

Defense Audit Readiness News

December 2012

Preparing for audit readiness is a lot like fueling a fighter jet. Too little fuel and you won't reach your target. You've got to turn back and start over. With too much you may still reach your target, but the extra weight will cost you both time and money.

There's a balance that must be struck on any mission, and as more and more Components prepare to assert audit readiness, that balance between too much and not enough becomes key to achieving our goals on time and on budget. That's why this newsletter, the FIAR Group on milBook, and the Committee and Subcommittee meetings are so important. It's through these "conversations" that we learn from each other – what worked, what didn't, and what's the right amount of preparation to get us to our target. I think we're used to the kind of audits (aka compliance audits) where we expect the auditor to recommend what we should do. In financial audits, it's our job to make a judgment, and the auditor provides us feedback. Our conversations help us learn so we can better apply that judgment.

As we close out 2012, I wish you all a very happy holiday. Thank you for all you do. We've got a great team working this across DoD and 2013 will bring us much closer to our goals.

*Mark Easton
Deputy Chief Financial Officer*

✧ **Simply Put**

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

Materiality: The amount at which incomplete or incorrect financial information would change a decision.

We posted "But Can You Say That in English – Materiality" on the FIAR Group blog on milBook. The definition above came out of that conversation. Think you can do better?

Upcoming Events

- ✧ **December 6** – FIAR Service Providers Working Group Meets
- ✧ **December 11** – FIAR Subcommittee Meets
- ✧ **December 12** – FIAR ODO Subcommittee Meets
- ✧ **December 19** – FIAR Committee Meets

❖ Two Recent Reports Paint DoD's Financial Picture

In November, the OUSD(C) released two major reports:

- [The DoD Agency Financial Report for FY 2012](#)
- [The November 2012 Financial Improvement and Audit Readiness Plan Status Report](#)

The two reports update the Department's financial status and improvement efforts as originally defined in the President's 2012 budget submission.

The DoD Agency Financial Report for FY 2012, or AFR, accounts for the Department's nearly \$650 billion in appropriated funds and gives the most complete financial picture of how the Department managed taxpayer resources over the 2012 fiscal year.

The November 2012 FIAR Plan Status Report details audit readiness accomplishments and progress across DoD and for the Military Departments, Other Defense Organizations, and Service Providers. The report also includes a section on the status of the Enterprise Resource Planning Systems.

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

❖ **Highlights from the November 2012 FIAR Plan**

In FY 2012, DoD reporting organizations with unqualified audit opinions received over \$105 billion in budgetary resources, more than the budgetary resources under audit in 15 of the 24 individual CFO Act federal agencies combined. The following DoD Components successfully achieved audit opinions on their FY 2012 financial statements:

FY 2012 Unqualified Audit Opinions

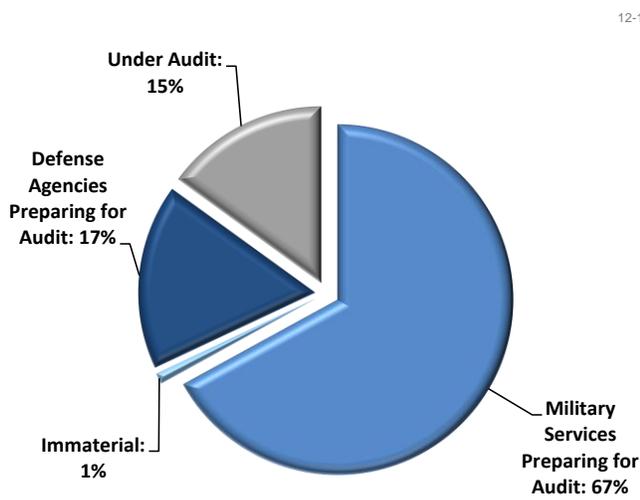
- U.S. Army Corps of Engineers – Civil Works
- Defense Contract Audit Agency
- Defense Commissary Agency
- Defense Finance and Accounting Service
- Military Retirement Fund
- TRICARE Management Activity – Contract Resource Management

FY 2012 Qualified Audit Opinions

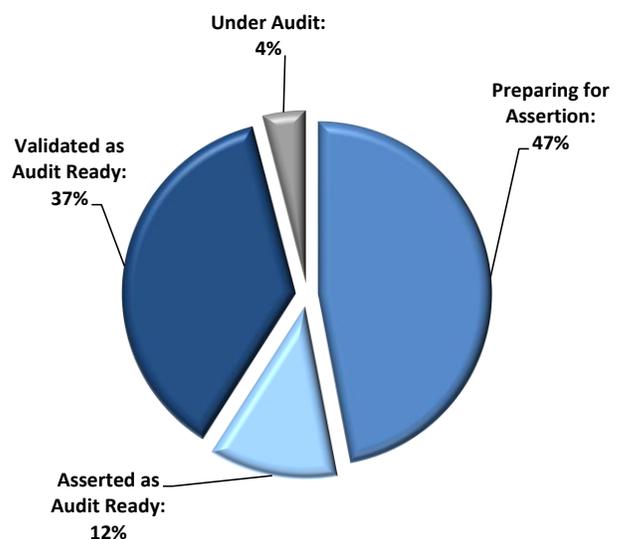
- Defense Information Systems Agency – Working Capital Fund
- Office of the Inspector General
- Medicare-Eligible Retiree Health Care Fund

The figure on the left, below, shows the status of audit readiness on the Statement of Budgetary Resources. The figure on the right shows the status of audit readiness on Existence and Completeness.

12-105



Note: Percentages based on FY 2009 Budgetary Resources



Note: Percentages based on FY 2009 Net Book Values

For additional information <http://comptroller.defense.gov/FIAR/plan.html>

❖ A Lesson Learned: One-Off Transactions

One-off transactions require us to provide additional explanation and documentation, which are both labor intensive and time-consuming.

In Other Words: A transaction performed outside of a standard process or in a unique way is sometimes called a one-off transaction. In order to properly record a one-off transaction, the reason for the exception has to be explained, the date of the exception noted, and how it varies from the standard process has to be documented. As we undergo audits and examinations, we are finding more one one-off transactions than expected.

The Problem Is: Each time we deviate from a documented and standardized process, we have to maintain additional documentation. With so many exceptions to document, risks to auditability increase as do the likelihood of errors.

What That Means: When auditors encounter a transaction that has not been processed in accordance with a standardized process, they have to look for additional explanation and documentation to determine whether the transaction is valid. Often, as a result, auditors have to then broaden the sample of transactions being tested and test the process at each location rather than performing one test across the Component.

What That Means to Your Mission or Program: Treating each exception individually takes a lot of extra time in both processing and recording, and opens yourself up to errors. A large number of one-off transactions also increases the time it takes to audit your program. While these inefficiencies may not seem like much at the program-level, compounding them across an organization adds up, and it is costing the Department too much time and money.

What You Can Do: Often, there's a pattern to even one-off transactions. If, for example, 8 out of 10 one-off transactions are for the same reason and are handled the same way, then add that detail to the standard process. Include in your addendum the reason for these exceptions, how they vary from the standardized process, how they are to be processed, and any additional controls. Now your standardized, documented process also includes documentation for common exceptions, and auditors can test that process instead of each individual transaction.

Bottom Line: Look for opportunities to simplify and standardize, and minimize the use of one-off transactions.

❖ Are We Doing Too Much?

With so much to do, and time and resources being limited, we often find ourselves not doing enough. Sometimes, however, when preparing for audit, the opposite is true—we are doing *too much*. When that happens, it's usually because we're not exactly sure what is required, and we err on the side of more. But doing too much can have consequences. Here are some lessons learned that save time and money:

Determine the Scope and Materiality before Documentation and Testing

In order to ascertain whether you are doing too little or doing too much, consider the scope and materiality. Before documenting processes and performing testing, measure how much work needs to be completed. The FIAR Guidance outlines how to prepare a Statement to Process Analysis, Quantitative Drill Down, and System Inventory List as part of the preliminary scoping documents. Prior to preparing these documents, prioritize what is significant to your process. Remember to focus on key risks of material misstatement and material processes.

Without properly scoping the process prior to documenting or testing it, you may end up focusing on parts that are immaterial and doing a lot more work than necessary. That can cut into the time you will need to address all the weaknesses in the process, create and implement Corrective Action Plans (CAPs), and evaluate the process after the CAPs are implemented. You risk not meeting your assertion date.

Leverage Existing Documentation

In an effort to capture the complete picture, you may be tempted to rewrite all of your process and system documentation when implementing a new system. However, an obsolete system doesn't mean you have to start documenting from scratch.

Several Components will be migrating from their legacy systems to a new ERP system in the near future. Process narratives and flowcharts are likely to change—but to what degree? Instead of starting from a blank slate, save time and resources by working off existing narratives and process flow diagrams.

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.