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### Upcoming Events

- ❖ July 11 – FIAR ODO Subcommittee Meets
- ❖ July 25 – Combined Meeting of the FIAR Committee and FIAR Subcommittee  
NOTE: July through September FIAR Subcommittee and FIAR Committee meetings have been combined due to furloughs.

### 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 at <http://comptroller.defense.gov/FIAR> 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](mailto:FIARSupport@osd.mil)

*If you think about it, we're already inside our 12-month window leading up to the 2014 deadline. In other words, by this time next year, we should know exactly what we can and cannot do, and what we can do will have to be supported by examinations. We're going to have to be very specific from here forward.*

*I know the budget turmoil is taking its toll. Furloughs are taking time away from your tasks and sapping morale, and budget cuts have reduced training, travel, and resources. Being frank and specific about what we will do between now and 2014 is essential.*

*I recently likened the year before us to the year 1999—when one year remained before the potential Y2K computer meltdown. Then, as now, long-term plans were reaching the end, and we were left with a very detailed action-items list and a mounting sense of urgency. The focus shifted from what had been accomplished to what remained to be done. That's where we are now.*

*I know a great year lies ahead of us. Thank you for all you do!*

*Mark Easton,  
Deputy Chief Financial Officer*

### ❖ **Wave 2 Mock Audits Underway**

Through a May 31, 2013, memorandum, Under Secretary of Defense (Comptroller) and Chief Financial Officer Bob Hale announced more mock audits for other Defense organizations. Mock audits of Defense-wide (Treasury Index 97) Financial Reporting and of Civilian Pay began the week of June 10, 2013, and mock audits of Vendor Pay and Contract Pay will begin on November 15, 2013. In the memorandum, Hale called this next round of mock audits "a significant event, representing the first financial statement audit experience over these Wave 2 processes for many Defense organizations in the Fourth Estate."

An Independent Public Accounting firm completed a mock audit and validated audit readiness of Appropriations Received (Wave 1) for all other Defense organizations earlier this year.

Based on that experience, roles, responsibilities, action items, and timelines were developed and included as attachments to the memorandum. The Defense Finance and Accounting Service is acting as liaison to the mock audit teams and will coordinate the compilation, review, and submission of required supporting documentation and transactions.

“Due to the diversity of the systems and offices these four [Wave 2] processes use, the impact of these mock audits will extend to the Military components as well. The entire Department will play a role in making these mock audits a success,” Hale stated through the memorandum. Entrance conferences for Financial Reporting and Civilian Pay were completed in June.

Mock audits are planned and executed using the same procedures, tools, and techniques that auditors would employ during an audit, but because the auditors in a mock audit work for management, the auditors are not considered independent. For more information on mock audits, see the November 2012 FIAR Plan Status Report. For a copy of the memorandum, see the Documents sections of the FIAR Group on milBook.

✧ **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 4/30/2013	Completed As Of 5/31/2013	Completed As Of 6/30/2013	Future	Total
<b>Statement of Budgetary Resources</b>					
Army	3	3	3	1	4
Navy	6	6	7	5	12
Air Force	7	7	7	8	15
<b>Mission Critical Asset Existence and Completeness</b>					
Army	2	2	3	6	9
Navy	4	4	4	11	15
Air Force	5	5	5	8	13

Completed: cumulative 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.

### ❖ **A Lesson Learned: Obvious Red Flags**

Too many abnormal balances, summary-level adjustments, and journal vouchers (JVs) may indicate weak internal controls and can stall audit progress.

In other words: Anomalies in accounting records, such as abnormal balances or too many summary-level adjustments and JVs, should act as red flags to underlying problems. An abnormal balance occurs when an account that should have a positive balance shows a negative balance, or vice versa. While there are valid summary-level accounting adjustments or JVs, multiple invalid entries may be recorded to correct inaccurate balances when financial statements are prepared.

**The Problem Is:** Accounts have a normal balance, either positive or negative, and the presence of abnormal balances is evidence that transactions are not captured, reported, and summarized correctly. Summary-level adjustments and JVs are often made because balances between systems cannot be reconciled. In this case, an invalid JV may be recorded to force the balances to reconcile. But recording an invalid JV doesn't address the underlying error in the transaction-level data in the source accounting system or issues with the system receiving the data, nor is there any documentation supporting the JV.

**What That Means in an Audit:** When there are indicators of errors in the transaction-level data in the source accounting systems, auditors must judge whether the errors are isolated or systemic, leading them to select more transactions to test. If the auditors cannot estimate the magnitude of the errors, they may not be able to complete the audit or issue an opinion on the financial statements. At best, too many errors may result in an adverse opinion or disclaimer.

**What That Means to Your Mission or Program:** Weak internal controls and errors in transactional data keep us from understanding the true cost of our programs and impede our ability to manage our programs and be accountable to the public.

**Bottom Line:** Root out the cause of abnormal balances before you get to audit.

### ❖ **Simply Put:**

Achieving existence and completeness audit readiness of mission-critical assets is one of the Department's three FIAR priorities. To put that in words everyone can understand:

Existence and Completeness, or E&C, means that all mission-critical property, equipment, materials, and supplies that are recorded actually exist, and all that exist are properly recorded.

❖ **New Video Spotlights Everyday Aspects of Audit Readiness**

*Submitted by the Office of Financial Operations, Department of the Navy*

The Department of the Navy’s Office of Financial Operations recently released a second short video aimed at promoting audit readiness awareness. Filmed at a Naval Air Station, the video “How Does ‘Doing Things Right’ Support Audit Readiness?” pairs live-action footage with white-board graphics. “Doing Things Right” emphasizes actions typically performed each day throughout the Navy that impact financial audit readiness.

“If you buy things, pay people, or manage assets to accomplish the Navy mission, you have a direct bearing on auditability,” says Karen Fenstermacher, the then Assistant Commander but now Comptroller of Enterprise Business Operations at Naval Supply Systems Command, who introduces the video with the rallying message. Next, LCDR Monica Agarwal leads viewers through an everyday scenario, maintenance on an airplane—only in this case, the part is not in stock. Agarwal takes us from the maintenance technician at the hangar who orders the part, to the contracting officer who gets a vendor quote and prepares the contract, to the logistics specialist who receives the part at the warehouse, and back to delivery to the maintenance technician. Each step along the way we’re told what needs to happen and how that action bears on audit readiness.



White-board graphics give DON video distinctive look.



LCDR Monica Agarwal follows the audit readiness trail of an airplane parts request through delivery.

The Navy video series aims to raise audit awareness, demonstrate real-world examples, and urge employees to get involved by “doing things right and documenting it.” To view “How Does ‘Doing Things Right’ Support Audit Readiness?” as well as “How Will You Support Audit Readiness?” visit the Navy FMO website, Audit Readiness Information Center, at [http://www.fmo.navy.mil/AuditReadiness/audit\\_readiness\\_videos.html](http://www.fmo.navy.mil/AuditReadiness/audit_readiness_videos.html).

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