

## *Defense Audit Readiness News*

### *October 2012*

*We spend a lot of time talking about what needs to be done and how we're going to get there—and rightfully so. But it's also important from time to time to look at how far we've come and all we've accomplished as a Department. And this edition of Defense Audit Readiness News does just that. With the start of the new fiscal year, and the one year anniversary of the Secretary's directive to accelerate audit readiness, it's time to take inventory of our FY 2012 accomplishments—from opinions, to assertions, to systems, a lot of work happened. Even this newsletter and all we've done to improve communications suggests momentum is building. Thank you for all you do and for helping make FY 2012 such a success.*

*Mark Easton  
Deputy Chief Financial Officer*

#### Upcoming Events

- ❖ **October 2** – FIAR Committee Meets
- ❖ **October 5** – FIAR Service Providers Working Group Meets
- ❖ **October 10** – FIAR Subcommittee Meets
- ❖ **October 16** – FIAR ODO Subcommittee Meets
- ❖ **October 19** – FIAR Governance Board Meets

#### ❖ **GFEBs Fully Deployed**

On July 1, 2012, the Army completed its final planned deployment wave of the General Fund Enterprise Business System (GFEBs). GFEBs has more than 53,000 users at 227 locations in 71 countries and changes the way the Army does business. A web-enabled financial, asset, and accounting management system, GFEBs replaced the Standard Finance System, the most widely used standard accounting system for Army installations, and the Standard Operations and Maintenance Army Research and Development System the standard accounting system for most Army logistics and acquisition operations.

GFEBs affects all Army organizations, and changes everything from the day-to-day activities of Army financial operations to decision-making at the Command level. With the FY 2012 completion of the transition from the legacy real property system to GFEBs, GFEBs became the Army's system of record for the Army's real property assets. The real-time nature of GFEBs reduces the need for data calls and gives the Army more accurate data on funds availability and execution.

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## ❖ Secretary's Message



Secretary Panetta delivers video message.

In an all-hands video, Secretary Panetta declared the Department's effort to become audit ready a Department-wide priority. Calling for all DoD personnel to manage their books as tightly as they manage their operational mission, the Secretary listed three things everyone should do right away:

1. Check expense information for accuracy and completeness, and be sure expenses are entered into the right financial system.
2. Treat every dollar as if it was your own.
3. Build accurate, complete, and reliable property, equipment, and supplies records, and turn in unused equipment.

First shown to the 500 participants in the May 23, 2012, SES Town Hall, the video message is available under HOME on the DoD Financial Improvement and Audit Readiness public website at <http://comptroller.defense.gov/FIAR/>.

## ❖ SES Town Hall Meeting



Deputy Secretary Carter addresses Town Hall audience.

More than 500 gathered in-person and online for an audit readiness town hall meeting for members of the Senior Executive Service who have audit readiness goals in their performance plans. Hosted by the Deputy Secretary of Defense and the Under Secretary of Defense (Comptroller), the May 23<sup>rd</sup> meeting called on leaders with audit readiness responsibilities to push the word down that audit readiness is an all-hands effort.

The Deputy Secretary referred to audit readiness as a “decentralized execution” that must perfuse the institution and introduced the Secretary's video message. The USD(C) then spoke to the details of auditability and tools available, such as the Commander's Checklist. A video recording of the SES Town Hall meeting is available under HOME on the DoD Financial Improvement and Audit Readiness public website at <http://comptroller.defense.gov/FIAR/>.

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### ❖ **DMAG Reviews FIAR Progress**

The Deputy Secretary of Defense established the Deputy's Management Action Group (DMAG) to facilitate a common management approach across disparate Department topics and processes. Chaired by the Deputy Secretary of Defense/Chief Management Officer, the DMAG comprises key senior leaders from across the Department. The USD(C)/CFO presented the FIAR near-term and long-term goals and thoroughly briefs the members of the DMAG on progress and risks, as required. By engaging the Department's most senior leaders, the DMAG helps hold leadership accountable and helps ensure the Department will meet its audit readiness goals.

### ❖ **The Commander's Checklist**

Earlier this year, the DMAG called for audit readiness to become part of DoD's readiness lexicon. The Commander's Audit Readiness Checklist directly responds to that charge by targeting the readiness culture at the Command-level. The checklist helps commanders and directors ensure their commands and directorates are able to produce complete, accurate, and reliable records needed for audit. Seven major uses of funds are addressed: Appropriations, Reimbursable Orders – Acceptor, Military Pay, Civilian Pay, Major Contracts and Vendors, Interagency Purchases, and Supply Requisition (MILSTRIP). A checklist for existence and completeness of assets is also included. Checklist steps are organized around funding and asset lifecycles. Commanders were asked to distribute the checklist to the responsible organization for each use of funds addressed by the checklist. Each organization then completes the steps in the checklist and retains documentation that every step was performed.

The Commander's Audit Readiness Checklist was distributed to the heads of the Defense Agencies. Each Service also distributed a checklist. An overview, instructions for use, and checklists for major uses of funds and existence and completeness as well as links to the Services' checklists are available at <http://comptroller.defense.gov/FIAR/cmdersChklist.html>.

### ❖ **Audit Readiness Reverberates Across the Components**

Following on the heels of the Secretary's directive, the Service Secretaries and the Chiefs of Staff of the Armed Services issued their own call for taking action on audit readiness. For example, the:

- Chief of Staff of the Army issued an audit readiness message to all general officers in April 2012, stating, "Responsible stewardship of taxpayer resources and operating business processes within an effective control environment are consistent with high standards of military readiness and support Army values. Leaders at all levels are responsible for instilling proper levels of discipline and oversight into all business processes within their command."

- Commander of the U.S. Army Training and Doctrine Command (TRADOC) in a memorandum to his command said, “Achieving audit readiness is not optional and is the direct responsibility of every commander, leader, and program manager throughout TRADOC.”
- Commander of the Naval Air Systems Command included a specific reference in his “Commander’s Intent” for the need to “standardize financial processes in accordance with the Navy’s Financial Improvement Program to provide accurate and auditable information that supports program execution decisions.”
- Commander of Pacific Air Forces (PACAF) said in a memorandum to his command in March, “The Air Force’s ability to undergo and obtain a clean audit opinion of our financial statements is a direct reflection of how well we manage the entire Air Force.” He added, “PACAF/FM will take the lead and develop Audit Readiness Working Groups within PACAF with the objective of developing internal and management control programs to assist the base level functional areas achieve audit readiness.”
- Director of the Defense Logistics Agency (DLA) directed the DLA Executive Board to expedite progress and achieve General Fund SBR audit readiness in FY 2014 and full audit readiness by September 30, 2015, two years in advance of the Department’s 2017 goal. “DLA is renowned for leading the Department in accomplishing its most difficult goals. Not only am I confident that we can meet [the Department’s] audit readiness goals, we can exceed them.” The DLA produces both General Fund and Working Capital Fund financial statements.

### ❖ Financial Statement Audit Opinions

In FY 2011, DoD reporting organizations with unqualified audit opinions received almost \$112 billion in budgetary resources, more than the budgetary resources under audit in 15 of the 24 individual Chief Financial Officer Act federal agencies combined. The table below lists DoD Components that over the last year successfully achieved audit opinions on their FY 2011 financial statements.

<b>FY 2011 Unqualified Audit Opinions</b>
U.S. Army Corps of Engineers – Civil Works
Defense Contract Audit Agency
Defense Commissary Agency
Defense Finance and Accounting Service
Defense Information Systems Agency – Working Capital Fund
Military Retirement Fund
Office of the Inspector General
TRICARE Management Activity – Contract Resource Management
<b>FY 2011 Qualified Audit Opinion</b>
Medicare-Eligible Retiree Health Care Fund

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## ❖ Examinations and Opinions in FY 2012

The Department's SBR audit readiness efforts focus on improving the documentation and controls within major business process cycles. Recent achievements include:

- An unqualified opinion on the audit readiness of the budgetary information for the Navy's E2-D major defense acquisition program. This achievement shows that the underlying data and controls exist to a large degree in the Department's major acquisition process. All Components can now build on this pilot effort to ensure that the business process is auditable in a sustainable and efficient manner.
- Unqualified opinions on the Existence and Completeness audit readiness of the majority of Navy and Air Force Military Equipment. This evidences control over some of the most expensive and important assets in the Department.
- Audit opinions on the controls of two key processes supported by DFAS and DISA. Business processes in DoD always involve shared service providers who furnish common services to the Military Departments and other Components creating dependencies for achieving audit readiness. These audits model Component-service provider coordination and demonstrate that in key areas the Department has controls in place that already support auditable financial statements.

## ❖ Validations Underway

Examples of audit readiness validations underway include:

- Audit readiness of 10 Army sites that were among the early adopters of GFEBS. The Army approach is to move installation-by-installation to test the audit readiness of nine business processes at the same time, providing feedback to the Army of the extent of progress on most material business processes.
- Navy Civilian Pay and Transportation of People. Validating these significant spending streams will prove that Navy now understands audit requirements and can focus on applying its knowledge and experience to other business areas.
- Air Force Space Based Infrared Radar System (SBIRS). Currently under validation, Air Force asserted on this Major Defense Acquisition Program two months ahead of schedule. The assertion covers approximately \$4 billion in obligations and expenditures from FY 2008 through FY 2011.

## ✦ Audit Readiness Assertions in FY 2012

Components assert audit readiness on a business process after validating that corrective actions have been completed, processes documented, automated and manual controls tested and effective, and supporting documentation made readily available. The following table lists audit readiness assertions made in FY 2012 for business processes in the Statement of Budgetary Resources and for existence and completeness of mission critical assets.

DoD Component	Audit Readiness Assertions
<b>Statement of Budgetary Resources</b>	
Army	Examination of GFEBs 9 Business Processes at 10 Installations and DFAS
Navy	Financial Reporting
Air Force	SBIRS Acquisition Program
Air Force	Funds Distribution to Base
Defense Technical Information Center	Appropriations Received
U.S. Special Operations Command	Appropriations Received
Defense Contract Management Agency	Appropriations Received
Washington Headquarters Service	Appropriations Received
Missile Defense Agency	Appropriations Received
Defense Threat Reduction Agency	Appropriations Received
Department of Defense Education Activity	Appropriations Received
Defense Security Cooperation Agency	Appropriations Received
Defense Advanced Research Projects Agency	Reimbursable Work Orders
Defense Advanced Research Projects Agency	Civilian Pay
Defense Advanced Research Projects Agency	Travel Pay
Defense Advanced Research Projects Agency	Other Budgetary Activity
<b>Mission Critical Assets</b>	
Army	OM&S – 3 Missile Types
Navy	Military Equipment - Boats
Navy	OM&S - Uninstalled Aircraft Engines
Air Force	OM&S - Spare Engines
Air Force	OM&S - Missile Motors
U.S. Special Operations Command	WARCOM - Combatant Craft
U.S. Special Operations Command	USASOC - Rotary Wing Aircraft
Missile Defense Agency	Military Equipment - Sensors

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## ❖ SNAPSHOT

Each Military Department has committed to interim milestones for achieving audit readiness for each major element or business process for the statement of budgetary resources, such as civilian pay or contracts, and for addressing the existence and completeness of each major category of assets, such as military equipment or real property. The chart below gives a snapshot of the interim milestones on which the Services have successfully asserted audit readiness and how many remain.

### Audit Readiness Interim Milestones

Military Department	Completed As Of 1/31/2012	Completed As Of 8/31/2012	Completed As Of 9/30/2012	Future	Total
	Statement of Budgetary Resources				
Army	2	3	3	1	4
Navy	2	4	4	8	12
Air Force	4	5	5	10	15
	Mission Critical Asset Existence and Completeness				
Army	0	1	1	8	9
Navy	1	3	3	12	15
Air Force	3	5	5	8	13

Completed: milestones completed and approved by OUSD(C) (i.e., not returned for additional work).

Future: milestones to be completed in the future.

Total: Total milestones to achieve auditability.

## ❖ Professional Development Takes Center Stage

Achieving auditability hinges on having a knowledgeable, well-trained, and dedicated workforce. To address the needs of 60,000 DoD financial managers, the Department instituted a comprehensive professional development program that combines:

- DoD audit-specific courses for developing a deeper understanding of financial improvement and audit readiness, and
- Financial management certification for broadening skills and developing leadership.

More than 2,000 personnel have attended the FIAR courses. The DoD Financial Management Certification Program, designed to broaden the competencies and advance the professionalism of the financial management workforce, also enjoys broad support across the financial management community. Piloting of the program will be completed in December 2012. Over 650 members of the financial management community are participating in the pilot, which runs through December 2012.

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### ✦ Accelerating Progress Through Mock Audits

The Department deployed several teams of federal financial statement auditors to perform mock audits on key assessable units. Mock audits use the same procedures, tools, and techniques auditors employ during an audit.

The mock audit approach was recently used to assess DFAS' Military Pay. The mock audit team developed a plan to assert Military Pay audit readiness in a little over one year's time. After completing the Discovery, Corrective Action, and Validation phases, the team developed a report using an identical structure to an SSAE No. 16 examination report. The report from the mock audit provided DFAS management a picture of what it could expect to see had it formally engaged auditors to perform an examination. The report was then used to assert Military Pay as ready for an SSAE No. 16 examination. Next, working on a typical audit timeline, the team quickly performed process mapping, controls identification, and controls testing for all material military pay processes and manual/IT controls within DFAS.

More mock audits are being planned.

### ✦ Have an Idea for the Newsletter?

We welcome submission and suggestions. Please keep in mind:

- Articles average 500 words. Fast Facts, Events, and Photos are also accepted.
- Submissions are due the 15<sup>th</sup> of each month for the following month's edition.
- Articles may be edited and returned to you for final review.
- Submissions and suggestions should be emailed to [AuditReadiness@osd.mil](mailto:AuditReadiness@osd.mil).

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