal conflicts), CFO embeddedness, and information protection differ between the Services (Army, Air Force, Navy and Marines), Defense Agencies with mixed workforce (combined military services and Civilians), and civilian-only Defense Agencies?

This methodology chapter begins with the purpose of the study and research questions that guided the study to address the literature gap and the research design. The next section discusses the research sampling methodology, the information required to conduct the study, data-collection methodology, and data analysis procedures. Finally, the chapter discusses the ethical considerations, criteria of trustworthiness, and acknowledgment of study limitations, and concludes with a chapter summary.

Research Sample

The participant population for this study consisted of the DOD IG and staff over Audits and the DOD CFO and staff. Even though the DOD consists of 43 Components, only the Military Services and Defense Agency IG/CFOs and staff were selected to participate in this study. The Military Services, Defense Agencies, and Field Activities included in the research were the Army, Air Force, Navy, Marines, DFAS, DLA, and DSS. A research sample is usually comprised of a small unit or subunits derived from the total research population (Christensen, Johnson & Turner, 2011).

For this study, a comparatively small number of prospective participants from DOD Components were initially solicited for participation, based on their professional positions in DOD offices. The researcher utilized current participants' associations with other financial managers, budget analyst, accountants, auditors, and financial systems personnel to increase the number of electronic survey participations (Lobiondo-Wood & Haber, 2002). Of the participants solicited, a sample of nine participants were interviewed. Their

interviews were beneficial and enabled the researcher to explore participants' experiences in greater depth, along with their perceptions of goal conflicts within the DOD. Additionally, the interviews provided insight into their perceptions of the DOD financial audit relationships and the impact of ingrained and divided loyalty of CFOs within DOD Components. Furthermore, sampling assisted the researcher in gaining insights from the experiences of the interviewees, compared to the larger sample generated from the electronic surveys, to analyze the findings for institutional congruency.

The researcher utilized purposeful sampling technique for this study. Purposeful sampling is frequently used in qualitative research when a defined research sample is required to sufficiently address the research question (Teddlie & Yu, 2007). A representative sample of the border population is not a consideration of purposeful sampling. Purposeful sampling focuses on generating a sample of participants that meet an established set of characteristics (Wilmont, 2005). Also, it is an appropriate application for use in qualitative research to seek data and recruit participants who met the criteria with common characteristics, such as DOD personnel actively involved in the DOD-wide consolidated Audit activities. These participants were selected, based on their education, training, certifications, professions, and experiences, have characteristics that are not widespread among the general population.

The application of purposeful sampling techniques enabled the researcher to create a sample population of 36 participants with shared knowledge of the DOD ecosystems, DOD relationships, and the CFOA of 1990. In addition to purposeful sampling, this research study also incorporated convenience and snowball sampling techniques to provide greater access to potential study participants as well as to help ensure participation remains

voluntary. Convenience sampling empowered the investigator to involve DOD personnel in the study based on their availability and motivation to participate in the research (Teddlé & Yu, 2007). Snowball sampling is a method used when gaining access to participants are challenging but individuals meet the specific research criteria. The snowball sampling strategy permits participants to refer other eligible individuals to participate in the research study (Lobiondo-Wood & Haber, 2002). The assistance of the DOD Financial and Resource Management Personnel, the IG participants, and other Senior Advisors were instrumental in the identification of subject matter experts with personal knowledge of the DOD's initiatives to achieve compliance with the CFOA of 1990.

Information Required

In this qualitative case study, diverse data sources were considered to address the research questions. The researcher used primary and secondary sources of qualitative data for this study. The primary data source required for this study was information collected through an electronic survey, which included a range of demographic information relating to profession, length of federal service, education, training, and certifications. Additionally, primary data included information based on insight and analysis gained from the electronic surveys and semi-structured interviews with staff members with experience and expertise in the DOD IG and CFO communities from various DOD Components. The information gathered from these interviews, in combination with the electronic survey data, provided the framework for the analysis and understanding of the primary qualitative research findings. For example, the ingrained IG/CFO relationship profiles were obtained for the sample subunit from open source data (publicly available) information. Demographic data were collected from all participants to assess their professional expertise, credentials, and

experience in DOD financial management operations. Although, participants were all DOD personnel, there were distinctive differences among the following data categories: occupational specialty, length of service with the federal government and DOD, education, training and certifications, and pay grade. The information collected was beneficial in evaluating organization loyalty and understanding how embeddedness within DOD Components impacts the intra-organizational relationship.

Agency-Principal theory formed the foundation for this case study, which examines the DOD intra-organizational relationships between the DOD IG/DOD CFO and DOD CFO/embedded DOD Component CFOs through professional perception and experiences. Agency-Principal theory is a basis theory in explaining goal conflicts within DOD financial audit relationships.

Research Design

The qualitative single-case study research design was the appropriate approach to explore the phenomenon of the embedded principal-agent relationship of the auditor (DOD IG) and the auditees (DOD CFO and DOD Component CFOs). The single-case study design with multiple units of analysis allowed the researcher to consider subunits within the same organization or department (Yin, 2010).

It is important to note that there are two distinct types of Inspector Generals under the Inspector General Act of 1978 (as amended): 1) Establishment IGs and 2) Designated Federal Entities. The DOD IG is a statutory Establishment IG appointed by the President with Senate confirmation. The DOD IG has a dual reporting obligation to both the agency head and the Congress. The DOD IG is required to appoint two officials: an Assistant IG for Auditing and for Investigations. The Assistant IG for Auditing is responsible for

supervising the performance of audits for the agency's operations and programs. The DOD Component IGs are Designated Federal Entity IGs appointed by and report directly to the agency head to promote integrity, accountability, and improvements of the operations, programs, and personnel. The DOD workforce structure consists of three distinct subunits: the Military Services, Defense Agencies, and Field Activities, each with an embedded Inspector General and Chief Financial Officer. This research study involved subunit participants from all the different DOD workforce structures (Military Services, Defense Agencies, and Field Activities). The first subunit types that the study examined is a branch of the United States Armed Forces (i.e., United States Marine Corps (USMC)). The USMC operates under the Department of Navy. The Marine Corps is trained and organized to serve as the elite branch of the Armed Forces in offensive, amphibious warfare. The USMC is a total mixed workforce of 186,342 members, composed of 184,401 soldiers (21,111 Officers/163,201 Enlisted) and 1,941 civilian Marines.

Figure 6 below depicts the USMC organizational structure:

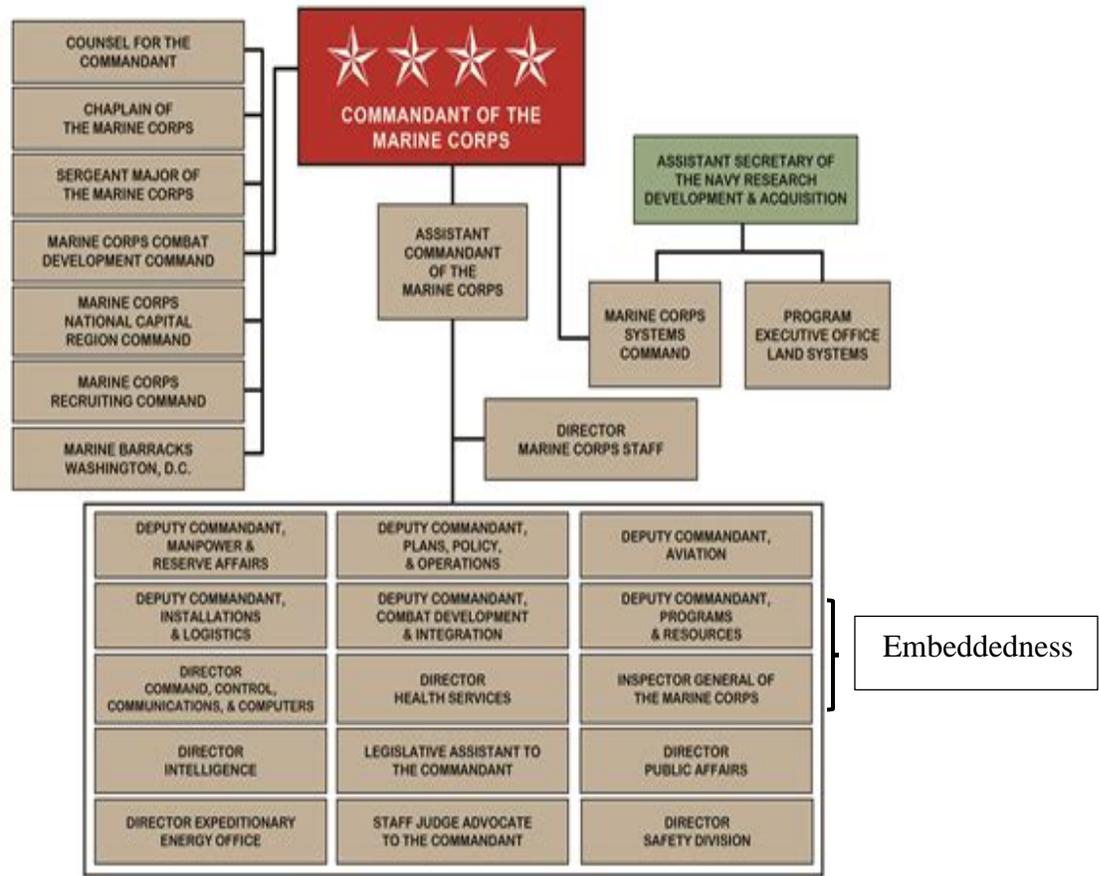


Figure 6: USMC Organizational Structure (Retrieved from <https://www.hqmc.marines.mil/hrom/New-Employees/About-the-Marine-Corps/Organization/>)

The Army, Air Force, and Navy have very similar organizational and workforce structure with both the Office of the Inspector General and Chief Financial Officer embedded within the organization.

The second type of subunit within the DOD is the Defense Agency workforce structure composed of military personnel from all branches and civilians. An example of such an organization is the Defense Finance and Accounting Service (DFAS) which is responsible for all payments such as salaries and travel and contractor invoices to DOD service members, civilians, vendors, and contractors. In its 2017 Annual Financial Report,

DFAS reported its combined workforce was composed of approximately 12,000 civilians and military personnel from all branches of the United States Armed Forces. The DFAS workforce is unique in that most of the employees are accounting or financial management professionals. Figure 7 below depicts DFAS' organizational structure.

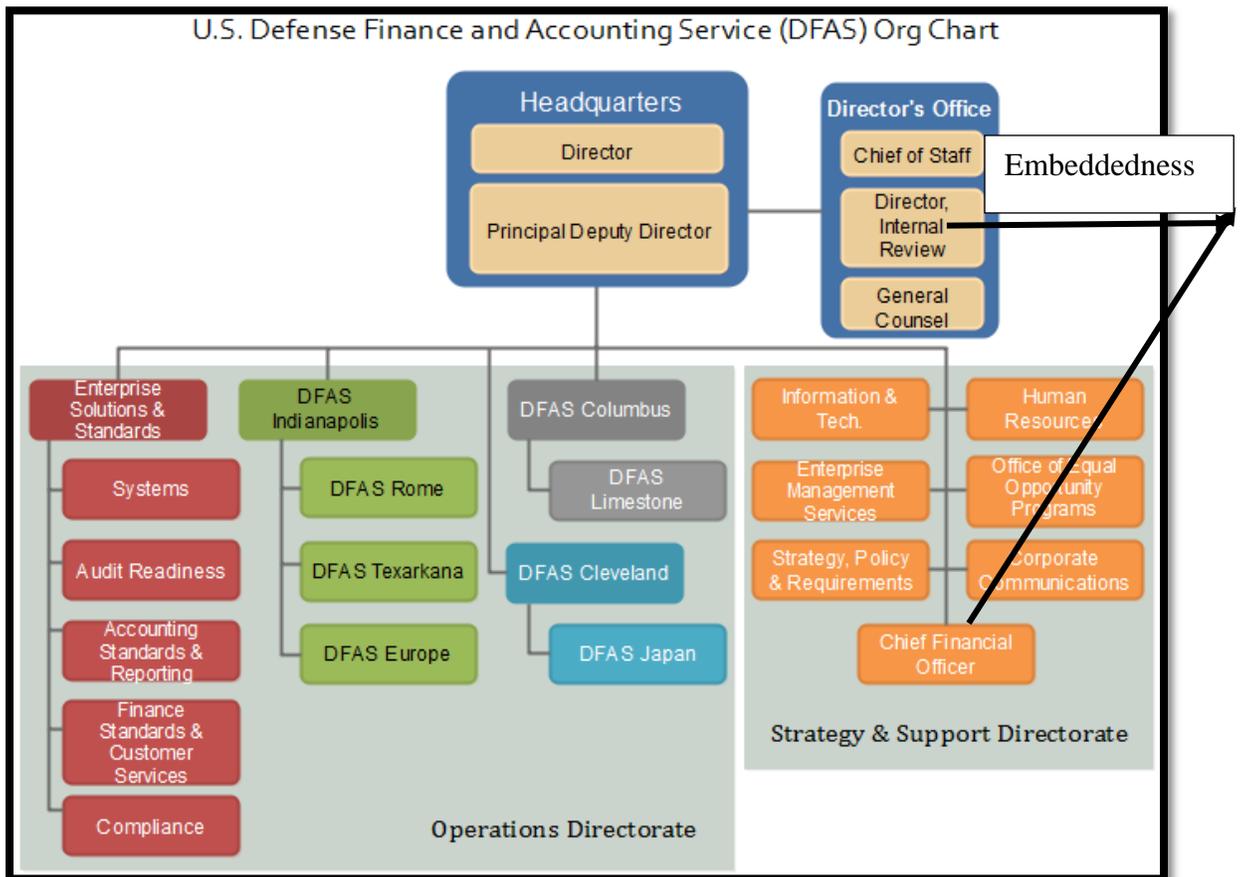


Figure 7: Defense Finance and Accounting Services Organization Chart (Retrieved from <http://www.orgcharting.com/dfas-org-chart/>)

The third type of subunit is a Defense Agency with an all-civilian workforce structure such as the Defense Security Service (DSS), which is responsible for overseeing the protection of United States and foreign classified information and technologies in the hands of cleared industry. Figure 8 below depicts the DSS organizational structure, which is composed of an all-civilian workforce with approximately 900 personnel.

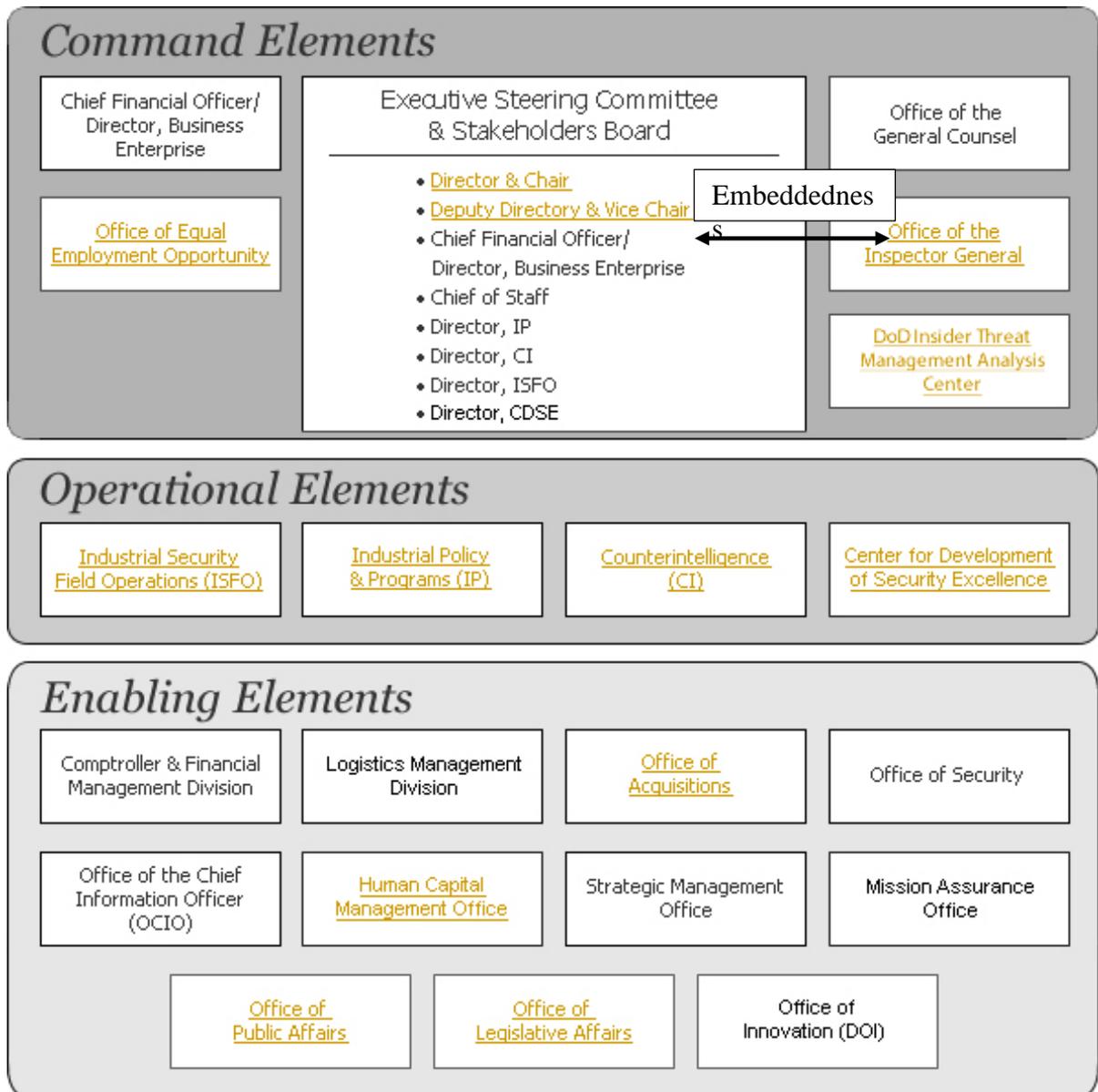


Figure 8: Elements of DSS (Retrieved from http://www.dss.mil/about_dss/orgchart.html)

The case study design ensures that the unique relationship factors are examined through various data collection sources, which allowed for greater flexibility, discovery, and understanding of the phenomenon (Yin, 2010). Additionally, the case study research design allowed the researcher to conduct an in-depth examination of the DOD IG and CFO relationship within the context of the agency theory with specific emphasis on goal conflict (divided loyalties) and information asymmetry (information protection) within embedded

DOD CFO Components in the Department.

Other qualitative research methods were evaluated but rejected because the case study approach in administrative sciences allowed the researcher to focus on the department, agency, or profession under study, as opposed to dealing with variables (Schwandt, 1997). A phenomenological research method may be used to explore the lived experiences of a phenomenon or individual persons, which is the research design that is often most useful for psychological research (Moustakas, 1994). A phenomenological research approach was determined inappropriate because the study does not focus solely on the lived experiences from a “first person” perspective. Furthermore, the data gathering method for phenomenological research studies typically relies upon narratives or audio/videotaped and detailed interviews, whereas case study data collection methods are not restrictive to one data type (Yin, 2010). The study explains how the intra-organizational relationship between the DOD IG, CFO, and embedded DOD Component CFOs affect DOD compliance with the CFOA of 1990. The use of the quantitative research methodology design was rejected as this study is not suitable for defining the factors through statistical analysis of numerical data (McNabb, 2008). The qualitative methodology was deemed more appropriate than the quantitative methodology for producing findings based on professional perceptions of the intra-organizational relationships of the DOD IG, DOD CFO, and embedded DOD Component CFOs to study results for open-ended interview questions because open-ended interview questions could not be analyzed.

The focus of this study is to address the research gap relative to the impact of intra-organizational relationships between the DOD IG and CFO to achieve accountability and

auditability over the department's financial statements. As a result of addressing this gap, public administrators can expand the scope of understanding of how relationships affect the ability to produce auditable financial statements in compliance with the CFOA of 1990. The study further examines the intra-organizational relationship of the DOD CFO staff and the DOD IG and their accountability to conduct independent audits over the department's financial statements in light of the effect of divided loyalty and protection of information relative to the Military Services, Defense Agencies, Field Agencies, and Combatant Commands.

Data Collection

Before initiating the data collection process, the approval of the Institutional Review Board (IRB) was acquired (Approval: IRB Protocol UB17-67). Research studies often use multiple data collection methods to answer the research questions. For the purpose of this research study, primary data was collected from an electronic survey and interviews based on each of the participants' personal experiences and perceptions. Additionally, secondary data were obtained from existing data and findings, including archival governmental documents to include congressional, GAO and departmental, scholarly articles, journals, and periodicals (Mertens, 2010). While secondary data can be extremely beneficial in many aspects to facilitate acquiring information, data may be subjective or contain inaccuracies that must be given consideration in the research (Hamilton, 2005). The primary source of data for this research was collected through past meet and greet engagements, telephonic discussions, electronic surveys, and face-to-face interviews. This data collection methodology allowed the researcher to analyze the electronic survey data and develop focused open-ended questions for face-to-face

interviews with targeted participants. Open-ended semi-structured interview questions are most appropriate for in-depth interviews because they prompt the participants to explain in detail their insights and understanding of how intra-organizational relationships within DOD impact CFOA compliance (Leedy & Ormrod, 2009). The researcher's awareness and due diligence to avoid biases was of critical importance throughout the interview process to ensure the participant's information was protected and delivered uncompromised.

Prior to proceeding with the primary data collection, introductions were made via face-to-face engagements and/or email consents with potential participants (Appendix B and C). This information correspondence served multiple purposes: 1) It provided the participants with purpose of the study; and 2) It gained consent of the participants' voluntary involvement in the study. Research study participants were informed of the study purpose, data collection procedures, risks and benefit of participation, and data confidentiality, and were informed that participation in this study is voluntary. DOD IG, DOD CFO, and Component leadership were contacted, prior to initial contact with participants. This action provided the participants a level of assurance that their leadership endorsed and approved of their participation in the electronic survey. The research electronic survey welcome message reiterated the participants' voluntary participation. Furthermore, the complete and submitted electronic survey responses of each participant served to authenticate the participants' agreement to voluntarily participate in the survey, as no separate, official written consent form was provided. Additionally, participants were assured that any personally identifiable information collected would be safeguarded and would not in any way be attributable to individual participants. Participants targeted for face-to-face interviews were advised that the interviews would be recorded to increase

accuracy and to allow the researcher to transcribe the audio recording into written transcripts.

Instrumentation

A case study research design was used to gather information from multiple data sources to improve the validity of the conclusions. For this study, the data collection instrument used was an electronic survey that collected data from three distinct groups of participants: 1) DOD IG and staff members; 2) DOD CFO and staff members; and 3) DOD Component CFO and staff members. The electronic survey utilized both open- and close-ended questions. The open-ended questions were critical to the theoretical framework and research phenomenon. The close-ended questions were used to collect demographic data and obtain validity of participants. For the study, demographic data was restricted to occupational specialty, length of service with the federal government and DOD, education, training and certifications, and pay grade.

Secondary Data Collection

For the qualitative single case research with multiple units of analysis, secondary data collected from archival congressional, federal and agency documents, and websites were used in conjunction with the primary data interviews. A case study design allowed for various data collection sources, which allowed for greater flexibility, discovery and understanding of the phenomenon (Yin, 2010). For this case study, the documents reviewed included the Inspector General Act of 1978, as amended, (5 U.S.C. Appendix); DOD Directive 5106.01, "Inspector General of the Department of Defense," Department and Agency Financial Statements, OSD Audit readiness directives and guides, Department and

agency accountability report, CFO Act, GPRA, and GMRA Act, General Accountability Office Reports, Records of Congressional Hearings and Testimonies, Federal and DOD financial management research reports, news, and scholarly peer-reviewed articles.. The purpose of this analysis was to assess the environment, infrastructure, and the scope of laws governing CFOA compliance. Furthermore, it provided insights from the congressional and DOD perspectives of the importance of the relationships defined in the theoretical framework that impacts CFOA compliance.

Data Analysis and Synthesis

In qualitative research, the content analysis research technique provides a structured and unbiased means to describe oral or written data to quantify a phenomenon with the intent of identifying categories, patterns and themes (Downe-Wambolt, 1992). The method used in the analysis of the data collected for this research was structured to generate meaningful information that can help explain the research questions. The primary objective of the data analysis was to organize and elicit meaning by developing realistic inferences from the electronic surveys and interview narratives in order to identify significant patterns and themes, which could be used to develop the conceptual framework for categorizing the raw data (Polit & Beck, 2006). Content analysis was used to analyze the data collected from the electronic survey responses and the semi-structured, open-ended interview questions. This analytical method is flexible and can be used to analyze all forms of written text regardless of the of data collection approach (Berg, 2001; Burnard, 1991; Catanzaro, 1988; Downe-Wambolt, 1992). Utilizing content analysis, the researcher was able to make valid, realistic inferences from the data collected for the purpose, providing original insights, information, or a deeper understanding (Krippendorff, 2004). In this study,

content analysis allowed the researcher to give meaning to the data collected and fostered the explanation of the content and information, based on the agency theory within the context of the theoretical framework. Additionally, the researcher employed the Husserlian phenomenology assumption of “bracketing” involving 1) abeyance of the investigator's preconceived ideas, personal biases, and beliefs while actively listening to the participants; 2) separating the known description of the phenomenon from the participant's description; and 3) maintaining transcendental subjectivity, open and neutral to the experiences of the participants (Ahern, 1999; Gearing, 2004; Speziale & Carpenter, 2007). The data analysis for this qualitative case study includes transcription of the open-ended interview narratives, repetitive readings, examination and comprehensive analysis of the participants' descriptions of the phenomenon under study (e.g., agency theory), review of the electronic survey responses to acquire the participants' experience and knowledge of the phenomenon, and extracting pertinent narrative information relating directly to the phenomenon. This information led the researcher to formulate meanings and organize the information into clusters of themes shared by all participants, which could be used to draw inferences of the results. Each participant's interview transcript was referenced to confirm that the investigator's emerging conclusions were consistent and valid with the participant's original account and that the researcher did not discount or generate a prematurely flawed theory to eliminate a conflict in the findings (Wojnar & Swanson, 2007).

In addition to content analysis and bracketing techniques, the researcher applied Ryan and Bernard (2003) methodology for theme identification. The author posits that theme recognition is one of the most essential elements in qualitative research. The techniques for identifying themes as described by Ryan and Bernard (2003) include a

framework of four analytical tasks:

- a) discover and identify implicit or explicit themes and subthemes;
- b) examine and narrow the themes to a practicable number, identify which themes are pertinent to the research;
- c) develop hierarchies of themes into a coding sheet or book; and
- d) link identified themes into a conceptual construct or model.

For the purpose of this study, the themes discovered were assigned codes or sub-codes for additional explanation, greater understanding, and analysis. This process involved analyzing the numbers of participant narrative interviews that were linked to a specific code or theme and exploring the correlation linking the codes and sub-codes.

The themes identified for this qualitative research study come from both data collection and from the researcher's prior understanding of the phenomenon being studied (*a priori* approach) arising from pre-defined professional meanings in the literature reviews, researcher's beliefs, theoretical orientations, and personal experiences (Ryan & Bernard, 2003). The combination of *a priori* coding and repetitive data reviews permitted the researcher to fine-tune the coding of the categories and sub-categories and helped ensure that the experiences of the participants were clearly and concisely reported in the research findings.

The qualitative data collected for this study was analyzed to help the researcher organize and code the unstructured and non-numerical survey and interview narratives and transcripts. The researcher used the following approach to analyze the data: a) the researcher thoroughly reviewed the professional experiences and beliefs of each participant's transcribed narrative interviews to organize and arrange the data in a meaningful way, considering themes identified in the literature. The examination of the extracted narratives range from paragraph, phrase, sentence or a few written words was

assigned a code to ensure the theme from the participants' perceptions were accurately conveyed; and b) the coded data and information were examined to gain a greater understanding of the participant's professional experiences and beliefs. The researcher evaluated and interpreted the significance and importance of the findings of the transcribed interview narratives and the context offered by the literature review.

Based on the findings reported in Chapter 4, the researcher extracted germane statements used to identify patterns and themes to develop meanings, which demonstrated a common understanding of the phenomenon under study as reported by the research participants as well as found in the literature. The recorded accounts of the participants' experiences were only amended to safeguard confidentiality and effectively explain the theme identified.

This qualitative case study used embedded analysis to review three different types of DOD Components (subunits) workforce structures focused on the specific aspects of the DOD intra-organizational relationships between the DOD IG, DOD CFO, and embedded DOD Component CFOs. The review of the data collected concentrated on a limited number of significant themes that emerged as a result of the written narratives, interview analysis, and the researcher's application of *a priori* coding structure. The researcher concentrated on a limited number of themes while thoroughly reviewing each of the three DOD Component workforce structures. This allowed the researcher to narrow the scope and focus the data synthesis and analysis on understanding the complexity of critical DOD relationships and the impact of embeddedness relative to achieving a common goal by which to measure success, while identifying shared themes that are cross-cutting amongst all subunits of analysis (Yin, 2003). For this research study, the researcher evaluated many

elements of each of the subunits to include organizational structure, command and control, roles and responsibilities, relationships, goal conflicts, protection of information, and internal and external divided loyalties.

In the last phase, the data and information from the data analysis and synthesis were used to chronicle the cross-cutting meanings, patterns, and themes specific to issues of embeddedness, goal conflict, divided loyalty, and information protection. This last phase of data analysis also included a holistic assessment of the survey narratives and the interviews with each targeted participant to gain greater insights of the analysis. Based on the interpretation of the findings, the researcher conducted a comparative analysis of the literature review and the data collected. The agency theory literature was instrumental in the data analysis phase of this research study.

Ethical Considerations

In this highly political and sensitive environment, the research conducted obligates the researcher to adhere to highest ethical principles that prevent the participants from being exposed to unnecessary harm as a result of participation in this study. For this study, the researcher collected DOD IG, DOD CFO, and embedded Component CFOs specific data from publicly available open-source intelligence. The outcomes obtained from this study are anticipated to provide crucial insights into the intra-organizational relationships between the DOD IG, DOD CFO, and embedded Component DOD CFOs. In addition, it may provide an understanding of how relationship dynamics between the DOD IG, DOD CFO, and embedded Component DOD CFOs influence DOD audit effort.

For the research study participants, several preventive measures were taken to cause no harm and to protect the anonymity and confidentiality of participants of the DOD

Components so that they could speak candidly about their thoughts, concerns, and suggestions. First, the DOD IG, DOD CFO, and Component leadership were contacted, prior to initial contact with participants, to ensure they were advised that their leadership endorsed and approved of their participation in the electronic survey. Next, all participants and leadership contacted were informed of the study purpose, data collection procedures, risks and benefit of participation, and data confidentiality and that participation in this study is voluntary. To protect the participants and secure electronic survey tool responses, data were password-protected and any personally identifiable information of the DOD Components and/or individuals, such as their ranks and positions within their organizational structure, were concealed unless explicit permission was granted by the Component and/or participant. Another ethical consideration in this research was to inform the participants that by completing and submitting responses to the electronic survey each participant voluntarily agreed to participate, as no separate, official written consent form was required. The researcher attempted to ensure personal biases were limited and did not guide research methodologies, inferences, and conclusions including the use of administrative discretion in pursuing unmodified audits.

Proper authorities were contacted, and approval was requested and granted prior to the researcher proceeding with Component staff level interviews. Special ethical consideration in this research was taken to establish a non-threatening interview environment of the participant's choice for maximum confidentiality. The identities of the interview participants were only known to the researcher. Each interview participant was assigned a unique, random non-descript code to provide an additional layer of security and protection.

Trustworthiness

The issues of trustworthiness are significantly important to social research studies. Quantitative research is reliant on numerical (statistical) data to produce research results with the intent of inferring beyond the current data to a larger “N” that is not actually observed. In contrast, the findings of a case-oriented qualitative research study design targets rich descriptions of a few occurrences and allows for an in-depth examination of a phenomenon. A case study design provides an alternative research approach to the large “N” statistical research design when the sample size is too small for statistical manipulation. It attempts to develop explanations for a complex phenomenon in the absence of a large “N” required for statistical analysis. However, both methods are subjective to potential manipulation and rely heavily on the integrity, creditability, and professionalization of the researcher to reduce conscious and unconscious biases from the perspective of the researcher (Della Porta, Keating, 2008). For this qualitative study, the researcher evaluated trustworthiness based on the following criteria: 1) credibility, 2) dependability, and 3) transferability.

The internal validity or credibility in qualitative research refers to the accuracy and reasonableness of the phenomenon under study. Credibility ensures that the research measures what it is supposed to measure, and the findings align with reality (Neuman, 2009). For this case study, credibility was addressed by utilizing established qualitative interview techniques. The researcher used open-ended and semi-structured interview questions while incorporating probing techniques to make sure detailed data collected were germane to the research questions. As noted earlier, the researcher contacted the DOD IG, DOD CFO, and the embedded Component DOD CFO subunit prior to collecting

information, to gain insights into intra-organizational relationships and structure. Additionally, the consent of individuals to participate was voluntary. The researcher's commitment to the protection and confidentiality of the participants contributed toward the credibility of the research results by allowing the participants to openly engage in honest, candid, and transparent dialogue.

Dependability is comparable to reliability, even though it is not evaluated by statistical means. Dependability provides the detailed forensic explanation of how the information for the phenomenon under study was collected and analyzed. One primary method to determine dependability is if the results are repeatable using the same data collection strategy and context. For the purpose of this study, the researcher addressed the issue of dependability through detailed description of the data collected, participant eligibility criteria, number of participants, and sampling technique processes employed to generate the findings. The combination of the repository of the detailed research design and implementation, engagement with participants, and data coding methodology substantiate the forensic audit trail necessary to replicate the study. This ensures that the study results could be repeated and assessed by further research scholars interested in this area of research.

Transferability of the findings of qualitative research is not expected to be generalizable to all situations. Yet, it refers to the applicability of the research results to other situations or contexts that could potentially be beneficial in future studies related to the phenomenon under study. In a qualitative research study, the fundamental phenomenon being explored must be understood within a specific context important to the distinctive attributes of the research study (Shenton, 2004). The context may be specific to an

organization, type of profession, or organization or social group. For the literature review for this study, the researcher selected studies that focused on similar research approaches explaining the impact of goal conflict and principal/agency relationships within an organization with unique characteristics. The information acquired from these studies were valuable in conducting this qualitative study as well as helpful to ensure that the research findings may be transferable to future research related to the impact of goal conflict and intra-relationships within departments, agencies or organizations.

Assumptions, Limitations and Delimitations

This study makes three assumptions about the research participants: 1) they are truthful in their survey questionnaire responses; 2) they are knowledgeable of the CFOA of 1990; and 3) they understand the roles and responsibilities over financial audits of the DOD IG/CFO and the requirement of the embedded DOD Component CFOs to achieve accountability and auditability of the DOD's financial statements.

This study included a limited, qualitative case study research approach; the results of this single-case study design with multiple subunits in the context of DOD may not be transferable to all executive branch agencies. The uniqueness of DOD and Components within the DOD has a set of distinctive attributes that may not exist in all financial audit relationships situations. Next, extraneous variables could not be controlled (i.e., systems, processes, and institutional culture). Finally, this type of purposeful sampling technique is designed to be representative of the organization itself; yet, it may not be generalized across diverse populations. The use of open-ended questions may be a limitation in qualitative research resulting in duplicative data from research participants with similar professional experiences as well as the collection of needless or irrelevant data. This may diminish the data analysis

and replication of the study findings. A case study design may be limited as it is intended to explain a single phenomenon in depth. In addition, the results of this qualitative research study may not be generalized across all forty-three Components within the DOD as organizational structures, enterprise resource planning (ERP) systems, and culture are not standardized across the entire department. For example, each subunit has a customized accounting system designed to facilitate the Components' operating processes and procedures, as well as cultural traditions and acronym language. To create some transferability, the study captured as many comprehensive detailed descriptions within germane context to ensure the reader could relate or cross-reference to the context of the study findings. Another limitation of generalizability of the findings of this study may be the size of the sample. The study sample size was limited to only 36 electronic surveys and nine interviews from across three DOD Component workforce structures, the Military Services, a Defense Agency such as the Defense Finance and Accounting Service (DFAS), and the Defense Security Service (DSS) representing various workforce structures, cultures, and traditions. Next, the data collection sources were limited to electronic survey questionnaires, interviews, and archival documents. Although the researcher attempted to minimize potential professional conscious and unconscious biases as well as maintain objectivity, some level of subjective was unavoidable. The researcher gave great consideration and effort to avoid imposing biased viewpoints and asking leading questions, while simultaneously employing active listening skills throughout the interview process.

Summary

Chapter 3 provided a discussion of the study research design and methodology chosen for the purpose of explaining the merits of the agency theory in the context of

accountability and auditability of intra-organizational relationships within the DOD relative to embeddedness, goal conflict (divided loyalty), and information asymmetry (information protection). The qualitative case study design was particularly useful for this study because the design allowed for multiple data collection sources and a means for identifying relevant data for analysis (Yin, 2010). The chapter provided a systematic, detailed description of the research sampling approach, information needed for the data requirements, research design, data collection methods, and analysis methodology.

The findings of the case study research could result in positive changes of similar accountability and auditability management and compliance agencies, such as change in policy, regulations, laws, and internal intra-organizational structures. The findings of the research study might help to explain and provide greater insight and understanding of the dynamics of intra-organizational relationships with regards to financial accountability and auditability.

RESULTS AND FINDINGS

Introduction

The purpose of this qualitative case study was to explore the phenomenon of DOD intra-organizational relationships, cultures, and structures relative to goal conflict /divided loyalty), as an explanation for embeddedness by protecting information. The analysis of a descriptive phenomenon consists of reading and presenting the most significant aspects of the participants' descriptions relative to the phenomenon being studied (Wojnar & Swanson, 2007). The phenomenon of this case study was analyzed using descriptive analysis of the data collected from a sample of DOD IG, DOD CFO, and DOD Component CFO participants' perceptions of goal conflict/divided loyalty, as an explanation for embeddedness by protecting information relevant to financial accountability and auditability of financial statements. The investigator believes that an explanation of this phenomena may provide insights into the DOD's efforts to achieve financial accountability and statements auditability from a more informed perspective. As the DOD continues to pursue auditable financial statements, managing intra-organizational relationships are a critical component to achieve auditable financial statements that demonstrate financial accountability for public (i.e., taxpayer) resources. This chapter presents the significant findings acquired from 36 electronic surveys with open-ended questions and nine semi-structured interviews. The results and findings are presented in two phases. Phase I provides a holistic analytical assessment of the 36 electronic surveys that examines the research questions, but with the primary concentration on intra-departmental organizational structure, relationships and culture. The department's intra-organizational structure and relationships, roles and responsibilities, and information controls are critical

contributors to goal conflict (divided loyalties) and the protection of information. The researcher conducted an in-depth evaluation of the open-ended question narrative responses for specific themes related to goal conflicts, relationships, organizational structure, and other themes that highlighted potential reasons the DOD continues to struggle to produce accountable and auditable financial statements. This research study used a single-case study approach and only the themes within the scope of the case (i.e., within-case analysis) were derived from the research (Lincoln & Guba, 1985). The demographic characteristics of the participants of the electronic survey are shown in Appendix F. To protect identity, the researcher applied a risk mitigation strategy of assigning a randomly generated pseudonym identifier code to each participant. Phase II presents the results of the nine semi-structured interviews conducted to underscore the respondents' perspectives and a comparative analysis of similarities and differences between the respondents' perspectives as well as the emergence of any themes.

This section contains the presentation of the data findings. The data revealed insightful information from both the auditor (DOD IG) and auditee (DOD CFO) communities in fiscal accountability and the production of auditable financial statements. The section will discuss the four themes and categories that emerged from the results of the interview data: 1) competing and continuously changing missions (mission priorities); 2) embeddedness, divided loyalty, and protection of information; 3) standardization of operations, and 4) organizational continuity. Specifically, guided the research by the questions of the perceived factors of goal conflict (divided loyalties), as an explanation of ingrained relationships (embeddedness) and information protection relative to DOD intra-organizational relationships, financial accountability and auditability. The research study

was guided by the following research questions:

RQ1: How do DOD intra-organizational relationships (i.e., DOD IG, DOD CFO or ingrained DOD Component CFOs) impact the department's goal to achieve financial accountability and auditability?

RQ2: How do goal conflicts (divided loyalty), CFO embeddedness, and information protection in the Department of Defense affect the DOD's efforts to achieve auditability?

RQ3: How do the effects of divided loyalty (goal conflicts), CFO embeddedness and information protection differ between the Services (Army, Air Force, Navy and Marines), Defense Agencies with mixed workforce (combined military services and Civilians), and civilian-only Defense Agencies?

Most of the survey participants identified themselves as members of the DOD Chief Financial Officer community (69%, n=25), while only 31% (n=11) identified themselves as members of the DOD Inspector General community.

The Phase I analysis of this study resulted in three significant findings from the electronic survey data collected:

Finding 1: The preponderance of the DOD CFO participants indicated they did not believe the DOD would realize an unqualified audit opinion over its financial statements in fiscal Year 2017 as mandated by the 2010 National Defense Authorization Act. (Overall Audit Readiness and Accountability)

Finding 2: The majority of the participants do believe the physical location of the position of the CFOs within the organizational structure of the DOD Components (i.e., Military Services, COCOMS, Defense Agencies and Field Activities) results in goal conflict over auditable financial statements between the DOD and the Components. (Embeddedness/Divided Loyalty/Goal Conflict)

Finding 3: Most of the CFO participants believe that the DOD Comptroller monthly obligation benchmarks contribute to the DOD CFO Component's protection of information from the Department of Defense Inspector General, while over half of the Inspector General participants believe that the DOD CFO Components protect information from the DOD IG or CFO. (Information Protection/Goal Conflict)

The section below provides a detailed discussion of the results which were used to establish and substantiate each finding. The presentation of the findings will include

illustrative quotes from both written narrative responses and quotations taken from the participant interview transcriptions to provide multiple perspectives and clarity of the findings. The proceeding is a further discussion that captured the electronic survey data.

Finding 1: The preponderance (9 of 11 [82%]) of the DOD IG and (20 of 25 [80%]) the DOD CFO survey participants indicated that they did not believe the DOD would realize an unqualified audit opinion over its financial statements in fiscal Year 2017 as mandated by the 2010 National Defense Authorization Act. (Overall Audit Readiness and Accountability)

The primary and significant finding of this research study is that the preponderance of the DOD IG (9 of 11 [82%]) and DOD CFO (20 of 25 [80%]) survey participants lack confidence in the department's audit preparedness to successfully undergo a full scope audit in 2017 to achieve an unqualified audit opinion. Below are illustrations from several of the participants' comments regarding the department's audit preparedness and readiness:

“No that’s an impossible goal given the current state of systems and control gaps. It may take 10 years or more to fully achieve a clean audit opinion.” (Survey Respondent 1)

“FY17 is passed. And we are many years away from a DOD unqualified opinion. It is possible that by 20 or 21, some more of the Components will achieve modified opinions.” (Survey Respondent 2)

“No, it is not going to happen.” (Survey Respondent 3)

The primary core objective of financial audits is to divulge hidden facts and shed light on errors and mistakes which are often held keenly hostage of the complexity of financial operations. One instinctive participant described and explained the mere size of the DOD ecosystem as problematic to audit readiness as follows:

“No, DOD is vastly more complicated than people realize. The extent of audit requires all the DOD moving in unison on business processes. It will take at least a decade.” (Survey Respondent 4)

Various other comments illustrated the implicit perception of participants about the DOD's

ability to standardize operations to the extent that vastly complex business operations and processes can be assessed using rigid automated audit tools. While study participants offered a pessimistic view of the DOD's ability to achieve audit readiness, the participants did acknowledge the DOD's substantial investments in its financial systems infrastructure as an initiative to advance the department's audit readiness. The majority of the DOD IG (6 of 11 [55%]) and DOD CFO (18 of 25 [72%]) participants believed that the DOD's substantial financial investment in Enterprise Resource Planning systems and human capital (i.e., DOD Financial Management Certification Program) has greatly improved the DOD's overall audit readiness over financial statements. One participant summed up the DOD investments in audit readiness as:

“There has been a substantial amount of investment in financial management contractors assisting the DOD military and the various agencies to reach the goal of auditability. Agencies aren't any closer to getting auditable today as they were in 2010 when the mandate came out that DOD needed to be auditable by 2017.”
(Survey Respondent 5)

At the conclusion of the FY2018 DOD Financial Statement audit, the DOD IG issued a comprehensive report in January 2019 titled, *“Understanding the Results of the Audit of the DOD FY 2018 Financial Statements.”* This report added credence and highlighted financial management systems and information technology (IT) as major contributors to the material weaknesses prohibiting the DOD from achieving audit readiness. As of 2016, the department operated and managed approximately 400 separate IT systems for the processing of financial accounting data. Many of the IT systems used to process the Services and DOD Components financial transactions are owned and operated by other DOD Components. The independent professional auditors that conducted the FY 2018 DOD audit documented in excess of 1,000 Notification of Findings and

Recommendations (NFRs). The auditor NFRs were either related to the DOD's financial management and IT systems material weaknesses or the occurrences of non-compliance with the Federal Financial Management Improvement Act of 1996. The NFRs associated with material weaknesses and non-compliance are both the by-products of non-standardized business operating systems and processes (Fine, 2016).

Although most of the participants agreed that the DOD is currently "not audit ready", many expressed auditability as an achievable long-term goal. Even the Acting DOD Inspector General, Glenn A. Fine, expressed these sentiments, "the road to a clean opinion is not short; it will not happen immediately. Continued progress requires sustained effort and attention throughout the Department. DOD leadership has stressed the impact of the financial statement audits, as well as the need to develop efficient and effective business processes that can lead to accurate financial information and improve DOD operations" (Fine, 2019). Many of the survey respondents believe that the DOD is currently not audit ready but have confidence that an unmodified opinion is an achievable long-term goal. Also, in this research study, several CFO participants conveyed similar sentiments with regards to the DOD achieving CFOA compliance and auditability.

"It appears favorable opinions are 3-6 years into the future based on the volume and complexity of the Notice of Findings." (Survey Respondent 6)

"Goal is to show continual progress, fix audit findings and work with the auditor to mature internal controls and eliminate material weaknesses. The audit is a catalyst and driver of the reform initiative." (Survey Respondent 7)

"audit is an iterative process that require level of uniformity, consistency, traceability and maturity. an iterative process that will be accomplished incrementally over the next generation, that is 20 years." (Survey Respondent 8)

Among the comments cited were those by Fine, further acknowledging the long-term nature of auditability, who said:

“At the DOD OIG, we will continue to fully and fairly audit the financial statements, identify deficiencies, and provide clear information to the DOD on what is necessary to fix these deficiencies. This is an important, long-term effort that we are committed to supporting” (Fine, 2019).

Finding 2: More than half (6 of 11 [55%]) of the DOD IG and (10 of 17 [59%]) of the DOD CFO participants believe that the physical location of the position of the CFOs within the DOD Component organizational structure result in divided loyalty and goal conflict over auditable financial statements between the DOD and the Components. The CFO data analysis excluded all "don't know" and "not sure" participant responses.

A critical element of this research study was to examine, “how do goal conflicts (divided loyalty), CFO embeddedness, and information protection in the Department of Defense affect the DOD’s efforts to achieve auditability?” This research study exposed that more than half of the participants felt that the physical location and reporting chain of command of the position of the CFO in the DOD Components created an environment that fostered divided loyalty and goal conflicts within DOD intra-organizational relationships. Below are some of the ways research survey participants expressed their views of the ingrained position of the CFOs within the organizational structure (i.e., DOD Components – Military Services, Defense Agencies, and Field Offices).

“Yes, it can, it takes a special person to be in that role; the loyalties of that role need to be well defined.” (Survey Respondent 9)

“I think the CFO position in a Component is important to drive change for that component.” (Survey Respondent 1)

One of the participants expressed the loyalty of the CFO as being dependent on whether the CFO is solely concentrating on budgetary execution or both execution and auditability simultaneously as follows:

“I see divided loyalties only if Component CFOs focus exclusively on execution versus execution and auditability.” (Survey Respondent 6)

While another CFO respondent framed the loyalty of DOD CFOs as follows:

“CFO’s loyalty is to their Component.” (Survey Respondent 10)

The DOD is continually embroiled in the perpetual struggle to find trade-space between mission readiness to safeguard the nation against existing and emerging threats and reforming the department to gain efficiencies in business operations and processes. These conflicts may directly influence the Component CFOs' loyalty approach to protect the resources and mission of their respective agencies. The views of the participants further underscore the inherent tension present within the department as DOD Components continue to compete for scarce resources in support of the component mission growth and increased resource requirements. As cited above by Survey Respondent 6, DOD execution benchmark policies and guidance may influence the loyalties of DOD Component CFOs. In 2010, to gain some sense of sustainable corporate loyalties and standardization amongst DOD Components, the DOD created the Financial Improvements and Audit Readiness Governance Board, which is inclusive of representatives from across the department, to focus on financial management and audit readiness issues plaguing the DOD and its Components. This governance body allows the DOD to leverage the experiences and information sharing across the DOD and DOD Components to concentrate on agency-wide audit concerns and ensure uniform and consistent methods are implemented to address similar corporate NFRs and material weaknesses.

Finding 3: The majority (14 of 25 [56%]) of the CFO participants believe that the DOD Comptroller monthly obligation benchmarks contribute to the DOD CFO Component’s protection of information whereas only (9 of 25 [36%]) believe that the DOD Components protect information from the Department of Defense Inspector General. Over half (7 of 11 [64%]) of the Inspector General participants believe that the DOD CFO Components protect information from the DOD IG or CFO.

The preponderance of the CFO participants holds the belief that financial management policies and/or performance matrices drive the underlining perception that

Components protect information from the DOD IG as the result of competing mission priorities for the CFOs. Conversely, less than half (36%) of the DOD CFOs participants hold the belief that the DOD CFO Components intentionally protect information from the DOD IG or DOD CFO.

GAO-10-527R Defense Budget indicates that the DOD and its 43 Components are subject to statutory limitations for obligating funds. Each year, the DOD Appropriation Act general provision requires that the DOD certify that it will not obligate more than 20% of a 1-year appropriation during the last 2 months of the fiscal year, excluding any supplemental funds (GAO-10-527R, 2010). The original intent of the policy was to reduce the number of appropriated funds executed at the end of the fiscal year and improve resource planning and execution of valid requirements. To enforce compliance with this policy, DOD Components are subjected to potential penalties for failing to meet the benchmark. For example, if a Components' planned obligation projections are +/- a five percent variance, the Component may be required to develop a remediation strategy and/or risk the possibility of a resource reduction of current and/or future year appropriations. Thus, creating an environment where the DOD Component CFOs may feel pressure to create unsupported obligations to achieve compliance with department's obligation benchmarks may further contribute to the DOD's lack of reliable financial transaction data to include accounting for obligations. One participant summed it up as follows:

"I think that the 80% obligation rate by EOM July can hinder a components ability to execute in the governments best interest." (Survey Respondent 11).

Similarly, another participant said that the CFO benchmark is directly related to the protection of information as it is based on,

"the obligation and expenditure targets" (Survey Respondent 12).

Therefore, it was not an unexpected finding that the DOD CFO participants believe the DOD Comptroller's monthly obligation performance benchmark policy and matrices resulted in the perception that the DOD Components protect information from the DOD IG and CFO that ultimately cause the goal conflict. While DOD pursues a clean audit opinion, its own financial management policies could be construed as prohibitive and counterproductive to achieve the goal of financial accountability and auditability. The enforcement of the annual general provision of the 20% policy could prove to be counterproductive to auditability, resulting in negative consequences such as the recording of unsupported obligations affecting compliance and the spirit of Generally Accepted Accounting Principles. Participants conveyed their views of the impact of the Comptroller's obligation benchmark as a contributing factor of information protection:

"The DOD obligation benchmark reports." (Survey Respondent 13)

"There's DOD FMR policies that may not be in alignment with GAAP and those will need to be updated to get clean opinions." (Survey Respondent 1)

Phase II of the research study presents the findings and results from the nine semi-structured interviews. A separate interview was conducted with nine DOD IG and DOD CFO participants, approximately an hour in duration at a convenient location of their choice. Many of the participants chose their official office duty locations as their interview location preference. The overwhelming majority of the participants' offices were in secure classified spaces, which ultimately prohibited the researcher's use of any type of audio or video recording devices. Subsequently, the researcher was solely dependent on handwritten recorded notes, which were later transcribed and returned to the participants. The participants were requested to validate that the researcher's transcription of their interview responses was captured accurately as well as make any necessary edits or corrections. Any

or all of the nine semi-structured interview participants could potentially have participated in the electronic survey. The survey participants are only identifiable by a sequence of randomly generated alpha-numeric characters and symbols. To recap, for the purpose of conducting the nine semi-structured interviews, participants were selected using a purposive sampling strategic methodology (Teddlie & Yu, 2007). This sampling technique allowed the researcher the flexibility to use convenience and snowball sampling approaches based on the participants' availability and willingness to participate in the research study (Teddlie & Yu, 2007). Study participants were encouraged to solicit other eligible candidates within their professional network to participate in the research study through the process of snowball sampling (Lobiondo-Wood & Haber, 2002).

In an attempt by the researcher to further protect the identity and confidentiality of the interview participants, any information, characteristics, or attributes relating to a specific DOD Component or the official duty title and/or position of a participant within a DOD Component were redacted and summarized at the aggregate level. Thus, participants are only referenced as members of their larger professional network population. Participants from both the DOD IG and CFO communities possess extensive knowledge-based experience in DOD leadership positions. Slightly more than 72% and 66% of the participants have more than 20 years of work experience with the federal government and DOD, respectively. The socio-demographic research data indicated the educational levels of the participants are as follows: some college, ~3%; bachelor's degrees, 42%; master's degrees, 50%; and post graduate degrees, 5%.

The intent in analyzing the research data was to identify any common themes among the participants' perceptions to explain the goal conflict of intra-organizational

relationships relative to divided loyalty, embeddedness, and information protection within the DOD that either contributed to or hindered the department's efforts to achieve financial accountability and auditability. In analyzing the interview data results, four thematic categories emerged as a result of the descriptive data analysis of the participant interview narratives. This section presents the findings of the research data collected from the nine semi-structured interviews conducted, guided by the three research questions cited above. The four thematic categories were 1) competing and continuously changing missions (mission priorities); 2) divided loyalty, embeddedness, and protection of information; 3) standardization of operations (i.e., financial operations, systems, processes, and procedures); and 4) organizational continuity. Direct quotes from the participants are used to provide clarity of the results and findings of the research. This section contains the presentation of the findings organized based on the four thematic categories that emerged from the data analysis.

Mission Priorities (Goal Conflict)

The participants indicated intra-organizational relationships are adversely impacted because of competing and changing mission priorities established by the senior leaders. The DOD has many competing mission priorities which are in constant flux but are critical to understanding the goal conflict of intra-organizational relationships within the department. The participants also focused on the internal strategic communication and messaging of the "Tone at the Top" from the department head (e.g., Secretary of Defense, etc.) in the highest leadership position down to the lowest levels within the department. Consistency in messaging remains at the core of the department, addressing the complexity and challenge of financial accountability and auditability. Communication and messaging

throughout the hierarchy of intra-organizational relationships were found to be the most effective when the communicated messages: 1) remain consistent; and 2) involved the correct personnel in the decision-making process that were empowered to execute organizational change management. The participants framed the department's competing mission priorities and communication strategies throughout the department as follows:

“The many chiefs create an issue for audit readiness. There are many different competing priorities within the DOD and some of those priorities contradict audit readiness goal conflict.” (Interview Participant 3)

“CFO cannot do this alone. Must have direct and visible support from senior leadership. Must be relentless as this will take time to achieve and, more importantly, to maintain.” (Interview Participant 6)

Another participant described the department's top-down communication and messaging challenge with respect to auditability as follows:

“Yes, this is evident in the lack of Top-down information sharing, guidance, and oversight to ensure that organizations are participating in making the services auditable.” (Interview Participant 4)

In addition, participants reported that DOD mission priorities relative to financial auditability are highly dependent on constant resources, a stable workforce, and missions that are not reprioritized by leadership rotations and external environmental factors such as military conflicts (i.e., combat or cyber). Many of the CFO participants acknowledged that the goal of audited financial statements drives mission priority tradeoffs. This perception is best illustrated by the comment of one participant who said,

“Institutional inertia reinforced by historical mission success. Reluctance of Director/senior leadership to make this a priority and message same to workforce. Perfect storm of increasing mission sets, relentless competition for constrained resources, and drive to reduce personnel and realize other efficiencies. As a practical matter, many legacy business practices and supporting systems were designed to produce operations not be financially compliant. Legacy system environment relies on tremendous number of interfaces and numerous providers. Most private sector entities of DOD size and complexity use self-contained/closed

systems. Every time an ERP is asked to provide or receive information from another system, compliance risks and costs are introduced.” (Interview Participant 6)

Furthermore, describing the impediments of competing and changing mission priorities, several participants highlighted the way that the DOD allocates and distributes resources within the department as potential barriers to auditability. The DOD resource allocation process is the PPBE system which serves as the framework for leadership decision-making to decide which current and future programs and force structure requirements will be funded (<https://acqnotes.com/acqnote/acquisitions/ppbe-overview>). The objective of this resource allocation system is to provide the DOD with the most effective combination of military forces, equipment, manpower, and contractor support within fiscal constraints not driven by accounting and financial statements. Therefore, the GAAP is often relegated to a compliance and bookkeeping exercise. This notion was illustrated by one participant that expressed where they believe the focus of financial statements are within the DOD priorities:

“budget has always been the focus at the exclusion of financial reporting; the budget function can be found throughout DOD organizations (operations, support, admin, etc.) while the financial reporting function is highly specialized and is usually a headquarters function.” (Interview Participant 2)

While participants acknowledged the presence of competing priorities, they offered some insights into the complexities of the DOD’s continually changing and evolving missions and suggest that standardization of operations, processes, and procedures may be a way to curtail the impact of mission priority conflicts. One of the participants described the competing mission priorities of the DOD as follows:

“Many leaders and operators view this (audit readiness as a zero-sum issue. In truth, audit effort is supportive. Of course, in the near-term, there are many competing time and resource priorities, but rational trades can be made. There is

no question that to be successful additional resources will be needed. Both organic and contractor. The reason audit effort has been and continues to be so hard is that many of these issues have been neglected for years. Hence, why DOD is struggling. But leadership needs to understand that additional resources aren't being added for audit, per se, but really being added to operations so they can do the complete job. A review of PDs will likely show personnel not doing many of the tasks required because those tasks aren't "sexy" and/or don't get reviewed or measured by the organization. But, failure to perform these tasks leads to sloppy/risky processes and resource inefficiencies. One common retort from operations is that the "mission is being accomplished and we get awards and recognition for those efforts, what's broken? Why do we have to do this?" My message to them was that while that was true, at what cost and risk was the mission being accomplished and did we even consciously know what the costs and risks were given the state of our processes and controls? In many cases, we were lucky more than good." (Interview Participant 6)

Embeddedness, Divided Loyalty, and Information Protection

Embeddedness

For the purpose of this case study research, the researcher defined the construct of embeddedness as the physical location of the position with the roles and responsibilities of the DOD IG, DOD CFO, or DOD Component CFOs ingrained into the intra-organizational structure and culture (i.e., DOD or a DOD Component) of that organization. The electronic survey data collected for this research study did illustrate that more than half of the DOD IG and DOD CFO participants believe that the physical location of the position of the CFOs within the DOD Component organizational structure resulted in divided loyalty and goal conflict over auditable financial statements between the DOD and the Components. However, based on the data collected by the researcher through the in-depth interviews, the interview narratives did not support embeddedness as an explanation of divided loyalties. The interview data does give credence to the traditional application of embeddedness as defined by Shapiro within the context of Principal Agent theory. Shapiro (2005) describes agency embedded relationships as a state wherein the principal often

knows the agent's characteristics because of personal affiliation with agents or through trusted social circles in which both the principal and agents are members. Principals are usually privy to insider information relative to the agents' experience, accomplishments, and reputations. Network relationships often include individuals who share similar interest, principles, and values with a certain level of familiarity and trust between principals and agents. Frequently, the principal's recruitment efforts target agents from their inner circle of associates, which can help to reduce the consequences of the agency problems of goal conflict. Social networks provide a wide-range of self-regulating sanctions for non-compliant agents (public embarrassment and damage of reputation). Two participants characterized their experience of the embedded networks as follows:

“It is a small world, and people just talk. The main people working audit in the various services have known each other for years. Also, the American Society of Military Comptrollers (AMSC) facilitates interaction at regional and national Professional Development Institute (PDIs). There are monthly Financial Improvement and Audit Readiness (FIAR) Governance meetings, monthly functional audit meetings with OSD, monthly DON SMC meetings, monthly DON SAT meetings and monthly Audit update meetings.” (Interview Participant 9)

“Oversee all DOD Independent Professional Auditors (less Intel agencies, DeCA, DCAA, and DFAS) and perform Contracting Officer's Representative activities for the IPA contracts.” (Interview Participant 8)

As cited in the narrative findings above, the participant conveyed that the audit community is small and most of the primary contributors have been working with each other for years. Active participation and engagement in professional forums allow relationships to develop and create an official and unofficial network of subject matter experts. Also, attendance and participation in the American Society of Military Comptrollers (ASMC) and the Professional Development Institute (PDI) events provide DOD military, civilians, and contractor affiliates ample opportunity to network in trusted

social and professional circles. These are the professional networks with shared commitment that are often utilized for targeted recruitment efforts as well as information sharing and knowledge gathering, relative to the experience and reputation of persons of interest from others within the closed network circle.

Divided Loyalties

Many of the participants reported in the findings that divided loyalty was present and impacts DOD intra-organizational relationships relative to financial accountability and auditability. Two of the participants expressed their views of divided loyalty within DOD as follows:

“The conflict I have observed were usually between the management of the Service/Component and the internal auditors who sought to help to identify and correct deficiencies. Management would sometimes feel that they were being disloyal to the Service/Component when they helped identify deficiencies or material weaknesses in internal controls.” (Interview Participant 5)

“Yes, CFOs respond to their leadership and maintain loyalty to their immediate bosses.” (Interview Participant 4)

Based on the research findings, how do the effects of divided loyalty (goal conflicts) differ between the Services (Army, Air Force, Navy, and Marines), Defense Agencies with mixed workforce (combined military services and Civilians) and civilian-only Defense Agencies? The research findings provided no evidence to support the hypotheses that the effects of divided loyalty differ based on the various types of organizational workforce structures within DOD (i.e., military and civilians of the same Service, joint military services, and civilians and civilian only). Several of the participants summed up their comments relative to the effects of divided loyalty and different DOD organizational structures as follows:

“I don't believe that DOD Component loyalty differs between the Services, Defense Agencies and the mixed workforce.” (Interview Participant 7)

“I do not believe DOD component loyalty differ by service. However, I believed bureaucracy between service impede timely flow of information.” (Interview Participant 2)

“The main factor from my experience is the culture. It is more than just the “top down” drive, we have to work with not only the civilian members, but the service members as well in working to change the mindset from (1) this is how we have always done it, (2) the life cycle of that transaction and it does not stop after your processes, this is what happens to it next and the effects of that.” (Interview Participant 1)

Information Protection

For this research case study, the participants interviewed expressed that information protection does exist in DOD intra-organizational relationships as illustrated by the comments below:

“Absolutely. You must remember that IGs are independent and the CFO is part of mgmt. Mgmt is always responsible for their own FSs, but when you do not bring the IG to the table in discussions that creates bottlenecks and a total lack of transparency and accountability.” (Interview Participant 3)

“Definitely. By and large all financial transactions would be easily audited; but the exceptions and decisions made for the good of the Agency do not always follow strict GAAP rules. Problems I have most often encountered is when the allocation is moved between programs and the lack of backup to the change is missing.” (Interview Participant 7)

However, the participants acknowledged information protection but inferred that the information was not protected for the purpose of deceiving or misleading the DOD IG or the IPAs. The primary purpose that one participant identified for the protection of information was to ensure the DOD Components’ compliance with the OSD obligation benchmarks as expressed below:

“OSD benchmarks (obligations tracking and enforcement), legacy and new systems and loads of data interfaces.” (Interview Participant 1)

Similarly, another participant described the non-disclosure or the lack of transparency of

information by the Components CFOs as a non-factor in the financial audit process, stating that the Component CFO's focus is misplaced to meet milestones rather than advancing auditability efforts:

“I don't think there's any real incentive or disincentive for that matter for CFO Components to be transparent and share information with the DODIG or DOD CFO, the focus appears to be on meeting prescribed timelines rather than making real improvements toward auditability.” (Interview Participant 9)

Standardization of Operations

The information provided from both the DOD IG and CFO participants provided useful insights relative to the major hurdle impeding the DOD's audit readiness. Overwhelmingly, the participants reported the lack of standardized financial management systems and processes as barriers to advancing the DOD's audit readiness. One participant described the standardization of operations as a hindrance:

“Lack of standardized sustainable SOPs; Management Processes and Controls; FM processes not designed in accordance with GAAP; communication, documentation and agency internal inconsistencies; DOD ingrained design of workforce turnover; manual processes and legacy systems.” (Interview Participant 8)

The above lack of standardized business operations and processes and procedures were provided by the participants as contributing factors for the DOD's inability to achieve audit readiness.

Even though the DOD adheres to the same general accounting standards and financial management regulations, the mere complexity of DOD mission operations result in the decentralization of resource planning and execution environments. In 2016, DOD reported that the department was operating approximately 400 separate IT systems for the processing accounting information with limited or no interconnectivity (Fine, 2019).

This sentiment was explicitly stated by two participants who stated,

“I believe that barriers are (1) too many legacy financial systems that perform the same functions and (2) that agency staff don’t understand the importance of achieving audit readiness and are hesitant to give of their time and resources in order to achieve success. (Interview Participant 5)

“Mostly, I think its disparate systems and practices that have grown up separately without thinking of audit for 200 years.” (Interview Participant 2)

Furthermore, another participant noted that,

As a practical matter, many legacy business practices and supporting systems were designed to produce operations not be financially compliant. Legacy system environment relies on tremendous number of interfaces and numerous providers. Most private sector entities of DOD size and complexity use self-contained/closed systems. Every time an ERP is asked to provide or receive information from another system, compliance risks and costs are introduced.” (Interview Participant 6)

Organizational Continuity

Based on the results of this study, one of the participants suggested another relevant factor not initially considered by the researcher that may provide an explanation of and insight into financial accountability and auditability: organizational continuity. The participant described the DOD’s purposeful design of rotational duty and geographical location assignments of both military and civilian personnel as a potential barrier to financial accountability and auditability. The following is an illustration of the participant's comments regarding DOD personnel relocations and permanent change of station:

“DOD is built and designed upon rotating personnel to grow and develop its leaders from within the department that are ingrained and entrenched in military culture and traditions.” (Interview Participant 4)

The instability in personnel (i.e., assignment and relocation rotations and attrition) greatly impact compliance programs due to the lack of continuity plans to mitigation personnel and knowledge transfer gaps until the new replacement arrives on station. A volatile and

fluid DOD organizational structure, with limited controls over workforce movements, tends to increase the level of difficulty for maintaining uniform and consistent record keeping, policies, and procedures infrastructure essential for controls over financial accountability, auditability (financial statements), internal controls, and compliance over operations.

Summary

This chapter presented the three revealed findings and four themes that emerged from this case study. The findings were illustrated in two phases based on the data collection methodology (i.e., electronic survey and semi-structured interviews) and organized according to the research questions. Data from the electronic surveys and semi-structured interviews disclosed the research participants' perceptions of DOD intra-organizational relationship dynamics relative to goal conflict as an explanation of divided loyalty, embeddedness, and information protection. This qualitative research case study included extensive direct quotes from the participants. The use of the participants' direct quotes was purposeful to substantiate the research findings to reassure the reader that the data presented accurately communicated the views and opinions of the participants and were not biased by researcher.

The first finding was that the preponderance (9 of 11 [82%]) of the DOD IG and (20 of 25 [80%]) of the DOD CFO participants indicated they did not believe the DOD would realize an unqualified audit opinion over its financial statements in fiscal Year 2017 as mandated by the 2010 National Defense Authorization Act (Overall Audit Readiness and Accountability). The second finding was that more than half (6 of 11 [55%]) of the DOD IG and (10 of 17 [59%]) of the participants do believe the physical location of the

position of the CFOs within the DOD Components (i.e., Military Services, COCOMS, Defense Agencies, and Field Activities) of the organizational structure result in goal conflict over auditable financial statements between the DOD and the Components (Embeddedness/Divided Loyalty/Goal Conflict). The third finding was that the majority (14 of 25 [56%]) of the CFO participants believe the DOD Comptroller monthly obligation benchmarks contribute to the DOD CFO Component's protection of information whereas the remainder (9 of 25 [36%]) believe that the DOD Components protect information from the Department of Defense Inspector General. Over half (7 of 11 [64%]) of the Inspector General participants believe that the DOD CFO Components protect information from the DOD IG or CFO (Information Protection/Goal Conflict).

From the semi-structured interviews emerged four thematic categories: 1) competing and continuously changing missions (mission priorities); 2) embeddedness, divided loyalty and protection of information; 3) standardization of operations (i.e., financial operations, systems, processes and procedures); and 4) organizational continuity. In the following chapter the researcher will discuss the significance and implications of the case study results and findings, conclusions, and recommendations.

ANALYSIS AND DISCUSSION

Introduction

The purpose of this qualitative case study was to examine a sample population from the Department of Defense Inspector General (DOD IG), Department of Defense Chief Financial Officers (DOD CFO), and the embedded DOD Component Chief Financial Officers, with regards to their perception of how DOD intra-organizational relationships affect DOD financial accountability and financial statement auditability. The researcher anticipated that a better understanding of the intra-organizational relationships of DOD financial management would provide insight about how these relationships impact the department's ability to achieve financial accountability and auditability. The objective was to examine the impact of DOD intra-organizational relationships through the optics of the research participants relative to goal conflict (divided loyalties) as an explanation of embeddedness and information protection. This research used an electronic survey and conducted in-depth interviews with DOD personnel from both the DOD IG and CFO community to collect qualitative data. Research participants in this case study included 36 current DOD IG and CFO personnel. The case study methodology proved valuable as the data collection methods are not restrictive to one data type and enabled the DOD IG and CFO personnel to provide their perception and understanding in the context of the agency theory of the intra-organizational relationships relative to DOD's financial accountability and auditability (Yin, 2010). The researcher exercised due diligence to minimize the opportunities for biased, compromised, or inaccurate interpretation of the data. The phenomenological technique of "bracketing" was employed to hold the investigator's preconceived ideas, personal biases, and beliefs relating to the research in abeyance to

ensure the findings were the result of the research data and a methodical process of thematic analytics (Wojnar & Swanson, 2007). In order to present the unadulterated perceptions of the participants most effectively and ensure accuracy in the narrative, results were authenticated by the verbatim quotes from the interview transcripts to illustrate each significant finding. The qualitative data were analyzed, coded, and organized by themes guided by the conceptual framework, as described in chapter three. The study was based on central themes of the following three research questions:

RQ1: How do DOD intra-organizational relationships (i.e., DOD IG, DOD CFO, or ingrained DOD Component CFOs) impact the department's goal to achieve financial accountability and auditability?

RQ2: How do divided loyalty (goal conflicts), CFO embeddedness and information protection in the Department of Defense affect the DOD's efforts to achieve auditability?

RQ3: How do the effects of divided loyalty (goal conflicts), CFO embeddedness, and information protection differ between the Services (Army, Air Force, Navy and Marines), Defense Agencies with mixed workforce (combined military services and Civilians) and civilian-only Defense Agencies?

Two of the three research questions were fundamentally addressed by the findings presented in chapter four. The overarching findings and results in this study revealed that the DOD IG and CFO personnel perceived that goal conflicts and intra-organizational relationships do impact the DOD's financial accountability and audit readiness. In analyzing, interpreting, and scrutinizing the findings, the data revealed four significant categories: 1) mission priorities; 2) divided loyalty, embeddedness, and information protection; 3) standardization of operations; and 4) organizational continuity that depict the intra-organizational relationships of the DOD as characterized by the agency theory. Finally, the case study analyzed, interpreted, and synthesized various fragmented data

points that evolved and emerged through the interviews which highlighted other findings relevant to DOD intra-organizational relationships and the research questions.

For this study, the analytical themes and categories were reported and organized based on the theoretical framework as follows:

- 1) Perceptions about competing and continuous changing missions (Mission Priorities)
- 2) Perceptions of embeddedness, divided loyalty, and the protection of information
- 3) Perceptions about Standardization of Operations
- 4) Other relevant findings and analysis (Organizational Continuity)

The chapter aligned the analytical themes and categories directly with the research findings resulting in the development of the theoretical framework and incorporated information from the literature review, particularly with regards to the principal-agency theory and DOD intra-organizational relationships. This theory provided insights relative to the intra-organizational relationships and explained goal conflicts as a factor of divided loyalty, embeddedness, and information protection. The intent was to illustrate how the perceptions of the goal conflict of intra-organizational relationships influence DOD financial audit relationships and auditable outcomes. These analytical findings and results were utilized to augment the understanding obtained from the data presented and illustrated in chapter four along with contributions to future research, conclusions and recommendations with regards to whether the public seeks financial accountability or auditability, improved continuity, standardized operations, stabilized mission priorities, messaging to the maximum extent, and DOD intra-organizational structure. The objective of this research study is to present conclusions and future research to recognize the impact of intra-

organizational relationship goal conflicts as a barrier to achieve operational goals. This study has future implications and application utilizing the framework of the principal-agent theory with regards to the design of organizational relationships as an explanation of divided loyalty and the implementation of effective and efficient internal controls to ensure daily compliance. The implementation of an effective risk-based compliance program necessitates the documentation of end-to-end standardized processes and procedures in support of the efficient execution of the operational missions, systems and financial activities that help to detect, deter, and reduce fraud, waste, and abuse of taxpayer resources. A strong compliance program is an essential element to underpin organizational operations, systems, and financial reporting to provide stakeholders a level of assurance with respect to financial accountability and auditability.

Review of Findings and Results

Analytic Category 1: Perceptions about competing and continuously changing mission – Mission Priorities

Mission Priorities (Goal Conflict)

The first research question sought to ascertain the participants' perceptions of how intra-organizational relationships impact the department's goal to achieve financial accountability and auditability. The participants indicated intra-organizational relationships are adversely impacted because of competing and changing mission priorities established by the senior leaders. DOD has many competing mission priorities which are in constant flux but are critical to understanding the goal conflict of intra-organizational relationships within the department. The primary mission of the DOD as framed by the founding fathers is to “provide for the common defense” of the nation at home and aboard

(U.S. Constitution, pmb.). However, the global environment greatly dictates and influences the DOD military strategy and posture to withstand the challenges posed by our adversaries. Generally, when the political powers of the U.S. Federal Government transition from party to another (i.e., democrat to republican or vice versa) so does most of the senior leaders in the executive branch agencies and departments. Since, these positions are held by presidential appointees and are instrumental in advising the president in setting the administration's military agenda, the department's mission priorities are subject to change.

The President's National Security Strategy (NSS) drives the National Defense Strategy (NDS) and informs the National Military Strategy (NMS). Below are three instances in which changes in DOD leadership has influenced mission priorities and created goal conflicts within intra-organizational relationships. In the 2008 NDS, Secretary of Defense, Robert Gates defined the Department's five mission priorities as follows: "1) define the homeland; 2) win the long war; 3) promote security; 4) deter conflict and; 5) win our nation's wars" (NDS, 2008). Then, in 2012, mission priorities changed again when Secretary of Defense, Leon Panetta, released the Defense Strategic Guidance (DSG), "*Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*" which identified the following as DOD mission priorities: "counter terrorism and irregular warfare; deter and defeat aggression; maintain a safe, secure, and effective nuclear deterrent; and defend the homeland and support civil authorities" (DSG, 2012). The DSG further required the DOD to both undergo a cultural change and become better stewards of scarce resources to increase future returns on investments through innovation. Also, in 2012, Secretary Panetta declared, "the Department's effort to become audit ready is a Department-wide priority"

and called for “all DOD personnel to manage their books as tightly as they manage their operational mission” (Panetta, 2012, p.1). Then, in 2018, Secretary of Defense, James Mattis, published the NDS 2018, “*Sharpening the American Military’s Competitive Edge*”, that focuses on expanding the competitive space to follow three separate lines of effort: “1) rebuild military readiness with a more lethal joint force; 2) strengthen alliances to attract new partners; and 3) reform the DOD business practices for improved performance and affordability” (NDS, 2018). These regular mission priority changes influence goal conflicts which adversely impact intra-organizational relationships. One of the participants made the following assertion about their perception of the impact of competing DOD mission priorities and auditability:

“There are always competing requirements – I wouldn’t say between the service and the audit, but more we have trouble prioritizing what needs to be done for audit against operational requirements and modernizations/readiness needs. This goes for time and money. Audit often takes the back seat.” (Interview Participant 3)

As cited previously, the 2018 NDS identified the department’s top mission priorities as lethality, alliances and new partners, and reform and performance. Yet, after the department completed its first-ever full-scope audit, the acting DOD IG, Glenn Fine, expressed the DOD’s commitment to financial auditability as follows:

“This is the first year that the DOD has undergone a full financial statement audit, so it is not surprising that it did not obtain a clean opinion.” Fine added, *“However, the most important thing this year is not the opinion, but that the department takes the audit seriously and seeks to fix the identified deficiencies, which the department is doing.”* He further emphasized the audit, *“is an important, long-term effort, which we are committed to fully supporting.”* (Mehta, 2018)

This statement gives credence to the perspective that goal conflict of intra-organizational relationships is directly impacted by the leadership not establishing a clear “tone at the top” for financial auditability which is further exacerbated by shifting the focus and competing

mission priorities.

The lack of progress in achieving auditability may be an outcome of constantly changing mission priorities, inconsistency in mission priority messaging, and expectations of achieving auditability. Auditable financial statements have been an expectation since the enactment of the CFOA of 1990. Among these research participants are those who believe that DOD intra-organizational relationships impact the goal of producing accountable and auditable financial statements. One of the participants in this research case study wrote,

“Intra-organizational relationships should facilitate audit – considering that Defense Contracting Audit Agency works for the Office of the Under Secretary of Defense Comptroller (OUSD(C)) and can help with essential contract closeout and has tremendous influence with Defense Finance Accounting Services (DFAS) and Defense Contract Management Agency (DCMA). Whether they use their influence to help is debatable.” (Interview Participant 3)

Analytic Category 2: Perceptions of embeddedness, divided loyalty, and the protection of information

Embeddedness, Divided Loyalty and Information Protection

The Phase I data collected from 36 participants of an electronic survey do support embeddedness as an explanation of divided loyalty as described in Research Question 2. Embeddedness as defined by the researcher as the position, roles, and responsibilities of the DOD IG or the DOD CFO or DOD Component CFOs being ingrained (physically located and within the reporting chain of command) in the DOD intra-organizational structure and culture (i.e., DOD or a DOD Component) does contribute to goal conflict within these relationships, affecting the DOD’s ability to achieve financial accountability and auditability in the traditional application of the principal-agency theory. The findings revealed that more than half (6 of 11 [55%]) of the DOD IG and (10 of 17 [59%]) the DOD

CFO participants believe that the physical location of the position of the CFOs within the DOD Component organizational structure resulted in divided loyalty and goal conflict over auditable financial statements between the DOD and the Components. These results did not include data from those participants who responded "don't know" or "not sure". Additionally, the Phase II data collected from the nine semi-structured interviews conducted for this research study did support the traditional application of embeddedness as a trusted professional network with an affiliation and a shared commitment to achieve financial accountability and auditability. However, the data did not produce empirical evidence to support embeddedness as an explanation for divided loyalty.

Information protection is an essential element in this research study for understanding how the protection of information occurs and at what level of the intra-organizational relationships within the department or DOD Components. Communication and information sharing are critical to financial accountability and auditability relationships to ensure accurate, reliable, and timely financial and managerial information for decision makers and citizens.

In 1962, the Secretary of Defense under Section 2208, Title 10, was granted the authority to set up different types of working capital funds (WCF) to finance DOD commercial business-like activities. These funds are used by the DOD to centralize and standardize business operations and improve efficiencies. WCF creates inter-governmental buyer and seller relationships between governmental entities. The primary focus of the principal-agent theory is to understand the relationship and interaction between two parties (Miller, 2005). The Defense Finance Accounting Service (DFAS) is a WCF agency that performs finance and accounting services as a DOD service provider. The inherent

complexities of understanding the separation of ownership for data and/or the transactions breeds an environment of information protection. When DFAS is unable to balance monthly financial statements, unsupported journal voucher transactions are created based on the Universe of Transactions for that amount and spread across the accounts of the buyers. Even though these transactions are not concealed from the buyers, the information is not voluntarily provided to the auditors, unless requested. These buyer/seller intra-organizational relationships create opportunities for divided loyalties within the department. Until the DOD Fund Balance with Treasury (FBwT) account is reconciled to eliminate discrepancies as reported on the Statement of Differences, a clean audit opinion will continue to elude the DOD.

Traditionally, the principal-agent relationship is described as a relationship characterized by goal conflict and the imbalance of information between the principal and the agent that creates an opportunity for exploitation by the agent for self-gain (Van Slyke, 2006). In this research study, the findings indicate that agents share only the information required to satisfy the functional needs of the auditors. The majority (14 of 25 [56%]) of the CFO participants believe that the DOD Comptroller monthly obligation benchmarks contribute to the DOD CFO Component's protection of information. Over half (7 of 11 [64%]) of the Inspector General participants believe that the DOD CFO Components protect information from the DOD IG or CFO. Information is protected by the DOD Components through the creation of unsupported obligation transactions. These transactions denote obligations to mitigate the risk or consequences of non-compliance with annual OSD Comptroller NDAA general provision that no more than 20% of a 1-year appropriation will be obligated during the last 2 months of the fiscal year. Many of the

participants in this study expressed this sentiment with regards to their perception of information protection as a cause of divided loyalty amongst intra-organizational relationships but it was best stated by one participant:

“The primary barriers in my opinion is the lack of a holistic solution to address the issues of the Statement of Differences, Interdependencies of Component financial data and suspense accounts for the Department. We are dependent on others’ actions, whether it’s in ammunition management, data reconciliations with systems we don’t manage, or DFAS processes on our behalf.” (Interview Participant 3)

Divided loyalties in principal-agent relationships foster a lack of trust by the principal that the agent may not be acting in the best interest of the principal.

Analytic Category 3: Perceptions about Standardization of Operations

Standardization of Operations

The GAO Green Book developed internal controls and set the standards for the Federal Government based on the internal control–integrated framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The primary purpose of internal controls is to help the organization (entity) achieve its mission objectives. The COSO internal control framework is designed to assist the entity in providing reasonable assurance of achieving the entity’s objective in the following categories: “1) run its operations efficiently and effectively; 2) report reliable information about its operations; and 3) comply with applicable laws and regulations” (GAO-14-704G, 2014). The DOD deployed modern enterprise resource planning systems to achieve compliance with COSO through the automation and integration of end-to-end business functions and reduced the number of operational IT financial systems from 330 to 111 (McConnell and Wang, 2014). There continues to be ongoing initiatives to transition and transform the DOD financial systems infrastructure from antiquated legacy systems to a

modernized Enterprise Resource Planning (ERP) software tool to provide the DOD with real-time data for financial management capabilities and decision-making. The DOD-modernized ERP financial systems are intended to transform the budget, accounting, and finance operations in support of the warfighter mission, to equip DOD leadership with accurate and reliable financial information in support of financial accountability and effective and efficient decision-making. Even though the DOD has implemented and modernized its IT financial management infrastructure, these systems are decentralized and not standardized across the department. Each of the military Services and the Defense Agencies designed and developed their own financial IT system to align and overlay with their business operations on different financial management IT systems (i.e., the Army's General Fund Enterprise Business System (GFEBS) and the Navy's ERP systems are built on Systems Applications and Products (SAP); the Air Force's Defense Enterprise Account and Management System (DEAMS), and the Defense Agencies Initiative (DAI) are built on Oracle Financials). Even though both Oracle Financials and SAP are ERP systems, the systems produce very different results for their customers and are not compatible. All the various financial management IT systems were designed and developed in compliance with the DOD's Financial Improvement and Audit Readiness Plan. However, each DOD Components' ERP system was uniquely designed to automate, consolidate, and manage the individual business operations of each individual organization. But as cited above, the ERP systems are built using different software tools. The narrative of one participant gives credence to this perspective:

“Not certain DOD financial organizational structure hamper audit goals; however, each service component, defense agencies and defense field office have separate processes and uniquely designed enterprise resource planning (ERP) systems to manage the business and automate many back-office functions. I think the fact that

DOD is so decentralized does hamper auditability to some degree because all financial systems don't have consistent fields or contain the same level of details/supporting documentation for transactions, so you don't have comparable information from one DOD entity to the next.” (Interview Participant 2)

Another area of major concern with regards to the standardization of business operating processes and procedures is the lack of Standard Operating Procedures (SOPs). The DOD utilizes SOPs to guide operational and functional processes and procedures throughout the DOD. Even though, the intent of the SOPs is to ensure or improve overarching uniformity and proper implementation of policies, plans, and strategies. DOD Components could exercise liberties with the application and interpretation of SOPs to meet the unique business operations of the individual organization. This lack of mandatory enforcement of 1) SOPs; 2) design and development of standardized enterprise resource planning systems (IT); 3) uniquely designed business operations; and 4) internal controls may be contributing to the DOD struggle to achieve accountability and compliance with GAAP. The lack of uniformity, standardization, and consistency creates conditions that are counterproductive to producing reliable auditable data necessary for better decision-making. Two of the interview participants expressed it this way:

“FINOPS, each service component has separate and unique processes, ERP” (Interview Participant 2)

“Eventually, with good auditable data, we will make better decisions – we'll know what we have in inventories, and will be able to trust the accounting data so that we can use it for analysis.” (Interview Participant 3)

Analytic Category 4: Other Relevant Findings of Analysis (Organizational Continuity)

Organizational Continuity

In the 200 years before the enactment of the Chief Financial Act of 1990, there was no Congressional mandate requiring federal departments and agencies to apply constant

and consistent federal accounting and reporting standards for producing annual financial statements. In 1982, the passage of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255, H.R. 1526) mandated all federal departments and agencies establish a manager's internal control program (MICP) to provide reasonable assurance that a federally funded program is operating effectively and efficiently to accomplish the program objectives. These efforts established the framework for policies and procedures to help ensure continuity in record keeping, policies, and procedures that underpinned audit-readiness for compliance functions. In 1990, the Federal Accounting Standards Advisory Board (FASAB) was also created to serve as the governance body to establish uniform, standard, and consistent accounting principles for the federal departments and agencies. The goal of FASAB was meant to assist federal entities to fulfill their obligation to be publicly accountable for the monies collected through the levying of taxes and reporting that federal funds were spent for the purpose for which the funds were appropriated by law and operating in a healthy financial manner (FASAB, 1999). It is vital to this research study to understand how the lack of continuity can be detrimental to the operating environment, program performance, and audit preparedness. The DOD workforce and intra-organizational relationships were intentionally designed to be rotational, agile, mobile, and fluid, to "provide for the common defense" of the nation at home and abroad (U.S. Constitution, pmb1.). These factors alone create an operating environment based on principle alone present challenges for continuity, consistency, and standardization of operations. A couple of participants provided the below perception relative to the lack of continuity in personnel:

"The constant flux of personnel on both sides, the auditors and the DOD personnel. There tends to be a lot of repeat information and conclusions due to the lack of

experience or the reduction of continued history that occurs on the audit. This can be a stressor for all stakeholders involved and needs to be watched. Lack of Standardization (systems, rules, operating procedures).” – (Interview Participant 4)

“ . . . turnover, tone at the top.” (Interview Participant 2)

The DOD active duty military Permanent Change of Station (PCS) has no element of permanency for active duty military personnel and their families. Generally, PCS means personnel will be stable at the new duty location for two to four years at most before the next permanent change of station assignment. In 2016, the DOD reported that approximately one-third of its military service members move each year. High turnover rates greatly impact compliance programs due to the absence of continuity and mitigation strategies for gap management until the new replacement arrives on station. The United States Armed Forces PCS moves consist of six basic categories which are further subdivided into two overarching categories of non-discretionary and discretionary moves. The four non-discretionary PCS move categories are “1) accession; 2) separation; 3) training; and 4) unit moves for force management and base realignments” and the two discretionary PCS moves categories are “1) rotational–transoceanic moves to and from overseas assignments and 2) operational–moves within the continental United States” (Bond, Lewis, Leonard, Pollak, Guo & Rostker, 2016). Since the Services have more control over the management of rotational and operational PCS moves, the Senate Report 112-196 directed the Under Secretary of Defense for Personnel and Readiness to provide a report to analyze the impact increased time on station would have on promotion opportunities for service members. The report findings did not reveal that PCS moves adversely affect a service member’s opportunities for promotion. But the report did find that PCS moves do directly affect a service member’s opportunities for professional

development, which can indirectly influence promotion opportunities (Bond, Lewis, Leonard, Pollak, Guo & Rostker, 2016). Frequently, DOD promotion opportunities result in the principal's (DOD Senior Leadership Sponsors) recruitment efforts targeting agents (Service members, DOD civilians and contractors with DOD affiliation) from their inner circle of associates, which can help to reduce the consequences of the agency problems of goal conflict. Conversely, embeddedness as described by Shapiro can result in the principal (sponsor) to select a less competent agent, relaxed monitoring of the agent, and may provide the agent a sense of protection for unfettered opportunism for professional development resulting in promotion opportunities (Shapiro, 2005).

In such a volatile and fluid DOD organizational structure with limited control over the management of workforce movements, the objective for uniform and consistent record keeping, policies and procedures required for audit-readiness and compliance over operations are significantly more challenging and complex to achieve mission objectives.

Summary

In this study, the findings recognize that intra-organizational relationships in the DOD are complex and align with goal conflict as described and supported by the principal-agent theory. This study indicates that the research participants in the DOD IG and CFO communities believe that goal conflict can provide an explanation for divided loyalties and information protection within DOD intra-organizational relationships. A lack of standardization, uniformity, consistency in operating processes and procedures, and unstable mission priorities and workforce emerged as potential barriers hindering the DOD's efforts to achieve financial accountability and auditability. This qualitative case study highlights that leaderships' commitment to financial accountability and auditability

are crucial to drive change and responsibility to produce reliable financial data for decision making and accountability. DOD intra-organizational relationships are required to facilitate more engagement with the financial management community and other functional areas such as operational missions, cybersecurity, and contract fraud to emphasize the impact and how these lines of business are aligned and intertwined with the financial statements.

Future Research

The financial accountability and auditability of the DOD will continue to be of a high interest area for the Congress, GAO, other federal agencies, and the taxpayer. In 2018, the DOD finally completed the department's first-ever full-scope audit resulting in a "disclaimer" by the IPA. As a result, the DOD remains the lone department within the Executive Branch that has not received a "clean" audit opinion issued by an IPA, which is the barrier preventing the federal government from the achievement of a consolidated financial audit opinion. While considerable research has been conducted to identify the underlying causes of DOD failed audit efforts, more research is warranted. No other entity in the federal government is responsible for defending the nation at home and abroad, nor volunteering to make the ultimate sacrifice of loss of life. Therefore, additional research should be conducted into the various paradigms:

- 1) Do taxpayers seek:
 - a. Auditability?—how were resources spent and what was procured?
 - b. Accountability?—what outcome(s) were produced to achieve the entity's mission?
- 2) Is the investment in commercial-like financial statements producing timely and meaningful information for decision-makers and taxpayers?

- 3) Should financial accountability be more intertwined with robust internal control compliance programs to drive operational reforms and effective and efficient business practices to, in turn, produce reliable financial data?

An understanding of the dynamics, influence, and contribution of relationships relative to financial accountability and auditability may drive organizational and policy changes, improved compliance (internal controls), and accountability that will serve to detect and deter fraud, waste, and abuse of taxpayer resources. This study makes an important contribution to understanding the influences of intra-organizational relationships with respect to financial accountability and auditability. The results of this study provided future implications and application in the framework of the principal-agent theory and opportunities for multi-divisional organizational relationship optimization and sub-optimization. The research indicated that the design of organizational relationships is a shared perception that served as an explanation of divided loyalty and that standardized compliance (internal controls) are necessary to create and ensure an effective and efficient organizational operating environment.

CONCLUSIONS

The purpose of this research case study was to explore, through an electronic survey and semi-structured interview analysis with a sample of 36/9 participants of DOD IG, DOD CFO, and DOD Component CFOs, respectively, perceptions of goal conflict as an explanation for divided loyalty, embeddedness, and information protection in the context of accountability and auditability of financial statements. The DOD's roles and responsibilities for financial management accountability and auditability within the department consist of many intra-organizational principal-agent relationships. In these principal-agent relationships, goal conflict exists when the desires of the principal and agent are in conflict (Eisenhardt, 1989). It is evident that after almost twenty-nine years since the passage of the CFOA of 1990, the department continues to struggle to achieve an unmodified audit opinion from the DOD IG or an IPA. The conclusions from this study are guided by the research questions and the findings and focused on three factors: 1) how ingrained CFOs in DOD Components impact DOD goals to achieve financial accountability and auditability; 2) how divided loyalty, embeddedness, and information protection affect the DOD's efforts to achieve auditability; and 3) how the effects of divided loyalty, embeddedness, and information protection differ based on DOD Components workforce structure. Below are the key findings and conclusions from this qualitative case research study. The first finding of this research study is that ingraining the position of the CFOs in DOD Components creates an environment for divided loyalty within DOD intra-organizational relationships. Based on the first finding, the conclusion drawn by the researcher is that divided loyalty within intra-organizational relationships impacts the department's goal to achieve financial accountability and auditability. It can

be further concluded that the primary purpose of divided loyalty is not for self-gain but motivated by the desire of the Component CFOs to protect the resources of the Component for the execution of mission priorities, ensure compliance with DOD CFO obligation benchmarks, and to avoid potential budgetary reductions to current year and/or future year funding levels. The second key finding was that divided loyalty and information protection does affect the DOD's efforts to achieve auditability. A conclusion that can be drawn by the researcher from this finding is that embedded CFOs in DOD Components do provide an explanation for divided loyalty, which results in the Component CFO protection of information (information asymmetry) from the DOD IG or IPA. The Component CFO (the agent) possesses more information than the principal (DOD IG or IPA; however, the Component CFOs do not protect information with the intent of deceiving the auditors but for the purpose of protecting the limited resources of the Components by reducing the exposure of budgetary resources to the risk of potential cuts. The final finding of this research study does not indicate that the effect of divided loyalty, embeddedness, and information protection are influenced by different organizational workforce structures and categories of personnel within the DOD. A conclusion drawn from this finding is that goal conflict does provide an explanation for embeddedness, divided loyalty, and information protection but the organizational personnel workforce makeup is not a contributing factor that affects the DOD's financial auditability.

The researcher proposes recommendations based on the research study results and findings, analytical assessment, and conclusions of this case study. The DOD should eliminate the design, development, and implementation of non-standardized enterprise resource planning systems for all DOD Components, standardization of financial

management IT systems, operations, processes and procedures, ensure compliance and enforcement of Standard Operating Procedures (SOPs), and reduce the DOD's reliance and/or use of the number of FM IT global exchange feeder systems. If several of the above recommendations are implemented, DOD intra-organizational relationships will be greatly improved. Improvements in the principal-agent relationships will reduce the impact of goal conflicts with regards to divided loyalty and information protection, allowing the DOD to advance compliance efforts for the achievement of financial accountability and auditability. Understanding the impact and/or influence of intra-organizational relationships with respect to the execution of the organizations' operational mission is essential to the application of compliance, accountability, and auditability. Figure 9 below depicts a robust risk-based management compliance approach that will help to identify gaps in operations, financial systems, and reporting for the implementation of corrective actions to mitigate any deficiencies prior to the auditor finding the deficiencies. A strong compliance program focuses on things that are working to ensure sustainment. Successful audits are sustained through compliance.

Management Compliance Approach



Figure 9: Management Compliance Approach

The implications of intra-organizational relationship loyalty and information protection are the result of a shared commitment to the agency's financial accountability and auditability and is not only applicable to the DOD but to commercial organizations as well.

APPENDICES

LISTING OF APPENDICES

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APPENDIX B – Consent Form for Participation in Research Activities

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APPENDIX D – Dissertation Electronic Research Survey Questions

APPENDIX E – Interview Questions – CFO/IG

APPENDIX F – Demographics

APPENDIX A – ACRONYMS

AICPA – American Institute of Certified Public Accountants
CFO – Chief Financial Officer
CFOA – Chief Financial Officers Act
DOD – Department of Defense
DOD IG – Department of Defense Inspector General
DFAS – Defense Finance Accounting Service
DLA – Defense Logistics Agency
DSS – Defense Security Service
DHS – Department of Homeland Security
FAM – Financial Audit Manual
FASB – Federal Accounting Standards Board
FASAB – Federal Accounting Standards Advisory Board
FIAR – Financial Improvement and Audit Readiness
FMFIA – Federal Managers’ Financial Integrity Act
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GAGAS – Generally Accepted Government Auditing Standards
GAO – Government Accountability Office
GMRA – Government Management Reform Act
GPFRR – General Purpose Federal Financial Report
GPRA – Government Performance and Results Act
GPRMA – Government Performance and Results Modernization Act
GT – Grant Thornton
HHS – Health and Human Services
ICOFR – Internal Control over Financial Reporting
IG – Inspector General
IPA – Independent Professional Auditors/Accountants
IRB – Institutional Review Board
MD&A – Management Discussion and Analysis
MICP – Manager’s Internal Control Program
OMB – Office of Management and Budget
OUSD(C) – Office of the Under Secretary of Defense (Comptroller)
PCAOB – Public Companies Accounting Oversight Board
PPBE – Planning, Programming, Budget and Execution
PP&E – Property, Plant and Equipment
SBR – Statement of Budgetary Resources
SCN – Statement of Changes in Net Position
SECDEF – Secretary of Defense
SNC – Statement of Net Cost
USMC – United States Marine Corps

APPENDIX B – CONSENT FORM FOR PARTICIPATION IN RESEARCH ACTIVITIES

Whom to Contact about this study:

Principal Investigator: [Cherry L. Wilcoxon](#)

Department: [Public Administration](#)

Telephone number: 540-907-5242

CONSENT FORM FOR PARTICIPATION IN RESEARCH ACTIVITIES

“AGENCY THEORY: An Examination of the Relationship of the Department of Defense Inspector General and the Chief Financial Officer and Embedded Chief Financial Officers in the Context of the Chief Financial Officers Act of 1990”

I. INTRODUCTION/PURPOSE:

I am being asked to participate in a research study. The purpose of this study is to examine if congressional, institutional or taxpayer pressures influence the DOD IG and CFO’s ability to remain ethical, impartial and independent while facilitating the department’s financial audit. The study will further explore balancing the roles of the DOD IG and CFO with the DOD (agency) efforts and Congressional mandate toward achievement of an unmodified audit opinion. I am being asked to volunteer because my Department is currently undergoing a financial statement audit. My involvement in this study will begin at the point I agree to participate and will continue until the questionnaire ends. Approximately 3-20 individuals from your agency will be invited to participate.

II. PROCEDURES:

As a participant in this study, I will be asked to answer a questionnaire. There will be no personally identifiable information collected. The researcher is only collecting demographic information for data analysis purposes. My participation in this study is voluntary.

III. RISKS AND BENEFITS:

My participation in this study does not involve any significant risks and I have been informed that my participation in this research will not benefit me personally, but outcome of study will benefit others, the community or society.

IV. CONFIDENTIALITY:

Any information learned and collected from this study in which I might be identified will remain confidential and will be disclosed ONLY if I give permission. All personally identifiable data will be stored on a secure network with access protection. Only the investigator and members of the research team will have access to these records. If information learned from this study is published, I will not be identified by name. By signing this form, however, I allow the research study investigator to make my records available to the University of Baltimore Institutional Review Board (IRB) and regulatory agencies as required to do so by law. Consenting to participate in this research also indicates my agreement that all

information collected from me individually may be used by current and future researchers in such a fashion that my personal identity will be protected. Such use will include sharing anonymous information with other researchers for checking the accuracy of study findings and for future approved research that has the potential for improving human knowledge.

V. SPONSOR OF THE RESEARCH:

This research study is for a doctoral dissertation.

VI. COMPENSATION/COSTS:

My participation in this study will involve no cost to me. There is no compensation being provided to participate in this study.

VII. CONTACTS AND QUESTIONS:

The principal investigator, Cherry L. Wilcoxon, has offered to and has answered any and all questions regarding my participation in this research study. If I have any further questions, I can contact Cherry L. Wilcoxon, at (571-305-6118, clwilcoxon10@gmail.com) or her dissertation chair, Dr. Ed Gibson, at (410-837-6117, egibson@ubalt.edu). For questions about rights as a participant in this research study, contact the UB IRB Coordinator: 410-837-6199, irb@ubalt.edu.

VIII. VOLUNTARY PARTICIPATION

I have been informed that my participation in this research study is voluntary and that I am free to withdraw or discontinue participation at any time.

I will be given a copy of this consent form to keep.

IX. SIGNATURE FOR CONSENT

The above-named investigator has answered my questions and I agree to be a research participant in this study. By signing this consent form, I am acknowledging that I am at least 18 years of age.

Participant's Name: _____ Date: _____

Participant's Signature: _____ Date: _____

Investigator's Signature: _____ Date: _____

APPENDIX C – EMAIL CONSENT

Survey Participants

My name is Cherry L. Wilcoxon, I am the Chief Financial Officer for the Defense Security Service and currently conducting research to fulfill the requirements to complete my dissertation.

My dissertation title: “AGENCY THEORY: An Examination of the Relationship of the Department of Defense Inspector General and the Chief Financial Officer and Embedded Chief Financial Officers in the Context of the Chief Financial Officers Act of 1990”

I. PURPOSE:

The purpose of my study is to explore the significance and complexity of the relationship between the Department of Defense Inspector General (DODIG), Department of Defense Chief Financial Officer (DOD CFO) and the embedded Department of Defense Component Chief Financial Officers relative to divided loyalties and protection of information. The study will also investigate how embeddedness of the DOD Chief Financial Officer within the DOD Components (Services, Defense Agencies and Field Activities and Combatant Commands) impact: 1) the requirement of the DOD CFO to produce auditable financial statements and 2) the Office of Department of Defense Inspector General’s accountability to conduct independent audits of the Department’s financial statements.

II. PROCEDURES:

As a participant in this study, you will be asked to answer a survey questionnaire. There will be no personally identifiable information collected. The researcher is only collecting demographic information for data analysis purposes. Participation in this study is voluntary.

III. RISKS AND BENEFITS:

This study does not involve any significant risks the research will not benefit me personally, but the outcome(s) of the study may be beneficial in the development of policies and drive reforms within the DOD and will be available to the Department of Defense and/or the Defense Security Service for use.

IV. CONFIDENTIALITY:

Any information learned and collected from this study in which you might be identified will remain confidential and will be disclosed ONLY if you give permission. All personally identifiable data will be stored in a secure folder and password protected. Only the investigator and members of the research team will have access to these records. If information learned from this study is published, you will not be identified by name.

Below is the link to the survey with regards to my dissertation research, please ensure you select the appropriate survey role.

https://survey.foreseeresults.com/survey/display?cid=FJo99FlhUB5oc1gZdcl5sA4C&sid=SL-dit_ote-EN

Please feel free to forward to other DOD Financial Management and/or DOD Inspector General Audit personnel that might be interested in volunteering to participate in this research project.

By completing and submitting your survey responses to the above link represents your consent of voluntary participation in the research survey. However, your consent allows the research study investigator to make your records available to the University of Baltimore Institutional Review Board (IRB) and regulatory agencies as required to do so by law.

APPENDIX D – DISSERTATION ELECTRONIC RESEARCH SURVEY

Inspector General

1. In your professional opinion, what is the Department of Defense Inspector General's role relative to auditability over the Department of Defense financial statements?
2. In your professional opinion, what is the most significant challenge the Department of Defense faces relative to auditable financial statements?
3. On a scale of 1 to 5, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree, how would you rate the overall audit readiness of the Department of Defense to achieve auditable financial statements?
 1. ____ strongly disagree
 2. ____ disagree
 3. ____ neutral
 4. ____ agree
 5. ____ strongly agree
4. In your opinion, how does the Office of the Department of Defense Inspector General balance its statutory requirements with the DOD CFO' requirement to achieve audit over DOD's consolidated financial statement audits?
5. Does the location of the position of the CFOs within the Components (i.e., military services, COCOMS, Defense Agencies and Field Activities) of the DOD organizational structure of result in goal conflict over auditable financial statements between the DOD' and the Components?
6. Does embedding the CFO's in DOD Components cause divided loyalties between the Department of Defense and Components?
7. In your professional opinion, does DOD CFO Component's protect information from the Department of Defense Inspector General or the DOD Chief Financial Officer?
8. In your professional opinion should the DOD Inspector General delegate their responsibility over the Departments' financial audit to an Independent Public Accountant?
9. In your professional opinion, does DOD Component loyalty differ between the Services (Army, Air Force, Navy and Marines), Defense Agencies with mixed workforce (combined military services and Civilians) and civilian only Defense Agencies?
10. In your professional opinion, how would you describe the utility of the Department of Defense' auditable financial statements and related footnotes?
11. How has the Department of Defense investment in Financial Management human and intellectual capital influenced its auditability efforts?
12. Has the Department of Defense investment in Enterprise Resource Planning systems improved the overall auditability of the department's financial statements?
13. Has the Department of Defense investment in Enterprise Resource Planning systems eliminated or reduced the material weaknesses and significant deficiencies in the department's institutional business operational processes?

14. Are you aware of any Department of Defense financial management policies or performance matrices that may adversely impact the department's ability to achieve audit?
15. On a scale of 1 to 5, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree, in your professional opinion does the Department of Defense organizational structure adversely impacts the Inspector General's core priorities of accountability, integrity and efficiency?
 1. ____ strongly disagree
 2. ____ disagree
 3. ____ neutral
 4. ____ agree
 5. ____ strongly agree
16. In your professional and/or lived experience, does the Department of Defense organizational structure impede the Inspector General's ability to remain impartial and accountable in realizing financial audits? If so, how? If not, why not?
17. In your opinion, does the Department of Defense have any culturally engrained impediment(s) that impact the Department' success of achieving a Consolidated DOD clean audit opinion?
18. In your opinion, what has been the impact of the DOD Inspector General's retraction of USMC unmodified opinion on the Department's audit efforts?
19. Is there any other information you would like to share?

Chief Financial Officers

1. How do you define the relationship of the Department of Defense Inspector General relative to the department's financial statement audits?
2. What is the role of the Department of Defense Chief Financial Officer in the Department of Defense' efforts to realize financial statement audits?
3. In your professional opinion, what is the relationship between the Department of Defense Inspector General and Chief Financial Officer and the 43 DOD Component Chief Financial Officers?
4. In your professional opinion, do you believe the Department of Defense will realize an "unqualified" audit opinion over its financial statements in Fiscal Year 2017 as mandated by National Defense Authorization Act of 2010?
5. On a scale of 1 to 5, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree, how would you rate the overall audit readiness of the Department of Defense in realizing auditable financial statements by 2017?
 1. ____ strongly disagree
 2. ____ disagree
 3. ____ neutral
 4. ____ agree
 5. ____ strongly agree
6. In your professional opinion, are there any financial management policies or performance matrices that may adversely impact the department of Defense' ability to achieve auditability?
7. In your professional opinion, what is the most significant challenge the Department of Defense faces relative to achieving auditable financial statements?
8. In your opinion, does CFO positions within the organizational structure of DOD Components cause divided loyalties between the Department of Defense CFO and the Components?
9. Does or has Congressional or institutional pressures influenced the Inspector General's ability to remain independent, while supporting the department's financial statement audits?
10. On a scale of 1 to 5, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree, do you believe the Department of Defense organization structure adversely impacts the Inspector General core priorities of accountability, integrity and efficiency?
 1. ____ strongly disagree
 2. ____ disagree
 3. ____ neutral
 4. ____ agree
 5. ____ strongly agree
11. In your professional opinion describe the utility of Department of Defense auditable financial statements and related footnotes?

12. Has the Department of Defense investment in Financial Management human and intellectual capital (DOD Financial Management Certification) influenced its audit readiness efforts?
13. Has the Department of Defense investment in Enterprise Resource Planning systems improved the overall auditability of department's financial statements?
14. In your professional opinion, does DOD Component loyalty differ between the Services (Army, Air Force, Navy and Marines), Defense Agencies with mixed workforce (combined military services and Civilians) and civilian only Defense Agencies?
15. In your professional opinion, does DOD CFO Component's protect information from the Department of Defense Inspector General or the DOD Chief Financial Officer?
16. Do the Department of Defense Comptroller obligation benchmarks contribute to DOD CFO Component's protection of information from the Department of Defense Inspector General?
17. In your opinion, does Department of Defense have any culturally ingrained financial impediment(s) to realizing a clean audit opinion?
18. In your professional opinion, what are the advantages/disadvantages of Department of Defense financial audits being performed by the Department of Defense Inspector General, if any compared to the delegation of the financial audit functions to an Independent Public Accountant?
19. In your professional and/or lived experience, do you believe the Department of Defense organizational structure and/or culture hinder the Chief Financial Officer's ability to realize financial auditability? If so, how? If not, why?
20. Is there any other information you would like to share?

Generic Demographic Questions

1. Years of federal employment:
 - a. less than 5 years
 - b. between 5 and 10 years
 - c. between 11 and 20 years
 - d. 20 years or more
 - e. Other (Government Contractor, etc.)
2. Years of federal employment with the Department of Defense:
 - a. less than 5 years
 - b. between 5 and 10 years
 - c. between 11 and 20 years
 - d. 20 years or more
 - e. Other (Government Contractor, etc.)
3. Highest level of education completed:
 - a. High school graduate
 - b. some college
 - c. Associate Degree
 - d. Bachelor's Degree
 - e. Master's Degree
 - f. Post Graduate
 - g. Doctorate
4. Are you a Certified Defense Financial Manager?
 - a. Yes
 - b. No
5. Are you a Certified Government Financial Manager?
 - a. Yes
 - b. No
 - c. Delete or use
6. Are you a Certified Public Accountant or Auditor?
 - a. Yes
 - b. No
7. Have you achieved Department of Defense Financial Management Certification? If so, what level?
 - a. No
 - b. Yes
 - i. Level I
 - ii. Level II
 - iii. Level III

8. What is your occupational series?
 - a. ___ 0501 Financial Administration and Program
 - b. ___ 0505 Financial Management Administration
 - c. ___ 0510 Accounting
 - d. ___ 0511 Auditing
 - e. ___ 0560 Budget Analysis
 - f. ___ 1800 Inspector General
 - g. ___ Other (please identify)
9. What is your current pay grade and duty title?
 - a. ___ GS/GG 9 or below
 - b. ___ GS/GG 11- 13
 - c. ___ GS/GG 14
 - d. ___ GS/GG 15
 - e. ___ SES
 - f. ___ Other (please describe)Duty Title _____
10. Describe your affiliation relative to the Department of Defense achieving auditability over its financial statement audits?

APPENDIX E – INTERVIEW QUESTIONS – CFO/IG

Goal Conflict

- 1- Describe your role as it relate to the goal of audited financial statements?
 - a. How has your role changed or evolved with respect to financial statement audits?
 - b. What are some key functions you support or perform relative to financial statement audits?
 - c. How does your role advance the mission of DOD?
 - d. Does the goal of audited financial statements drive mission priority tradeoffs?
- 2- What do you perceive as factors that are barriers to DOD achieving audit success?

Embeddedness

- 3- How does the DOD financial organizational structure facilitate or hamper the goal of producing auditable and accountable financial statements?
 - a. How does the DOD IG/CFO engage with stakeholders within the department?
 - b. What are some official and unofficial channels of audit communications in the DOD?
 - c. How do you communicate with DOD IG or CFO and with other stakeholders on routine and non-routine audit matters?

Divided Loyalty

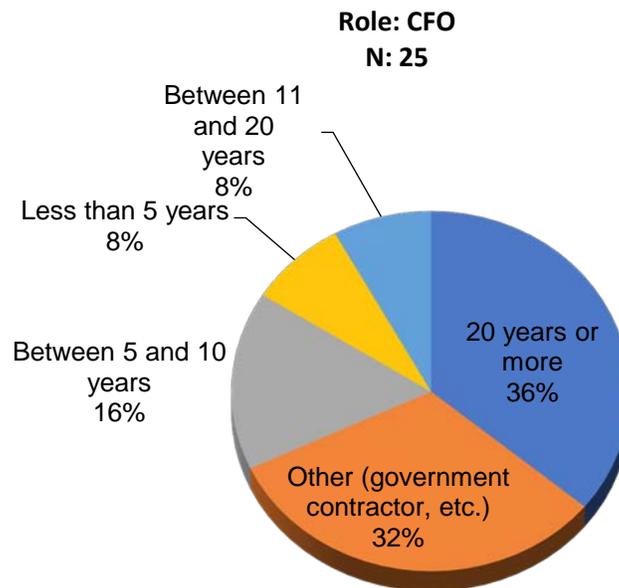
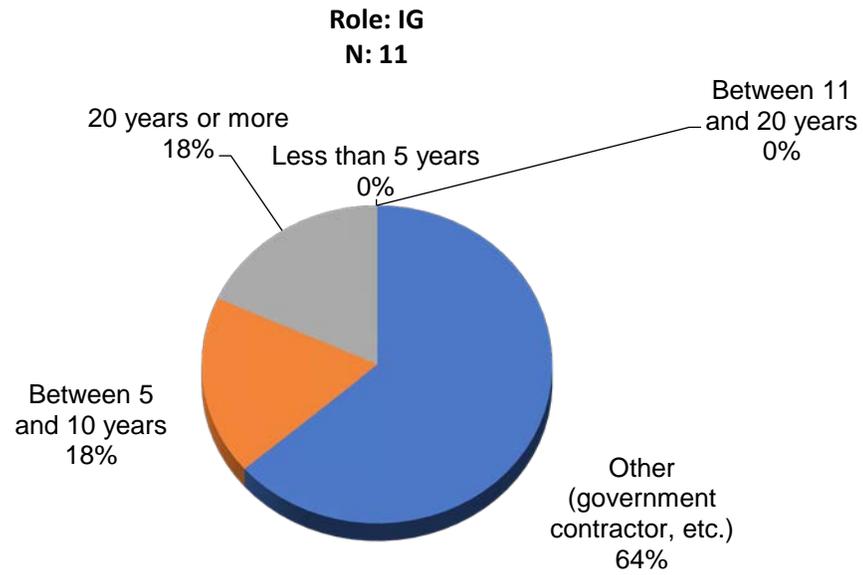
- 4- What conflicts, if any, have you observed between organizational loyalty to/identity with Service/Component and the goal of clean audits?

General

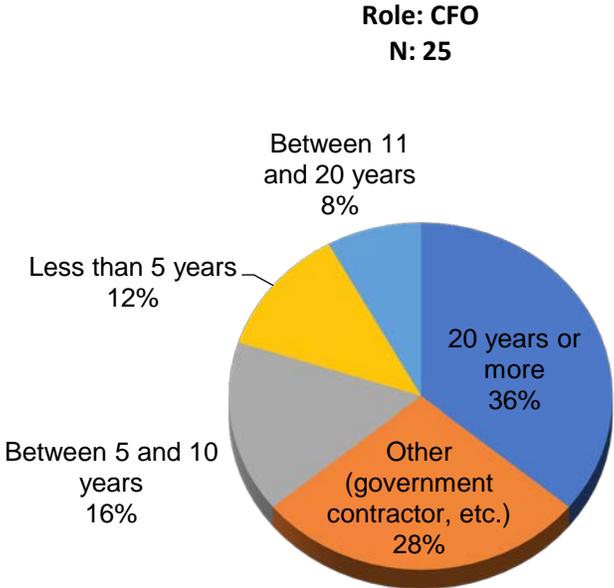
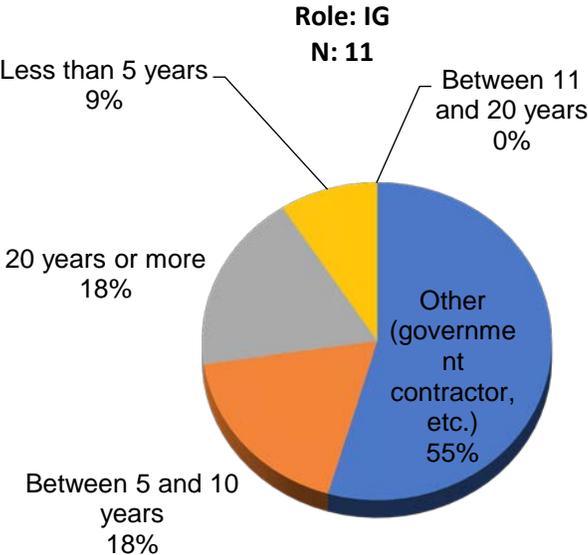
- 5- Relative to topics we have discussed, as a DOD CFO/DOD IG is there any additional information you would like to share relative to your role in the DOD Audit process.

APPENDIX F – DEMOGRAPHICS

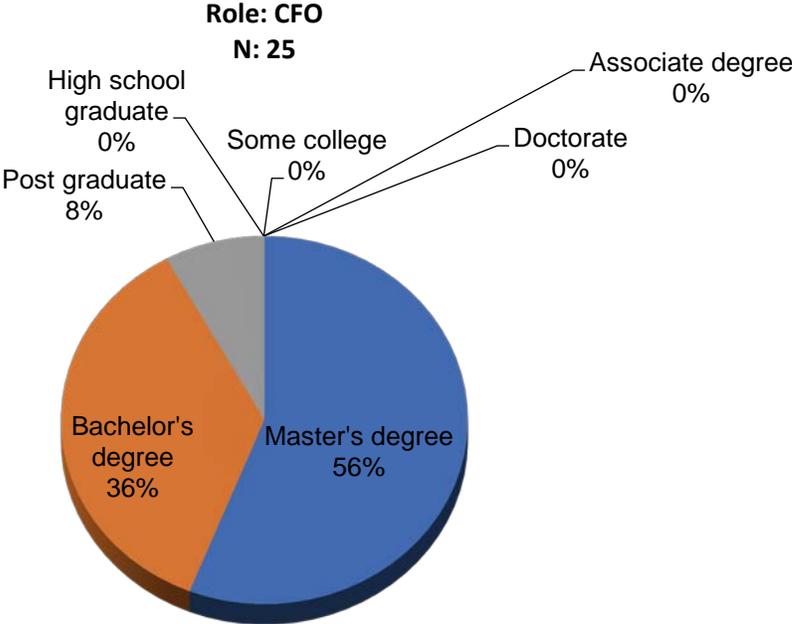
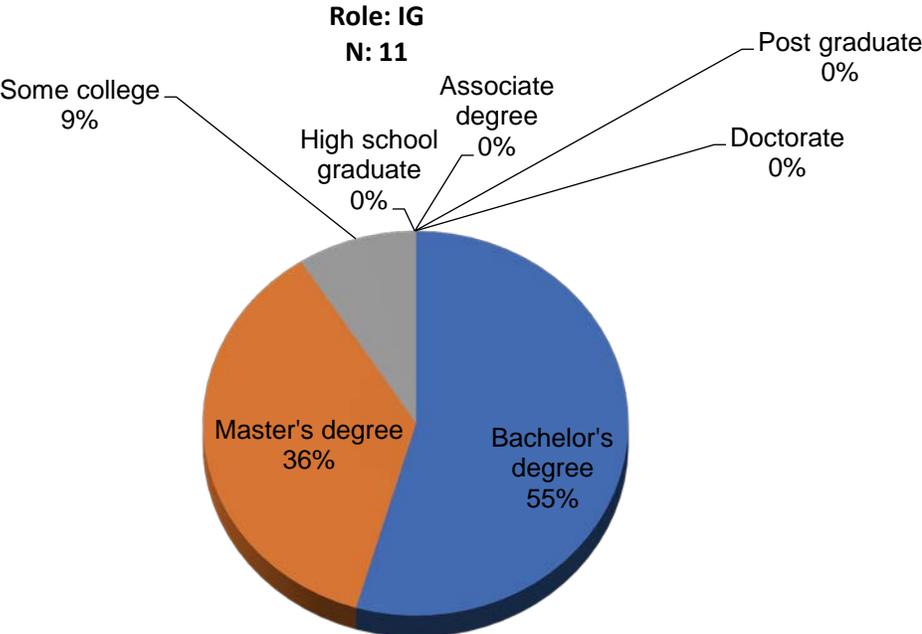
How long have you been an employee of the federal government?



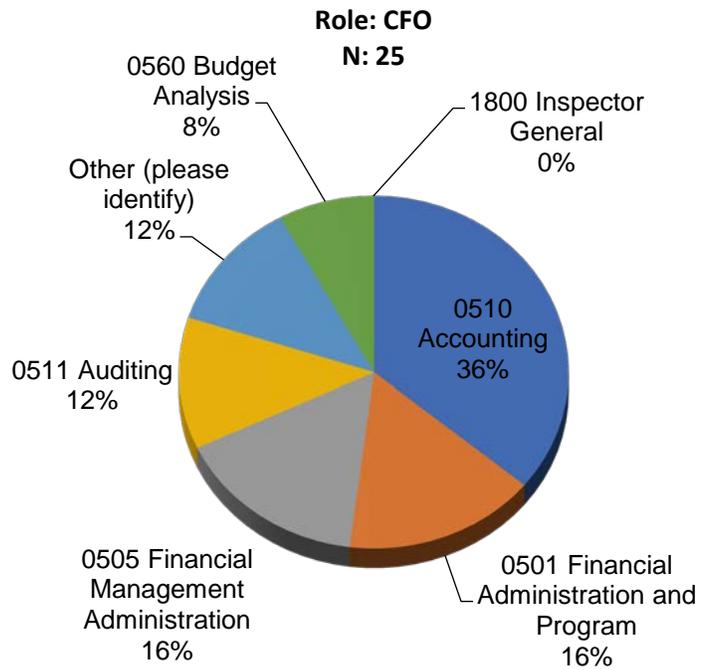
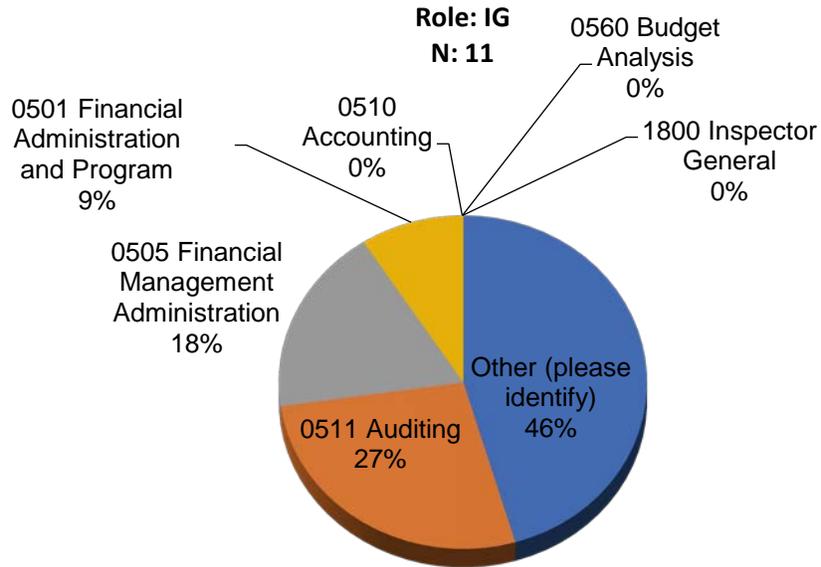
How long have you been employed with the Department of Defense?



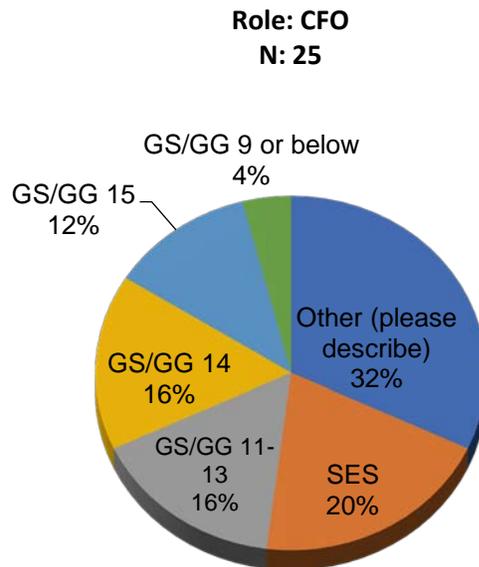
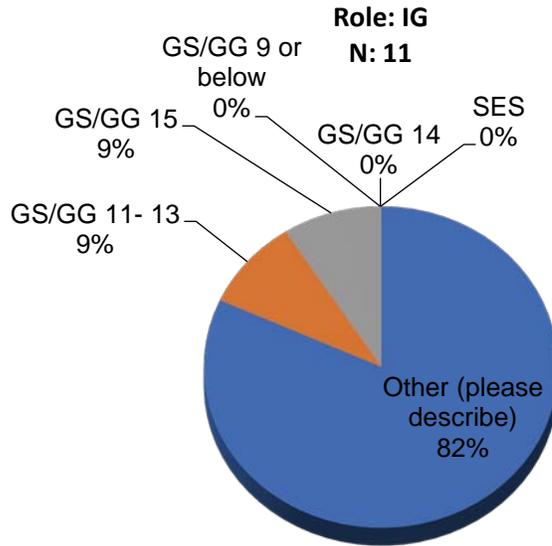
What is the highest level of education you have completed?



What is your occupational series?



What is your current pay grade and duty title?



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