The Audit Cycle
A Never Ending Journey

William L. Holtzman
Finance and Accounting Division
Directorate of Resource Management
Agenda

- Overview of USACE
- Pre-Audit – Getting Ready for the Next One (Nov-Feb)
- OMB A-123 Program Testing (Jan-Jun)
- Independent Public Auditor (IPA) Audit (Mar-Nov)
- Questions
USACE Mission Areas

Military Missions
- Military Construction
- COCOM Support, Overseas Contingency Operations (OCO)
- Installation Support, Environmental, Energy and Sustainability

Civil Works
- Geospatial Support
- Common Operating Picture/Environment
- Civil Works Programs
- Military Programs
- Emergency and Contingency Operations

Contingency Operations
- "Whole of Government" Disaster Response and Recovery
- Life-Cycle Flood Risk Management
- Critical Infrastructure
- Warfighter
- Installations and Energy
- Environment
- Water Resources

International and Interagency

Real Estate — Acquire, Manage and Dispose / DoD Recruiting Facilities / Contingency Operations

USACE Has a Diverse Mission Set Driven by Diverse Customers
USACE Contributions to the Economy and the Environment

US Ports & Waterways Convey > 2B Tons Commerce

- Corps Maintained Ports Provide Strategic Deployment Capability
- Foreign Trade Through Harbors Creates > $850M Tax Revenues

Recreation areas
- 368 M Visitors/yr
- Generate $15B in economic activity, 500,000 jobs

- ¼ of Nation’s Hydropower: $500M + in power sales
- 1/10 the cost of trucks

- 12,000 miles of Commercial Inland Waterways:
  - ½ the cost of rail

#1 Federal Provider Of Outdoor Recreation
- 54,730 Miles Of Shoreline at USACE Lakes

- 926 Shallow & Deep Draft Harbors

Stewardship of 11.7 Million Acres Public Lands

- 8,500 Miles of Levees

- 137 Major Environmental Restoration Projects

- ¼ of Nation’s Hydropower: $500M + in power sales

USACE Contributions to the Economy and the Environment
Corps Financial Management System

- Electronic signatures for less paper & better internal control
- Source data entry
- Real time management and funds control
- Compliance with Statutory and Regulatory requirements and the elimination of separate accounting departments

CEFMS – Corps of Engineers Financial Management System
Pre-Audit – Getting Ready for the Next One

Notice of Findings & Recommendations (NFR)

- Broken out into two sections
  - Financial / Information Technology (Audit Tip #1)
- USACE Financial NFR Breakdown
  - Financial Reporting / USACE Finance Center (UFC)
  - Field Operating Activities (FOA’s) / Samples
  - Headquarters / Environmental – Legal Liabilities
- Review and Mitigate
  - Policy Change / Modification of OMB A-123 Test Plan
  - CEFMS Internal Control Change
  - No Action – One Time Error
  - Sent to FOA’s (Audit Tip #2)
Pre-Audit – Getting Ready for the Next One

OMB A-123 Test Results

- Review and Mitigate
  - Policy Change / Modification of OMB A-123 Test Plan
  - CEFMS Control Change
  - No Action – One-Time Error

- Repeated “Red” Ratings
  - Increase frequency of testing
  - “Get Well Plans”
Updating of Cycle Memoranda

- Purpose – provides IPA with a narrative description and flow chart of certain processes
  - Required in GAO Financial Audit Manual Section 240
- USACE has 15 Cycle Memorandums
- Updated Yearly
  - Incorporate Policy Changes / CEFMS Internal Control Changes
  - Reviewed by a selected District (Planning Phase)
  - Reviewed by USACE Finance Center
Pre-Audit – Getting Ready for the Next One

Executive Senior Assessment Team Briefing

- Purpose – gain Senior Leadership support for Audit
- Mandated in OMB A-123 Appendix A
- Chaired by Deputy Commanding General (Audit Tip #3)
- Members include all USACE Senior Leadership
- Two Briefings per year
  - Results of prior year audit
  - Results of OMB A-123 Test Plans
OMB A-123 Program Testing

- Purpose of Program – catch deficiencies before IPA
- 10 Sections and 41 Individual Control Tests
  - 4 Sections / Field Operating Activity
  - 6 Sections / Split Between HQ & UFC
- Test Divided Between HQ (our team) & Internal Review
- Judgmental Sampling
- Spread out over 6 months
- Command & Departmental Management Reporting
- Results briefed to Executive Senior Assessment Team
OMB A-123 Program Testing

- 4 Field Operating Activity Tests
  - Property, Plant & Equipment (PPE)
  - Cost Share
  - Payroll
  - Account Payable / Accruals / Undelivered Orders

- 4 HQ Tests
  - Legal & Environmental Liabilities
  - Appointments
  - Federal Employee Compensation Act (FECA)

- 2 UFC Tests
  - Financial Reporting
  - Investments
RM02 – OMB A-123 Test Plan Results

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<td>3 - Payroll</td>
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<td>4 - Accounts Payable</td>
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Rating Criteria:
- **G**: All actions completed and validated
- **A**: Some actions to be completed per validation
- **R**: Incomplete, actions required
- **N/A**: N/A

As of Date 30 Jun 16 (3Q16)
IPA Audit

Planning

- IPA selects FOA’s for site visit (**Audit Tip #4**)
  - Normally two FOA’s (PPE only & All Other Processes)
- Local IR heavily involved
- IPA will walkthrough every step
  - Example Travel – Originator, Approver, Authenticator
- IPA will test CEFMS user roles
IPA Audit

Planning – Observations

- Give selected sites ample time to prepare
- Ensure sites have cycle memorandums
- Must have current year transactions
- Ensure key personnel are available
- Conduct pre-meetings with site
- Attend as many walkthroughs as possible
IPA Audit

Testing

- Centralized Testing Approach (Audit Tip #5)
- Three Phase Testing Approach
  - Oct – Mar, Apr – Jun, Jul – Sep
  - Jul – Sep includes UDO and Account Payable
- Review prior year checklist / Develop new ones
  - Add/Remove documents
  - Ensure CEFMS screens are accurate
- Legal & Environmental Liabilities tested 3Q
IPA Audit

Testing – Observations

- Review all samples before IPA receives
- Try to resolve all follow-up questions at HQ
- Keep IPA “sample pipeline” full
- Discuss all individual sample exceptions
- Assign one person to UDO testing
- IPA will bring in environmental specialist
- NO audit samples in September (year-end)
- Benefit from IPA samples
IPA Audit

Reporting – Report Issuance

- Massive effort between UFC, HQ, IPA
- Management Decision & Analysis (MD&A)
  - Review/Approved by ASA(CW) & OMB
- Financial Statements / Footnotes
- Supplementary Stewardship & Non-Stewardship Information
- USACE provides Management Representation Letter
- IPA audit report & DoDIG cover letter
- Most complicated / time consuming phase
IPA Audit

Reporting – Observations

- Provide draft MD&A to higher HQ/OMB early in the process
- Version control
  - Very Important
- Contact non-Resource Management personnel early to request data
## Managing the CW CFO Audit

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<th>FY08</th>
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* All costs are only contract cost for PwC or KMPG. Does not include in-house labor to support audit and remediation.

### 9 Consecutive Clean Audit Opinions
Compliance is Not an Option

CFO Compliance Needs You

Accountants Can’t Do It Alone!
Questions ?
Single Audit Approach

Michael E. Walsh
Chief, Finance and Accounting Division
Directorate of Resource Management
Single Audit Approach

- Military Programs receives sub-allotments (FADs) from Army, Navy and Air Force to include numerous DoD Agencies
- Under current audit guidelines each one would need to audit CEFMS and CEFMS transactions (potential for 9 different audit firms)
- Implementing approach in FY17 (DLA)
Old Approach

 Auditor (Army) → Auditor (Air Force) → Auditor (DoD Agencies)
Single Auditor Approach

- Army Statements
- Air Force Statements
- (DoD Agencies) Statements

Audited CIP Financial Statements
Advantages

- Single Auditor saves USACE and DoD components valuable manpower and auditor resources
- Planning, Testing Phase Pro’s
  - One site visit to test controls
  - Consistent approach to substantive testing related to support documentation
- Reporting Phase
  - Potential workload increase due to schedule preparation
- Information Technology (IT) Testing
  - Single auditor can perform FISCAM testing on CEFMS once thus removing the need for any additional audit work from multiple DoD auditors or need for SSAE 16
Single Auditor Approach


SUBJECT: U.S. Army Corps of Engineers Single Auditor Approach

The U.S. Army Corps of Engineers (USACE) proposed to use the work of a single auditor to provide audit assurance over funds sub-allotted to USACE, in support of military construction. Sub-allotted funds are typically subject to audit by each customer auditor. As an alternative, USACE would prepare separate, audited financial schedules for each of its customers that are undergoing financial statement audit.

Accounting standards allow for the use of a single auditor approach. The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (AU-C) Section 800, “Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement,” provides a basis for USACE to use a single auditor to perform an audit of customer sub-allotted balances. AICPA AU-C Section 800, “Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors),” provides a basis for customer auditors to rely on the USACE auditor opinion over sub-allotted balances.

I approve the USACE single audit approach as an alternative to support auditability requirements of sub-allotments, beginning in fiscal year 2018. To ensure the success of the single auditor approach, USACE will need to work with the Department of Defense Office of Inspector General (DoD OIG) to ensure the contract for the single auditor approach is structured appropriately. In addition, customer auditors need to work with the USACE auditor to understand the single auditor approach and how it affects customer financial statements.

For questions regarding this approach and guidance, my point of contact is Mr. Alex Diaz. Contact him at alex.is.diaz@navy.mil or 703-614-1078.

Mark E. Esper
Deputy Chief Financial Officer

Assistant Inspector General Financial Management and Reporting, DOD OIG
FY 2017 DLA Audit Process

- USACE Finance Center (UFC) provides universe of transactions to USACE’s Independent Public Auditor to facilitate substantive testing of material balances for DLA
- UFC prepares a Financial Statements for DLA
- Based on results of testing IPA prepares an opinion report on DLA’s audited Financial Statement
- Report is provided to DLA’s IPA to include in their audit opinion in early November
- USACE will not rely on DLA internal controls
- As stakeholders contract for Full Financial Statement audits USACE will add them to the contract
FY 2017 DLA Audit Process

- **Planning Phase**
  - Walk though completed at Savannah District and USACE Finance Center (UFC)

- **Testing Phase**
  - Universe of Transactions provided for 1 Oct – 31 Mar
  - Beginning Balance samples selected and out to field
    - CIP and UDO’s

- **Reporting Phase**
  - UFC met with DFAS to map out process for USACE uploading DLA Trial Balance into DDRS
Questions ?