



Audit Committee Newsletter

Second Quarter 2008

FIAR Update

In April, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) will deliver its March 2008 version of the Financial Improvement and Audit Readiness (FIAR) Plan to Congress and the Office of Management and Budget (OMB). This version of the Plan details greater integration between the FIAR initiative and the efforts of the Business Transformation Agency (BTA). As the FIAR initiative moves forward, DoD components will use BTA-defined end-to-end business process as a standard for analyzing their own business processes. Four focus areas have been chosen to begin this effort: Military Equipment, Real Property, Civilian Labor and Order to Cash at DLA.

The Plan was reviewed with the Secretary of the Navy on 20 March. Secretary Winter raised two main points of concern prior to coordinating on the Plan. First, Secretary Winter felt the importance and the complexities of the Navy ERP implementation must be noted as a driving factor in many of the Navy business processes. Secondly, he wished to highlight USMC as a champion for audit readiness in the DON but note that the main priority for USMC is the warfighters' mission.

USMC Audit Readiness

The Marine Corps continues its push to position its Financial Statements Compilation process, its Funds Balance with Treasury Balance Sheet line item, and its Statement of Budgetary Resources for audit examination in FY 2008. An IPA is currently completing work in reviewing and evaluating Marine Corps audit readiness in these areas with a report due out as early as 30 April. Additionally, Marine Corps is currently working through its periodic test of internal controls as part of its annual Statement of Assurance over Financial Controls Process; the results of these tests will provide a basis for evaluating their effectiveness. A "Go or No Go" decision is currently planned to occur on or before 30 June. Development of a formal Certification Letter and Statement of Work for the audit engagement is commencing with involvement with the DoD IG. It is expected that the Audit Committee will play an intimate role in the process as we go forward.

FMO Hosts a FIP Executive Review

The Department of the Navy (DON) Office of Financial Management (FMO) hosted a DON Financial Improvement Program (FIP) Executive Review at the Pentagon Conference Center on January 8-9, 2008. The meeting, organized by FMO Director Mark Easton, was intended to

provide clarity to the FIP message; re-emphasize the relationship between the FIP and other enterprise initiatives; communicate the change in audit readiness perspective; re-introduce the A-123 Appendix A requirements; define roles and responsibilities; and discuss measures and accountability for business transformation inside and outside of the FM Community. Attendees included Major Command comptrollers, and each command was represented.

The Executive Review was kicked off by the Secretary of the Navy, the Honorable Donald C. Winter. Secretary Winter related his experience in the private sector with the efforts that are currently going on under the DON FIP, in particular, mentioning his personal accountability in signing Sarbanes-Oxley documentation. The Secretary emphasized two major points: focus on credibility for the stakeholders, Congress, and the taxpayer, and transparency of information for managerial decision making. The Assistant Secretary of the Navy (Financial Management and Comptroller), the Honorable Dr. Douglas Brook, opened the second day of the Executive Review. Dr. Brook discussed his experience at the Naval Postgraduate School and his key initiatives for 2008.

OMB Circular A-123, Appendix A Update

DON is working towards achieving a state of audit readiness in seven general fund segments during calendar year 2008.

Critical to this objective is:

- A complete and accurate assessment of potential business process and information technology risks;
- Mitigation of identified risks through the proper design and execution of key controls;
- Validation of key control effectiveness through testing; and
- Implementation of corrective actions to resolve material control deficiencies

During the second quarter, the DON prepared and submitted risk and financial system assessments to comply with A-123 reporting requirements for each of the target segments. The DON is now preparing to conduct testing of key controls as a preliminary gauge of audit readiness, and in continued support of the A-123 annual reporting cycle.