BUPERS' Road to Auditability

Use this placemat to learn more about Audit and Audit Readiness and why they are important to the Navy. Additionally, information on past and current audits is provided.

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Navy Audit Readiness: What and Why

What is an Audit?: a formal examination of an organization's or individual's accounts or financial situation to provide **reasonable assurance** that the organization's financial statements are free from **material errors**.

Key aspects of a financial audit include:
- Determination of the reasonableness and reliability of information
- Assessment of existing internal controls
- An attestation that the results of the audit can be repeated and reproduced throughout future rounds of testing

For the Department of Defense (DoD), the ultimate goal of an audit is to ensure funds are traceable, and each branch of the department is auditable on its own

What is Audit Readiness?

A state of being prepared at all times to demonstrate proper manual and automated processes and documentation (e.g., process controls, financial controls, information technology controls) that are executed in accordance with policy and appropriate accounting standards.

Why is Navy undergoing Audit?

Federal Financial Management Improvement Act (1996): Requires the production of financial statements for all agencies, covering all accounting activities, and consolidated government-wide statements for the executive branch

Secretary of Defense Memo - Improving Financial Information and Achieving Audit Readiness (2011)
The DoD has been the only agency to date unable to complete this task. In order to make the DoD compliant with FFMIA, SECDEF Leon Panetta issued a memorandum that emphasized the importance of being prepared for a full financial audit by 2017.

The Office of Financial Operations (FMO) has prescribed an assertion date of 31 MAR 2013, for MILPAY audit readiness, with the Statement of Budgetary Activities due 30 SEPT 2014.

Audit Opinions

✓ **Unqualified**	Financial Statements are accurate	**Disclaimer of Opinion** — Unable to provide requested information, cannot form an opinion
Qualified	F/S are accurate with an exception	**Adverse** — Records do not follow Accounting Standards

⚠ MILPAY Examination and the Navy SBA Audit

FY13 MILPAY Examination

Grant Thornton released the official opinion letter on the MILPAY assessable unit, stating "In our opinion, management's assertion that the Navy MILPAY assessable unit is audit ready as of March 29, 2013, is fairly stated in all material respects, based on the criteria established in the DoD FIAR Guidance."

Post Audit BUPERS Developed 14 Corrective Actions

Responded to NFRs provided by IPA

FY13 MILPAY Examination Highlights

- ✓ BUPERS responded to 142 PBC requests in a timely manner including KSDs for more than 2,600 entitlements and approximately 450 internal control testing sample items.
- ✓ Performed a reconciliation to tie Sailor pay files in DJMS-AC/RC to their respective personnel files in OPINS, NES, and RHS. This reconciliation tied the approximately 393,000 sailor records between the multiple systems to within .01%.
- ✓ Performed the DJMS to STARS-FL Validation, which reconciled the approximately $2 billion obligations and disbursement in STARS-FL to the individual SSN active duty and reserve pay files in DJMS-AC/RC. This reconciliation is performed on a monthly basis and tied to within one dollar.
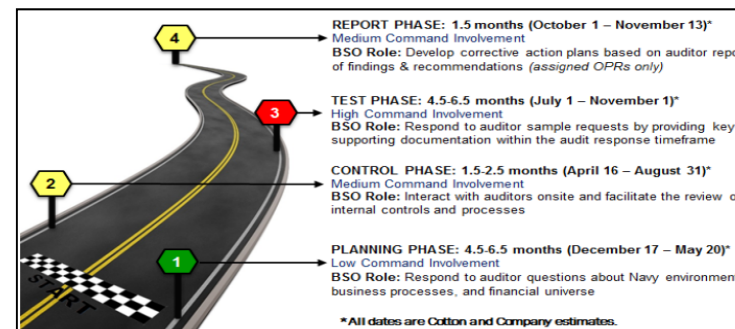
Navy FY15 Statement of Budgetary Activity (SBA) Audit

FY15 SBA Contract Award

The FY 2015 Audit contract was awarded In December 2014 to a private sector Independent Public Accounting (IPA) firm, Cotton & Company. During the year, Cotton & Company will look at how the Navy performs its business processes and manage its funds

Scope of the SBA Audit

- **All Navy Segments:** MILPAY, MILPCS, RWO-P/G, MILSTRIP-SIK, CIVPAY, TOP, CVP, FSCR
- **IT systems:** FISCAM Testing of major Navy systems, including BUPERS-owned FASTDATA and MAJIC (Began Jan 2015)
- **Internal Controls:** To ensure Navy is meeting all Financial Reporting Objectives, Internal controls will be assessed on design and operating effectiveness

REPORT PHASE: 1.5 months (October 1 – November 13)*
Medium Command Involvement
BSO Role: Develop corrective action plans based on auditor report of findings & recommendations (assigned OPRs only)

TEST PHASE: 4.5-6.5 months (July 1 – November 1)*
High Command Involvement
BSO Role: Respond to auditor sample requests by providing key supporting documentation within the audit response timeframe

CONTROL PHASE: 1.5-2.5 months (April 16 – August 31)*
Medium Command Involvement
BSO Role: Interact with auditors onsite and facilitate the review of internal controls and processes

PLANNING PHASE: 4.5-6.5 months (December 17 – May 20)*
Low Command Involvement
BSO Role: Respond to auditor questions about Navy environment, business processes, and financial universe

*All dates are Cotton and Company estimates.

The audit is composed of four key phases. Cotton and Company will follow these phases.

Key BSO Involvement: Test Phase

Support BUPERS Road to Auditability

The section of the placemat gives more information about your role in Audit Readiness and during a formal audit. It provides resources to help commands meet goals and achieve a clean opinion.

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Supporting Audit Readiness

How to Achieve Auditability

Educate: Understand the FIAR guidance (Phases include: Discovery, Testing, Corrective Action, Assertion, Validation, Audit)

Practice: Perform internal reviews regularly and use lessons learned to develop corrective actions. Also, in practice apply the same discipline to our business operations that we apply to seagoing operations.

Improve: Collaborate and increase communication across the Navy to implement corrective actions. Personal involvement with financial and business processes will help achieve auditability success.

Ask: Unclear of your role? Contact BUPERS, FMO, or your respective FIAR Manager

Communication and Information Management

Use the following resources:

- **FMO Document Retention Memo**: Requires the indefinite retention of documentation that impacts the balances of the SBA.
- **Audit Readiness NAVADMINs**: Memos to update Navy personnel on current and future initiatives: 043/15 , 049/15
- **Commander's Checklist**: List that leaders can use to ensure their commands are ready for audit
- **MILPAY Entitlements KSD Matrix**: List of the majority of Navy entitlements and the documentation required in an audit
- **Audit 101 Training**: Informational resource to help educate Navy personnel about Audit
- **FIAR Bulletins**: Regularly communicates updates about audit readiness and upcoming examinations
- **Fact Sheets**: Information on MILPAY, MILPCS and SIK.

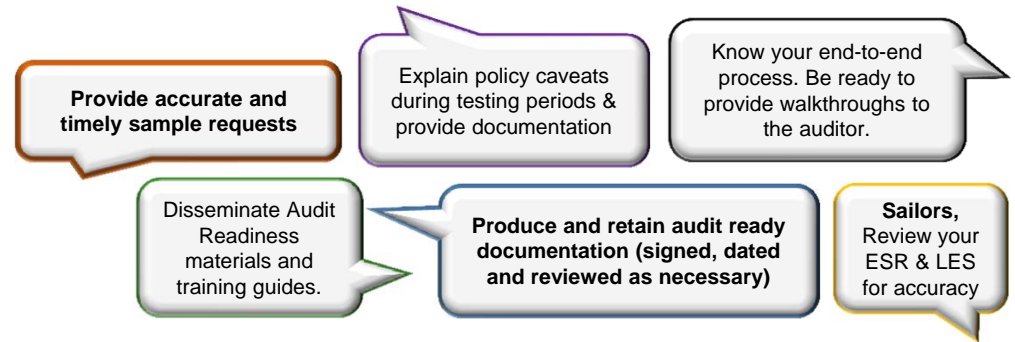> *Access Resources at the **BUPERS FIAR Site***

Respond to Sustainment Requests

During the less rigorous parts of an audit, sustainment activities will continue to occur. These include testing, corrective action development and implementation, and responding to NFRs.

Supporting the Audit (SBA FY15 and Beyond)

What is your role in the Audit?

All will be expected to show how each dollar you receive is used and that every transaction is properly documented. Random transactions will be sampled by IPA for completeness, accuracy and consistency. Our financial performance will be reflected in IPA's overall public opinion of U.S. Navy operations.

- **Provide accurate and timely sample requests**
- Explain policy caveats during testing periods & provide documentation
- Know your end-to-end process. Be ready to provide walkthroughs to the auditor.
- Disseminate Audit Readiness materials and training guides.
- **Produce and retain audit ready documentation (signed, dated and reviewed as necessary)**
- **Sailors,** Review your ESR & LES for accuracy

Navy Commands – Timeline for Audit Response

PBC → Samples

- During the audit, the auditors will request information via **PBC (Provided by Client) Requests**.
- PBC requests often include requests for supporting documentation to support **testing samples**.

Commands serve as the **information providers.** Information is passed from Commands to BSO to FMO to the auditors.

FMO → PERS 7 → Command Level

FMO will review the request from the Auditor	**Phase 1 (Day 1)**
BSOs review the request and send out document requests to the appropriate Command POC	**Phase 2 (Day 2)**
Commands obtain documentation and evaluate the submission for completion and accuracy, Submit to BSOs	**Phase 3 (Day 7)**
BSOs review packages and turn over to FMO for their review and submission the Auditor	**Phase 4 (Day 8/9)**

*All timelines are subject to change