

The FY 2018 Audit A Year of Firsts



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What to Expect During First-Year Audits



FIRST-YEAR AUDITS ARE AN OPPORTUNITY FOR LEARNING

- Auditors will learn about us and our business processes
- We will learn about how future audits will work and what to expect during future audits

AUDITS WILL RESULT IN FINDINGS

- We expect a significant number of findings resulting from initial audits
- Closing audit findings will help us improve our business processes and information used for decision-making

OUR AUDIT INFRASTRUCTURE WILL NEED REFINING OVER TIME

- We must respond to audit requests in a timely manner—over time, we will develop the infrastructure to manage these requests
- There will be many meetings and walkthroughs as the auditors learn about our processes

EVERYONE MUST PARTICIPATE

- Audits touch virtually every part of the organization so agency-wide participation is essential
- All applicable stakeholders must support remediation efforts

Managing the audit may conflict with other resources and priorities. The Secretary expects everyone in the Department to make the audit a priority.

DoD Audit: A Year of Firsts



To support the Department-wide financial statement audit, the Office of the Deputy Chief Financial Officer (ODCFO) has implemented several tools and processes:



AUDIT FEEDBACK CYCLE

to efficiently respond to, assign, and remediate audit findings



NOTICE OF FINDINGS AND RECOMMENDATIONS TRACKING TOOL

to track and communicate progress to internal and external stakeholders and provide financial managers a holistic view of pervasive issues that impact the overall DoD financial management environment



REGULAR LEADERSHIP BRIEFINGS

to provide internal and external leadership with status of audit and corrective action plans



FINANCIAL STATEMENT ANALYSIS AND REVIEW

to verify consistent application of standards and policies by the Military Departments and Consolidated TI-97 in their financial statements



RECOMMENDATIONS AND POLICES

to support remediation efforts including clarity on Federal Accounting Standards Advisory Board accounting requirements and Defense Accounting Remediation Working Group accounting and auditing recommendations

First year audits are an opportunity to learn and prepare for future audits

Final Thoughts



- The audit is a historical milestone for the Department and we should all be proud
- DoD makes up approximately 60% of the assets of the entire Federal Government – our audit efforts will have a direct impact on the U.S. Government financial statements
- While initial audits may result in disclaimers of opinion, we will begin to realize the benefits of audit through the remediation of audit findings
- We will get better over time – as we undergo several audit cycles, responding to auditor requests and findings will become more routine
- Build relationships with your auditors to help them understand our unique business processes
- The audit is here to stay— your normal business operations should include managing the phases of the audit



FY18 Audit: A Year of “Firsts”
National PDI- Workshop #61
31 May 2018

Army Audit Overview FY 2018

**Office of the Assistant Secretary of the Army
(Financial Management & Comptroller) (OASA(FM&C))**



Army Audit Overview

The Army has taken a progressive approach to full financial statement auditability aimed at continuously increasing momentum towards full financial statement audit.

FY15

Army underwent an audit of the Schedule of Budgetary Activity (SBA)

290 findings were developed – one third of those related to IT Controls

FY16

Army underwent an audit of the Schedule of Budgetary Activity (SBA)

295 findings were developed – the ‘good’ news was that 137 (47%) of the prior years findings were closed (142 new findings were developed)

FY17

Army completed an audit of the full Statement of Budgetary Resources (SBR) and additional audit work was done on ammunition and military equipment

559 findings were developed – the ‘good’ news was that 118 (40%) of the prior years findings were closed (382 new findings were developed).

Key Facts:

1

The Army is the only Military Department that has completed a full SBR audit

2

The Army is undergoing its first full financial statement audit in FY18, and we fully expect that the number of findings we receive will increase

3

The Army established the Business Mission Area Champion (BMAC) committee to provide strategic oversight and accountability of Army audit efforts and findings



Army Audit Challenges

Army remains **committed to achieving audit success**, but significant challenges remain

Fiscal

- Audit requirements compete for resources alongside weapons systems and readiness activities, and they have not always competed well.
- We have not done a good job of identifying or defining those requirements: audit infrastructure; data quality clean-up; remediating audit findings; standardizing business processes; and, IT controls and ERPs.

Complex Systems Environment

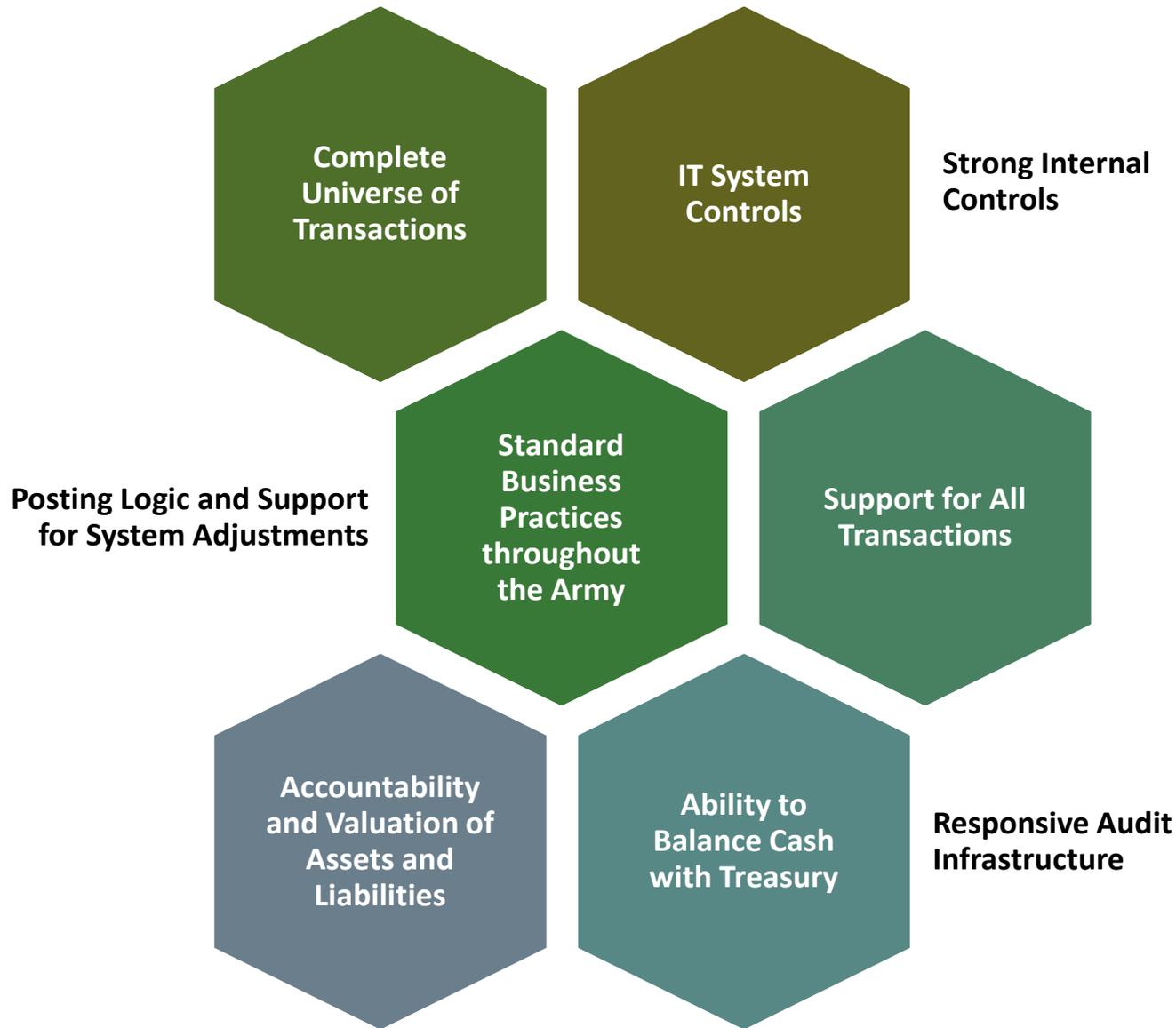
- Number of legacy systems and interfaces results in significant reconciliation issues. Eliminating legacy systems reduces costs.
- Numerous system changes need to occur in the ERP environment(LMP, GCSS-A, and GFEBS) to pass audit. These are expensive, but they need to be funded.

Building and Sustaining a Culture of Auditability/Accountability

- Audit is not always viewed as a “warfighting” need; sometimes just a bill.
- Requires an increase in participation of leadership and governance support; starting with “Tone at the Top” and holding Commanders accountable. Scheduled Quarterly Briefings to SA/CSA will go a long way toward making audit more important, and ultimately more successful.



Audit Critical Capabilities





Army Way Forward

- ✓ Audit EXORD 026-18 Army Auditability Plan
- ✓ Audit 101 Senior Leader Brief
- 3 SecArmy Directive on Audit
- 4 ERP Funding Requirements
- 5 TDA FTE/CTE, TEMP/TERM Requirements
for Data Clean-up, Remediation of Audit Findings, Standardization of Business Practices, and Audit Infrastructure.
- 6 Three Year Strategic Plan for Working Capital Fund Opinion
- 7 Five Year Strategic Plan for General Fund Opinion
- 8 Audit Dashboard Metrics for Quarterly Brief to SA/CSA





DEFENSE LOGISTICS AGENCY

THE NATION'S COMBAT LOGISTICS SUPPORT AGENCY



**American Society of
Military Comptrollers
Professional Development
Institute**

Karen Opie-Toler, J8
May 29-June 1, 2018



WARFIGHTER FIRST



Audit Lessons Learned - Phases



Reporting

- **Complying with the US Standard General Ledger:** Posting Logic errors – lack of comprehensive posting logic environment
- **News & Congress:** All findings are public – important to be open and honest with the auditor and be ready to answer congressional and media inquiries

Planning

- **Tone at the Top:** “Cost Conscious” culture change requires leadership buy-in and communication, early and often
- **Policies & Procedures:** Need to improve and increase policies and procedures – accurately depict end-to-end business process



Substantive Testing

- **Test & Validate:** Before a Corrective Action Plan (CAP) is closed, you must validate the process at ALL site locations
- **Evidential Matter:** Store evidential matter in correct repository and quickly access for auditor responses

Internal Control Evaluation

- **Standardization:** Drive standardization on DoD-wide deficiencies
- **Risk Management & Internal Controls:** Conduct comprehensive risk assessment and increase program management oversight – improve design and operation of internal controls

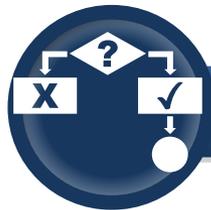


Audit Lessons Learned - Overall



Understand Root Cause

- CAP needs to be comprehensive and address the underlying issue/risk, not just surface level.
- Need to think end-to-end



Data Reconciliations

- Completely and accurately reconcile data from feeder systems



Information Technology

- Access issues
- Segregation of duties
- Data consolidation issues
- Changes to applications



Financial Systems

- Customization on Enterprise Resource Program solutions are very difficult to overcome.
- Avoid customization and/or creating reports, interfaces, conversions, and extension objects for systems.

