

### In This Issue

- ❖ Secretary Hagel Demonstrates Leadership Commitment
- ❖ Audit Opinions on Financial Statements
- ❖ Audit Readiness Validations and Assertions
- ❖ Mock Audits Advance Audit Readiness
- ❖ Financial Management Certification Program Being Formalized
- ❖ FIAR Training in High Demand
- ❖ FIAR Guidance Refined

### Upcoming Events

- ❖ October 22 – FIAR Subcommittee and ODO Subcommittee Combined Meet

### 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 the [FIAR Support Team](#)

*Welcome to the Defense Audit Readiness News annual “Year In Review” issue. Thank you for your patience and dedication during what was a difficult summer and a challenging way to start the new fiscal year. Furloughs and the government shutdown touched each of us in a very personal way, and I understand that coming back and rededicating yourself to the task at hand can be difficult. Please know I speak for all of the Department’s leaders when I say the work you do to support our mission is important and valued. Each of you are making a difference for this initiative, and that difference will mean we get more out of the resources we are provided. Thanks for your perseverance.*

*FY 2013 was quite a year for FIAR, and we realized many accomplishments. Today, the Department is on a clear and steadfast path to achieving audit readiness—19 percent of total budgetary resources have an opinion or are under audit, and 53 percent of DoD assets are under examination, have been validated as audit ready, or asserted as audit ready. What a difference from where we were two years ago!*

*But numbers are only half of the story. The real accomplishments are in the way the Department has pulled together, changing the culture and the way we do business, sharing best practices, dedicating resources, and strengthening accountability. With Secretary Hagel’s leadership, audit readiness has remained a DoD high priority. Thanks to your hard work, FY 2014 promises to bring even more success. Thank you for all you’ve done and your good work that’s to follow!*

*Mark Easton, Deputy Chief Financial Officer*

### ❖ **Secretary Hagel Demonstrates Leadership Commitment**

The Honorable Chuck Hagel was sworn in as the 24<sup>th</sup> Secretary of Defense in February 2013. Since then, he has repeatedly emphasized his commitment to the audit effort. In August 2013, he recorded a video message demonstrating his commitment and underscoring the importance of audit readiness. “Being able to



*The Honorable Chuck Hagel,  
Secretary of Defense*

audit this Department’s finances is a high priority for me and for the Department’s senior leadership. It should also be a high priority for each of us,” the Secretary said.

The video has been widely viewed throughout the Services and Components. Navy FMO and AT&L highlighted the video on their website, and the Air Force distributed the video widely through various communication channels. Outside of the Department, the Association of Military Comptrollers made the video available on its website, as well as connecting it to its members on Facebook and LinkedIn.

The full video is available through the FIAR Directorate website at <http://comptroller.defense.gov/fiar/index.html>, through the Comptroller public website at <http://comptroller.defense.gov/>, and through CAC-enabled FM Online at <https://fmonline.ousdc.osd.mil/>. To share a link, right click on the video and select “Copy Shortcut.”

❖ **Audit Opinions on Financial Statements**

Six DoD organizations received unqualified audit opinions on their FY 2012 financial statements. Additionally, three DoD reporting organizations received qualified opinions. The chart below lists the DoD Components that achieved unqualified and qualified audit opinions on their FY 2012 financial statements. At the time of this newsletter, and because of extended reporting timelines following the shutdown, the audit opinions of these organizations’ FY 2013 financial statements were not available, but the results are expected to be the same.

<b>FY 2012 Unqualified Audit Opinions</b>
U. S. Army Corps of Engineers – Civil Works
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
TRICARE Management Activity – Contract Resource Management
Military Retirement Fund
<b>FY 2012 Qualified Audit Opinions</b>
Defense Information Systems Agency – Working Capital Fund and General Fund
Office of the Inspector General
Medicare-Eligible Retiree Health Care Fund

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## ❖ Audit Readiness Validations and Assertions

The Department organizes audit readiness activities by business and financial processes (e.g., Military Pay, Contracts, and Reimbursables). Auditors complete examinations to validate management's assertion that the business or financial process is audit ready. In FY 2013, examinations resulted in unqualified opinions for:

- Navy – Civilian Pay and Transportation of People
- Air Force Operating Materials & Supplies Missile Motors
- Defense Finance and Accounting Service – Civilian Pay, Military Pay, and Standard Disbursing Services Phase 1
- Defense Civilian Personnel Advisory Service – Civilian Pay
- Defense Information Systems Agency – all assessable units Enterprise Computing Services

Qualified opinions were issued to:

- Army – Operating Materials & Supplies Javelin, Hellfire, and TOW Missiles
- Air Force – Operating Materials & Supplies Spare Engines
- Defense Finance and Accounting Services – Military Pay

Additionally, OUSD(C) completed a mock audit and validated audit readiness of Appropriations Received (Wave 1) for all other Defense organizations working to achieve FIAR goals in March 2013. (More information on mock audits follows this article.)

Examinations that identify needed additional corrective actions are an important step toward achieving audit readiness. In FY 2013, examinations were completed and corrective actions are underway for Army GFEBS Waves 1 & 2 sites; Air Force SBIRS Acquisition Program; Defense Contract Management Agency Financial Reporting and Civilian Pay; and Chemical Biological Defense Program Financial Reporting.

Additional examinations are underway for Army All General Fund activities at all GFEBS locations; Navy Military Pay, Reimbursable Work Orders – Acceptor, Reimbursable Work Orders – Grantor, and Fund Balance with Treasury; Air Force Civilian Pay (General Fund and Working Capital Fund) and Fund Receipt and Distribution; and Defense Logistics Agency Defense Automatic Addressing System. Examinations are pending for Army Real Property (at 23 sites); and Defense Logistics Agency Civilian Pay, Contract Pay, and Defense Agencies Initiative.

Components asserted audit readiness on many assessable units in FY 2013. Reviews of new assertions are underway for Navy Military Equipment Small Boats and Operating Materials & Supplies Uninstalled Aircraft Engines; Chemical Biological Defense Program Contract Pay, Other Budgetary Activity, Reimbursable Work Orders – Acceptor, Reimbursable Work Orders – Grantor, and Fund Balance with Treasury; Defense Contract Management Agency Fund Balance with Treasury, Contract/Vendor Pay, Reimbursable Work Orders – Acceptor, Reimbursable Work Orders – Grantor; Defense Logistics Agency Real Property DLA Hosted Sites and General Equipment Capitalized Assets; and Service Medical Activity (Navy) – Consumables.

### ❖ **Mock Audits Advance Audit Readiness**

The OUSD(C) plans and conducts mock audits using the same procedures, tools, and techniques that auditors would employ during an audit, but the auditors in a mock audit work are not independent. The Department completed a mock audit and validated audit readiness of Appropriations Received (Wave 1) for the Defense organizations working to achieve FIAR goals in March 2013:

- Chemical Biological Defense Program
- Defense Advanced Research Projects Agency
- Defense Contract Management Agency
- Defense Logistics Agency
- Defense Security Cooperation Agency
- Defense Technical Information Center
- Defense Threat Reduction Agency
- Department of Defense Education Activity
- Missile Defense Agency
- Service Medical Activity (Army, Navy, Air Force)
- TRICARE Management Activity – FOD
- U.S. Special Operations Command
- Washington Headquarters Service

Based on that experience, the FIAR developed roles, responsibilities, action items, and lessons learned that are informing future mock audits. The Department began a new round of mock audits on Defense-wide (Treasury Index 97) Financial Reporting and on Civilian Pay in June 2013. Mock audits of Vendor Pay and Contract Pay will begin in early FY 2014. For many Defense organizations, these new rounds of mock audits are their first financial statement audit experiences with Wave 2 processes. 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.

### ❖ **Financial Management Certification Program Being Formalized**

The DoD Financial Management Certification Program emphasizes appropriate training and development in major areas such as audit readiness, fiscal law, ethics, decision support, and leadership development. The OSD Comptroller staff published a directive-type memorandum in March 2013 and is now completing the program's formalization and adding to the list of qualified training courses.

Three levels of certification have increasing training requirements that graduate in technical proficiency and leadership competencies as the member transitions to more senior positions. Users track progress against certification requirements in the DoD FM Learning Management System. The program completed a successful pilot at 13 Components with 652 participants. Program organizers incorporated several lessons learned from the pilot that are now in the program's overall implementation strategy. To date, the program is activate in 7 organizations with over 600 participants. The implementation team provides on-going support through live instructor-led virtual training and online training. The target date for full implementation across applicable DoD organizations is Quarter 4 of FY 2014.

### ❖ **FIAR Training in High Demand**

The Department collected best practices, lessons learned, and case studies to develop two series of interactive courses on auditing DoD. Tier I courses enhance Department-wide knowledge and understanding of the FIAR goals and priorities, introduce the FIAR Guidance, and reinforce the Department's internal control over financial reporting requirements. Tier II uses case studies to further explore assessing, improving, and auditing budgetary resources and existence and completeness of mission critical assets. The Department developed a FIAR Overview course for personnel outside the financial community who support audit readiness. The FIAR 100 course is a high-level, compact one-hour session for DoD executives and senior leaders needing to better understand audit readiness.

Since the FIAR training first became available, approximately 3,600 people have attended courses. During FY 2013, 20 Tier I, 14 Tier II, and 7 FIAR Overview sessions occurred across the country, and there continues to be strong interest in on-going training. The Department is expecting demand to continue in FY 2014 and plans to update the training content to include additional lessons learned and best practices. In addition to the FIAR courses, many people have attended other audit readiness training developed and delivered by the Components.

### ❖ **FIAR Guidance Refined**

Based on lessons learned during the USMC audits, the Department issued modified FIAR Guidance in March 2013 to limit the scope of the first year, FY 2015 Statement of Budgetary Resources (SBR) audits. The scope of FY 2015 audits will be on current year appropriation activity and transactions (i.e., a Schedule of Budgetary Activity (SBA)). The initial General Fund SBA audits will not include balances from prior year activity. SBA audits will continue until FY 2017, when SBR audits will begin and include auditable opening balances from prior year SBA audits. The FIAR Governance Board also approved combining the Evaluation and Assertion phases so that feedback from an auditor comes earlier in the process and issues can be addressed more quickly.

The Department is now expanding the FIAR Guidance to address Wave 4, Full Financial Statement Audit. Download the FIAR Guidance, as well as accompanying tools and templates, at <http://comptroller.defense.gov/FIAR/guidance.html>.

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