



THE UNDER SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

January 10, 2012

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Achieving Audit Readiness

Reference: (a) Secretary of Defense Memo for Distribution dated October 13, 2011

The Department of Defense (DOD) is the only federal agency that has been unable to achieve a qualified audit opinion on its financial statements. The National Defense Authorization Act of 2010 mandated that DOD's financial statements be auditable by 2017. However, the Secretary of Defense (SECDEF) believes that we can and should do better. By reference (a), the SECDEF noted that auditable financial statements are needed to facilitate decision-making, to comply with the law, and to reassure the public we are good stewards of their funds. He also stated he would engage in this effort personally, and that auditability is a goal every commander, manager, and functional specialist must understand and embrace to improve efficiency and accountability at the Department of Defense. He has challenged each of us to step forward and aggressively lead the Department to financial auditability. SECDEF has directed that we achieve audit readiness of the Statement of Budgetary Resources (SBR) by 2014.

The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) has been tasked to lead the Department of the Navy's (DON) audit readiness efforts. ASN (FM&C) will provide strategic guidance, the plan, and overall program management support. However, achieving our ambitious audit readiness goals and milestones will require all of us to work closely together.

The scope of this effort goes well beyond financial management, to include our business processes, the internal controls surrounding those business processes and our systems. Further, IT advances have had the effect of combining operational/tactical functions with business processes. It is by no means a stretch to draw supporting linkages to warfighting/readiness impacts. For example, Global Combat Support System-Marine Corps (GCSS-MC) and Navy-Enterprise Resource Plan (N-ERP) are positively impacting our supply visibility and altering our logistics practices while still maintaining/improving supply readiness rates with fewer purchases and providing a platform far more auditable than the legacy systems they replaced. My point is that audit readiness, done right, goes well beyond being a green-eye shade exercise. If anything, financial auditability starts at the deckplate/boots-on-ground operational level and how we marshal and oversee the precious assets that make the naval forces unparalleled around the globe (i.e., our Sailors and Marines and how we man, train and equip our forces).

SUBJECT: Achieving Audit Readiness

The DON's audit readiness strategy and plan have been designed around business segments, the simple basics of doing things right the first time and leveraging e-commerce to reduce the administrative burdens. This strategy has already proven successful. The Department obtained its first unqualified audit opinion, with no material weaknesses, of its Appropriation Receipt and Distribution process for the period ending 30 September 2010. The DODIG has completed its review of the auditability of our ships, submarines, satellites, and missiles inventory processes and unofficially acknowledged that we meet audit standards. The Marine Corps is currently under the second year audit of its SBR. Steady progress is being made, but the Marine Corps must complete their audit of FY 11 financial transactions by 31 March 2012 in order to keep moving forward. Even if successful, it may be necessary to review/modify some Marine Corps procedures and processes to achieve an auditable consolidated DON SBR.

There remains much work to be done, thus the following DON audit readiness goals have been established to achieve SECDEF's direction for a DON audit ready SBR by 2014.

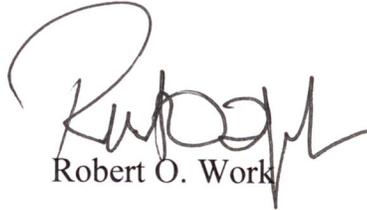
Civilian Pay Process	June 30, 2012
Transportation of People (including PCS)	June 30, 2012
Reimbursable Work Orders	June 30, 2012
Military Standard Requisitioning and Issue Procedures	September 30, 2012
Financial Statement Compilation and Reporting	September 30, 2012
Contractor and Vendor Pay (Procure-to-Pay) Processes	September 30, 2012
Military Pay Process	March 31, 2013
Fund Balance with Treasury	March 31, 2013
Statement of Budgetary Resources	September 30, 2013

As you can see, some of these individual functions clearly lie very close to operational capability/readiness or force/family morale and quality of life – all part of the health of our naval forces. Thus, as we examine our business processes, to include, how we pay our military and civilian personnel; how we accept work from other DOD and non-DOD customers; how we manage our contracting, payment and receipt of goods and services; and how we account for our property, the ultimate goal is to have a viable business process foundation that is lean, accurate, timely and serves our leadership well in helping to provide trustworthy financial information as tough choices are made.

SUBJECT: Achieving Audit Readiness

We must ensure that the controls surrounding these processes are sufficient to prevent fraud, waste and abuse and produce auditable financial trails. When we fail to exercise internal controls, we are at high risk of fraudulent activity and misstatement of our assets.

I ask that you review policies, procedures, practices and systems and work with the ASN (FM&C) to change/revise those that may inhibit audit readiness. Your leadership and collaboration will be critical to the DON successfully achieving audit readiness.



Robert O. Work

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