Audit Committee Newsletter

First Quarter 2007

FIP Conference Held

The Department of the Navy (DON) Office of Financial Operations hosted a DON Financial Improvement Program Conference on November 8th and 9th at the Washington Navy Yard. Over 200 attendees, including representatives from all Navy Commands and Marine Corps, heard presentations and speeches centered on the message of the conference, "Know your business. Control your future." The Honorable Dionel Aviles, Under Secretary of the Navy, served as the keynote speaker for the conference.

FIAR Plan Delivered to Congress

The Office of the Secretary of Defense (OSD) Financial Improvement and Audit Readiness (FIAR) Directorate released the latest version of the FIAR Plan to Congress and the Office of Management and Budget (OMB) in October 2006. The Plan detailed the progress and changes that occurred, to include DON FIP actions, over the last nine months of Fiscal Year (FY) 2006. Copies of the plan are available on the ASN (FM&C) website (http://www.finance.hq.navy.mil). Additionally, OSD has begun planning for the March 2007 version of the FIAR Plan. This version will include separate highlights for the financial improvement programs of each of the Military Departments and the Defense Logistic Agency. DON met with OSD's FIAR technical writer on January 4, 2007 to convey specific aspects of the DON FIP. OSD will prepare drafts for DON review in late January.

MICP Update on Internal Controls

Pursuant to FY 2007 DoD guidance for the implementation of OMB Circular A-123, Appendix A, DON submitted on 18 December 2006 process flowcharts and business process narratives for material financial statement line items that have been selected for assertion. For FY 2007, DoD added four new focus areas to the existing focus areas from FY 2006 – Accounts Payable, Accounts Receivable, Operating Materials and Supplies, and Inventory. Risk assessments for these new and existing focus areas will be performed and submitted to the Office of the Under Secretary of Defense by 1 February. The risk assessments will be followed by an analysis of existing internal controls to mitigate the identified risks. Based on the controls identified to mitigate risks, test plans will be developed and submitted for review to OSD in May 2007. This will be followed by an actual test of the controls at various DON commands. Results of the tests will help facilitate preparation of the DON FY 2007 Statement of Assurance.

Lean Six Sigma and SOX

The private sector has begun to explore whether, and to what extent, Sarbanes-Oxley (SOX) and Lean Six Sigma initiatives are complementary, particularly with regard to implementing core business processes with effective internal control points. Indeed, both SOX compliance and Lean Six Sigma meet at the intersection of the evaluation of processes that impact financial reporting and internal controls.

The federal sector's version of SOX is the Federal Managers' Financial Integrity Act of 1982, from which the revised OMB Circular A-123, Appendix A was derived. While analysis continues in terms of establishing leverage points between Lean Six Sigma process improvement and A-123 analysis of internal controls, it is clear that the two have similar objectives. For DON, this means that its Lean Six Sigma initiatives should be appraised for related A-123 compliance efforts to avoid undoing previously documented compliance work. Conversely, the A-123 analysis for both processes and internal controls should consider Lean Six methodology as a means for strengthening internal controls for important business processes.

FY 2006 Annual Financial ReportPublished

The expertise and dedication of the DON financial management community and its accounting partner, DFAS, led to the timely submission of the DON FY 2006 Annual Financial Report, "Global Access, Global Responsibility." A copy of the report is available at www.fmo.navy.mil.

In their Circular A-136, *Financial Reporting Requirements*, the Office of Management and Budget encouraged reporting entities to prepare a Highlights document. The purpose of the Highlights is to make available to the user an abbreviated document that is more "user-friendly" than the entire Annual Financial Report. Therefore, for the first time beginning with FY 2006, the DON published a *Department of the Navy Annual Financial Report Highlights*. The *Highlights* includes Management's Discussion and Analysis, the Principal Financial Statements, Auditor's Opinions, and a CD that contains the entire DON Annual Financial Report.

Next Audit Committee Meeting:

31 January
1400 – 1530
Pentagon Room 4C355