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DEFENSE AUDIT READINESS NEWS **APRIL 2013**

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Upcoming Events

- April 4 – Service Provider Working Group Meets
- April 10 – FIAR Subcommittee Meets
- April 11 – FIAR ODO Committee Meets
- April 29 – FIAR Governance Board Meets

Connect

- Join the FIAR Group on milBook at the CAC-enabled site https://www.milSuite.mil/book/groups/fiar
- Visit the FIAR Directorate's website for links to FIAR Guidance and other tools, including past issues of Defense Audit Readiness News
- Become a FIAR Planning Tool user by emailing FIARSupport@osd.mil

Sequestration and myriad budgetary uncertainties are consuming untold hours of leadership time and forcing us to make many hard decisions. With fewer resources, something's got to give, and yet, we cannot back off. Perhaps now, more than ever, the public needs to know that their dollars are well spent.

I recently heard David Walker, former U.S. Comptroller General, speak, and although he stressed the importance of audit, he put even greater emphasis on the improving financial information side of things. That's where the real value of FIAR comes in. Financial improvement efforts give us better insight into program costs—both past and future, and help us make the hard decisions that these times require. We're at a critical juncture, and despite the need to make trade-offs, we also need to maintain the momentum that we have established. But we must keep an eye on our goals and keep talking with each other about what works and what doesn't. Communication and learning from each other is the best way to stay on track.

Keep up the good work and thank you for all you do!

Mark Easton, Deputy Chief Financial Officer

Unqualified Opinions for DON

In March, an Independent Public Accounting Firm issued unqualified opinions to the Department of the Navy (DON) for both Civilian Pay (CIVPAY) and Transportation of People (ToP). CIVPAY and ToP account for approximately $10 billion in annual disbursements, 6 million annual transaction volume, 26 key process controls, 80 key supporting documents, and 9 significant systems requiring limited Financial Information System Controls Audit Manual reviews.

The DON hopes to progress even further with assertions for Reimbursable Work Orders, Military Pay, Funds Balance with Treasury, and Ordnance. We hope the DON continues its successful streak and congratulations on the achievements thus far!

✧ How to Write a Control Activity

If you've ever compiled work product documentation for an assertion package, then you've had to describe the control activities that satisfy each Financial Reporting Objective. A control activity is more than the steps in a process. Control activities ensure management objectives are being met and risk mitigation strategies are being carried out.

A process, on the other hand, is the series of steps you take to get the job done. Using Civilian Pay as an example, a process might be written as:

> *On the last day of every month, the general ledger (GL) accountant calculates the civilian payroll accrual. Once the accrual is calculated, the GL accountant creates a journal voucher and selects the proper GL accounts and line of accounting. The accrual is recorded in the GL.*

This describes the process that happens each month, but the wording is general and does not meet the standard of being a control activity. When describing a control activity, use words that denote approvals, authorizations, verification functions and activities, reconciliation procedures, reviews of operating performance, or security of assets and segregation of duties.

Again using Civilian Pay as an example, a control activity that satisfies the Financial Reporting Objective and therefore reduces risk might be written as:

> *Every month, the supervisory accountant **reviews** the civilian payroll accrual journal voucher prepared by the GL accountant. The supervisory accountant **evaluates** the accrual amount for reasonableness and **verifies** that the proper accounts and line of accounting are being used. The supervisory accountant **evidences her review** by either manually **signing** the journal voucher or **approving** the journal voucher within the accounting system.*

Section D.2.1 of the FIAR Guidance more fully describes how to prepare process and systems documentation. See also, Appendix C, which outlines, for each assessable unit, the risks that need to be addressed and required reporting objectives that need to be met.

✧ Simply Put: IT General Controls

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

<u>IT General Controls:</u> Controls that ensure the IT environment is properly accessed, maintained, and used.

✧ Tips for a Successful Financial Statement Audit

The DoD IG provides oversight of DoD financial improvement and audit readiness efforts, including oversight of audits required by the Chief Financial Officers Act. Such audits focus on financial management; the Department's management and development of the ERP systems; DoD financial improvement and audit readiness efforts; assessing the auditability of military equipment and other assets; and efforts to reduce and eliminate improper payments.

The following tips for successful financial statement audits were presented at the March FIAR Subcommittee meeting:

1. Things you should maintain and have documented:
   - Supporting documentation at the transaction level.
   - A complete universe of transactions that the auditors will be able to sample.
   - Compliance with FFMIA, FMFIA, and other significant laws and regulations.
   - Assessment of the internal control environment, including all key internal control points and testing conducted.
2. Things you should develop internally:
   - Knowledgeable staff to address auditors' questions.
   - Well-documented processes and procedures that employees use and auditors can follow to identify controls.
   - Automated repository for transaction documentation, such as Sharepoint, so that documentation is readily available.
3. Make sure the auditors have:
   - Results of reviews and assertion validations previously completed by IPA consultants.
   - Previous FISCAM assessments.
   - Expedited access to audit clients and locations.
   - Access to systems to review support for transactions.
4. To manage the process, be sure you keep:
   - A regular schedule of meetings to discuss progress and impediments.
   - A Provided By Client list to know what items will be required once the audit starts and to manage requests during the audit process.
5. When it comes to leadership and stakeholder support, be sure you have:
   - Sufficient DFAS support.
   - A pledged commitment to support the audit from within your own organization.
   - Audit support from the appropriate senior managers and your Comptroller Office so that significant audit issues can be addressed immediately.

In addition to these tips, four common issues auditors see were highlighted:

- The architecture supporting basic accounting processes and subsidiary systems must be able to produce accounting data that complies with generally accepted accounting principles rather than data for budget development and reporting.
- Accounting activity with trading partners must be identified so that the intragovernmental receivables/payables for the buyer and seller agree and proper elimination in consolidated financial statements can occur.
- USSGL accounts must be assigned to transactions where and when they occur. This prevents having to do unsupported journal vouchers to force agreement of amounts between budget and proprietary accounting reports.
- Unexpected or abnormal USSGL account balances for expiring or canceling appropriations should be researched to determine whether they are related to errors in current appropriations and corrected.

For additional information and resources, download the GAO/PCIE Financial Audit Manual – Volume 3 – Checklists (August 28, 2007) at http://www.gao.gov/special.pubs/gaopcie/ and the CFOC/PCIE Best Practices for Coordinating the Preparation and Audit of Federal Financial Statements (September 2007) at http://www.ignet.gov/pande/audit/affs0907.pdf.

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.

Military Department	Completed As Of 1/31/2012	Completed As Of 2/28/2013	Completed As Of 3/31/2013	Future	Total
	Statement of Budgetary Resources				
Army	2	3	3	1	4
Navy	2	5	6	6	12
Air Force	4	7	7	8	15
	Mission Critical Asset Existence and Completeness				
Army	0	2	2	7	9
Navy	1	4	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.

✧ Join the Over 600 Members of the FIAR Group on milBook

The FIAR group is one of many secure communities on the CAC-enabled milBook. Similar to how Facebook and LinkedIn connect people with similar interests or backgrounds, milBook connects people across the DoD community. Member of the FIAR group can share information through group blogs, discussions, and documents.

Not yet a member? Here are the blog postings you missed in March:

- New Material in the FIAR Tool
- Navy receives unqualified opinions on their Civilian Pay and Transportation of People assessable units
- Hearing: DoD and DHS: Implementing Agency Watchdog's Recommendations Could Save Taxpayers Billions
- FIAR Guidance Update on FIAR Website
- Plain English Challenge - IT General Controls

To join, please visit https://www.milsuite.mil/book/groups/fiar, join milBook, join the FIAR Group, and join the audit readiness conversation. Be sure to keep the FIAR group email alerts set to On so you know what's happening.

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