



# ***Audit Committee Newsletter***

***First Quarter 2006***

## ***DEPSECDEF Forwards FIAR Plan to Congress***

Last month, the Acting Deputy Secretary of Defense signed out to Congress DoD's Financial Improvement and Audit Readiness (FIAR) Plan. OSD developed the FIAR Plan in coordination with DoD Components; DON's Financial Improvement Plan is this department's element of the plan. The FIAR Plan emphasizes five focus areas: Real Property, Military Equipment, Environmental Liabilities, Healthcare, and Fund Balance with Treasury. For each focus area, the DoD and the DON have developed Key Milestone Plans, which outline the significant steps for moving toward a "clean" audit opinion.

## ***"Discovery" Process in Motion***

Contractor efforts are now underway at major commands to review and document DON financial management business processes. This is the first step in the structured audit approach. Results of the Discovery Phase include: financial statements for the General Fund, a Validation Package Management Plan, and a draft Financial Improvement Plan for the major commands participating.

## ***DON Assertion Status***

"Assertion" is the final stage of the audit process, signaling that a statement line item is ready for audit. Assertion is DON's determination that internal controls over business processes affecting a financial statement line item are in place, operating effectively, and that no material weaknesses exist.

DON recently asserted that the Navy Working Capital Fund Balance Sheet line item, "Debt," is ready for audit. Debt is the second line item asserted by DON since beginning its DON Financial Improvement Program. (The General Fund Balance Sheet line item, "Investments," was the first line item asserted within the Defense Department.) The Audit Committee will review and approve all future assertions.

## ***FIP Communication Tool Implemented***

The Office of Financial Operations (FMO) launched a web-based tool that will be the communication hub for all elements of DON's Financial Improvement Program. This electronic tool was demonstrated at December's Audit Committee meeting. The tool will be used for two-way communications of news and progress between FMO and major commands worldwide participating in the program

## ***Revised A-123 Now in Effect***

The revised Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control* ([www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)) became effective in FY2006. In addition to prior-year requirements for Components' assessments of internal controls, the revised circular requires a separate statement of the effectiveness of financial controls. Through the FIP, DON has had a head start over the last two fiscal years, refining its approach to documenting, testing, and assessing the effectiveness of its financial reporting controls. DoD plans to release new guidance for implementing the revised A-123. Stay tuned for more information on the impending release of DoD guidance and its impact on DON. A copy of the department's FY2005 Statement of Assurance is available at [www.finance.hq.navy.mil](http://www.finance.hq.navy.mil). It was judged by the OSD Comptroller's staff to be the finest in quality among all submissions by Components and Agencies.

## ***DON FY2005 Annual Financial Report Published***

The Secretary of the Navy recently released the DON FY 2005 Annual Financial Report, *Combat and Compassion*. A copy of the report was distributed at December's Audit Committee and will soon be available at [www.finance.hq.navy.mil](http://www.finance.hq.navy.mil). The report's Management's Discussion and Analysis provides extensive details on meeting the worldwide challenges of FY2005 with the resources provided to the Department of the Navy. As the Secretary stated in his foreword, the Navy-Marine Corps team was not only fully engaged in the Global War on Terrorism, but it was a key participant in humanitarian operations at home and around the world. It's a compelling story.

## ***In The News ...***

A recent [GOVEXEC.com](http://GOVEXEC.com) article highlighted the Federal Government's inability to receive a clean financial statement audit opinion. The article emphasized the many challenges within DoD.