Audit Readiness Update
June 01, 2016

Accountability & Audit Readiness: Sustaining Army's Strength

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

Agenda

- Audit Readiness Impact

- Audit Readiness Background

- DoD Strategy for Audit Readiness

- Army Audit Readiness Strategy and Timeline

- Army Audit Key Priorities

- Current Audit Status (FY16 SBA Audit and General Fund)

- Overview of Corrective Actions

- Benefits of the Audit

- Closing Thoughts

Audit readiness builds and sustains the Army's strength

Provides timely, accurate, and relevant information for better management of resources.

Improves operational effectiveness to better support the warfighter.

Better justifies Congressional funding requests.

Increases accountability to taxpayers.

Legislative History

Year	Act
1982	Federal Managers' Financial Integrity Act (FMFIA) of 1982
1990	**Chief Financial Officers (CFO) Act of 1990**
1993	Government Performance and Results Act (GPRA) of 1993
1994	Government Management Reform Act (GMRA) of 1994
1996	Federal Financial Management Improvement Act (FFMIA) of 1996
1996	Clinger-Cohen Act (CCA) of 1996
2006	Office of Management and Budget Circular A-123 (OMB A-123), Appendix A, Effective FY 2006
2010	Government Performance and Results Act (GPRA) Modernization Act of 2010
2013	**National Defense Authorization Acts (NDAA FY 09, 10, 11, 12, 13)**

The **Chief Financial Officers Act of 1990** requires federal agencies to prepare annual financial statements, and the Government Management Reform Act (GMRA) of 1994 requires those financial statements to be audited. In addition to the CFO Act and GMRA, Congress legislated the following:

- Sec. 1003 of the **National Defense Authorization Act (NDAA) for FY 2012** requires the plan to include interim objectives and a schedule of milestones for each Military Department and Defense Agency to support the goal established by the Secretary of Defense that the Statement of Budgetary Resources (SBR) be validated for audit by not later than 30 September 2014

- **Sec. 1003 of the NDAA for FY 2010 requires** the Department to develop and maintain a plan that ensures DoD financial statements are validated as ready for audit by not later than 30 September 2017

Impact of Legislation: The DoD must achieve 'Audit Readiness'

- **Audit:** Review performed by independent public accountant using audit standards with the DoD Inspector General oversight

- **Audit Ready:** Systems, Processes and Controls improved enough to support audit

- **Existence and Completeness:** Ensuring physical accountability for mission critical property

- **Financial Improvement and Audit Readiness:** Overarching initiative intended to improve the quality of the financial information used

" Financial audits provide an independent assessment of whether an entity's reported financial information (e.g., financial condition, results, and use of resources) are presented fairly in accordance with recognized criteria."

" The primary purpose of a financial statement audit is to provide an opinion about whether an entity's financial statements are presented fairly in all material respects in conformity with an applicable financial reporting framework."

– GAO Government Auditing Standards, 2011 Revision

("the Yellow Book")

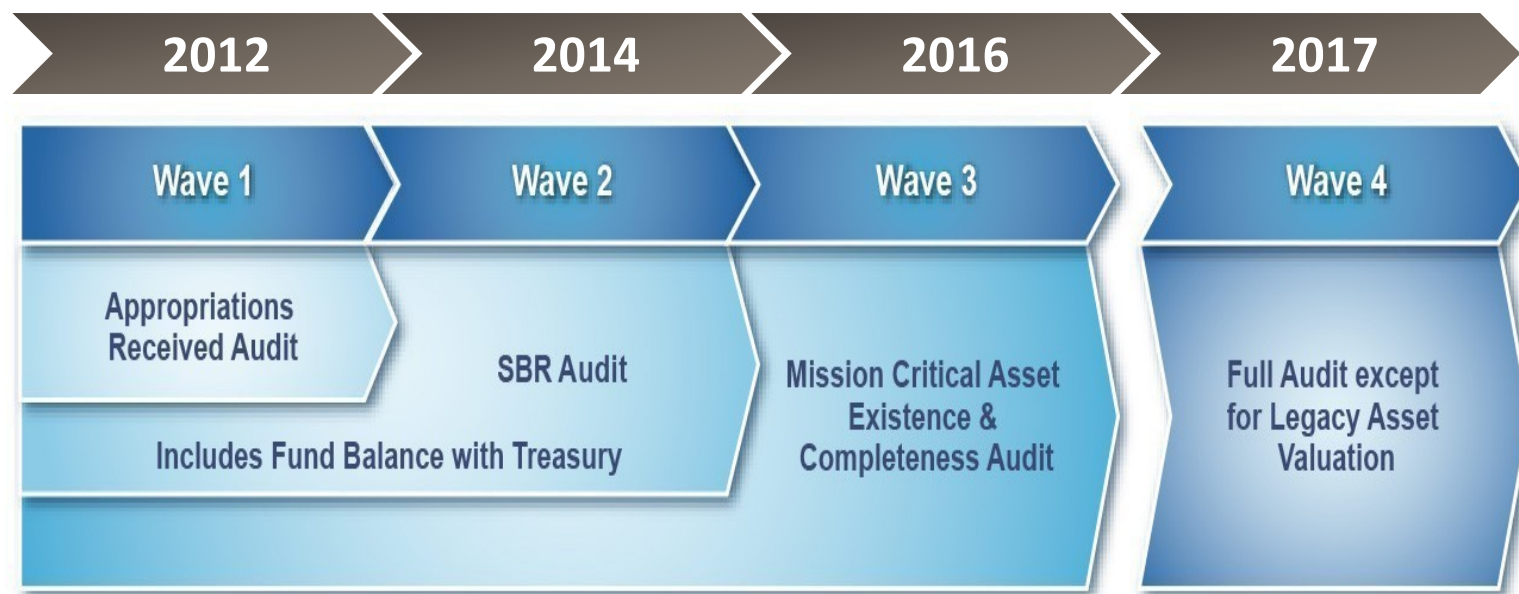| Type of Audit Opinion	What Does this Opinion Mean?
Unmodified	Unmodified "Clean" Opinion: Financial statements can be relied upon
Modified	Qualified Opinion: Financial statements are reliable with certain exceptions
	Adverse Opinion: Financial statements are misleading and cannot be relied upon
	Disclaimer of Opinion: Auditor could not complete the work and cannot issue an opinion

Statement	Scope
Balance Sheet	Reporting Entity's financial position as of the statement date including assets, liabilities and the net position
Statement of Net Cost	Net cost is equal to the gross cost incurred by the Reporting Entity less any exchange revenue earned from its activities
Statement of Changes in Net Position	Presents the sum of the cumulative results of operations since inception and unexpended
Statement of Budgetary Resources (SBR)	Budgetary resources made available as well as their status at the end of the period

Initial Building Block ➡

Schedule of Budgetary Activity (SBA)	Current year budget data of the SBR

Full financial auditability requires positive opinions on all four statements.
The SBA is a cost-effective way to evaluate readiness of processes and systems.
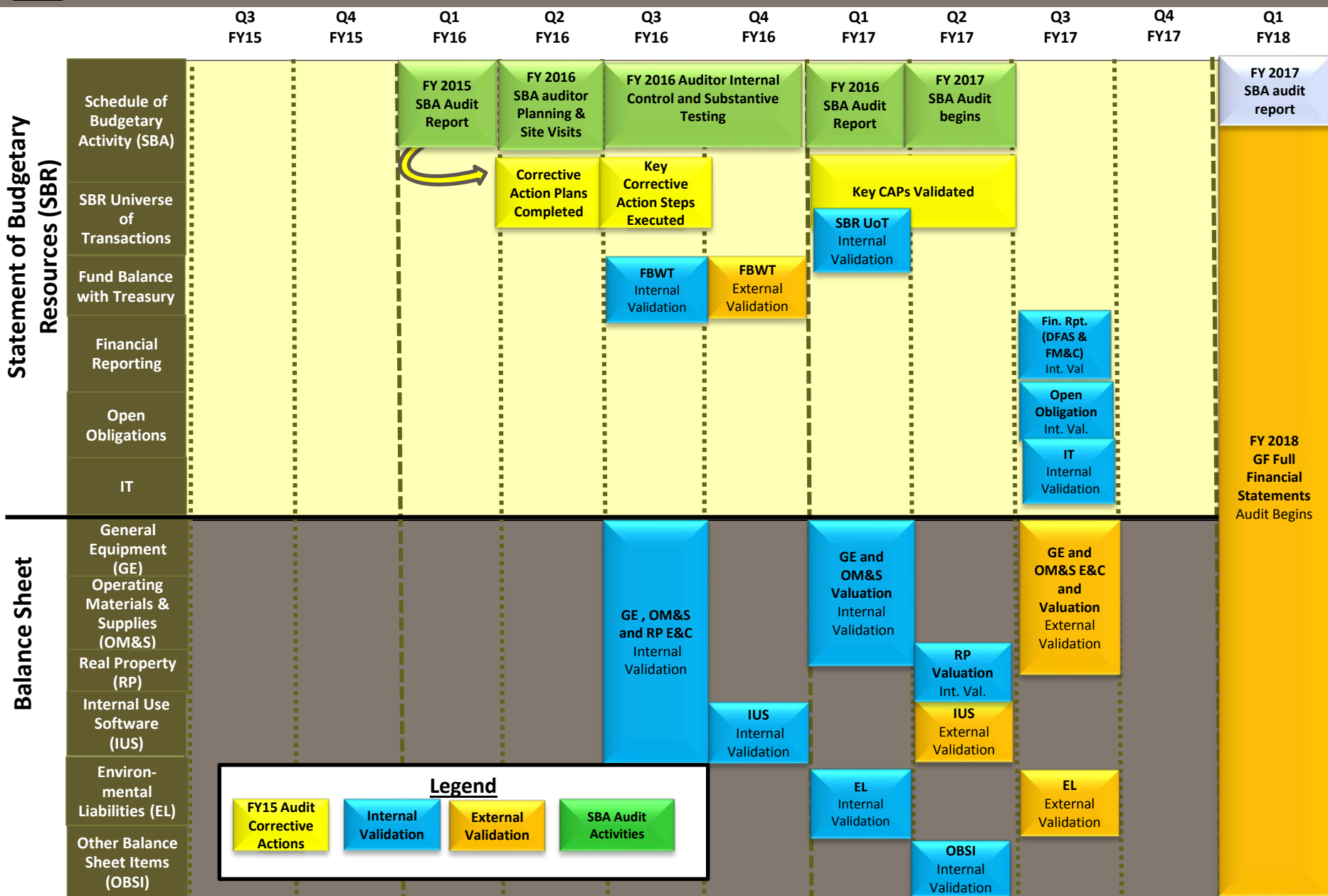
DoD Strategy for Audit Readiness

- Prioritized waves to build and sustain audit readiness
- Focused on information management actually uses – generating enterprise-wide support
- Incremental strategy with increasing scope

2012	2014	2016	2017
Wave 1	**Wave 2**	**Wave 3**	**Wave 4**
Appropriations Received Audit / Includes Fund Balance with Treasury	SBR Audit	Mission Critical Asset Existence & Completeness Audit	Full Audit except for Legacy Asset Valuation

Army Strategy: Timeline of Audit Readiness for Full Financial Statements

Timeline columns: Q3 FY15 · Q4 FY15 · Q1 FY16 · Q2 FY16 · Q3 FY16 · Q4 FY16 · Q1 FY17 · Q2 FY17 · Q3 FY17 · Q4 FY17 · Q1 FY18

Statement of Budgetary Resources (SBR)

Schedule of Budgetary Activity (SBA)
- FY 2015 SBA Audit Report (Q1 FY16)
- FY 2016 SBA auditor Planning & Site Visits (Q2 FY16)
- FY 2016 Auditor Internal Control and Substantive Testing (Q3–Q4 FY16)
- FY 2016 SBA Audit Report (Q1 FY17)
- FY 2017 SBA Audit begins (Q2 FY17)
- FY 2017 SBA audit report (Q1 FY18)

SBR Universe of Transactions
- Corrective Action Plans Completed (Q2 FY16)
- Key Corrective Action Steps Executed (Q3 FY16)
- Key CAPs Validated (Q1–Q2 FY17)
- SBR UoT Internal Validation (Q1 FY17)

Fund Balance with Treasury
- FBWT Internal Validation (Q3 FY16)
- FBWT External Validation (Q4 FY16)

Financial Reporting
- Fin. Rpt. (DFAS & FM&C) Int. Val (Q3 FY17)

Open Obligations
- Open Obligation Int. Val. (Q3 FY17)

IT
- IT Internal Validation (Q3 FY17)

- FY 2018 GF Full Financial Statements Audit Begins (Q1 FY18)

Balance Sheet

General Equipment (GE)
Operating Materials & Supplies (OM&S)
Real Property (RP)
Internal Use Software (IUS)
Environmental Liabilities (EL)
Other Balance Sheet Items (OBSI)

- GE, OM&S and RP E&C Internal Validation (Q3 FY16)
- IUS Internal Validation (Q4 FY16)
- GE and OM&S Valuation Internal Validation (Q1 FY17)
- RP Valuation Int. Val. (Q2 FY17)
- IUS External Validation (Q2 FY17)
- EL Internal Validation (Q1 FY17)
- OBSI Internal Validation (Q2 FY17)
- GE and OM&S E&C and Valuation External Validation (Q3 FY17)
- EL External Validation (Q3 FY17)

Legend
- FY15 Audit Corrective Actions
- Internal Validation
- External Validation
- SBA Audit Activities

• E&C: Existence & Completeness, CA: Corrective Action, Int. Val.: Internal validation

- In FY15, the Army completed the first of a series of audits of its Schedule of Budgetary Activity (SBA)

- The auditor determined it did not receive enough information to make a pass/fail decision ("Disclaimer of Opinion")

- The auditor noted specific findings for the Army that were deficient and in need of improvement in order to achieve readiness

- The Army is now addressing these deficiencies with corrective action plans

  - Several outreach and training efforts are in development to add additional momentum for mobilizing stakeholders and facilitating accountability

- The Army is also focused on asset accountability and valuation in advance of the balance sheet and environmental disposal & liabilities examination that will begin at the end of the fiscal year

- Fund Balance with Treasury (FBwT) Reconciliation

- Reconciliations

- Evidential Documents

- Sensitive Activities

- Access Controls

- Asset Valuation

- Universe of Transaction

- Service Provider/SSAE 16

- Posting Logic

What We've Accomplished

- Moving from planning to executing corrective actions
  - As of 13 May, Army has executed **58 of 443** conditions
    - Army has executed **40 of 288** high-priority conditions

- Completed site visits
  - 72 walk-throughs completed as of 7 April (13 more IT walkthroughs planned)
  - Demonstrated notable improvement in the presentation and flow of process walk-throughs

- Provided 1652 general audit requests to the auditor

- Provided 160 sample requests to auditor

- Hold bi-monthly synchronization calls with the Senior Responsible Official (SRO) for each Army Command, Service Provider, and System owner required to develop and implement a corrective action plan.

Where We Are

- Supporting FY16 audit effort
  - Updating supporting documentation checklist
  - Conducting rehearsal of concept (RAC) for transaction data
- Continuing corrective action efforts
  - Finalizing, executing, and validating corrective action plans
  - Conducting bi-weekly Corrective Actions Synchronization meetings with Commands, ERP and Feeder System PMOs, and DFAS
- Continuing outreach and training
  - Over 26,000 Army soldiers, civilians and contractors have been trained on audit readiness

What Next

- Audit sample testing of Q1 and Q2 FY 2016
- Continuing to execute and validate corrective actions

We appreciate everyone's efforts towards achieving audit readiness!

Wave 3

- Discovery efforts for Existence and Completeness (E&C) exclusions

- Monthly Testing: Continued monitoring and implementation of key controls

- Internal Validations: assessing the E&C and internal controls surrounding property assets.

Wave 4

- Implementation of valuation strategy for real property and general equipment

- Discovery efforts for all Environmental and Disposal Liabilities (E&DL) Note 14

- Refining the financial reporting process to use accountable property system of record (APSR) datas

- **Top-down follow-up**
  - Designation of Senior Responsible Officials (SRO)
  - Defined roles and responsibilities for Internal Review, Service Providers, and Commands roles

- **Setting milestones for resolution action**
  - Memorandum from Under Secretary of the Army and Vice Chief of Staff
  - Goal for high priority corrective action execution and validation
    - 6 months is the goal to show progress
    - 6-12 months for those that require more extensive fixes

- **Corrective Action Challenges**
  - Complex findings that impact Army-wide operations
  - Substantial sample failures that need root cause analysis
  - Better understanding of business processes and transactional data

Progress of Corrective Action Development

Corrective Action Status
14 March 2016

Issue Identified 2%

In development 20%

Final 31%

Draft 47%
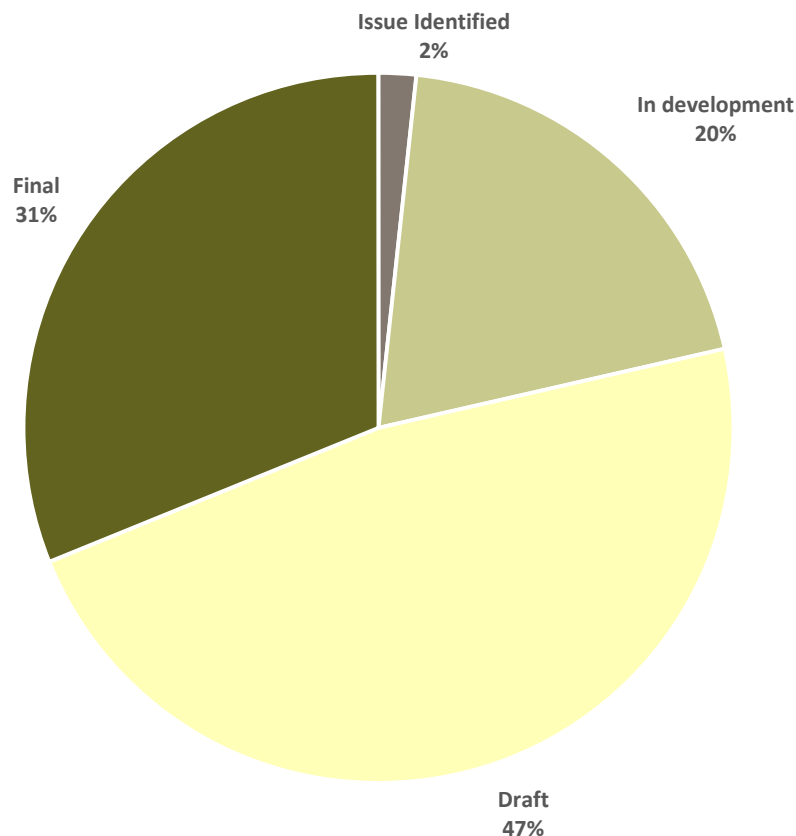
Corrective Action Status
13 May 2016

In development 1%

CAP Validated 4%

CAP Executed 9%

Issue Identified 1%

CAP draft 10%

CAP final 75%
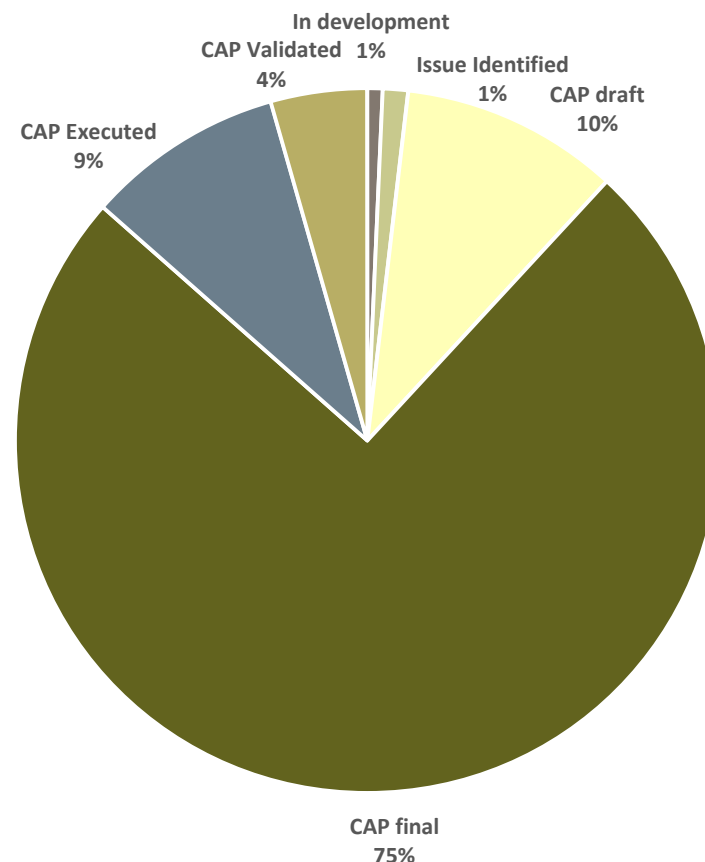
- As of 13 May, 193 corrective action plans have been signed by OASA(FM&C); 74 NFR conditions still need to be included in a corrective action plans

- Remaining corrective action plans will be completed by 30 June 2016

Corrective Action Scorecard Guide

Milestone	Plan Defined	Plan Resourced			Status	External Dependency	Dependency or Next Step to Meet Upcoming Milestone
		People	**$**	**Time**			
🔴	Still reviewing Samples	Do not have the adequate resources and are not able to obtain them	Do not have the adequate funding and are not able to obtain it	Will take more than 12 months to execute the corrective action plan		Corrective action plan is dependent on other organizations taking action	
🟡	Created draft corrective action plan and submitted to OASA (FM&C)	Do not have all the resource but are still on track	Do not have all your funding but are on track to getting it	Will take between 6 months and 12 months to execute the corrective action plan			
🟢	Received an approved corrective action plan from OASA (FM&C)	Have the resources you need	Have the funding you need	Will take 6 months to execute the corrective action plan		Corrective action plan has no dependencies	
🔵	Complete	Complete	Complete	Complete			

Corrective Action Plan Management | Sample Scorecard

Relevant Milestones		Plan Defined	Plan Resourced			Status / Completion Date	External Dependency	Dependency or Next Step to Meet Upcoming Milestone
NFR#	Priority Corrective Actions		People	$	Time	DD/MM/YY		
GFEBS-2015-01	GFEBS.IT.2015.CAP-006, GFEBS Application Access and Segregation of Duties	🔵	🔵	🔵	🔵	**Complete** / **10/1/2015**		• **Validation completed.** • **This CAP is now closed.**
GFEBS-2015-02	GFEBS.IT.2015.CAP-007, GFEBS Application Access Provisioning and Revalidation	🔵	🔵	🔵	🔵	**Complete** / **10/1/2015**		• **Validation completed.** • **This CAP is now closed.**
GFEBS-2015-04	GFEBS.IT.2015.CAP-016, GFEBS Access to Separation of Duties Risk Rule Set	🔵	🔵	🔵	🔵	**Complete** / **1/15/2016**		• **Validation completed.** • **This CAP is now closed.**
GFEBS-2015-08	GFEBS.IT.2015.CAP-012, GFEBS Database Security Audit Log Monitoring	🟢	🔴	🟢	🟢	**On Track** / **2/15/2016**	🔴	• **DASA-FO is currently awaiting additional CAP validation evidence from PM GFEBS before validation can be completed.** • **Dependent on database security agency**
GFEBS-2015-19	GFEBS.IT.2015.CAP-018, Physical Security User Access Report	🟢	🟡	🟢	🔴	**On Track** / **3/15/2016**		• **DASA-FO is currently awaiting CAP validation evidence from PM GFEBS.**

🔴 **Overdue/Inadequate Resources**   🟡 **On Track/Still obtaining Resources**   🟢 **On Track/Resources Secured**   🔵 **Complete**

The Army-wide value of this audit includes:

- Improved credibility for budget submissions

- Increased accuracy of information on program costs and alternatives

- Heightened confidence from Congress and the American public

- Increased timeliness of contract payments

Our Continued Progress is Dependent Upon Accountability at All Levels

Time is of the essence **to meet audit ready goals!!!**

Specific benefits to the Commands include:

- Greater sense of accountability across all levels

- Improved operation efficiencies

- Assurances to the commander of the accuracy and timeliness in all Better internal controls to prevent and detect waste, fraud, or misuse of resources quicker

- Better utilization of local command budget resources

As a result of our work to date, we gained…

- Greater **awareness** of financial and operational health across the Army

- Strengthened **partnerships** that are helping us work smarter while also learning from each other

- **Experiences** that are adding to our career development and new professional opportunities

- More open lines of **communication**

- **Visibility** at the top levels of leadership

…but there are Army-wide challenges that we continue to face

- Inefficient system controls that increase the sample sizes that auditors ask for

- Legacy feeder systems and business processes that do not support audit requirements

- Synchronization with service providers

- Competing priorities

- Sustainment challenges

The Army is working across its organization to address these challenges

Closing Thoughts

- An Army-wide audit is a massive and unprecedented enterprise change management effort in size and scope

- For any organization, there is significant value in moving into an audit regimen

- Until audit opinions become routine, sustained emphasis is required from:
  — Army senior leadership
  — Service providers
  — Project managers of Enterprise Resource Planning and feeder systems
  — Oversight organizations
  — Professional, trained workforce

- For the Army, we have to remember this is an ongoing requirement and will feel like a marathon on a day-to-day basis
  — Federal Government experience indicates an effort of this size and scope is 3-5 year process once the initial audit begins