

Department of Defense Financial Improvement and Audit Readiness

National PDI
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Audit & Audit Readiness- What are the Lessons Learned So Far?

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Agenda

- **Audit Readiness: Where Are We?**
 - The Audit Experience & Results
 - Audit Plans for FY16
 - Addressing the Most Critical Capabilities DoD-Wide Issues
- **The DoD Financial Operation Team: Panel Feedback**
 - Military Services' Lessons Learned from the Audits and Future Plans
 - DFAS Reflection on Audit Preparedness Based Upon Audit Results and Future Plans
- **Stay Connected**

The DoD Financial Operations Team

- **Department of the Army**

Mr. Wes Miller, *Deputy Assistant Secretary for Financial Operations*

- **United States Marine Corps**

Ms. Ann-Cecile McDermott, *Assistant Deputy Commandant Programs and Resources and Fiscal Director of Marine Corps*

- **Department of the Air Force**

Mr. Thomas Murphy, *Deputy Assistant Secretary for Financial Operations, Office of the Assistant Secretary for Financial Management and Comptroller*

- **Defense Finance and Accounting Service**

Mr. Tony Hullinger, *Director for the Office of Audit Readiness, Defense Finance and Accounting Service*

Audit & Audit Readiness: Where Are We?

- **Seven Defense Agencies continued to sustain full financial audits in FY 2015**
- **Military Services and seven additional Defense Agencies completed SBA audits / examinations in FY 2015:**
 - Results were as expected
 - Huge undertaking but tremendous value is received – improved processes; new policies; new discipline
- **In FY 2016 – Sustain and expand audit coverage:**
 - Military Departments continue with SBA audits
 - DLA and DISA to go through full financial statement audits
- **Continuing with corrective action plans for SBA audit findings and tracking progress**
- **Implementing a risk-based approach for remaining financial statements; measuring progress in high-risk areas for each component**

Panel Discussion Topics

Military Services Audits of FY2015:

- **Lessons Learned and Benefits of the Audit**
- **Audit Infrastructure**
 - Best practices in educating the auditor
 - Coordinating PBC requests across the organization
 - Experience working with the service providers
- **Results of the Audits Thus Far**
 - Summary of audit results
 - Major themes to findings
 - Remaining challenges and concerns for full financial statement audits
- **Advice to DoD Organizations About to Go Through Their First Audit/Exam**
- **Impact of the 2016 Election on the Audit Readiness Goals**

DFAS' Role in the FY2015 Audits:

- **Audit Preparedness of the Service Providers**
- **SSAE 16s Results from the Audits and Future Plans**

Lessons Learned: Army

Audit Lessons Learned Topic Area	Lessons Learned
Benefits of the Audit	<ol style="list-style-type: none"> 1. Increased accountability, accuracy, and confidence in information on program costs and alternatives (for the Army and for Congress) 2. Improved understanding of ERP and feeder systems and controls
Audit Infrastructure	<ol style="list-style-type: none"> 1. Cooperative effort with auditor to understand complexities of Army business processes and documentation 2. Coordination across Army is improving; establishing accountability for implementing corrective actions and providing supporting documentation 3. Synchronization with service providers to overcome challenges and provide necessary audit support
Results Thus Far	<ol style="list-style-type: none"> 1. FY15 SBA resulted in a disclaimer of opinion from the auditor with valuable lessons learned 2. FY15 SBA audit produced NFRs that included weaknesses in supporting documentation and insufficient system controls 3. Army is working to correct issues with evidential documents, reconciliations, transaction populations, and access controls
Advice for Other Defense Agencies Undergoing their 1 st Audit in the Next Year or Two	<ol style="list-style-type: none"> 1. Ensure auditor understands your unique organization, financial operations, and establish a strong infrastructure to facilitate the audit 2. Ensure timely completeness of supporting documentation and establish accountability for resolving NFRs with corrective actions
Expected Impact of the 2016 Election on Audit Readiness Goals	<ol style="list-style-type: none"> 1. Expect audit readiness to continue as a DoD priority 2. Continued support in the form of adequate resources, both personnel and funding needed to prioritize audit readiness efforts

Lessons Learned: Marine Corps

Audit Lessons Learned Topic Area	Lessons Learned
Benefits of the Audit	<ol style="list-style-type: none"> 1. Improves fidelity of financial information, which better informs decision making 2. Audit success will build credibility with Congress and the American taxpayer 3. Audit findings reveal DoD-wide issues, which affect all the services 4. Strengthens business processes and internal controls 5. Drives enterprise wide IT visibility and efficiencies; fewer systems are better
Audit Infrastructure	<ol style="list-style-type: none"> 1. Auditors know financial audits, but they don't know USMC business processes so we imbed SMEs with the IPA during execution 2. Internal coordination was difficult initially due to USMC unfamiliarity with financial audit, but has improved as everyone gained experience 3. USMC stood up a dedicated Audit Engagement Branch, which enhanced coordination 4. Service Providers with dedicated audit support teams improved our audit performance 5. Our oversight and active engagement with Service Providers is imperative during audit 6. Service Provider & Service R&Rs must be jointly documented in MOU/MOAs
Results Thus Far	<ol style="list-style-type: none"> 1. FY10/11 SBRs: Disclaimers. FY12 SBA: Unqualified opinion – later rescinded due to concerns about DFAS suspense accounts. FY13 SBA: Awaiting opinion. FY14 SBA: Disclaimer due to suspense accounts. FY15 SBA: No opinion, IPA contract halted 2. Both Financial and IT NFRs are valuable – they enhance CAP focus 3. Audit readiness areas are now focused on the balance sheet
Advice for Other Defense Agencies Undergoing their 1 st Audit in the Next Year or Two	<ol style="list-style-type: none"> 1. Expect the unexpected – Proactive communication plans with DODIG and IPA are key 2. Don't expect every audit to be the same – Auditors dive deeper with each audit 3. There will be findings – you can't fix everything at once 4. Don't be afraid to fail and be aggressive with A-123 to sustain audit
Expected Impact of the 2016 Election on Audit Readiness Goals	<ol style="list-style-type: none"> 1. Unknown, but the requirement to be audit ready is over two decades old 2. The biggest impact will be driven by the new Administration's and Congressional program and budget priorities, since continuing budget constraints could hinder CAP/audit progress/sustainment

Lessons Learned: Navy

Audit Lessons Learned Topic Area	Lessons Learned
Benefits of the Audit	<ol style="list-style-type: none"> 1. Focuses leaders' attention on need to improve business environment 2. Promotes stewardship and accountability in using public funds 3. Some efficiencies will result
Audit Infrastructure	<ol style="list-style-type: none"> 1. First-time DoD IPA (Cotton and Co) faced learning curve in first year 2. Navy commands provided requested documentation on time 95+% 3. Primary service provider (DFAS-CL) has been a responsive partner
Results Thus Far	<ol style="list-style-type: none"> 1. 220 NFRs issued for FY2015 audit...82% were IT related 2. Major IT deficiencies: access controls and segregation of duties 3. Big rocks remaining are IT reconciliations and statement compilation controls
Advice for Other Defense Agencies Undergoing their 1 st Audit in the Next Year or Two	<ol style="list-style-type: none"> 1. Be patient and prepared to educate the IPA team 2. Have audit response infrastructure in place and tested 3. Immediately move to correct NFRs...with senior leaders responsible
Expected Impact of the 2016 Election on Audit Readiness Goals	<ol style="list-style-type: none"> 1. Unknown, but interest in auditability progress been constant among both parties in Congress 2. Continued budget support will be <u>the</u> key to success

Lessons Learned: Air Force

Audit Lessons Learned Topic Area	Lessons Learned
Benefits of the Audit	<ol style="list-style-type: none"> 1. Targeted view of priorities and opportunities 2. Exercise enterprise audit muscle
Audit Infrastructure	<ol style="list-style-type: none"> 1. Our experience with audits: dual learning curves 2. Our experience coordinating across AF: it's not just about FM 3. Our experience with service provider: focus on the CUECs
Results Thus Far	<ol style="list-style-type: none"> 1. Disclaimer expected for first few years 2. Few NFR surprises; largely IT controls and enterprise weaknesses 3. Need to complete UOT and property valuation
Advice for Other Defense Agencies Undergoing their 1 st Audit in the Next Year or Two	<ol style="list-style-type: none"> 1. Invest extra time in up-front communication (measure twice, cut once) 2. Establish reoccurring auditor/senior leadership communication cadence
Expected Impact of the 2016 Election on Audit Readiness Goals	<ol style="list-style-type: none"> 1. Barring any surprises, expect to see continued focus and improvement

Lessons Learned: DFAS – Service Provider

Audit Lessons Learned Topic Area	Lessons Learned
Audit Preparedness	<ol style="list-style-type: none"> 1. Developed an Audit Readiness Strategy using a simple formula: (SSAE 16s + Self-Reviews + System Reviews = DFAS Audit Readiness) 2. Focused on building effective business management, internal controls, and an audit infrastructure to include communications, oversight, and training
What Worked Well	<ol style="list-style-type: none"> 1. Established “Tone at the Top” 2. Engaged and accountable Senior Leadership 3. Received valuable feedback from IPAs
Areas for Improvement	<ol style="list-style-type: none"> 1. Completely reconcile the universe of transactions 2. Enhance accessibility of key supporting documentation 3. Correct IT systems’ control deficiencies and improve audit infrastructure
Results Thus Far	<ol style="list-style-type: none"> 1. Achieved / supported 44 favorable opinions 2. SBA results validated DoD need to continue to address audit critical path areas 3. Using “AR” to Drive “FI” in Financial Improvement and Audit Readiness (FIAR) 4. Deployed enterprise-wide capability to remediate Agency audit findings
Value of SSAE16s for DFAS	<ol style="list-style-type: none"> 1. Multiple customers can leverage the reports -- a single audit serving many! 2. IPA provides an opinion on the design and effectiveness of DFAS’ controls
SSAE 16s Reliance by Auditor	<ol style="list-style-type: none"> 1. Reporting Entities must address Complementary User Entity Controls (CUECs) 2. SOC 1 report needs to be available for auditors to include in their report
Remaining SSAE 16 Preparedness Activities	<ol style="list-style-type: none"> 1. Continue strategy to expand scope and increase the number of SSAE 16s where beneficial

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