DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
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WASHINGTON, DC 20350-1000

MAY 26 2004

MEMORANDUM FOR DISTRIBUTION

Subj: ESTABLISHING THE DEPARTMENT OF THE NAVY AUDIT COMMITTEE

Ref: (a) SECNAV msg of 16 Jan 04
(b) USD(C) memo of 8 Aug 03
(c) USD(C) memo of 6 Mar 03
(d) IG, DoD memo of 15 Oct 03

Encl: (1) Department of the Navy Audit Committee Charter

The Department of the Navy (DON) is committed to fiscal accountability and the efficient and effective management of our financial resources. That commitment is reflected in my priority objectives for fiscal year 2004, reference (a). Managers in the department need to develop tools to better support decision-making along with the financial accounting improvements needed to obtain a clean opinion. To this end and by reference (b), the Assistant Secretary of the Navy (Financial Management and Comptroller)(ASN(FM&C)), staff developed a DON Mid-Range Financial Improvement Plan. Though the goal of this plan is to achieve a favorable audit opinion of the DON Financial Statement, ultimately what we need is relevant, reliable, and timely financial information that DON manager's can use to make informed business decisions. The DON plan should accomplish both goals.

To ensure that the success of this plan is not impeded in anyway, I am establishing an audit committee that will assist in the oversight of the financial improvement process as it progresses. I am designating the ASN(FM&C) to chair the committee and with that position the authority to form task forces and various work groups across functional areas to resolve the myriad of accounting and reporting issues that are at the various reporting levels of the DON. Enclosure (1) provides a copy of the DON audit committee charter. Though this charter outlines the duties and responsibilities of its membership, cooperation of the entire DON community is needed to achieve the objectives of the DON Mid-Range Plan.

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As provided in references (c) and (d), the audit committee will interface with the audit community to ensure that the financial statements are ready for audit. The DON will build upon this plan to achieve excellence in business and financial management.

Gordon R. England
Secretary of the Navy

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Department of the Navy
Audit Committee
Charter

Ref: (a) Federal Managers' Financial Integrity Act of 1982, P.L. 97-255
(b) Chief Financial Officers Act of 1990, P.L. 101-576
(c) Government Performance and Results Act of 1993, P.L. 103-62
(d) Government Management Reform Act of 1994, P.L. 103-356
(e) Federal Financial Management Improvement Act of 1996, P.L. 104-208
(f) OMB Bulletin 01-09 of 25 Sep 2001
(g) OMB Bulletin 01-02 of 16 Oct 2000
(h) USD(C) memo of 6 Mar 2003

Purpose. To establish the Department of the Navy (DON) Audit Committee.

Background. By references (a) through (e), the Department of Defense (DoD) is one of 24 Chief Financial Officer (CFO) organizations required to prepare and submit to the Congress and the Director of the Office of Management and Budget (OMB) audited financial statements for the preceding fiscal year, covering all accounts and associated activities of the agency. As a component of DoD, per reference (f), the DON, including the Navy Working Capital Fund is also required to produce and submit an annual audited financial statement as well as unaudited quarterly financial statements. Reference (g) provides for the audit requirements of the financial statements. Over the past decade there have been several efforts to improve the accounting and reporting of business events/transactions with the objective to provide reliable, relevant, and consistent data for managers to make informed business decisions. As plans and resources are provided to improve accounting and reporting of business transactions, there is a need for oversight to ensure the objectives are coordinated across functional areas/domains. Moreover, by reference (h), the Under Secretary of Defense (Comptroller) directed the military components to establish audit committees for the purpose of overseeing the annual audit of the financial statements and to provide a forum to discuss and resolve a wide variety of accounting and auditing issues. The DON Audit Committee will not only fulfill that requirement

but will also provide oversight for correcting internal control issues and improvement of accounting and reporting of business events/transactions.

Policy. The DON Audit Committee is established to oversee correcting Departmental management control weaknesses; reviewing compliance with laws and regulations; correcting of financial statement reporting process issues; and providing advise on progress of audit issues.

Membership. The Assistant Secretary of the Navy (Financial Management and Comptroller) or designee will be the Audit Committee Chair. The voting membership of the DON Audit Committee shall be represented by Senior Civilian Staff and/or Flag Officers (or their representatives) from the following organizations:

a. Assistant Secretary of the Navy (Financial Management and Comptroller)
    1) Office of Budget
    2) Office of Financial Operations
b. Assistant Secretary of the Navy (Installation and Environment)
c. Assistant Secretary of the Navy (Research, Development and Acquisition)
e. Assistant Secretary of the Navy (Manpower and Reserve Affairs)
f. Vice Chief of Naval Operations
g. Assistant Commandant of the Marine Corps
h. Department of the Army Financial Management Representative
i. Department of the Air Force Financial Management Representative
j. Non-voting membership:
    1) Office of the Under Secretary of Defense (Comptroller)
    2) Inspector General, Department of Defense
    3) Defense Finance and Accounting Service

Audit Committee Administration. The Director, Office of Financial Operations (FMO) will serve as the Executive Secretary of the Audit Committee. FMO staff will provide full administrative and technical support to the committee. Staff of the members may be called upon from time to time to facilitate audit committee administration.

Meetings. The Audit Committee will meet at least quarterly with additional scheduled meetings determined by the Chair. Any DON committee member, by contacting the Executive Secretary of the Audit Committee, may request a special meeting whenever issues surface. Agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

Mission/Roles and Responsibilities. The Audit Committee will carry out the following responsibilities:

a. Review and approve those areas of the financial statements that are ready for assessment and or audit.

b. Provide oversight for the critical audit documents such as the preliminary management representation letter. the management representation letter and the legal representation letter.

c. Review roles and responsibilities as promulgated in the annual Engagement Memo between the audit community and the DON and make recommendations to the ASN(FM&C) for signature.

d. Review and provide oversight, including review of deliverables, for assessments and audits associated with the financial statements regardless of whether conducted by DON internal auditors or an independent public accountant firm.

e. Consider the effectiveness of the DON's internal control program, system of internal controls including information technology security and control, and monitor corrective actions of DON's management control weaknesses.

f. Charter working groups and or task forces to resolve internal control weaknesses and accounting and reporting issues especially those issues that traverse functional areas.

g. Monitor plans of action and milestones associated with resolution of internal control weaknesses and accounting and reporting issues.