



# ***Audit Committee Newsletter***

*Second Quarter 2007*

## ***Completion of DON FIP Discovery Phase***

The Navy major commands have completed their initial discovery efforts under the Department of the Navy Financial Improvement Program (DON FIP). The DON FIP management team is reviewing and analyzing the commands' process documentation, risk analyses, and internal control assessments for completeness, required corrective actions, audit readiness, and opportunities for standardization. The results of the team's review and analysis will be used in the DON's response to the Office of Management and Budget (OMB) Circular A-123, Appendix A requirements.

## ***Updates to FIAR Plan Underway***

The Department of Defense (DoD) Components, in collaboration with the Office of the Under Secretary of Defense, Comptroller (OUSD(C)) and the DoD Office of the Inspector General (OIG), are updating the Office of the Secretary of Defense (OSD) Financial Improvement and Audit Readiness (FIAR) Plan. The Secretary of the Navy reviewed and coordinated on the DON updates to the Plan on 15 March 2007, which will include an executive overview of the DON FIP and the Marine Corps Financial Improvement Initiative. The Plan included updated versions of the Key Milestone Plans for audit assertion. Release of the updated FIAR Plan has been delayed until the OUSD(C) and the DoD OIG reach an agreement on audit strategy. OUSD(C) expects to submit the Plan to Congress and OMB in June.

## ***DON Continues Appendix A Efforts***

The DON Manager's Internal Control Program Team, led by the Assistant Secretary of the Navy (Financial Management & Comptroller), Office of Financial Operations (ASN(FM&C) FMO), continues to make progress toward compliance with OMB A-123, Appendix A requirements. To date, the team has submitted to OUSD(C) flowcharts/narratives and risk assessments for each focus area, including Accounts Receivable and Accounts Payable, which are new for Fiscal Year (FY) 2007. In early May, the team plans to submit to OUSD(C) internal control test plans for each focus area. FY 2007 documentation includes updates of focus areas reviewed in FY 2006, based on progress made through the DON FIP.

## ***FMO's Lean Six Sigma Project***

ASN(FM&C) FMO launched a Lean Six Sigma (LSS) project in January 2007 to identify efficiencies in the quarterly financial statements consolidation process for the DON General Fund and Navy Working Capital Fund.

Under the guidance of an FMO Black Belt in LSS, the project team has made substantial progress over the last few months defining and measuring the activities inherent to the financial statements process. FMO plans to implement process improvements in Third Quarter, FY 2007.

## ***"Green" for NWCF Financial Statements***

The Navy Working Capital Fund (NWCF) First Quarter, FY 2007 financial statements and footnotes scored "green," the highest rating on the OUSD(C) scorecard. This marks the first time that the DON financial statements received "green" since inception of the scorecard in April 2006. OUSD(C) evaluates the overall quality and reliability of the DoD Components' quarterly financial statements and footnotes using scorecard criteria, such as accuracy, completeness, and timeliness.

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

Noteworthy items that have transpired since our last audit committee meeting include the following:

- Key representatives from the Financial Management and Comptroller organizations within the Departments of the Army, Navy, and Air Force convened in January and March to discuss common issues and to share strategies and approaches related to the FIAR Plan and OMB A-123, Appendix A. The January meeting, chaired by the Army, focused primarily on the Services' financial improvement programs for Military Equipment, Inventory and Operating Materials and Supplies, and Real Property. A follow-up meeting in March, chaired by the Air Force, focused on the Services' approaches to the OMB A-123 deliverables defined by OUSD(C). Navy will chair the next meeting, tentatively scheduled for early May.
- On 5 March 2007, Senators John Kerry (D-MA) and Olympia Snowe (R-ME), the Chairman and Ranking Member of the Senate Committee on Small Business and Entrepreneurship, called for the delayed implementation of Sarbanes-Oxley (SOX) Section 404 requirements for small public companies. The Government Accountability Office (GAO) found that small public companies—those with less than \$75M in market capitalization—spend proportionately more, as a percentage of revenue, on SOX implementation than companies with over \$1B in market capitalization. A copy of this report, GAO-06-361, is available at <http://www.gao.gov>.

***Next Audit Committee Meeting: 16 May, 1400-1530, Pentagon 4C355***