

Defense Audit Readiness News

November 2012

We often speak of the need to communicate clearly, but what does that really mean? What's clear to me may not be clear to the person I'm speaking to. Not only do those of us in financial management have our own language, but financial managers in one Service often speak a different language from those in another Service. And no one can dispute that DoD has a language all its own.

Working to achieve a common goal means speaking in a common language and using everyday terms. For those of us who've spent a career in one discipline or in service to Defense, it won't be easy, but it is essential. Challenge yourself to speak and write more simply, and challenge each other to do the same, particularly when working with those in other functional communities. You'll find that we have more in common than you might think.

*Mark Easton
Deputy Chief Financial Officer*

Upcoming Events

- ✧ **November 9** – FIAR Service Providers Working Group Meets
- ✧ **November 14** – FIAR Subcommittee Meets
- ✧ **November 15** – FIAR Plan Status Report Due to Congress
- ✧ **November 15** – FIAR ODO Subcommittee Meets
- ✧ **November 28** – FIAR Committee Meets

✧ **DFAS Launches “Audit Ready Countdown Day” Campaign at 700 Day Mark**

The end of October marked 700 days until the 2014 SBR Audit Readiness goal for the Department of Defense. In recognition of this goal, DFAS launched an “Audit Ready Countdown Day” as part of its “I am Audit Readiness” campaign. In 100-day increments, DFAS will conduct events to reinforce employees’ audit readiness understanding and preparedness. Prior to each event, work groups will develop themes and specific activities to engage DFAS as a whole and organizations within it. For the first event, at the 700 day mark, DFAS held an “Audit Readiness Orientation” intended to provide all of its employees a foundational understanding of what audit readiness is and to clarify each person’s role in supporting the mission to become audit ready.

To see the training conducted during the DFAS “Audit Ready Countdown Day,” go to <http://www.dfas.mil/dms/dfas/sitewide/AuditReadinessOrientation.pdf>. Be sure to have your speakers on as you advance through the slides. DFAS viewers can click on the Audit Readiness Countdown clock on the ePortal to access the Audit Readiness ePortal community.

❖ **A Lesson Learned: Reconciliation of Transactions to the General Ledger**

In order to undergo an audit, an entity must be able to identify a universe of transactions and reconcile those transactions to the General Ledger.

In Other Words: An auditor needs to see that the individual accounting transactions, sometimes from multiple field-level systems, when added together, equal the total account balance recorded in the General Ledger. For example, an auditor wants to see all of the individual disbursement transactions that equal the sum of the Delivered Orders – Obligations Paid reported on the SBR.

The Problem Is: If we can't identify all the underlying individual transactions, the auditors can't determine whether the balance reported for the account is accurate.

What That Means in an Audit: When auditors test a balance reported on a financial statement, they select a sample of transactions. If we cannot show the universe of transactions that make up that general ledger balance, the auditors won't be able to select a reliable sample and complete testing. Generally, the auditors will not begin testing transactions until they are certain they can select a sample of transactions from a population that captures the entire balance.

What That Means to Your Mission or Program: If we cannot develop a complete listing of the universe of transactions that represent a balance, we may not be able to demonstrate we have captured all of the business activity associated with a program. As a result, the cost of that program (as reflected in the official records) is not accurate and we may not know how much money is still available.

Bottom Line: If we cannot identify a universe of transactions that reconcile to the general ledger, then we are not audit ready. We must communicate the importance of reconciling all transactions to the general ledger in order to support the balance of each line item on the financial statements.

❖ **Simply Put**

Here's a common financial management term put in words everyone can understand.

Internal Controls: Management processes to reliably ensure achievement of mission, financial, and compliance objectives.

Last month, we posted "What Does Internal Controls Mean in Plain English?" on the FIAR Group blog on milBook. Twenty-four comments and 245 views later, we came up with the definition above. Think you can do better? Join us for the December word challenge.

❖ **FIAR Governance Board Approves Changes to the FIAR Guidance**

In August 2012, the FIAR Governance Board approved two changes to the FIAR Methodology that incorporate feedback and lessons learned from audit readiness efforts. The updated guidance will be officially released later this year.

Limiting the Scope of First Year SBR Audits

First year audits of the SBR in FY 2015 will only include schedules containing current year appropriation activity. This guidance change will help to identify whether a Component's current business and financial practices, processes, controls, and systems support auditability. Using only current year activity will allow Components to assess progress and identify audit issues in a way that a disclaimer audit opinion on full financial statements does not. Auditors issue a disclaimer when they cannot form an opinion on the financial statements due to various scope limitations or uncertainties. While a disclaimer also involves detailed comments from the auditors on issues, the auditor cannot provide a clear indication of how much progress has been made or how close an entity is to an opinion.

After successfully completing audits of current year appropriation activity, the Components will then undergo audits of the complete SBR. Although the full scope SBR audit may result in a disclaimer, Congress and the public can have confidence that significant progress has been made while the Components either address prior year activity or the activity becomes immaterial over time.

Timing of IPA Examinations

To accelerate audit readiness efforts, the second approved change to the FIAR Methodology moves independent auditor examinations earlier in the FIAR Methodology process—during the Evaluation Phase, rather than in the Validation Phase.

The previous FIAR Methodology used auditors to independently verify the audit readiness assertions after the Component had self-identified weaknesses, corrected them, and tested the corrective actions to ensure that the issues have been addressed. Although it remains important to first identify issues and implement basic financial controls and retain supporting documents, an examination by an experienced independent auditor to confirm the effectiveness of internal controls and supporting documentation is more effective than a Component's self-evaluation. An auditor examination allows for an independent perspective and assessment of an entity's processes, controls, and supporting documentation.

❖ 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 9/30/2012	Completed As Of 10/31/2012	Future	Total
	Statement of Budgetary Resources				
Army	2	3	3	1	4
Navy	2	4	4	8	12
Air Force	4	5	6	9	15
	Mission Critical Asset Existence and Completeness				
Army	0	1	1	8	9
Navy	1	3	4	11	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.

❖ Not yet a member of the FIAR Group on milBook? Here's some of what you missed:

- What Does Internal Controls Mean in Plain English?
- Where Are We Going with FM Certification?
- FIAR Training openings and announcements
- What song reminds you of our FIAR initiative? (Our favorite for those who need a break!)

For instructions on joining the FIAR Group, see "Stay Connected" at <http://comptroller.defense.gov/fiar/stayConnected.html>.

This newsletter is a publication of the Department of Defense Financial Improvement and Audit Readiness Directorate, Office of the DCFO, OUSD(C). To submit an article, suggest content, add individuals to the mailing list, or have an email removed, please contact AuditReadiness@osd.mil.