



Congress Releases Audit Readiness Report

The House Armed Services Committee released a report on January 24, 2012 outlining its findings and recommendations on defense financial management and auditability. The report was followed by a committee hearing at which Department of Defense (DoD) Under Secretary of Defense (Comptroller) Robert Hale testified.



The report contains 30 recommendations to improve DoD financial management and auditability that span four categories: Financial Improvement and Audit Readiness (FIAR) strategy and methodology, challenges to reform and auditability, the financial management workforce, and implementation of enterprise resource planning systems.

In his remarks, Mr. Hale addressed concerns raised in the report, especially those surrounding leadership support of audit readiness efforts.

“We have support from key leaders. And this must be sustained as leaders change,” said Mr. Hale in his testimony. “We need to get this from being a comptroller issue to a commanders’ issue. It is the commanders that can make these changes that have to happen. I think this has started to happen but we haven’t gotten there yet.” He stated that DoD is working to institutionalize audit readiness activities, especially in non-financial areas.

Rep. Mike Coffman (R-Colo.) agreed with Mr. Hale that responsibility for audit readiness must be felt throughout the DoD. “We need to change the culture of the Department of Defense to make military commanders at every echelon of command vested in financial management,” he stressed.

Mr. Hale also spoke of the need to reform internal controls. “Gaining the support of field commanders will help to ensure reforms occur,” he said. Mr. Hale added that internal audit agencies would be used to assess controls.

These findings support the approach the Army has outlined in its FIP. The Secretary of the Army and the Chief of Staff are working on communications to Commanders to enlist their full support.

The link to the committee’s report and the congressional testimony is on the audit readiness AKO site at www.us.army.mil/suite/page/auditready (log into AKO first). ■

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Accountability and Audit Readiness

The Accountability and Audit Readiness Directorate oversees the Financial Improvement Plan (FIP) that guides audit readiness efforts.

We are all accountable for managing the Army’s dollars and resources. Accountability leads to a stronger Army and a clean audit opinion, which proves we are responsible stewards of taxpayer dollars and justifies funds we request from Congress.

Ultimately, accountability and audit readiness are inherent to Army’s mission because they allow us to better support the warfighter through better management of Army resources.

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Visit Us on AKO

www.us.army.mil/suite/page/auditready

[page/auditready](http://www.us.army.mil/suite/page/auditready)

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Interview with AMC and ASC/JMC Internal Review

Internal review (IR) staff are a critical component to Army's audit readiness strategy. Their audit readiness responsibilities include supporting audit readiness site visit activities such as business process documentation interviews, controls testing, physical inventory inspections, audit documentation gathering, and training.

IR monitors organizations through testing to ensure corrective actions have been effectively implemented. Once the Army is audit ready, the IR role remains central to sustainment because IR staff will continue to monitor organizations' internal controls compliance.

Jamie Maust of the Army Materiel Command Internal Review and Audit Compliance Office and Lorraine Jestel of the Internal Review and Audit Compliance Office for Army Sustainment Command (with matrix support to Joint Munitions Command) shared their insights on audit readiness with the *FIP Report*.

How have you been involved with the Army's audit readiness efforts?

We have been:

- Informing the Commands of the Army FIP and audit readiness and been an advocate for this initiative.
- Going on site visits for the teams and participated in conference calls and tracking corrective actions.
- Working as points of contact to connect the people in our commands with the audit readiness teams.
- Attending in-process review meetings and Internal Review Working Group meetings.
- Doing a liaison effort where I [Jamie] go to the OASA(FM&C) offices one week a month.

What do people out in the field need to know concerning the financial improvement and audit readiness effort?

That audit readiness is not going away. This is going to be a cultural change in the sense that people are not accustomed to thinking about how an action or an event at the installation level impacts the Army's financial statements. We typically do not see the financial statements as a resource to help make management decisions. If you go and ask people if they have seen our financial statements, they probably have not. People's efforts at the installation level are operationally focused.

How has the Army's audit readiness efforts benefitted your Commands?

We have seen some short-term benefits in terms of identifying and correcting operational control weaknesses. Policies and procedures have been standardized, which is a great improvement.



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What do you want people in the field to know to ensure they are getting audit ready?

People [at installations] involved in site visits need to use the audit readiness teams to their fullest advantage. Work with them to exchange information, ask questions. Seek to understand what they are doing, what their requirements are. Use them as an advocate if you recognize a need for a process change or something needs to be elevated.

What are obstacles you see that the Army needs to overcome?

We have headquarters and those at the unit level on board. We work at the top and bottom, but need to get the middle informed and on board. We need to get the message across the commands that audit readiness is a requirement and show the value of this work.

Where have you seen improvements or success in AMC, ASC, and JMC since the audit readiness effort began?

The line of communication has opened up. When the [audit readiness] teams started coming to our installation, we did not know what they were there for or what they were looking at. We have a great working relationship with them now and we are working with each other. It's a team effort now.

What advice would you give to installations or Internal Review that are preparing for an audit readiness site visit?

Get your leadership involved up front and be honest with the [audit readiness] team. Do not try and hide things that are not working perfectly. If you have issues or something is not working, be honest. Treat [the teams] as an assistance team. The misperception is they are an audit team. But if we can get [Command and installation personnel] to see they are an assistance team, there would be a more free flow of exchange. You have got to use those people. They are there for a reason and can help you do something. Figure out what that is and what you should be talking to them about. Ask these teams how someone did this better, quicker, and smarter. ■

SBR "Office Hour" Calls

The Statement of Budgetary Resources (SBR) team holds "Office Hour" calls every Tuesday and Thursday from 1330 to 1530 EST to answer questions regarding internal control requirements and documentation for sites filling out their pre-site questionnaire or addressing corrective actions after a site visit.



Call in: 1-888-426-6840, 4400919#.

For more information contact Sharon Hale (sharon.g.hale@us.armymil) or Viana Rickett (viana.m.rickett.ctr@us.army.mil).

Upcoming Confirmed Site Visits

Team	Site	Date
ME/GE	ARNG Arkansas	Apr.2-20
SBR	Fort Belvoir, VA	Mar.19-22
SBR	Fort Benning, GA	Mar.12-13
SBR	Fort Bragg	Mar. 19-20
SBR	Fort Campbell, KY	Mar.19-20
SBR	Fort Drum, NY	Mar.26-27
SBR	Fort Gordon, GA	Mar.14-15
RP	Fort Greely, AK	Apr.2-11
SBR	Fort Hood (Military Pay)	Mar. 26-30
RP	Fort Huachuca, AZ	Mar.12-30
ME/GE	Fort Huachuca, AZ (Training)	Mar.19-20
OM&S	Fort Irwin, CA (National Training Center)	Apr.2-20
RP	Fort Irwin, CA (National Training Center)	Apr.2-20
SBR	Fort Jackson, SC	Mar.26-27
SBR	Fort Lewis, WA	Mar.26-29
SBR	Fort Polk, LA	Mar.22-23
ME/GE	Fort Polk, LA (Training)	Apr.2-3
RP	Fort Riley, KS	Mar.12-30
SBR	Fort Riley, KS	Mar.12-15
SBR	Fort Rucker, AL	Mar.14-15
SBR	Joint Base Lewis-Mcchord, WA	Mar. 26-29
SBR	Joint Base Myer-Henderson Hall, VA	Mar.12-15
SBR	Schofield Barracks, HI	Apr. 2- 5
SBR	West Point, NY (USMA)	Mar. 19-22

SBR site visits include training. Go to our AKO site for schedule updates.

Terms

- **ARNG:** Army National Guard
- **ME/GE:** Military Equipment/General Equipment
- **OM&S:** Operating Materials & Supplies
- **RP:** Real Property
- **SBR:** Statement of Budgetary Resources

The Coast Guard Perspective on Audit Readiness

The United States Coast Guard reached a major milestone in November 2011 when it became the first of the five military services to have an auditable Balance Sheet and Statement of Custodial Activities.

Coast Guard Director of Financial Operations and Comptroller Margo Sheridan has been at the forefront of this endeavor and currently leads the Coast Guard's broader effort to pass a full scope audit of all financial statements in FY 2012.

Prior to serving as director of Financial Operations and Comptroller of the U.S. Coast Guard, Ms. Sheridan served in the United States Army and Army Reserve and retired at the rank of Colonel after 31 years of active duty and reserve assignments.

In this interview, Ms. Sheridan provides the *FIP Report* with her perspective on the Coast Guard's past audit experiences and its strategies moving forward.

Where does the United States Coast Guard (USCG) currently stand in terms of the audit?

As part of the Department of Homeland Security (DHS), the Coast Guard is one of 22 different components contributing to the DHS consolidated financial statements and subject to the DHS Office of the Inspector General (OIG) financial audit. As one of the largest components in DHS, the Coast Guard was the single-largest contributor to successive "disclaimer" opinions. However, on November 15, 2011, after more than eight years of hard work to make these statements auditable and significant audit readiness improvements at the Coast Guard, DHS received a qualified opinion on the consolidated Balance Sheet and Statement of Custodial Activity (SCA) from the OIG.

In FY 2012, DHS will undergo a full scope audit of Internal Controls and all remaining financial statements including the Statement of Change in Net Position, the Statement of Budgetary Resources, and the Statement of Net Costs. Much work needs to be done.

How would you describe your strategy for audit readiness?

The depth and breadth of the financial audit to date has been enormous and incredibly resource intensive. In trying to "eat the elephant," we had to figure out how to divide the world of work into digestible bites through something we call the "Four S's": Scope, Size, Sustainability, and System.

- **Scope:** We divided the world of work into "assessable units" by financial process.
- **Size:** We focused on those assessable units that were most material to the DHS financial statements.
- **Sustainability:** We used the "Fix It Once" principle—remediate the root causes of the issue, not just a "band-aid" or a "quick fix" to get through a current year audit.
- **System:** The Coast Guard has very troublesome core accounting systems. We attacked those assessable units that could be remediated outside of major financial system changes.



Coast Guard Director of Financial Operations and Comptroller Margo Sheridan





How did you communicate the importance of audit readiness throughout the organization?

“Tone at the top” is key. We enlisted the help of the Commandant of the Coast Guard and the Master Chief Petty Officer of the Coast Guard to film videos designed to emphasize the importance of the audit to field units. We aggressively embarked on a strategy to educate field units and administrators beginning in 2010. Members of our Office of Financial Management Transformation and Compliance went on the road across the Coast Guard to provide training and information. Lastly, I send out monthly communications to field level comptrollers and financial managers with current audit status, audit preparation tips, and professional development items.

How do you go about changing attitudes at USCG?

This was a major challenge. We had to overcome the stigma that financial management improvement was not about just “passing the audit.” It’s about doing our jobs to federal standards—the audit was merely a trigger. We had to find some tangible results that had an impact on the field. For example, over the last three years, the Coast Guard disposed of more than 200 obsolete small boats that units were still required to track and maintain. Improved accountability and tracking resulted in lifting that burden on field units.

What do you see as your biggest challenges and risks going forward?

Our biggest challenge is the core accounting system, that has been held together awaiting replacement for more than seven years. It requires an incredible amount of rework and does not accurately record items such as intergovernmental transactions with our friends at DoD—a major trading partner. Another significant challenge is real property accountability; the Coast Guard has some 100,000+ real property assets spread out over 4,500 different geographic locations across the globe. Properly accounting for these assets requires tremendous resources due to the decentralized nature of Coast Guard field units and the remoteness of these assets.

How are you addressing these challenges?

The DHS effort to acquire a department-wide financial system has been cancelled. The Coast Guard is working with DHS to develop a strategy to prolong the life of our current system and perhaps improve some of the functionality in the short term. For real property, the Coast Guard had planned to have a real property inventory baseline by the end of 2013. DHS has asked we provide that a year early, by June of 2012. We have more than 100 people working on this endeavor, conducting site visits, researching site drawings and easements, valuing these assets, etc. We are also streamlining the way in which we account for these assets financially, allowing the facilities engineers to maintain the detailed data necessary to maintain these assets while keeping the minimal data necessary in the financial systems to produce accurate statements. ■

NEW! Audit Readiness Command and Installation Guide

This new resource has been posted to the Audit Readiness AKO site to assist Army Commands and Installations in becoming audit ready.

This guide provides descriptions of key internal control activities and lists the authoritative guidance or policies related to those activities. The document also contains descriptions of key supporting resources available to Commands and Installations for becoming audit ready.

NEW! FY 2012 Audit Readiness Strategy

The FY 2012 Audit Readiness Strategy is now available on AKO.

Top Resources on AKO

The AKO Audit Readiness site has a new “Top Audit Readiness Resources” list in the upper right corner of the page to help visitors get to important documents quickly.

Top Audit Readiness Resources	
	Command and Installation Audit Readiness Guide
	Control Catalogs
	SBR Self-Assessment
	Site Visit Schedule



Financial Statement Audit Basics: Audit Cycle

The Chief Financial Officer's Act of 1990 requires the Department of Defense Inspector General to audit the Army's General Fund and Working Capital Fund consolidated financial statements each fiscal year.

The audit cycle generically describes the standard procedures an auditor performs during an audit.

Steps of the Audit Cycle

1. **Plan the Audit:** During the audit planning phase, auditors develop the approach for auditing the entity.
2. **Understand Environment:** Auditors will strive to understand the operations of the client to the extent necessary to successfully audit those operations. Examples of how auditors gain understanding of the client's business environment include interviewing personnel, reviewing policy and procedures, observing procedures, and requesting supporting documentation.
3. **Assess Risks of Material Misstatement:** Auditors will determine the risk of significant errors given the amounts reported on the financial statements as a whole based on their understanding of the operations and internal controls in place. Auditors determine a level of error that can be tolerated due to insignificance to the financial statement balances as a whole.
4. **Perform Test of Controls:** Auditors will design and conduct tests to evaluate the effectiveness of the internal controls in place.
5. **Perform Substantive Procedures:** Auditors will perform tests for evidence of their audit opinion. The focus of these tests is on ensuring financial data is reported accurately. This will be done by testing the balance of a line item and ensuring that the transactions composing that line item adequately support the line items validity and accuracy.
6. **Complete the Audit:** The auditors complete the audit.
7. **Issue Audit Report:** Auditors must provide an audit report on conclusions made on financial statements, internal controls, compliance with laws and regulations, and other areas of the audit as necessary.

Along with an audit report, auditors issue a management letter. The management letter gives the audit firm's professional opinion on the accuracy of the entity's financial information. The management letter gives

Auditor's Objective

An auditor's objective in auditing a Federal entity is to provide an opinion on the fairness of the presentation of the entity's financial position in accordance with Generally Accepted Accounting Principles and in conformity with Generally Accepted Government Auditing Standards.

Audit Cycle

The Audit cycle is circular in nature since the process occurs every year.

Audit Opinions

The different types of audit opinions that an entity can receive in an audit report are:

- Unqualified
- Qualified
- Disclaimer
- Adverse

Army Audit Preparation

The similarities between a financial statement audit and audit readiness will ensure when the Army is being audited, it will be familiar with the audit process and will successfully meet the auditors' requests in a timely manner.



the auditor an opportunity to identify policies or procedures that the entity can improve, particularly with regards to internal controls. The auditor may also identify business operations or processes that may have a positive financial impact on the entity.

There are many similarities between the approach the Army is taking to become audit ready, and the steps of a financial statement audit by an independent public accounting firm. The main difference between the financial statement audit and audit readiness is the end product. The end product of audit readiness is compiling the assertion package stating the Army is ready for an audit, while the end product of an audit is the issuance of audit report and management letter produced by the independent public accounting firm. ■

“We’re improving our financial and business processes in such a way that we can provide better information to our leaders and our managers.”

—James J. Watkins, the Army’s Director of Accountability and Audit Readiness quoted in an interview with Federal News Radio on February 14, 2012. Read the full interview at:

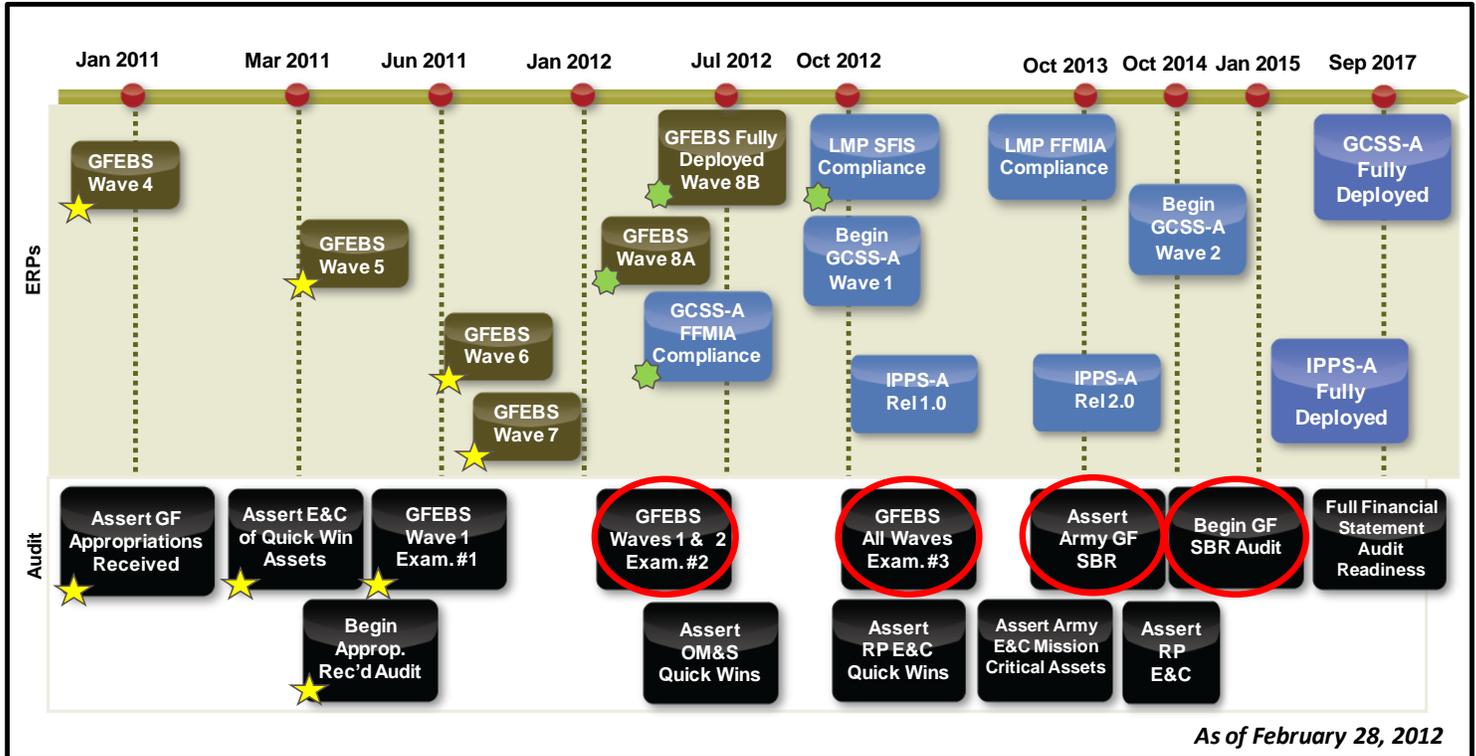
<http://www.federalnewsradio.com/?nid=396&sid=2747218>

Steps in the Audit Cycle

The audit is the final of six phases of the Department of Defense’s Financial Improvement and Audit Readiness (FIAR) methodology, as shown by the boxes along the top.



Audit Readiness Milestones



Complete



In Process



Affected by SECDEF 2014 directive

Notes:

- GFEBs waves correspond to deployment at specific sites.
- "Assert" means Army is ready to be audited in that area.
- Exams are evaluations by independent public accounting firms.

2012 Army FIP Workshop Postponed Until July

The next Army FIP Workshop is planned for July 2012 in Arlington, VA. The date will be announced on AKO and in our monthly email. Stay tuned.