Navy Audit Preparation and Response

Updated: February 2015

Overview

This training provides an audit overview and how Navy is addressing audit requirements for all segments.

This training will attempt to answer the following frequently asked questions:

What is a financial Audit and what are the possible outcomes?

Why is the Navy undergoing examination?

What is Audit Readiness and how can we achieve it?

What key steps can I take to prepare for an audit?

What is the general timeline for audit response?

How will the Key Supporting Documents (KSDs) be evaluated?

MILPAY/PCS – What can I expect during an Audit?

MILPAY – What is my role in Audit Readiness and an Audit?

Other Segments – What are they and what KSDs will I be providing?

It will also provide Audit Readiness Points of Contact (POCs) & references.

What is a Financial Audit and what are the possible outcomes?

What is a Financial Audit?

- **Definition:** a formal independent examination to determine if an organization's financial statements are fairly presented and in accordance with appropriate accounting standards
- **Key aspects of a financial audit include:**
  - Determination of the reasonableness and reliability of information
  - Assessment of existing internal controls
  - Confirmation that the results of the audit can be repeated and reproduced throughout future rounds of testing
- **Above all, an audit should provide reasonable assurance that the organization's financial statements are free from material errors**

Possible Audit Opinions

Unqualified

- The information in the financial statements (or the "books") is accurate and complete
- Auditor is able to access information in a timely manner

Qualified

- *Almost* everything in the financial records is complete and accurate, with the exception of certain, identified items

Disclaimer of Opinion

- Auditors are unable to perform their work
- Organization had difficulty providing the requested information in a timely manner

Adverse

- Records do not follow Accounting standards
- Financial records have been falsified or found erroneous

Why is the Navy undergoing Examination?

Key Mandates

Federal Financial Management Improvement Act, P.L. 104-208 (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 Department of Defense has been the only agency to date unable to complete this task. In order to make the DoD compliant with FFMIA, Secretary of Defense Leon Panetta issued a memorandum that emphasized the importance of being prepared for a full financial audit by 2017.
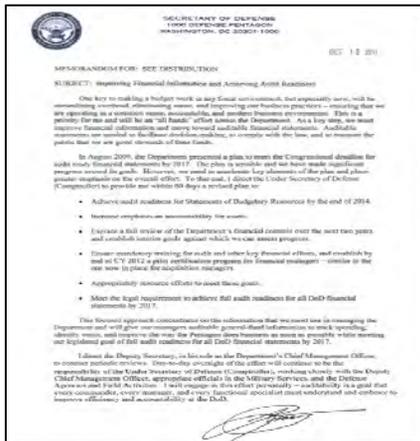
- The National Defense Authorization Act (NDAA) of 2010 and Congress mandate fully auditable DoD financial statements by 2017.
- The Office of Financial Operations (FMO) has prescribed an assertion date of March 31, 2013, for MILPAY audit readiness, with the Statement of Budgetary Activities due September 30, 2014

In order to achieve this goal, the Navy divided its budget into 10 manageable segments, one of which is Military Pay. BUPERS (PERS7) has been designated the lead of this segment.

What is Audit Readiness and how can we achieve it?

Audit Readiness

is 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

Department of Defense

- Developed the Financial Improvement and Audit Readiness (FIAR) Guidance which outlines the Audit Readiness strategy and describes the steps each reporting entity must take to achieve audit readiness

BUPERS (MILPAY)

- Follow the FIAR guidance (Phases include: Discovery, Testing, Corrective Action, Assertion, Validation, Audit)
- Perform mock-audits regularly and use lessons learned to develop corrective actions
- Collaborate across the Navy to implement these corrective actions
- Improve communication with the commands and service providers

MILPAY's Audit Readiness success led to the segment achieving a clean audit opinion from Independent Public Accounting firm Grant Thornton on September 26, 2014.

What key steps can I take to prepare for an audit?

- **Perform Quality Assurance –** Ensure all pay/personnel transactions are **valid, correct, timely** and **authorized.** Review document for certifications before transactions are released in NSIPS or other systems.

Retain onboard all pay & personnel and financial documents. Submit all OMPF required documents to PERS3.

| 12. CERTIFYING OFFICIAL. I have reviewed this action and certify the entitlement. If applicable to this action, member has read the overseas housing allowance briefing sheet and is aware of his/her entitlements and responsibility to report any changes.									
a. TYPE HOUSING ALLOWANCE ACTION (X one)					b. MIHA/MISCELLANEOUS ENTITLEMENT (X one)				
X	(1) Start		(3) Stop		(5) *Cancel	X	(1) Initial	(2) Subsequent	(3) None
	(2) Change		(4) Correct		(6) *Report	c. EFFECTIVE DATE OF ACTION (YYYYMMDD)			
			*For Air Force use only			2014 09 12			
d. DOES MEMBER HAVE COMMAND-SPONSORED DEPENDENTS IN AREA OF PERMANENT DUTY							X	(1) Yes	(2) No
e. SIGNATURE				f. TITLE				g. DATE SIGNED (YYYYMMDD)	
John Doe				Deputy Disbursing Officer				2014 09 14	

DD2367, OHA Form: *Key document that should be reviewed for all signatures & dates*

- **Review the Resources** – The Audit Readiness team has developed a Military Pay Fact Sheet and this training to help you understand why the Navy is undergoing audit and your role in achieving audit readiness.

- **Familiarize yourself with the KSD Matrices** – These documents outline all entitlements, their attributes, supporting documentation and the location of these documents.

- **Ask Questions –** Reach out to the Audit Readiness POCs (see last slide) with any questions you may have or to request additional resources.

What is the general timeline for audit response?

- **Commands serve as the information providers, information is passed from command to BSO (BUPERS) to FMO to the auditors.**
  - There is typically a 10 day testing window, Commands normally have **5 days** from when the transactions or control points are received to respond for data.

Command Involvement
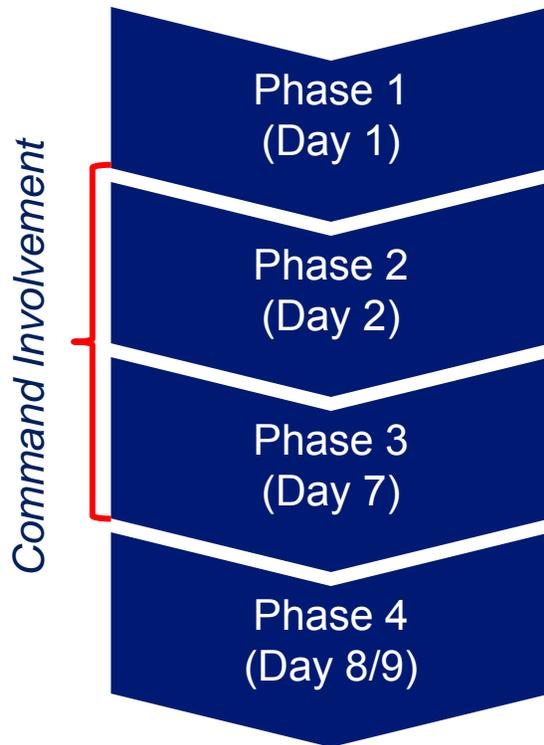
Phase	
Phase 1 (Day 1)	• FMO will review the request from the Auditor and distribute to the BSO
Phase 2 (Day 2)	• Request is distributed to the appropriate POC (lower echelons, commands) for document collection
Phase 3 (Day 7)	• Deadline for Command-level POCs to review and submit documentation to the BSO. The BSO will review before submitting to FMO via the ARC tool.
Phase 4 (Day 8/9)	• FMO regional level will review 100% of samples and ask questions to the BSO if necessary. FMO headquarters will review approximately 10% of all samples before submission to auditor.

Please note as of 5 December 2014, the Navy's entire budget is under audit by Cotton & Company. This audit is expected to last approximately one year.

How will KSDs be evaluated?

- **How will KSDs be evaluated?**
  - Each document will be evaluated based on the attributes outlined in the KSD Matrix.
  - Attributes will be listed for each item
  - Pass or Fail will be determined on all packages

PASS
- All KSDs are submitted
- Submission are accurate, timely, and complete

One missing attribute creates an **EXCEPTION** & One exception **FAILS** a sample

FAIL
- Missing KSDs
- Unsigned documentation
- Inappropriate date range
- Untimely submission
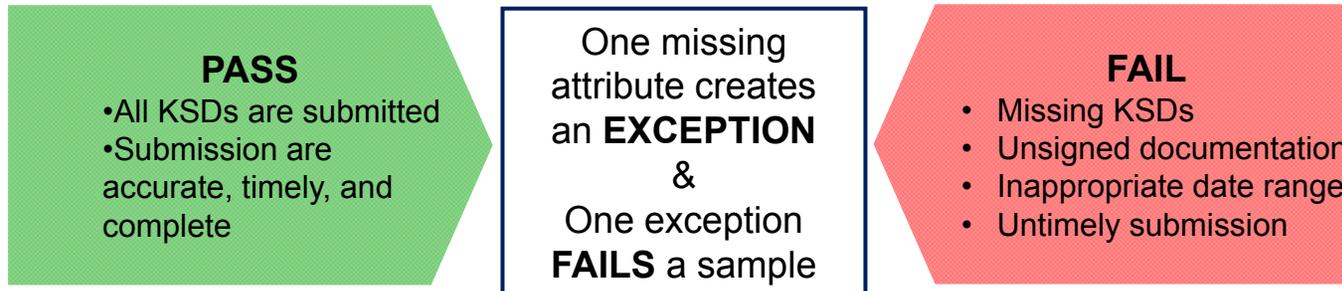
For any failures, treat as a "lessons learned"
Write up a potential Corrective Actions Plan to correct the problem
- Explain step by step, the planned corrective actions. Outline the stakeholders involved in the CAP.
- Work closely with stakeholders across the Navy to implement the CAP and document all steps taken and any feedback.
- Once completed, prepare a CAP implementation memo detailing actions taken and ongoing items.

CAP Implementation Memo

MILPAY/PCS – What can I expect during an Audit?

Email Communications → Emails will be sent to notify stakeholders/POCs of the audit/testing period timelines. Additionally, all requests will be sent by email.

Short Response Times → Normally there are only five business days between document requests and their due date. These deadlines are imposed by the examining auditor.

Key Supporting Document Requests → We are looking for the document that triggered the start, stop or change of the entitlements. MMPA screen shot is not a supporting document.

Submitting Documentation → Documents will be uploaded through the AMRDEC Safe Site. Instructions will be provided during each testing period.

PERS7 will review the documentation submitted before handing it to the auditor. If the KSD provided is deemed insufficient by the auditors, follow up questions will be submitted to the commands.

MILPAY – What is my role in Audit Readiness and an Audit?

As a…

Sailor

- Review your ESR and LES to validate pay entitlements
- Update personnel/pay records in NSIPS, ESR, & OMPF
- Notify your personnel officer or pass coordinator if there are errors in your record

PS or Command Pass Coordinator

- Compliance with all current document retention policies
- Provide fellow Sailors guidance on completing pay and personnel documentation and submit documents through all required channels for approval

PSD/CSD Clerks or Supervisors

- Compliance with all current document retention policies
- Respond with the prescribed deadlines to document requests from NPPSC and PERS706
- Be available for questions on transactions that occur at your PSD and documentation you submit for audit

OIC/PERSOFF/AO's

- To champion MILPERS/PAY processes, internal controls, compliance, timeliness and document retention policies.
- Perform Quality Assurance (QA) review to ensure proper audit response on documents requested for examination

Financial Support Civilian/Sailor (OPNAV N13)

- Compliance with all current document retention policies
- Be available for walkthroughs of business processes
- Maintain up to date Standard Operating Procedures (SOPs) and Desktop Guides for financial processes

Program Manager (OPNAV N13)

- Compliance with all current document retention policies
- Respond to document collection requests from Commands and BUPERS706
- Explain policy caveats during testing periods
- Be able to recalculate pay amounts (particularly bonuses)

FIAR Manager

- Compliance with all current document retention policies
- Disseminate Audit Readiness materials and training guides
- Communicate messaging from AR leadership
- Support command leadership with all audit requests

Other Segments - What are they & what KSDs will I be providing?

Segments	Description	Key Documents
Civilian Pay	• Personnel actions such as salary changes, time charging authorizations, and promotion	• SF52 • SF50 • DD577 • Certified Time Sheet
Transportation of People	• To ensure all DTS transactions are authorized and in compliance with laws & regulations	• DD577
Reimbursable Work Order	• To ensure goods and services are in accordance with contractual obligations & laws & regulations between government agencies	• MOU/MOA • Authorized Funding Document (FAD) • Receiving Log • Designated Agents List • Delegation of Authority
Contract/ Vendor Pay (CVP)	• Funding and purchases are authorized, & funds are available • Entity performs inspection/verification of goods & services • Contracts are reviewed and approved in accordance	• DoA • Contract • Warrant • Funding Document • Invoice • Material Inspection Receiving Report • DD577
Military Standard Requisitioning and Issue Procedure / Subsistence in Kind	• Transactions related to the procurement of galley food items for ashore and afloat activities are in compliance with laws, regulation, & policies	• FSM Requisition Log • Commercial Invoice • FSM Receipt Detail
Financial Statement Compilation & Reporting	• To close out the accounting activity for the period and prepare trial balances for submission to the DON's to produce Financial Statements	• JV Package • Trial Balance Reconciliation

Additional Resources

See the following resources for more audit information, news and guidance

[FMO Audit Readiness Info Center](#)

[FMO FAQs](#)

[Financial Improvement and Audit Readiness Guide](#)

[FMR Volume 7A "Military Pay Policy Active and Reserve Pay"](#)

[Navy Achieves Audit Milestone](#)

[DoD Awards SBA Audit Contracts](#)

Points of Contact & Additional Resources

Point of Contact	Contact Information
BUPERS	
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- **Additional Resources (See Back Up Slides)**
- **Available upon Request:**
    - MILPAY Key Supporting Document Matrix
    - MILPCS Key Supporting Document Matrix
    - Leave and Earnings Statement Testing Training
    - MILPCS Entitlements Testing Training