



Audit Committee Newsletter

Third Quarter 2008

FIAR Update

The OSD Financial Improvement and Audit Readiness (FIAR) Directorate is preparing for the September version of the FIAR Plan. The FIAR Directorate is planning on a tighter integration of financial improvement efforts with the Business Enterprise Architecture (BEA). BEA has defined a series of end-to-end business processes that have financial statement impact. The end-to-end process are divided into subprocesses that will make up the key milestone structure of the FIAR. For each subprocess, there are five attributes to which financial improvement efforts are mapped: Policy, Process, Control, System, and Human Capital. DON will have a section of the Plan, which will be sent to Congress and OMB at the end of October, dedicated to the DON Financial Improvement Program effort.

To complement the updated plan, DoD is developing a comprehensive guidance to align FIAR efforts with Federal Financial Management Improvement Act (FFMIA) and OMB A-123, Appendix A compliance. The guidance is intended to merge overlapping requirements from the different efforts. It is expected that the guidance will be made available in the July timeframe.

USMC Audit Readiness

USMC recently asserted audit readiness of Fund Balance with Treasury and the Financial Statement Compilation process. Preparations are also underway to assert the Statement of Budgetary Resource in July. In preparation for the audit, USMC will host an industry day. The industry day will allow independent public accounting firms to better understand the USMC assertions, hopefully allowing for more accurate bidding upon release of the Request for Proposal (RFP) in early September. USMC hopes to have an auditor under contract by the beginning of December. To support this effort, the Audit Committee will create an Executive Subcommittee to address specific issues associated with the Marine Corps effort. A proposed draft of the charter for the Executive Subcommittee will be presented at the Audit Committee Meeting.

DoD IG Results of Environmental Liabilities Review

DoD IG recently completed an examination of DON's Environmental Liabilities Weapons Systems. A discussion draft from the examination provides a positive perspective of the financial representation of the Weapons System liability, despite noting an immaterial misstatement of the

sub-line item. Environmental Liabilities Weapons Systems represents a \$13B sub-line item, making up 36% of DON General Fund Total Liabilities.

DON GF and NWCF Show Consistent Performance in Accountability

The DON General Fund (GF) and Navy Working Capital Fund (NWCF) have demonstrated consistent performance in accountability for their quarterly financial statements. For the last three quarters, the DON GF and NWCF financial statements have scored "green" for accountability, the highest rating on the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Reporting Performance Scorecard. To receive a "green" rating, the Component must take responsibility for the accuracy, reliability, and completeness of their quarterly financial statements; complete the quality review checklist(s); and provide OUSD(C) with signed certification letters (Component head and Component FM staff). The latter requirement became effective with Second Quarter, FY 2008 Financial Reporting Guidance.

Update on OMB Circular A-123, Appendix A Requirements

The Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) has revised DoD Instruction 5010.40, *Managers' Internal Control Program Procedures*. The new instruction, dated 4 Jan 2006, requires components to have a Managers' Internal Control (MIC) program, formerly known as the Management Control Program or MCP. The program's name change reflects renewed DoD emphasis on senior leadership involvement over internal controls throughout organizations. Further, the new instruction defines the **FMFIA over Financial Reporting** process, which requires components to report on internal controls over financial reporting, in accordance with Appendix A of OMB Circular A-123. The Department of the Navy will be required to provide a separate statement of assurance (qualified, unqualified or no assurance) over whether there is reasonable assurance that internal controls over financial reporting are in place and working properly. SECNAVINST 5200.35D is currently being revised to reflect the new DoD Instruction.