

MANAGER'S TOOLKIT FOR A SUCCESSFUL FINANCIAL STATEMENT AUDIT

Ms. Lorin Venable, DoD OIG



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Agenda

- OIG Audit History
- Complexity of DoD
- FY 2016 Audit Opinions
- Status of Improvements
- DoD Financial Management
- TIPS/Toolkit
- EXAMPLES – What Success Looks Like

OIG Audit History

- June 1992 - issued initial opinion reports on FY 1991 financial statements of several funds required by the CFO Act of 1990
- GAO's High-Risk List includes a total of 15 high-risk areas for DoD.
 - February 2017 – DoD financial management remains on the High-Risk List.
- May 1997 - issued initial disclaimer of opinion on the FY1996 DoD Agency-Wide Financial Statements
- Multiple NDAA's/Public Laws impacting financial statements and related audits.

Complexity of DoD

- FY 2016 DoD Agency-Wide Reported Amounts:
 - Assets \$ 2.4 trillion
 - Liabilities \$ 2.4 trillion
 - Earned Revenue \$ 83.5 billion
 - Gross Costs \$ 730.7 billion
 - Net Cost of Operations \$ 589.6 billion
- FY 2018 Budget request is over \$600 billion

FY 2016 Audit Opinions

DoD FY 2016 Opinion Status Overall: Disclaimer

- DoD Agency-Wide Principal Financial Statements: disclaimer
- 8 other OMB required component entities: 2 unmodified, 0 qualified, 6 disclaimer
- 6 DoD internally required entities: 5 unmodified, 1 qualified, 0 disclaimer

DoD Agency-Wide financial statements (FY 1996 through FY 2016):

21 YEARS of disclaimers

FY 2016 Audit Opinions (con't.)

ENTITY OR FUND	AUDIT OPINION		
	Unmodified	Qualified	Disclaimer
DoD Agency-Wide			X
Army General Fund			X
Army Working Capital Fund			X
Navy General Fund			X
Navy Working Capital Fund			X
Air Force General Fund			X
Air Force Working Capital Fund			X
U.S. Army Corps of Engineers*	X		
Military Retirement Fund*	X		
Defense Commissary Agency*	X		
Defense Contract Audit Agency*	X		
Defense Finance and Accounting Service*	X		
Defense Health Agency-Contract Resource Management*	X		
Office of the Inspector General*	X		
Medicare-Eligible Retiree Health Care Fund*		X	

*Opinion issued by Independent Public Accountant

FY 2016 Audit Opinions

- Management represented that the FY 2016 financial statements were unreliable because 13 previously identified material weaknesses continued to exist. Those material weaknesses include:

MATERIAL WEAKNESS	OPINION YEAR	
	2002	2016
Financial Management Systems	X	X
Fund Balance with Treasury	X	X
Inventory	X	X
Operating Materials and Supplies	X	X
General Property, Plant, and Equipment	X	X
Government-Furnished Material and Contractor-Acquired Material	X	X
Environmental Liabilities	X	X
Statement of Net Cost	X	X
Intragovernmental Eliminations	X	X
Other Accounting Entries	X	X
Reconciliation of Net Cost of Operations to Budget (Formerly Statement of Financing)	X	X
Military Retirement Health Care Liabilities (Removed FY03)	X	--
Accounts Payable (First reported FY06)	--	X
Accounts Receivable (First reported FY07)	--	X

Status of Improvements

- Analysis of 138 financial-related audit reports issued by DoD OIG for the period 2012 through 2014 shows that problems continue to exist including:
 - 13 of the previously identified material weaknesses
 - General areas:
 - Internal controls
 - Compliance with laws and regulations
 - Systems
 - Audit Execution
 - Documented processes and procedures

DoD Financial Management

- These material weaknesses raise concerns regarding DoD's ability to:
 - Produce complete, reliable, accurate, timely data used by management for:
 - decision-making (e.g., budget, costs, re-ordering supplies, replacing equipment—or even locating the equipment)
 - reporting to Congress and OMB
 - Support the war fighter
 - Prevent and detect fraud, waste and abuse
 - Report on new and time-sensitive initiatives such as the Digital Accountability and Transparency Act of 2014 (the DATA Act)

DoD Financial Management

– DATA ACT

- The Data Act requires:
 - Federal agencies to report financial and payment data according to data standards established by the Department of the Treasury (the Treasury) and OMB.
 - summary-level congressional funding data
 - detail-level financial data
 - Federal agencies to submit spending data in compliance with the DATA Act by April 30, 2017.
 - Inspectors General (IGs) to review statistical samples of the data their agencies submitted under the DATA Act and report on the completeness, timeliness, quality, and accuracy of the data submitted. The first IG reports are due November 2017.
 - On May 9, 2017, Treasury launched beta.usaspending.gov, the next generation of [USAspending.gov](https://usaspending.gov). The new site includes the expanded data required by the DATA Act.

OIG Oversight of Audits

- On-going:
 - FY 2017 Army Statement of Budgetary Resources (SBR)
 - FY 2017 Air Force General Fund SBA
 - FY 2017 U.S. Marine Corps General Fund Financial Statements
 - FY 2017 U.S. Army Corps of Engineers-Civil Works Basic Financial Statements and Defense Logistics Agency's Sub-Allotted Funds Financial Statements
 - FY 2017 Defense Logistics Agency (DLA) Financial Statements
 - FY 2017 DLA National Defense Stockpile Transaction Fund Financial Statements
 - FY 2016 Defense Information Systems Agency (DISA) Financial Statements

Financial Statement Assertions

- 5 basic financial statement assertions*
 - **Existence or occurrence**
 - **Completeness**
 - **Rights and obligations**
 - **Accuracy/valuation or allocation**
 - **Presentation and disclosure**

*Note: The GAO/PCIE Financial Audit Manual section 235 aligns the 13 assertions stated in the Codification of AICPA Professional Standards, AU-C Section 315.A128 into 5 categories.



TIPS FOR SUCCESS

- Tone at the top.
- Honest communication.
- Maintain all supporting documentation at the transaction level.
- Develop and maintain a complete universe of transactions
- Have knowledgeable staff available to address auditor questions.
- Well-documented processes/SOPs that employees use and auditors can follow to identify controls.
- Maintain a schedule of communication throughout the audit.

TIPS (cont'd)

- Audit support from the appropriate senior management level and the Entity Comptroller Office.
- Provided by Client (PBC) List.
- Ensure accounting systems are in compliance with generally accepted accounting principles.
- Identification of accounting activity to trading partners.
- Assignment of USSGL accounts to transactions where and when they occur.

TIPS (cont'd)

- Perform research and analysis of unexpected or abnormal USSGL account balances for expiring or canceling appropriations.
- Provide prior reviews/assertion validations.
- Provide previous FISCAM assessments.
- Expedited access to audit locations.
- Provide documentation showing management/knowledgeable staff documented compliance with FFMIA, FFMFIA, and other significant laws and regulations.

TIPS (cont'd)

- Provide well documented assessment of the internal control environment, including all key internal control points and testing conducted.
- Ensure sufficient DFAS support and other service providers.
- Provide MOAs documenting roles and responsibilities.
- Access to systems so that auditors can review support for transactions contained within system.
- Provide automated repository for audit documentation (e.g., Sharepoint).

TIPS (cont'd)

Key Tasks for a financial statement audit

- Identify Points of Contact
- Identify Key Supporting Documentation
- Establish a central data repository
- Identify End-to-End Processes and Standard Operating Procedures
- Prepare 'Perfect Packages'
- Root Cause Analysis



Communication

Controls/CUECs

Leadership

People



Accountability

Training

Sustainable Processes

Communication

EXAMPLES

What success looks like

Budget

- Posting Treasury Appropriation Warrants and SF 1151 Nonexpenditure Transfer Authorizations

EXAMPLES

What success looks like

Procurement

- Document the receipt and acceptance of goods or services, and obtain the invoice prior to disbursing funds. Proper obligating documents, receiving reports, and invoices need to be maintained to support disbursement.

EXAMPLES

What success looks like

Central Repository

EXAMPLES

What success looks like

Civilian Pay – Benefits and Entitlements

EXAMPLES

What success looks like

- The accounting technician performs a three-way reconciliation between certified payroll details coming out of the entitlement system, payments made from the Automated Disbursing System (ADS), and the recording of the outlay into the financial reporting system to determine completeness and compliance with the listed complimentary user-entity control found in the ADS SSAE-16 SOC Report.
- For any maintenance changes requiring a monetary adjustment to a beneficiary's account, a technician processes the change in pay and uploads supporting documentation that is reviewed by a Lead Technician.
- The Lead Technician reviews the FBWT Reconciliation performed to confirm Treasury shows the same balance as the financial reporting system so it can be accurately recorded on the Balance Sheet.

EXAMPLES

What success looks like

IT

- DD 2875 Forms
- Requesting the correct roles for assigned positions.
- Quick reporting and removal of access for terminated or transferred employees

EXAMPLES

What success looks like

- FBWT (Funds Balance with Treasury)
- CVP (Commercial and Vendor Payments)

EXAMPLES

What success looks like

- MILPAY/MILPCS
- FMO Oversight of Service Providers

EXAMPLES

What success looks like

Observation/Potential Finding Meetings with Auditee Management

EXAMPLES

What success looks like

Financial Reporting

- Year-End Closing Rule Review

Questions?

