Agenda

• DON FIP Overview
• DON FIP Accomplishments and Challenges
• Current DoD Strategy for Auditability
• Dissecting the SBR POA&M
• Key Risks Associated with SBR POA&M
• Wrap-up
What is the DON FIP?

- The DON FIP is a multi-year Department-wide effort to strengthen Navy-Marine Corps business processes and systems, transforming them so that they better serve worldwide operations.
- Results of this transformation will include financial information that is accurate, reliable, and accessible.
- The ultimate goal is to obtain an unqualified audit opinion of DON’s financial statements.
- DON has prioritized focus on SBR audit readiness and E&C of mission critical assets.
DON FIP Accomplishments and Challenges

Encountered

Accomplishments

• Business Process Segment Assertions (Navy General Fund)
  – Funds Receipt and Distribution (Appropriations Received)
  – Environmental Liabilities
  – Contingent Legal Liabilities
  – NAVSEA Weapons Systems: Ships and Submarines
  – Cash and Other Monetary Assets
  – Investments
  – Civilian Payroll
  – Transportation of People (Temporary Duty Travel)

• Existence & Completeness of Mission Critical Assets
  – Asserted E&C of Ships and Submarines, Aircraft, Trident Missiles (ICBMs), Satellites, and Ordnance – over $300B Net Book Value (unaudited)

• USMC SBR under audit
  – Asserted audit readiness and underwent an audit of their Statement of Budgetary Resources financial statement in FY2010; no audit opinion rendered
  – Follow-on engagement has commenced for FY2011

Challenges Encountered

• Program coordination across diverse business lines in a geographically dispersed organization
• Inter/Intra DoD Agency Coordination; constant engagement of process owners (e.g. DFAS, DLA), stakeholders outside of the FM community (e.g. Acquisitions, Logistics), other military branches is required to succeed
• Change management: “It takes a village.”
Current DoD Strategy for Auditability

- DoD Strategy for audit readiness was set by USD(C)
- Priorities were established based on financial information most valued by decision-makers
  - General Fund Statement of Budgetary Resources (GF SBR)
  - Existence & Completeness of Mission Critical Assets
- Additional priorities further demonstrate and validate financial stewardship
  - Audits and examinations of asserted segments (including USMC SBR audit)
  - Validation of a Major Defense Acquisition Program / Navy ERP entity

OSD FIAR Plan Presents a “Wave” Structure to Reach Audit Readiness Goals

- **Waves 1 & 2:** GF SBR Audit Readiness
- **Wave 3:** Existence & Completeness of Mission Critical Assets
- **Waves 4 & 5:** Valuation of Assets and Full Auditability
## DON SBR Audit Readiness POA&M

### Financial Environment

<table>
<thead>
<tr>
<th>Substantive Based</th>
<th>Substantive/Controls Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant to Beginning Balances (2011)</td>
<td>Significant to Year Under Audit (2011/2012)</td>
</tr>
</tbody>
</table>

#### Transaction Universe
- Transactions [Grid Sheets](#)
- GL Accounts [Trial Balances](#)

#### Financial Statement Compilation
- Unadjusted Trial Balance [Adjusted Trial Balance](#)
- Crosswalks (General Ledger [DDRS-B](#) [DDRS-AFS](#))

#### Unliquidated Obligations
- Bulk Obligations
- Contract Closeouts

#### Business Process Cycles/Segments
- Contract/Vendor Pay
- Military Pay
- Reimbursable Work Orders
- Civilian Pay
- MILSTRIPS

#### Financial Statement Compilation (Estimation Models)

#### Adjustments/Journal Vouchers

### Key Automated Systems
- DON owned [Other DoD or Government owned](#)

### Key Reconciliations / Testing
- FBWT [Military Pay](#) [Civilian Pay](#) [Trial Balances](#)
  - Attribute Sample Testing

### Audit Infrastructure

<table>
<thead>
<tr>
<th>Data Management</th>
<th>Communications</th>
<th>Human Resources</th>
</tr>
</thead>
</table>

Working Towards SBR Audit Readiness- “The Left Side”

- The Left Side focuses on establishing the basic building blocks that allow an audit to occur.
  - Detailed financial transaction universe tied through to the financial statements
  - Financial statement compilation crosswalks support proper accounting
  - FBWT reconciled to GWA at the transaction level
- Attribute sample testing and analysis (such as ULO analysis) assesses accuracy of financial transactions in beginning balance universe
- Effort performed centrally; significant coordination with DFAS and ODCMO required to complete the Left Side

**Substantive Preparation for Beginning Balances**
Goal: Verification of balances through reconciliation and audit trails
The Right Side focuses on evaluating if DON business processes generate accurate, reliable, and timely financial transactions:

- Business process/event documentation including how business events lead to financial transactions
- Internal control assessment
- Substantive (including attribute sample testing) assessment (transaction support)
- Correction of weaknesses that could lead to material misstatement

The Right Side requires coordination with DON functional community (M&RA for Civilian Pay) and external stakeholders (i.e. DCMA for Contract Pay) to achieve audit readiness.
Path to Audit Readiness

- DON evaluates audit readiness through three categories:
  - Reconciling the audit trail (Detailed transactions tied through to financial statements)
  - Internal control effectiveness
    * Business process controls
    * IT general and application controls
  - Attribute sample testing

- Each category requires corrective action to reach DON’s goal; however, the progression to audit readiness will build with heavier reliance on substantive testing initially.
Attribute Sample Testing (Substantive Testing)

- The purpose of Attribute Sample Testing is to provide evidence for the existence of audit trails and substantiate financial transactions
  - Reliance on controls will be limited in a first time audit, as demonstrated through the USMC SBR Audit experience
  - Test program scope covers all SBR line items and tests key attributes associated with SBR transactions
- Round 2 results thus far:

<table>
<thead>
<tr>
<th>Documentation Submission Results</th>
<th># Requested</th>
<th># Provided</th>
<th>% of Documents Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Documentation Requested / Provided</td>
<td>1567</td>
<td>1309</td>
<td>83.5%</td>
</tr>
<tr>
<td># Provided</td>
<td># Without Exceptions</td>
<td>% of Samples without exception</td>
<td></td>
</tr>
<tr>
<td>Samples Received w/o Error</td>
<td>1309</td>
<td>297</td>
<td>22.7% out of 1309; 19.0% out of 1567</td>
</tr>
</tbody>
</table>

Attribute sample testing helps DON:
1) Identify transaction types which regularly lack source document support;
2) Exercise audit response capabilities
### Significant Audit Impediments Identified to Date

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<thead>
<tr>
<th>Risk Area</th>
<th>Risk</th>
<th>Potential Impact to Plan</th>
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| Reconciliation of transaction universe to unadjusted trial balances       | • STARS-FL does not possess a capability to readily pull supporting detail transactions from its history tables to support GL account balance  
• ERP transaction universe gathered to date does not include all required data elements | • Completion date of 9/30/2011 is risky due to additional testing required for STARS FL; required element before SBR assertion;  
• Working with Navy ERP PMO to gather updated ERP transaction universe |
| Fund Balance with Treasury                                               | DON must reconcile GWA to DON General Ledgers at the transaction level for all open appropriation - fiscal years on a monthly basis | FBWT Reconciliation currently scheduled to be complete by 9/30/2012; DON working with DFAS to assess feasibility of meeting date |
| Documentation Support for Transactions                                    | Source documentation to support transactions not consistently available/accurate during attribute testing | Conduct scheduled 8 rounds of attribute sample testing scheduled prior to 11/1/2012 incorporating lessons learned developed after each round |
| Audit Response Infrastructure                                            | DON not prepared to respond to an audit of the size and scope of the SBR audit | Plan tasks defined to develop an audit response infrastructure including data management, communications, and training of resources |
| IT General Controls                                                      | DON relies on existing DIACAP process for certification & accreditation of systems; gap to FISCAM exists. | Initial analysis comparing FISCAM to DIACAP complete; working to establish testing plan for most material systems |

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**Know your business. Control your future. Test for Success.**
Wrap-Up

• Plan has been updated, strengthened

• Comptrollers, leadership can help through:
  – Increasing awareness and education of the importance of DoD/DON financial improvement
  – Encouraging a culture of responsibility and stewardship by financial managers

• This is more than an FM exercise

• The goal of SBR assertion is rapidly approaching, and everyone’s support is appreciated