



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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COMPTROLLER

MEMORANDUM FOR DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY  
DIRECTOR, DEFENSE HUMAN RESOURCE ACTIVITY  
DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS,  
OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR  
ACQUISITION, TECHNOLOGY, AND LOGISTICS

SUBJECT: Improving Reporting on Service Provider Controls

The DoD has made significant investments in strengthening the audit readiness of service organizations. This includes obtaining reports on controls performed in accordance with Statements on Standards for Attestation Engagements Number 16 (SSAE No. 16) and the associated Attestation Standards 801. These reports provide auditors independent assurance on controls likely to be relevant to reporting entities' internal controls over financial reporting. Optimally, the reports give auditors confidence to reduce the nature and extent of internal control and substantive testing of service organization controls for reporting entities' financial statement audits, allowable under the auditing standards.

On November 3, 2015, the Office of the Under Secretary of Defense (Comptroller), Financial Improvement and Audit Readiness Directorate (FIAR), held an independent public accountant (IPA) roundtable meeting to obtain feedback on use of the Department's SSAE No. 16s. Participants providing input included IPAs performing the three Military Departments' Schedule of Budgetary Activity audits, IPAs performing Other Defense Organization examinations, IPAs assisting DoD in audit readiness, and the DoD Office of Inspector General's audit oversight team.

Accordingly, in order to improve reliance on SSAE No. 16 reports, please implement the attached changes for your fiscal year (FY) 2016 SSAE No. 16 examinations. The FIAR team recognizes that, because of the acquisition lead times and work effort, implementation of all of the changes above may not be achievable until FY 2017. However, please make every effort to include as many of these changes as possible in your FY 2016 SSAE No. 16s. Please provide periodic updates to the FIAR Directorate on the implementation of these recommendations.

For questions concerning this memorandum, please contact Mr. James Davila at (703) 571-1654 or james.r.davila2.civ@mail.mil.

Mark E. Easton  
Deputy Chief Financial Officer

Attachment:  
As stated

cc:

Under Secretary of Defense for Acquisition, Technology, and Logistics

Under Secretary of Defense for Personnel and Readiness

Deputy Chief Management Officer

Assistant Secretaries of the Military Departments (Financial Management and Comptroller)

Directors of the Defense Agencies

Directors of the DoD Field Activities

Deputy Inspector General for Auditing, DoD Office of Inspector General

## **Improving Reporting on Controls at a Service Organization**

The following required changes to your SSAE No. 16s will allow for standardization and consistency across DoD's service providers and improve reliance on the SSAE No. 16s by the reporting entity's auditors.

1. SSAE No. 16 reports should be issued (to the user entities) by August 15 or the next business day of each fiscal year.

Note: For Other Defense Organizations impacted by SSAE No. 16s, the OUSD(C) FIAR Directorate will distribute the reports once received from the service providers. For SSAE No. 16s impacting Military Departments only, the service providers are required to distribute those reports directly to them.

2. SSAE No. 16 reports should cover a nine (9) month attestation period beginning October 1 and ending June 30 of each fiscal year.
3. Bridge letters should be issued (to the user entities) by October 8 or the next business day of each fiscal year for the preceding fiscal year's attestation period not covered by the SSAE No. 16.

Note: For Other Defense Organizations impacted by bridge letters, the OUSD(C) FIAR Directorate will distribute those letters once received from the service providers. For bridge letters impacting Military Departments only, the service providers are required to distribute those letters directly to them.

4. SSAE No. 16 reports that contain Complementary User Entity Controls (CUECs) should be mapped to report control objectives in the CUEC section.
5. For SSAE No. 16s reports where a sub-service organization is used, the SSAE No. 16 reports should include how the service provider is monitoring the sub-service organizations' controls and address any CUECs the service provider should have implemented from the sub-service organizations SSAE No. 16s.
6. SSAE No. 16 examination contracts should include an interim milestone, within the internal control phase, that provides the service organizations IPAs' initial conclusion on the fairness of the presentation, suitability of design of key controls and to the extent possible, operating effectiveness of controls on or around April 30 of each fiscal year.
7. SSAE No. 16 reports should identify key/relevant system inputs (including automated and manual) and the method/rationale service provider management used for identifying them. These key inputs, to be included in the scope of the SSAE 16, and management's rationale for selecting these inputs should be documented in the "Management's Description of Its System" section of the SSAE 16 (Section III). The

internal control objectives impacted by these inputs, the controls that are impacted by these inputs, and the relevant IPA testing of the input controls be included in the “Control Objectives, Related Controls, Test of Controls, and Results of Tests” section of the SSAE 16 (Section IV).

8. SSAE No. 16 reports should identify key/relevant edit checks and the method/rationale service provider management used for identifying them. These key edits, to be included in the scope of the SSAE 16, and management’s rationale for selecting these edits should be documented in the “Management’s Description of Its System” section of the SSAE 16 (Section III). The internal control objectives impacted by these edits, the controls that include these edits, and the relevant IPA testing of these edits should be included in the “Control Objectives, Related Controls, Test of Controls, and Results of Tests” section of the SSAE 16 (Section IV).
9. SSAE No. 16 reports should identify key/relevant system interfaces and the method/rationale service provider management used for identifying them. These key interfaces, to be included in the scope of the SSAE 16, and management’s rationale for selecting these interfaces should be documented in the “Management’s Description of Its System” section of the SSAE 16 (Section III). The internal control objectives impacted by these interfaces, the controls that are relevant to these interfaces, and the relevant IPA testing of the interface controls should be included in the “Control Objectives, Related Controls, Test of Controls, and Results of Tests” section of the SSAE 16 (Section IV).
10. SSAE No. 16 reports should identify key/relevant system outputs (including files and reports) and the method/rationale service provider management used for identifying them. These key outputs, to be included in the scope of the SSAE 16, and management’s rationale for selecting these outputs should be documented in the “Management’s Description of Its System” section of the SSAE 16 (Section III). The internal control objectives impacted by these outputs, the controls that are impacted by these outputs, and the relevant IPA testing of the output controls should be included in the “Control Objectives, Related Controls, Test of Controls, and Results of Tests” section of the SSAE 16 (Section IV).