Audit is the Department’s Best Friend

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Mr. Thomas Murphy
Deputy Assistant Secretary of the for Financial Operations, Air Force

Ms. Karen Opie-Toler
Accounting Officer, Defense Logistics Agency

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Audit is the Department’s Best Friend

Overview of the DoD Audit Strategy & Priorities and 4th Estate Audit Lessons Learned

- Ms. Alaleh Jenkins, Assistant Deputy Chief Financial Officer, Office of the Under Secretary of Defense, Comptroller

Commitment to the Audit

- Mr. Wesley Miller, Deputy Assistant Secretary of the Army for Financial Operations

Making a Sustainable Impact

- Ms. Ann-Cecile McDermott, Assistant Deputy Commandant for Programs and Resources and Fiscal Director of the USMC

Correcting Findings

- Mr. Thomas Murphy, Deputy Assistant Secretary of the for Financial Operations, Air Force

Ready, Set, Audit

- Ms. Karen Opie-Toler, Accounting Officer, Defense Logistics Agency
DoD Entering the Business of Annual Audit

1990
CFO Act

August
CFO (Mr. Hale) Establishes Audit Priorities

1990
CFO Act

October
2010 NDAA mandated for audit readiness by 2017; FIAR Plan confirmed “Wave” approach

October
NDAA mandated and Sec. Panetta confirmed commitment to 2014 SBR audit date

October
First SBA audits conducted

October
90% of DoD General Funds under audit

October
Focus turned to Critical Capabilities

October
Annual Financial Statement Audits Begin

October
90% of DoD General Funds under audit

Ongoing Audits Will Continue

Audit Readiness
Discovery

Audit Readiness
Testing

Audit Readiness
Correction
Action

Audit Readiness
Validation

Corrective
Action

Audit Notice
of Findings

Annual
Audit

Audit Testing
DoD FY17-18 Audit Priorities

• **FY17 Audits/Exams - continue to expand:**
  – Military Departments will continue with audits
  – Marine Corps, DLA, DISA under full audit
  – Several Defense Agencies will have expanded scope exams.

• **Prepare for full scope FY18 financial statement audits**

• **Turn focus on remediating auditor findings**
  – Put processes/infrastructure in place to prioritize and track audit findings and remediation activities
  – USD(C) and DCMO will continue to monitor remediation progress

• **OSD focusing on preparing for DoD-wide consolidated audit while addressing DoD-wide issues**
Overview of Consolidated Audit Strategy

DoD-Wide Consolidated Audit Strategy

Use the Work of Component Auditors
Group Auditor to assume responsibility for or make reference to audit opinions of each Component Auditor

Perform Independent Testing
Group Auditor to perform internal controls and substantive testing over activities & balances

Tier 1a
(72% Budget, 82% Assets)

- Army GF & WCF
- Navy* GF & WCF
- Air Force GF & WCF
- Other Tier 1 Entities
  (e.g. USACE, Military Ret. Trust Fund)

Tier 2b
23% Budget
15% Assets

- 23% Budget
  (e.g. DLA, SOCOM, DISA)

- Tier 3
  4% Budget
  2% Assets
  (e.g. WHS, DARPA, DTRA)

- Tier 4
  1% Budget
  1% Assets
  (e.g. DHRA, DSS, DFAS GF)

ODCFO Audit Infrastructure in Place to Support Fourth Estate

Internal Control
- Entity-Level Controls
- MICP (incl. Monthly Testing)
- End to End Process Documentation
- NFR CAP Tracking
- Issue Remediation

Substantive/ Supporting Documentation
- Universe of Transactions and Reconciliations
- KSD Matrix

ODCFO Audit Infrastructure in Place to Support Consolidation
- DoD Consolidation Process
- DoD Eliminations
- Agency Financial Report
- Other Consolidated Audit Responsibilities

Department-wide SSAE No.16 Coverage

- OMB Designated Entity Audits
- DoD Designated Audits
- Tier 2
- Tier 3 and 4
- Other Tier 1 Entities
- OMB Designated Entity Audits
- Tier 3
- Tier 4
- Inter-Tier
- Intra-Tier 2
- Intra-Tier 3/4

Eliminations

ODCFO Audit Infrastructure in Place to Support Consolidation

- DoD Consolidation Process
- DoD Eliminations
- Agency Financial Report
- Other Consolidated Audit Responsibilities

*Includes U.S. Marine Corps.

b There are several Tier 2 Entities that may not fully utilize the ODCFO audit infrastructure, including Intelligence Agencies, Working Capital Funds, and other Entities already under audit.

*Given the size and complexity of the Reporting Entities included in Tier 1, each will maintain its own audit infrastructure. This document focuses on the infrastructure for select Tier 2 Entities as well as the infrastructure for the remaining Tier 3 & Tier 4 Entities.

Percentages based on FY 2015 data.
Audit Lessons Learned

**Audits Add Value**
- Reducing or eliminating sub-allotments supports UoT validity.
- For FBwT, enforcement of edits and controls enables better tracking of funds.

**Audit Infrastructure is Crucial**
- The volume of samples and associated documentation can be overwhelming without adequate response infrastructure.
- Facilitates a boost to the response accuracy to the auditors.
- This augments dialogue between auditor and Component.
- Have the process owners “in the room” and available to the auditors.

**Remediation Needs to be Deliberate**
- Simplify, simplify! Corrective actions should be designed to reduce duplication in processes.
- Remediation must contain an element of training to ensure consistent execution and retention of documentation.

**Sustainment is Key**
- Ongoing self-testing validates controls are in place.
- Development and implementation of Entity-Level Controls helps enforce new control environment.
- The value of SSAE 18s is tied to effective CUECs.

**DoD’s Unique Issues**
- DoD has the opportunity to establish creative solutions to address complex, unique issues.
- An example is accounting for the Joint Strike Fighter Program (across Military Services and other allied governments).
The Audit Experience - Commitment to the Audit
U.S. Army

1. What improvements are we seeing in our culture? How has the Army engaged others outside of the financial community about the importance, benefits and their role in the audit?

- Financial Transparency and Accountability
- Involvement from leadership at every level
- Everyone understands the importance of their role

2. Given the leadership changes under the new administration, how is the Army communicating the value, importance and commitment of being under audit to the new leadership?

- Detailed and deliberate engagement strategy to educate and inform stakeholders on:
  - Army strategy remains unchanged: we are continuing to move towards a full financial statement audit beginning this October with focus on making continuous improvements as we work to secure an opinion
  - FY17 audits include Statement of Budgetary Resources (SBRs) for the Army Working Capital Fund (AWCF) and General Fund (GF) and the Operating Material & Supplies (OM&S), General Equipment (GE), and Military Construction (MILCOM) audits
  - The Army is focused on strengthening business processes across the 9 critical capabilities of audit readiness; ensuring leaders and service providers understand the value of each critical capability
What have been the most impactful changes made in support of the audit?

- Focus on FINANCIAL READINESS at the 4-Star level, where CMC reviews selected FM metrics beyond obligations in Quarterly Readiness Reviews with his Commanders.

- Reinvigorated the CORE PRINCIPLES OF ACCOUNTABILITY for equipment and material for Senior Leaders and Commanders after many years of focus on wartime ops.

- Financial Managers, Logisticians, Administrators and IT professionals begin to better understand their end-to-end BUSINESS PROCESSES AND INTERNAL CONTROLS in order to more effectively accomplish their mission.

- EXPAND CAPACITY AND PROFESSIONALIZE BUSINESS PRACTICES in Marine Corps accounting branch and Technology Services Organization to transition additional Navy Budget Offices into SABRS.
What activities do the USMC employ to continually emphasize the importance and benefit of being under audit?

- Focus on TRANSPARENCY, ACCOUNTABILITY, and IMPROVEMENT
- Detailed General Officer and Senior Leader involvement in the daily, weekly and monthly audit engagements and visits to ensure Marines and Civilian Marines understand the importance of audit
- Emphasis that audit is just part of the new routine and COMMANDER’S BUSINESS
  - Resource accountability
  - Controls over processes
  - Performance to standards
- Growing maturity of Risk Management processes for audit related corrective action by General Officers and Senior Leaders
- Audit experience, and especially FINDINGS, are key!
  - Whets the appetite for more insights from audit
  - Corrective actions highlight how interconnected many issues are
How is the Air Force prioritizing, tracking and monitoring the resolution of identified issues?

**Prioritization is Based on the Risk Associated With Identified Issue**

1. Work with Stakeholders to Develop Corrective Action Plan & Obtain Approval
2. Stakeholders Identify Completion Progress & Report
3. Stakeholders Reports Control is Implemented (CAP Closure)
4. Internal Testing
5. Verification and Validation (V&V)

**Internal Reviews**
- FIAR IT (FISCAM Reviews)
- AUs (Internal Testing)

**External Reviews**
- System Reviews
- Financial Statement Audits

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<th>Status</th>
<th>Functional Owner</th>
<th>System Name</th>
<th># of CIs at Risk</th>
<th>OUSD Critical Date</th>
<th>OUSD Critical Date Status</th>
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<td>CEMC A/ PDS</td>
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<td>9/22/2017</td>
<td>The high risk CAPS are account management, segregation of duties, configuration management and contingency planning. New ECD: 9/22/2017</td>
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<td>The high risk CAPS are related to system admin and user transactions, sensitive transactions, segregation of duties and monitoring of override logs. ECD 07/03/2017</td>
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**CAP Life Cycle**

- Stakeholders Reports Control is Implemented (CAP Closure)
- Internal Testing
- Verification and Validation (V&V)
- Work with Stakeholders to Develop Corrective Action Plan & Obtain Approval
- Prioritization is Based on the Risk Associated With Identified Issue
How can one distinguish between last year’s disclaimer of opinion and the one expected to be received this year; and what is our rationale for continuing to go to audit just to expect the same results for the next several years?

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<td>Configuration</td>
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<td>(16)</td>
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<td>20</td>
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<td>(3)</td>
<td>16</td>
<td>24</td>
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<td>(14)</td>
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<td>Interface</td>
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<td><strong>(112)</strong></td>
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<td><strong>168</strong></td>
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Describe DLA’s audit infrastructure and what have been keys to success in this infrastructure?

• **DLA developed an Audit Response and Sustainment team:**
  – Track Provide by Client (PBC) requests and responses
  – Streamline all communications with auditors
  – Provide guidance on how to interact with auditors
    o Now that the audit is underway, we are putting our practice into action and monitoring how DLA responds to audit requests

• **“Tone at the Top” endorsement by DLA senior leadership is essential**
  – Since 2012, senior DLA leaders have expressed their support of Audit Readiness via memorandums, videos, blog posts, newsletters, and speaking at All-Hands meetings
  – This reinforces key audit readiness messages (e.g., the importance of Evidential Matter, following Standard Operating Procedures, internal control testing procedures, etc.)

• **Continuous enterprise-wide communication and change management activities are vital to success**
  – DLA established a Human Performance Team to provide targeted Audit Readiness- and sustainment-focused communication, training, and other support to the DLA workforce
The Audit Experience – Ready, Set, Audit
Defense Logistics Agency Audit Infrastructure

**Auditor**
- Submits PBC request to audit liaison via Response Center
- Retrieves released documents
- Reviews appropriate documentation and performs substantive testing
- Asks questions/follow-up

**Audit Liaison**
- Reviews and disaggregates PBC request
- Assigns tasks to appropriate team(s) for response
- Facilitates questions and answers on PBC responses

**Team Leads/Info Gatherers** (Support Teams)
- Info gatherers: Collects requested documents
- Team lead: Ensures PBC items are complete, accurate, and support the sample transaction
- Uploads and reviews the requested documentation to the Response Center
What value are we getting out of the audit that we didn’t get from audit readiness efforts?

- Logistics – site visit coordination, country clearances, base access (esp. foreign bases), proper safety equipment and training

- So far, most issues identified were already known:
  - Evidential Matter
  - Data clean up
  - Beginning balances

- Leases – Legal perspective vs. accounting perspective…challenges to implement

- Deemed cost
  - SFFAS 48 (*Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*)
  - SFFAS 50 (*Opening Balance for General Property Plant and Equipment*)

- Maintain open communication with auditor… transparency is key
  - Assert with open corrective action plans…inform auditor up-front…remediation plan…impact audit approach

“FIRST YEAR AUDIT”
Final Thoughts – Audits **ARE** Our Best Friend!

**We Are Learning Through the Audit**
- Through gaining exposure to audit rigor and gaining auditor feedback.

**We Are Prioritizing Root Causes**
- By fixing underlying issues and focusing on the “to-be” target.

**We Are Making the Hard Decisions**
- By facing the harder issues earlier, engaging management and communicating decisions.

**We Are Seeing Improvements in Our Culture**
- By communicating the importance of the audit, and engaging with process owners early in the change management process.