



Corrective Action Audit Readiness



2012 Army Financial Improvement Workshop

Office of the Assistant Secretary of the Army
(Financial Management & Comptroller) (OASA(FM&C))

*Accountability & Audit Readiness:
Sustaining Army's Strength*



Objectives

1. Define corrective actions
2. Explain how corrective actions are identified, implemented, and tracked through resolution
3. Explain Independent Public Accountant (IPA) Examination results and their impact on corrective actions
4. Define HQDA, Internal Review (IR), and Business Process Owners roles with corrective actions
5. Explain common corrective actions
6. Discuss challenges and enablers within the corrective action environment



General Officer Management Office (GOMO) Message

- **The Chief of Staff sent a message to the General Officer Management Office conveying audit readiness as a priority:**

“Auditability is not just a Comptroller function.”

“Our controls must be improved to enable the Army to assert audit readiness of budgetary resources by 30 June 2014.”

“Leaders at all levels are responsible for instilling proper levels of discipline and oversight into all business processes within their command.”

“I will routinely review the plan’s key milestones and readiness review results to ensure we remain on track. We must make every dollar count and be accountable to ourselves, the Congress, and the American people.”



Bottom Line to General Officers: Support Audit Readiness



Definitions of Internal Control

- **FIAR**: Internal control should provide ***reasonable assurance*** that the ***objectives*** of the agency are being ***achieved*** through effective stewardship of public resources.
 - Comprises the plans, methods, and procedures used to meet missions, goals, and objectives, and, in doing so, supports performance based management.
 - First line of defense in safeguarding assets and preventing and detecting errors and fraud.

- **GAO/PCIE FAM**: An integral component of an organization's management systems that provides ***reasonable assurance*** that the following ***objectives*** are being ***achieved***:
 - Effectiveness and efficiency of operations.
 - Reliability of financial reporting.
 - Compliance with applicable laws and regulations.

Financial Improvement and Audit Readiness (FIAR), The Government Accountability Office / President's Council on Integrity and Efficiency Financial Audit Manual (GAO/PCIE FAM)

Preventive Controls

- **Prevent errors from occurring or reoccurring**
 - Policies and procedures
 - Background checks
 - Monitoring procedures
 - System edit checks, management approvals

Detective Controls

- **Identify errors that have occurred**
 - Monthly reconciliations
 - Cash counting
 - Physical inventories

Corrective Controls

- **Correct detected errors**
 - System files are restored from backup
 - Variance reports are investigated/resolved in timely manner

- Control activities mitigate risks in business processes.
- Misstatements are prevented, detected, or corrected.
- Control activities can be manual or automated.



What Are Corrective Actions?

- When a control is not designed or operating effectively and the associated risk/risks are not being mitigated, a corrective action is developed.
- Corrective actions are designed as a remedy to control failures.
- Corrective action characteristics:

Measurable

Sustainable

Achievable



DoD Approach to Corrective Actions



DoD Approach to Corrective Actions

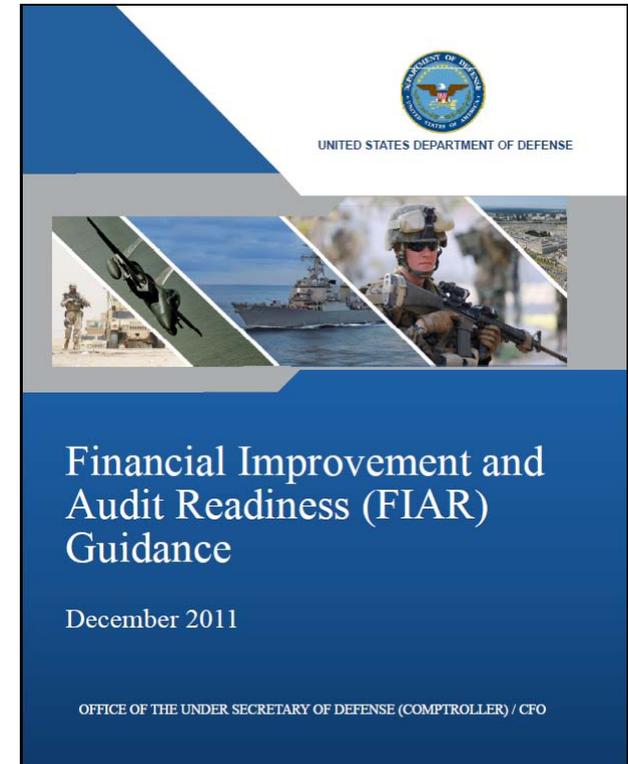
- Both FIAR and FIP address corrective actions.

- Procedures must be in place to:
 - Identify corrective actions.

 - Track the implementation of corrective actions.

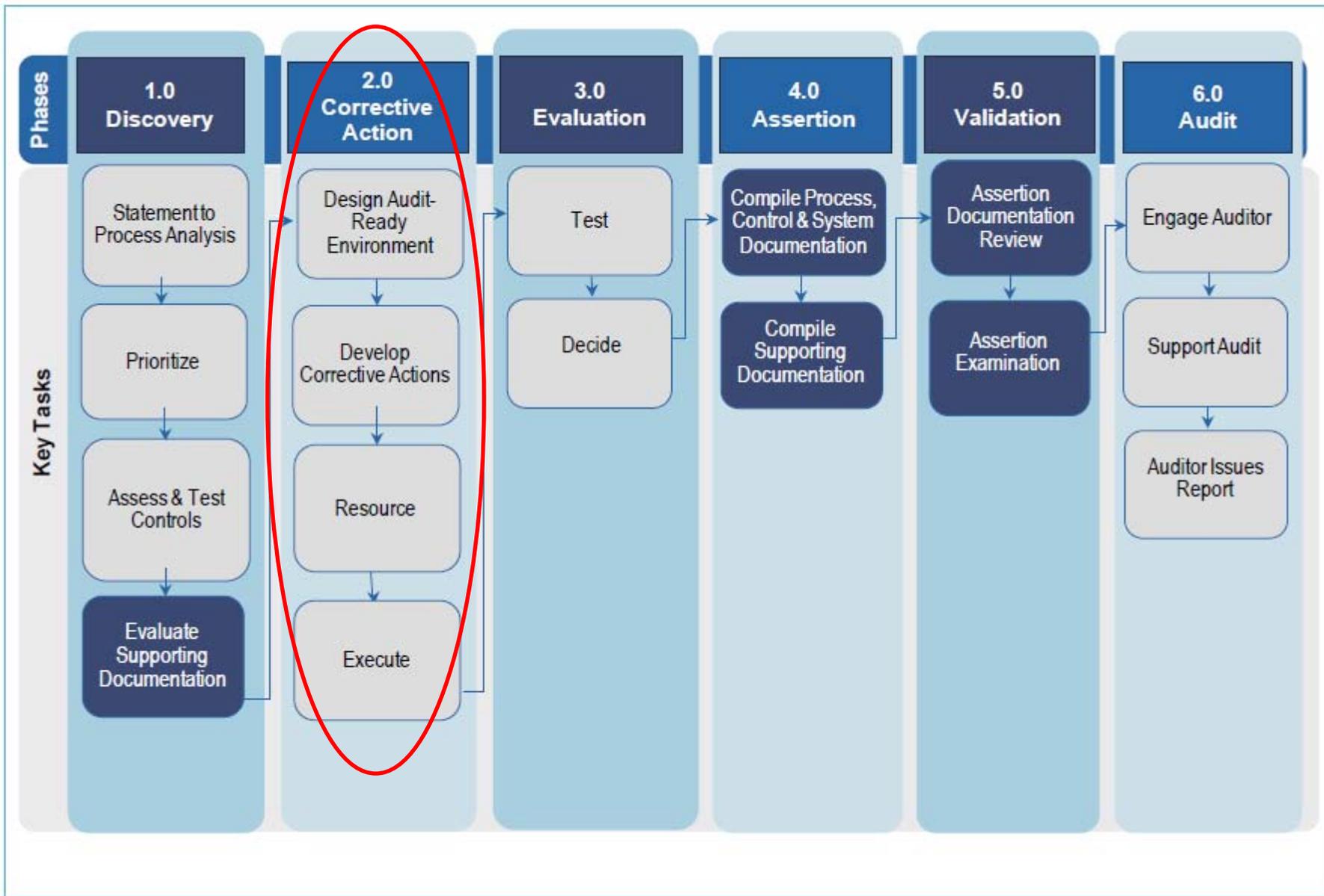
 - Ensure corrective actions address control deficiencies.

- The OUSD(C) FIAR Guidance defines the goals, priorities, strategy, and methodology to becoming audit ready.
- Priorities within the FIAR Guidance require improvements in:
 - Processes
 - Controls
 - Financial information
 - Information technology
 - Supporting documentation
- The objective of these improvements is the achievement of an unqualified audit opinion on the DoD financial statements.



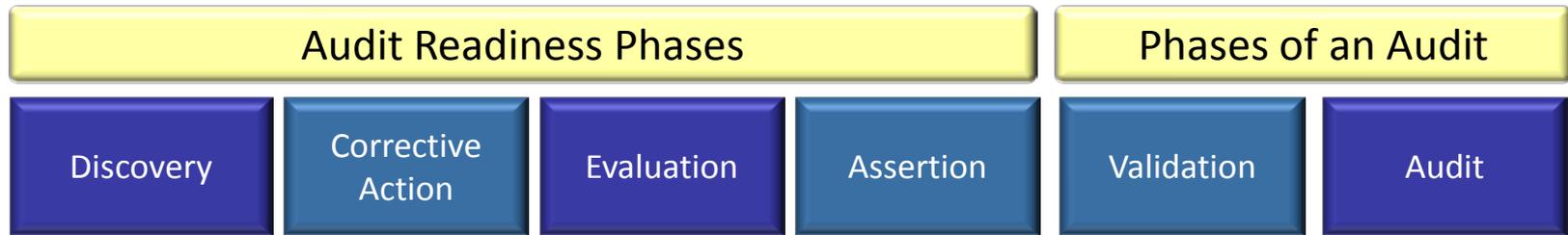


FIAR Audit Readiness Cycle: Corrective Action





The FIAR Guidance divides audit readiness activities into six distinct phases.



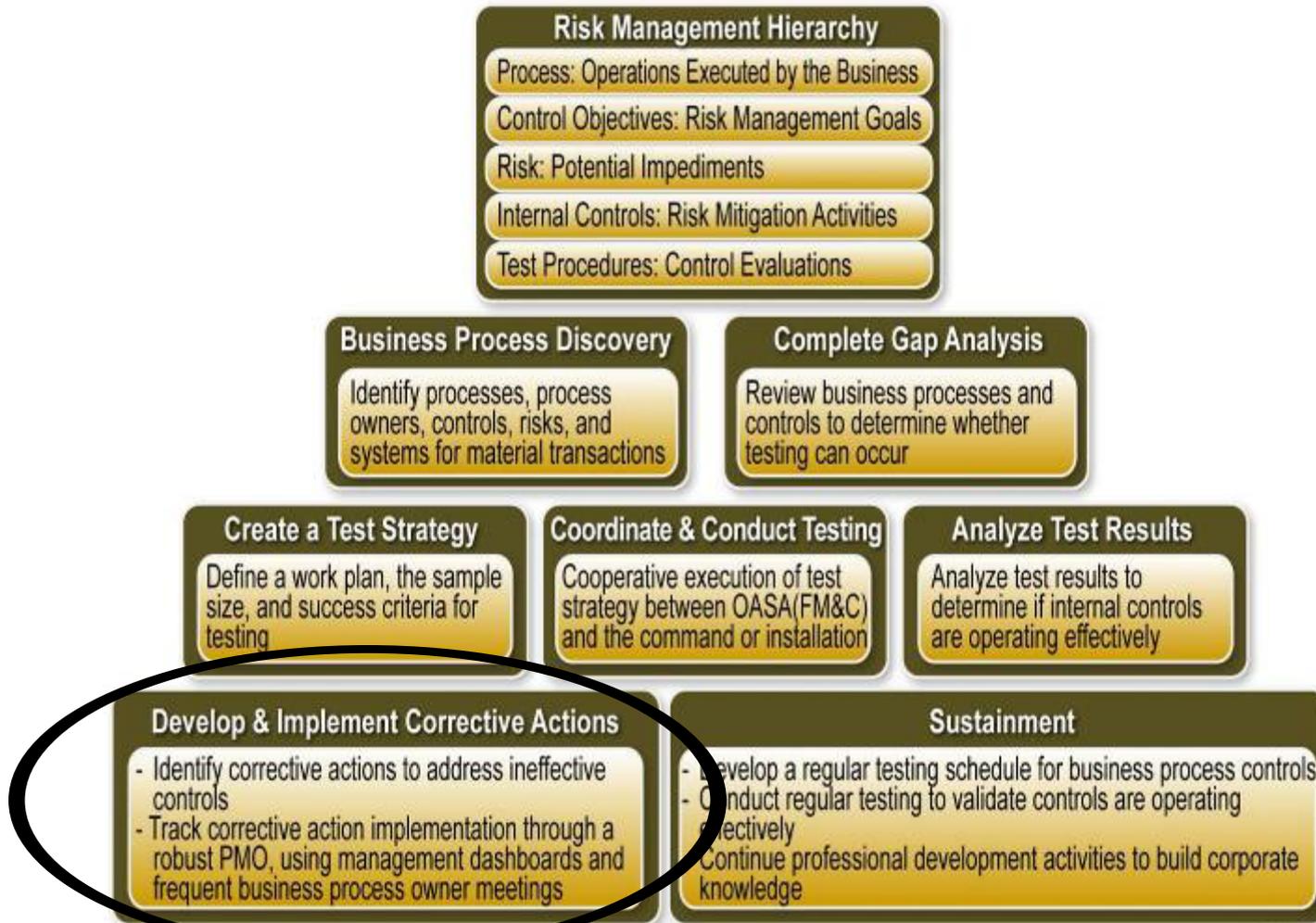
Once the Army is audit ready, the audit cycle phases occur annually.

#	FIAR Guidance Phase	Description
1	Discovery	Define and prioritize processes, assess risks, test controls, identify weaknesses.
2	Corrective Action	Develop and execute corrective actions in the FIP.
3	Evaluation	Evaluate corrective action implementation effectiveness through testing.
4	Assertion	Compile proof of audit readiness for OUSD(C) and DoD OIG review.
5	Validation	OUSD(C) and DoD OIG review assertion package.
6	Audit	Independent public accounting firm performs audit supported by reporting entity.

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Department of Defense Office of Inspector General (DoD OIG)



FIP Execution Strategy



10-0332-009d



How Are Corrective Actions Identified and Developed?



Corrective actions are identified and developed by Audit Readiness teams through:

- Tests of Design
- Tests of Operating Effectiveness
- Substantive Testing

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graph LR; A[Exceptions noted in testing reveal control deficiencies.] --> B[Corrective actions designed to address control deficiencies.]; B --> C[Corrective actions are updated and tracked in the FIP.];
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Exceptions noted in testing reveal control deficiencies.

Corrective actions designed to address control deficiencies.

Corrective actions are updated and tracked in the FIP.



Control weaknesses and deficiencies are identified by auditors through IPA Examinations:

- IPA collect evidence supporting the fair presentation of financial statement amounts by focusing on two primary areas:
 - Internal controls
 - Supporting documentation

Exceptions noted in testing reveal control deficiencies.

IPA presents Army with Notice of Findings and Recommendations (NFR).

Army designs Corrective actions to address control deficiencies.

Corrective actions are updated and tracked in the FIP.



Testing: The Data and Exam Dates

Data Source



Data source for:

- Audit Readiness testing
- IPA audit procedures

Scope

Budgetary Data

- Budgetary Resources Received
- Status of Budgetary Resources
- Change in Obligated Balance
- Outlays

Audit Readiness Testing

- OASA(FM&C)
- IR

Testing

Exam 1 (Mar 2011) ✓

- GFEBS Wave 1
- 5 Business Processes
- Opinion: Qualified

IPA

Exam 2 (Jul 2012)*

- GFEBS Waves 1 & 2
- 9 Business Processes

IPA

Exam 3 (Jul 2013)*

- GFEBS All Waves
- All Business Processes

IPA

Oct 2014

Assert Army GF Statement of Budgetary Resources

* Future Exam dates are subject to revision.



Implementing Corrective Actions



When will you need to implement corrective actions?

Self Assessment

- Upon completion of the Fund Center Self Assessment, you may identify controls that are not being performed. The self assessment is completed during training site visits.

Internal Testing

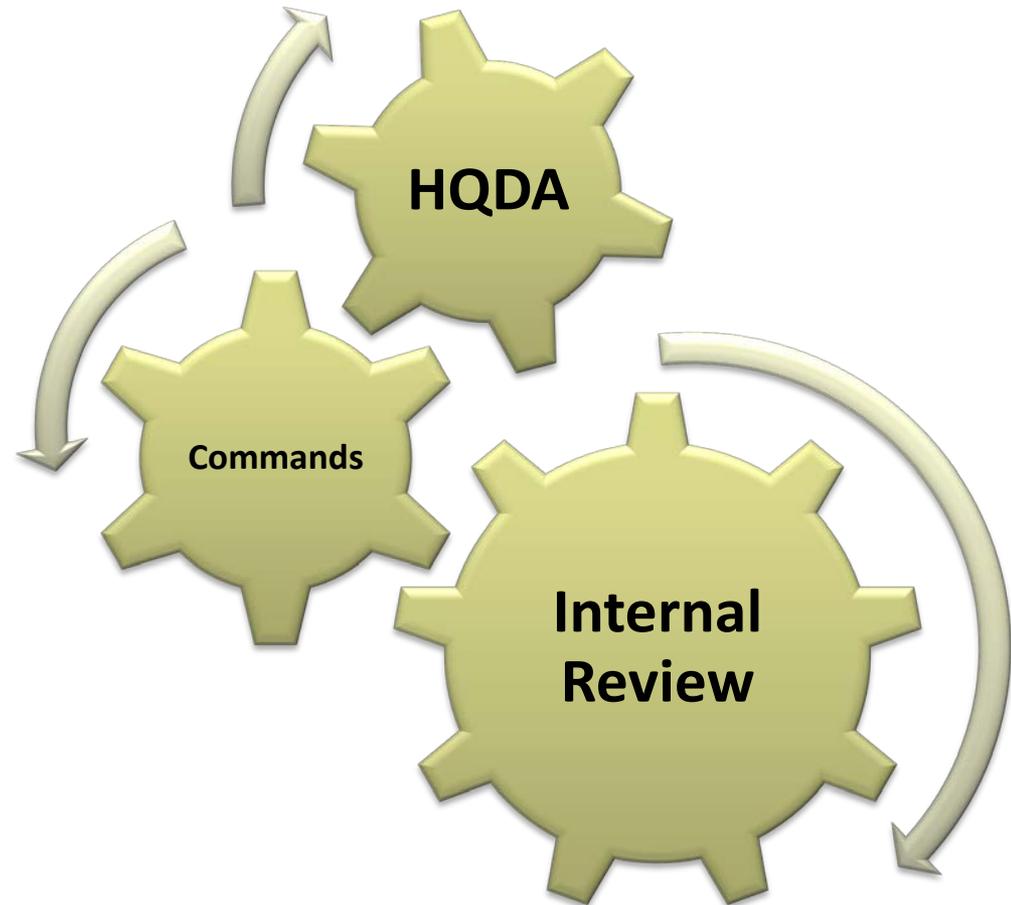
- Upon completion of internal testing by audit readiness teams in coordination with IR, you will receive corrective actions based on the testing results. Testing occurs 90 – 120 days post training.

IPA Examination

- Upon completion of IPA exams, you will receive corrective actions to address findings identified by the IPA. This occurs after IPA Exams 1, 2, and 3.

Responsibility for Corrective Actions

- HQDA – OASA(FM&C) identifies and communicates corrective actions.
- Commands develop a corrective action plan, and are responsible for implementation.
- Internal Review monitors the implementation of corrective actions.





Role of HQDA

- The Accountability and Audit Readiness Directorate develops corrective actions based on discovery and internal testing results and:
 - compile and communicate best practices throughout the Army,
 - provide training for business process owners on those corrective actions during site visits,
 - host SBR internal testing sessions with IR to train on how to perform internal control testing, evaluate supporting documentation, and identify control deficiencies.



Why Internal Review Involvement?

- Secretary of the Army stated:
 - All Army commands and reporting units must have audit readiness POCs.
 - Must engage Internal Review staff to ensure that corrective actions are timely and appropriately implemented.

- OASA(FM&C) is working with the IR community:
 - Building a forum to encourage communication within the IR community.
 - Developing a process to verify corrective actions.
 - To verify control implementation within 90 days of site visit training.



- **Dr. Mary Sally Matiella's message stated:**
 - “Audit readiness is a top priority for Congress and DoD; it is the responsibility of every Army commander, leader and program manager. Your IR staff is an essential element to achieve and sustain an auditable business environment. Therefore, you shall:”
 - “Ensure IR staffing levels adhere to current authorization levels.”
 - “Avoid levying inequitable budget cuts on IR in the future.”
 - “Provide sufficient Temporary duty funding to enable IR to conduct audit readiness.”

Bottom Line to Commanders: Support Your IR Offices



Role of Internal Review

- Internal Review staff to ensure that corrective actions are timely and appropriately implemented.
- Coordinate the corrective actions needed when deviations for controls are found.
- IR personnel must stay actively engaged in SBR Training events by:
 - Fully understanding the internal control environment for each business process.
 - Maintaining responsibility for assessment of corrective actions and re-testing procedures.



Business Process Owner's role in Corrective Actions

- As a business process owner, you are responsible for knowing the control requirements and supporting documentation that needs to be retained
- Implementing corrective actions communicated to you by Internal Review, HQDA, and Command HQ.
- Business process owners must stay actively engaged in SBR Training events



Caution!

- Sampling limits the number of organizations that get tested for any given control.
- Commanders cannot wait for testing results to determine if internal controls are in place and effective.
- Commanders must work with IR offices to do self-assessments to ensure internal controls are in place.

Bottom Line: Corrective actions will apply to you even if you have not been tested!



Tracking Corrective Action Implementation



How are corrective actions tracked through resolution?

- FIP
- IR at the local level



Army FIP Excerpt

- Aligns with FIAR Guidance.
- OASA (FM&C) tracks the Army's progress on corrective action implementation.

Microsoft Project - Army - Budget Execution GF v3

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Corrective Actions

WBS	Name	Start	Finish	% Complete	Lead Org	Support Org
336 2	Corrective Actions	Thu 3/31/11	Mon 3/31/14	0%	Multiple Commands	OASA(FM&C)
337 2.1	Design Audit Ready Environment	Thu 3/31/11	Mon 12/31/12	26%	OASA(FM&C)	Multiple Commands
338 2.1.1	Design solutions to mitigate deficiencies for control activities, processes and/or systems and policies and procedures	Thu 3/31/11	Mon 12/31/12	26%	OASA(FM&C)	Multiple Commands
339 2.1.2	Design solutions to mitigate deficiencies in supporting documentation	Thu 3/31/11	Mon 12/31/12	26%	OASA(FM&C)	Multiple Commands
340 2.2	Develop Corrective Action Plan	Thu 3/31/11	Mon 12/31/12	0%	OASA(FM&C)	Multiple Commands
341 2.2.1	Develop implementation plan to execute designed "to-be" solution, including updating policies and procedures, preparing systems design documen	Thu 3/31/11	Mon 12/31/12	0%	OASA(FM&C)	Multiple Commands
342 2.2.2	If testing indicates material deficiencies are not addressed, return to Corrective Action Phase: Design Audit Ready Environment (step 2.1) to rede	Thu 3/31/11	Mon 12/31/12	0%	OASA(FM&C)	Multiple Commands
343 2.3	Resourcing	Thu 3/31/11	Mon 12/31/12	0%	Multiple Commands	OASA(FM&C)
344 2.3.1	Develop budget estimates of required resources to execute implementation plans, including FTEs and funds for contractor assistance.	Thu 3/31/11	Mon 12/31/12	0%	Multiple Commands	OASA(FM&C)
345 2.3.2	Prepare budget justification materials and Program Budget Decision (PBD) documents.	Thu 3/31/11	Mon 12/31/12	0%	Multiple Commands	OASA(FM&C)
346 2.4	Execute	Wed 6/29/11	Mon 3/31/14	0%	Multiple Commands	OASA(FM&C)
347 2.4.1	Manual Controls	Wed 6/29/11	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
348 2.4.1.1	SBR A.01 - SOF Review	Wed 6/29/11	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
349 2.4.1.1.1	Army Commands to develop and enforce policies and procedures requiring that SOFs include signatures evidencing rev	Wed 6/29/11	Mon 3/31/14	0%	Multiple Commands	OASA(FM&C)
350 2.4.1.1.1.1	FORSKOM	Wed 6/29/11	Mon 3/31/14	0%	FORSKOM	OASA(FM&C)
351 2.4.1.1.1.2	IMCOM	Wed 6/29/11	Mon 3/31/14	0%	IMCOM	OASA(FM&C)
352 2.4.1.1.1.3	TRADOC	Wed 6/29/11	Mon 3/31/14	0%	TRADOC	OASA(FM&C)
353 2.4.1.1.1.4	ARNG	Wed 6/29/11	Mon 3/31/14	0%	ARNG	OASA(FM&C)
354 2.4.1.1.1.5	Army Reserve	Wed 6/29/11	Mon 3/31/14	0%	USAR	OASA(FM&C)
355 2.4.1.1.2	OASA(FM&C) to develop and communicate document retention policies for source documentation.	Thu 6/28/12	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
356 2.4.1.2	SBR A.02 - JRP	Wed 6/29/11	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
357 2.4.1.2.1	OASA (FM&C) will develop policies and procedures detailing the required procedures for performing the JRP.	Wed 6/29/11	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
358 2.4.1.2.2	OASA (FM&C) will develop and deploy training to Commands on how to properly perform JRPs.	Wed 6/29/11	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
359 2.4.1.2.3	Commands will develop and distribute desk procedures for performing JRP	Wed 6/29/11	Mon 3/31/14	0%	Multiple Commands	OASA(FM&C)
360 2.4.1.2.3.1	FORSKOM	Wed 6/29/11	Mon 3/31/14	0%	FORSKOM	OASA(FM&C)
361 2.4.1.2.3.2	IMCOM	Wed 6/29/11	Mon 3/31/14	0%	IMCOM	OASA(FM&C)
362 2.4.1.2.3.3	TRADOC	Wed 6/29/11	Mon 3/31/14	0%	TRADOC	OASA(FM&C)
363 2.4.1.3	SBR A.03 - Journal Entries	Wed 6/29/11	Mon 3/31/14	0%	OASA(FM&C)	Multiple Commands
364 2.4.1.3.1	Commands will update policies and procedures to ensure periodic checks of journal vouchers for signature and date.	Wed 6/29/11	Mon 3/31/14	0%	Multiple Commands	OASA(FM&C)
365 2.4.1.3.1.1	FORSKOM	Wed 6/29/11	Mon 3/31/14	0%	FORSKOM	OASA(FM&C)
366 2.4.1.3.1.2	IMCOM	Wed 6/29/11	Mon 3/31/14	0%	IMCOM	OASA(FM&C)
367 2.4.1.3.1.3	TRADOC	Wed 6/29/11	Mon 3/31/14	0%	TRADOC	OASA(FM&C)
368 2.4.1.3.2	Army Commands to develop supporting documentation location, retrieval, and retention procedures to help ensure doc	Wed 6/29/11	Mon 3/31/14	0%	Multiple Commands	OASA(FM&C)
369 2.4.1.3.2.1	FORSKOM	Wed 6/29/11	Mon 3/31/14	0%	FORSKOM	OASA(FM&C)
370 2.4.1.3.2.2	IMCOM	Wed 6/29/11	Mon 3/31/14	0%	IMCOM	OASA(FM&C)

Ready



Making and Measuring Progress



Audit readiness control catalogs list all identified internal control activities related to a specific business process. Control activities mitigate risks in business processes and can be manual or automated. (Example: SBR A.05 “SOPs for recording transactions, underlying events, and processing transactions exist and are accessible to process and control owners”).”



Command And Installation Audit Readiness Guide

Assists Army Commands and Installations in becoming audit ready by providing guidance on properly executing key business processes controls.

Commander’s Audit Readiness Checklist

Details the basic actions every Commander must be aware of and their organizations must take to enable and sustain audit readiness.

Business Process Training

Provides staff with the training to understand the proper way to execute a process and the associated internal controls.

Support of Execution

Testing Results of Execution

Control Activity				
1.01	1.04	1.06	2.01	2.02
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Fail	Fail
Fail	Fail	Not Tested	Fail	Fail
Not Tested	Not Tested	Fail	Not Tested	Not Tested
Not Tested	Not Tested	Fail	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Fail	Pass
Not Tested	Not Tested	Not Tested	Fail	Pass
Not Tested	Not Tested	Not Tested	Fail	Pass
Not Tested	Fail	Not Tested	Not Tested	Not Tested
Not Tested	Fail	Not Tested	Not Tested	Not Tested

Scorecards

Beginning in Q3, testing will result in monthly scorecards that will provide Commanders insights on how effective the execution of controls are at their Command.



Business Process Internal Controls

Below are the number of manual and automated (application) business process controls for each assessable unit.

Assessable Unit	Number of Manual Controls	Number of Automated Controls
Statement of Budgetary Resources	63	58

- Standard Operating Procedures (SOPs)
- Document Retention
- Joint Review Program (JRP) in GFEBS environment
- Status of Funds Review
- GFEBS Data Provisioning



Standard Operating Procedures

- SOPs ensure that business process owners understand their roles and responsibilities.

- As part of the Appropriations Received examination, IPA noted that Army's SOPs are not maintained appropriately.

- Review and update of SOPs are an important internal control:
 - Ensure changes to the process are incorporated .
 - Evidence of review should be maintained.

- Must be readily accessible by the relevant business process owners.

- OASA(FM&C) will engage the appropriate stakeholders to ensure SOPs reflect the most current information.



Document Retention

- Commands are not consistently maintaining documentation evidencing performance of internal controls.
 - Hand receipts
 - Delegation of authority documents (e.g., DD577, warrants, memos)

- OASA(FM&C) noted Army regulation does not explicitly indicate retention requirements for financial statement audit purposes.

- OASA(FM&C) will work with stakeholders to update policies to identify the required supporting documents and the time period of retention.

- Electronic documentation is acceptable.



JRP Policy Review

- The JRP is an important internal control that does not exist in the GFEBS environment.

- The JRP is a review of open Army commitments and obligations:
 - Occurs three times per year (tri-annual review).
 - Commitment and obligation information is obtained from GFEBS.

- OASA(FM&C) is drafting JRP policy and SOPs for the GFEBS environment.

- Processes performed by DFAS in the legacy environment will become Army processes:
 - OASA(FM&C) is developing job aids to transition these processes.
 - Job aids will provide detailed instructions on how to perform the tri-annual review, and resolve any discrepancies or anomalies noted as a result of the review.



Status of Funds (SOF) Review

- Internal control was ineffective due to lack of evidence (e.g., supporting documentation) to support performance of control:
 - Control cannot be evaluated if there is no associated evidence.
 - Evidence does not have to be hard copy.
- In lieu of limited automated controls in GFEBs for funds control, the SOF Review is a necessity.
- OASA(FM&C) is evaluating the automated controls in GFEBs and will implement corrective actions to ensure the GFEBs control environment is effective.
- Effective controls in GFEBs will reduce the reliance Army on the manual controls.



GFEBs Data Provisioning

- Unadjusted trial balances are difficult to retrieve.
- Budgetary transactions do not have the appropriate attributes (e.g., contract or purchase order numbers) to assist installation personnel in identifying supporting documentation.
- Attributes are not clearly defined (e.g., Element of Resource).
- Transaction detail has to be easily accessible and readily available.
- OASA(FM&C) is working a process to ensure the appropriate attributes are included in transactional detail.



Challenges and Enablers



Challenges

- Corrective actions are evolving:
 - Manual vs. automated control environment.
 - Lack of reliance on automated controls.
- Knowledge gap.

Enablers

- ERP control environments under assessment.
- Information exchange:
 - Facilitated Training
 - Audit Readiness on AKO
- Internal Review and Army Audit Agency Oversight.
- SBR Office Hours:
 - Tuesday and Thursday from 1:30PM to 3:30PM EST
 - Dial (888)426-6840, Participant Code 4400919



Objectives Recap

1. Define corrective actions
2. Explain how corrective actions are identified, implemented, and tracked through resolution
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Questions?