



## Accelerating Audit Readiness for the Army

### A Message from the Director

In October Secretary of Defense Leon E. Panetta issued a challenge to all of the military community: have an auditable Statement of Budgetary Resources (SBR) by 2014. Congress is looking to codify the new date into law with the FY 2012 National Defense Authorization Act.



Director of Accountability and Audit Readiness

The Army previously established an aggressive timeline for our SBR audit readiness efforts and this accelerates our already tight schedule. This new assertion date has a profound impact on all organizations across the Army. This edition of *The FIP Report* contains details on how this milestone change impacts our activities (page two).

In addition, we modified our SBR activities to incorporate the lessons learned from our first SBR exam (page three). We are proud the auditor found consistency in business processes across the three examined sites. This is a great leap forward in the Army's business environment. However, the auditor did find the same control weaknesses we identified in preparing for the exam, so there is still clearly room for improvement. Fortunately we have the appropriate leadership engagement and a plan in place to address these weaknesses.

We are increasing our support to you to ensure we meet our milestones. Our audit readiness teams will conduct more site visits in 2012 and we will continue to expand our communications and training.

The Army has overcome seemingly insurmountable challenges time and again. This time is no different. The challenge may not be on the battlefield, but efforts to better manage our dollars and resources improves our ability to support the warfighters.

There is no better time than the holiday season to remember the sacrifices that our soldiers and their families make to keep this country safe. We owe it to them to attain the highest levels of accountability through these audit readiness efforts. ■

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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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## Army Prepares for New SBR Goal of 2014

Secretary of Defense Leon Panetta announced to the House Armed Services Committee on October 13 that the Department of Defense is accelerating its timeline to achieve audit readiness for the Statement of Budgetary Resources (SBR).

“[B]y 2014 we will have the ability to conduct a full-budget audit. This focused approach prioritizes the information we use in managing the department and will give our financial managers the key tools they need to track spending, identify waste, and improve the way the Pentagon does business as soon as possible,” said Secretary Panetta. On the same day of his announcement the Secretary directed the Under Secretary of Defense (Comptroller) to revise operational plans in order to meet the new deadline.



Secretary of Defense  
Leon E. Panetta

The revised Army plan will assert audit readiness for the SBR by June 2014. An accelerated Discovery schedule moves completion from March 2014 to the end of 2012, including the deployments of General Fund Enterprise Business System (GFEBS) Waves 8A and 8B (occurring in April and July 2012, respectively). Site visits will increase greatly in 2012 as a result.

Corrective actions will be substantially complete by December 13, 2013, including corrective actions identified through Army’s testing of GFEBS Waves 1 through 8 and auditor’s recommendations from Exams 2 and 3.

Secretary Panetta’s directive also accelerates other related areas, including Fund Balance with Treasury reconciliation. Discovery of the supply management processes are scheduled to take place in early 2012 in order to identify possible Global Combat Support System–Army (GCSS-A) impacts on the SBR assertion.

In order to meet these goals the Army is executing a full review of the Department’s financial controls over the next two years. Army personnel can expect mandatory training for audit and other key financial efforts. ■

## Upcoming Statement of Budgetary Resources (SBR) Site Visits

Site	Date
Ft. Sam Houston, Texas	Jan. 9–20
Ft. Bragg, North Carolina	Jan. 23–27
Ft. Huachuca, Arizona	Jan. 23–27
Ft. Eustis, Virginia	Jan. 30–Feb. 3

The SBR field teams are planning additional site visits in 2012. For the latest version of the schedule, go to our AKO site.

*“This focused approach prioritizes the information we use in managing the department and will give our financial managers the key tools they need to track spending, identify waste, and improve the way the Pentagon does business as soon as possible.”*

—Secretary Panetta



## Auditor Issues Qualified Audit Opinion for SBR Exam 1

The Army reached an important milestone in November with positive findings on the first examination of its General Fund Statement of Budgetary Resources (SBR). Independent public accounting (IPA) firm KPMG issued a qualified opinion, which is a positive step forward for the Army on its audit readiness path.

“The results help us improve Army efforts to reach an unqualified audit opinion on the next SBR examination,” said Director of Accountability and Audit Readiness James J. Watkins.

KPMG conducted the examination of five business processes at the GFEBs Wave 1 sites of Forts Benning, Jackson, and Stewart. In examining approximately 2,500 supporting documents, KPMG found consistency of standardized business processes across all three sites.

The audit report listed one material weakness, one significant deficiency, and one material deviation. The Army has developed corrective actions to address all of these findings.

### Lessons Learned

During the SBR Exam of GFEBs Wave 1 sites, auditors’ findings focused on certain areas and identified best practices to improve the Army’s business processes. The area that stood out most was the lack of supporting documentation to support testing. The Army continues to use and improve the Army Audit Data Repository (AADR) to store audit-related documentation.

Another finding was the lack of authorization proof for those who sign off on documents. Commands should put policies into place for retaining authorization forms to address this issue.

The Army piloted the AADR during SBR Exam 1. Lessons learned for using AADR for audits and exams include improving system response time, creating clearly defined folder structures, and offering more hands-on training to users.

Other focus areas and best practices identified by the auditors include information technology systems (Army-owned and others), Defense Finance & Accounting Service’s (DFAS) role in Army’s business processes, and other audit planning processes.

Based on these findings, Army is improving procedures for the exams planned for 2012 and 2013, including streamlining the Provided by Client (PBC) lists and processes for providing samples to the auditors.

Each additional SBR exam brings the Army substantially closer to auditable financial statements and its goal of meeting the FY 2014 SBR deadline and the FY 2017 overall audit readiness deadline. ■

## Upcoming Existence & Completeness (E&C) Site Visits

Area	Site	Date
OM&S	Anniston Depot, Alabama	Dec. 5–9
OM&S	Lockheed Martin Anniston, Alabama	Dec. 5–9
ME/GE	ARNG Georgia	Dec. 5–16
ME/GE	ARNG Florida	Dec. 5–16
ME/GE	ARNG Alabama	Dec. 5–16
RP	Ft. Meade, Maryland	Jan. 3–11
ME/GE	ARNG California	Jan. 9–27
ME/GE	ARNG Texas	Jan. 9–27
RP	Ft. Hood, Texas	Jan. 9–Feb 3
ME/GE	Ft. Irwin, California	Jan. 16–27
RP	Ft. Leavenworth, Kansas	Jan. 16–27
RP	Ft. Knox, Kentucky	Feb. 6–24
RP	Joint Base Lewis-McChord, Washington	Feb. 13–Mar. 9

### Terms:

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



## Financial Statement Audit Basics: Audit Opinions

Auditors 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. The report details significant deficiencies in the design or operation of the organization’s internal control structure that, in their opinion, could adversely affect the organization’s ability to report financial data.

In addition to the report, auditors often include areas for improvement in a separate Management Letter. The improvement areas help the organization pinpoint ways to reduce the risk of misstatements on the organization’s financial statements.

There are four types of financial statement audit opinions an auditor can issue:

Opinion	Description
Unqualified	An unqualified audit opinion, or “clean” opinion, is the best opinion an organization can receive. For an auditing firm to issue an unqualified audit opinion, it determines the financial statements are presented in conformity with GAAP (sidebar), which the Department of Defense uses as its financial reporting framework. This audit opinion means the organization’s financial condition, position, and operations are fairly presented in the financial statements.
Qualified	A qualified audit opinion indicates the statements do not fully comply with GAAP. This type of opinion is similar to an unqualified audit opinion, except the report states the financial statements are fairly presented with certain exceptions.
Adverse	An adverse audit opinion is issued when an auditor identifies significant material weaknesses, but is still able to conduct the full audit.
Disclaimer	A disclaimer is issued when the auditor could not complete their work and cannot form an opinion.

### Types of Deficiencies

When conducting a financial statement audit, the auditor records different types of deficiencies:

Deficiency	Found In
Significant Deficiency	Audit Opinion Report
Material Weakness	
Control Deficiency	Management Letter

A significant deficiency is a lack of internal control that affects the organization’s ability to initiate, authorize, record, process, or report financial information, and it is important enough to merit attention by management. A material weakness is a lack of internal control, such that it is reasonably possible the organization is unable to prevent or detect a misstatement in a

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**Purpose of an Audit**  
*“To provide reasonable assurance through an opinion (or disclaimer of an opinion) about whether an entity’s financial statements are presented fairly in all material respects in conformity with United States (U.S.) GAAP. These audits are performed in accordance with GAGAS (Generally Accepted Government Auditing Standards).”*

—Under Secretary of Defense (Comptroller) (OUSD(C))’s Financial Improvement and Audit Readiness (FIAR) Guidance.

### GAAP

Generally Accepted Accounting Principles (GAAP) for the federal government are determined by the Federal Accounting Standards Advisory Board (FASAB). The FASAB Handbook can be found at: <http://www.fasab.gov>.



timely manner. A material weakness is the most severe deficiency an auditor can identify.

A control deficiency exists when a control does not allow staff, in the normal course of performing their assigned functions, to prevent or detect risks or problems in a timely basis that can lead to financial statement misstatements.

A deficiency in design exists when one of two situations occur. The first situation is when an internal control necessary to mitigate the risk is missing. The second situation is when an existing internal control is not properly designed so that, even if the control operates as designed, the control objective cannot be met.

A deficiency in operation exists when a properly designed internal control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. These types of control deficiencies are noted in the Management Letter. ■

### Audits Versus Audit Readiness

As the Army audit readiness teams go out into the field, they are often met with the misconception that they are the auditors. In actuality the Army audit readiness teams conduct site visits to prepare the Army for eventual audit.

Here are some key differences and similarities between the two:

- Common Army Audit Readiness Acronyms**
- AADR:** Army Audit Data Repository
  - FBWT:** Fund Balance with Treasury
  - FIAR:** Financial Improvement and Audit Readiness
  - FIP:** Financial Improvement Plan
  - FY:** Fiscal Year
  - FISCAM:** Federal Information System Controls Audit Manual
  - IPA:** Independent Public Accounting firm
  - IR:** Internal Review
  - KCO:** Key Control Objective
  - KSD:** Key Supporting Document
  - PBC:** Provided by Client
  - TOD:** Test of Design
  - TOE:** Test of Effectiveness

Engagement Type	Documenting the Process	Risk Analysis	Testing	Gathering Sufficient Evidence	Final Products
<b>Audit Readiness</b>	Narrative and Flowcharts	Inherent Risk and Control Risk	Test of Design and Test of Effectiveness (Limited Substantive Procedures)	To Compile an Assertion Package	Assertion Package and Corrective Actions
<b>Audit</b>	Narrative and Flowcharts	Audit Risk= Inherent Risk; Control Risk; and Detection Risk	Test of Design and Test of Effectiveness; and Substantive Procedures	To Support the Auditor's Opinion	Audit Report (Opinion) and Management Letter



## Army National Guard Prepares for E&C Site Visits

The Army National Guard begins Existence and Completeness audit readiness site visits to units in each of its 54 states and territories. The visits begin with Florida, Alabama, and Georgia in December 2011. Representatives from the Property Accountability Team at the National Guard Bureau's Supply and Services Branch of the Logistics Division spoke with the *FIP Report* about audit readiness activities at the National Guard.

Chief Warrant Officer 3 Gregory Gay, who is a liaison between the National Guard Bureau and the states, stressed that the site visits will encourage Guard personnel to "get back to basics." The National Guard Bureau G-4 has its own inspection teams and works closely with Internal Review and Army Audit Agency, so site inspections are not new to members of the Guard.

"The audit readiness visits should be a good experience for the National Guard," said Chief Gay. "And not just for the Guard, but for the Reserve and active duty Army as well. Given our regular cycle of inventories and inspections, we expect these visits will be successful too."

National Guard units participate in the Command Supply Discipline Program (CSDP), which aims to improve equipment accountability and ensure Army supply procedures are followed. Chief Gay said that if units are comfortable performing a good CSDP inspection, they should be well prepared for an audit readiness site visit.

"Both events get back to basics. Nothing has changed as far how we execute sound supply accountability," he said.

While Chief Gay and Analyst Cornell El both believe that the Guard will benefit from the audit readiness visits, they recognize that challenges lie ahead.

"The audit readiness site visits will challenge our Guard personnel. An audit requires that all supporting documentation be complete and available. I'm sure we will identify areas for improvement when it comes to documentation," said Chief Gay.

Mr. El noted that the Guard has a duty to the Army as well as to the states they represent.

"The Guard is pulled in many different directions, with fewer people than the active duty Army," cautioned Mr. El. "But members of the Guard know they must always be prepared, and they work hard to get ready for these visits."

Much of the Guard's preparation has come through its participation in the Property Accountability Campaign, which is directed by the Army Chief of Staff. Through the submission of quarterly reports from each of



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### The New Monthly Email Update

*The FIP Report* is published quarterly to provide in-depth stories on audit readiness. After many requests for more frequent updates, we launched a monthly audit readiness email update.

This email is a brief digest of audit readiness news posted on AKO, upcoming site visits, upcoming activities, and links to Congressional and media activity. You will recognize it by the subject line "Audit Readiness Update."

If you are not receiving these updates, email [ArmyFIP@conus.army.mil](mailto:ArmyFIP@conus.army.mil) with the subject "Send monthly email."

### New on AKO

Our latest news and resources can be found on our AKO site. You will find on there:

- A more detailed summary of findings and recommendations and the audit report on the GFEBs Wave 1 SBR Exam 1.
- Updated site visit schedules.
- Secretary Panetta's October 13 memo.

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



the Guard’s 54 states and territories, the Bureau has shown substantial improvements in all categories related to property accountability. Charlie Baldwin, Deputy Chief of the Supply & Services Branch, identified another challenge to logisticians when it comes to audit readiness.

“Supply inspections usually don’t have a financial aspect to them,” Mr. Baldwin pointed out. “Logisticians in the Guard and throughout the Army have to understand that their day-to-day job functions play a large role in the financial integrity of the Army. Financial improvement efforts don’t just concern those in the budget shop. We too have a responsibility to the Army to ensure we’re accounting for our gear in the proper manner.”

The first National Guard site visits are scheduled to conclude on December 16. In January the next round of visits kick off in California and Texas. Those at the National Guard Bureau plan to share lessons learned with other states and territories as they become available.

“Given our limited resources, we’ll have to ensure we work together as a team to make this a successful effort,” said Chief Gay. ■

### Army Audit Readiness Training Available

The FIP Team offers instructor-led training on audit readiness. For additional information, please contact the training team at [ArmyFIP@conus.mil](mailto:ArmyFIP@conus.mil). ■



### Heard On the Hill

*“While my office is guiding the Army’s audit readiness efforts, it is important to note that establishing and maintaining an auditable business environment depends heavily upon business process owners outside of the financial management or comptroller field. Fortunately for me, Secretary McHugh appreciates this fact and is holding senior executives across all business functions within the Army accountable for contributing to the Army’s audit readiness goals. I am working with my counterparts in logistics, acquisition, manpower, and others, to ensure they understand our expectations and provide us appropriate support to meet this shared mission.”*

—Assistant Secretary of the Army (Financial Management & Comptroller) Mary Sally Matiella at an October 6 House Armed Services Committee (HASC) Panel on DoD financial management

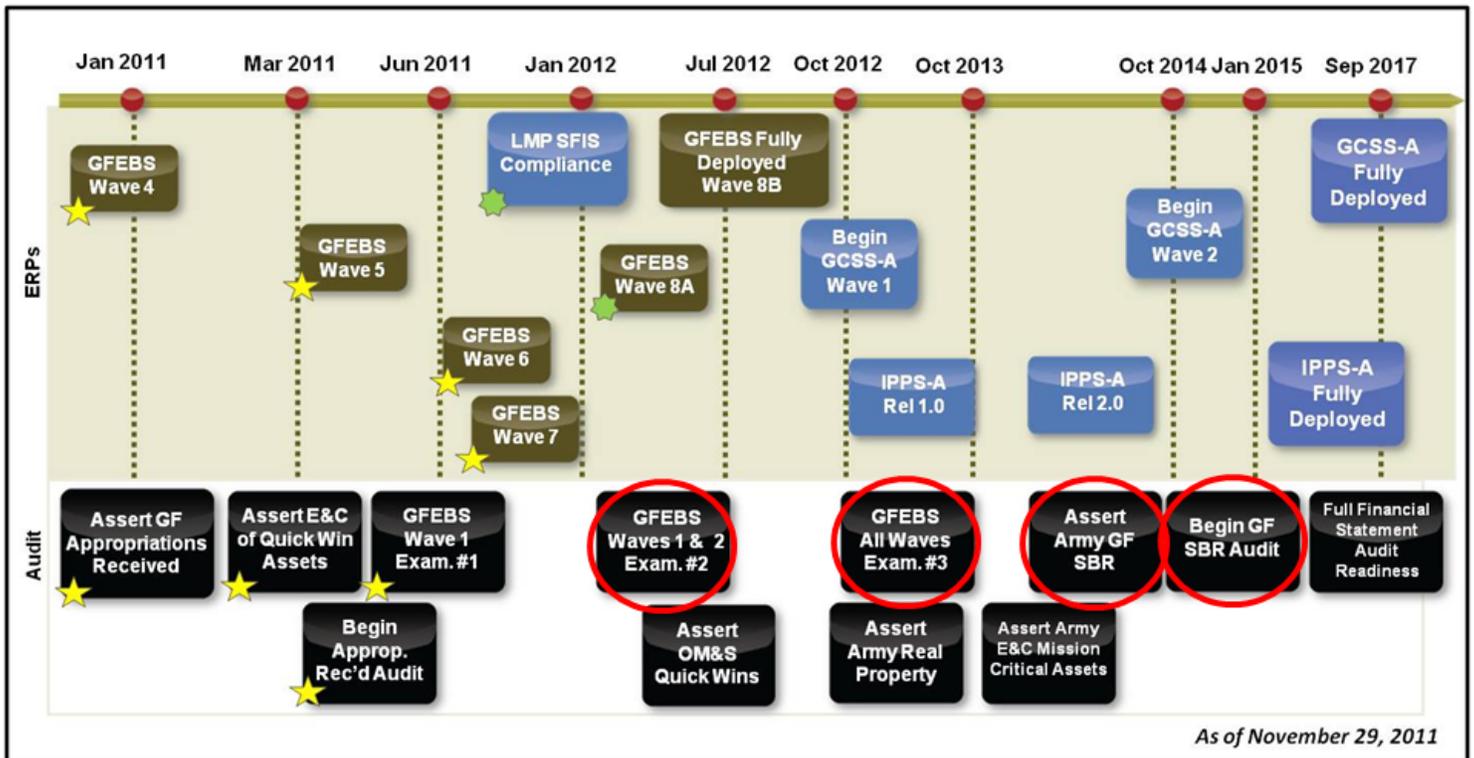
**Congressional Interest**  
Staff from the HASC DoD FM Panel visited Ft. Jackson in November to meet installation staff and understand their awareness and commitment to audit readiness efforts.





### Major Milestone Reached: Qualified Audit Opinion on SBR Exam 1

The newest milestone chart below highlights the changes due to Secretary of Defense Leon E. Panetta's directive (see article on page two). The Army consolidated three scheduled SBR audit readiness exams into two exams, occurring in FY 2012 and FY 2013. The FY 2012 exam encompasses 10 business processes at GFEBS deployment Waves 1 and 2, GFEBS IT general and application controls, and Defense Finance and Accounting Service (DFAS) operations. The FY 2013 exam encompasses all GFEBS sites and processes, as well as GCSS-Army and other feeder systems. ■



Complete    
 In Process    
 Milestone affected by SECDEF 2014 directive.

### 2012 Army FIP Workshop

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