

Defense Audit Readiness News

September 2012

It's hard to believe summer is over. Even more difficult is realizing the September 2014 deadline for being audit ready on all processes supporting the Statement of Budgetary Resources is only 2 years away. Now's the time to answer – once and for all – a few key questions: do people really understand what it means to be audit ready, and what do they need to do or do differently? Do they know how their job affects DoD's ability to be audit ready? What's a risk? What's a control? Do current procedures meet the standard? We can't afford to leave these questions open, and we can't forget we are strengthening our business processes over the long run, not just preparing for an audit.

I'm asking you to devote this month to making sure the message is getting down. Show the [Secretary's video](#) again. Follow-up with those under your command to make sure they have followed-up with those under their command. By October 1, everyone should have gotten the audit ready message. By October 1, we should all be able to say, "I know what audit readiness means, and I know what it will take to demonstrate it within my organization."

Mark Easton
Deputy Chief Financial Officer (DCFO)

❖ Simply Put

Welcome to a new feature of Defense Audit Readiness News in which we explain a common financial management term in words everyone can understand. We were going to call this feature "Proliferating the Continual Utilization of Readily Understood and Unambiguous Written and Verbal Communication," but we decided instead on "Simply Put." So if there's a term you find yourself constantly trying to explain in plain English, send it to us. We can't make you rich or famous, but we can put words in your mouth. Let's start with the basics.

Audit Readiness: The ability to prove financial reports accurately depict the correct amount, date, and appropriation of each financial event for the organization.

Upcoming Events

- ❖ **September 7** – FIAR Service Providers Working Group Meets
- ❖ **September 12** – FIAR Subcommittee Meets
- ❖ **September 14** – FIAR ODO Subcommittee Meets
- ❖ **September 18** – Deputy's Management Action Group Meets
- ❖ **September 28** – FIAR Committee Meets



❖ DON Asks, “How Will You Support Audit Readiness?”

Whether you’re a yeoman first class, a project officer, a data analyst sergeant, or an engineering director, the Department of the Navy wants to know, “How will you support audit readiness?” In a new video, available on Navy FMO, DON inspires all hands to join the audit readiness effort. Real people from across the department talk about what being audit ready means to them and how audit readiness is more than a financial management initiative. “Our intention is to raise awareness, grab people emotionally, to inspire them to take action, and get involved,” said Deputy Assistant Secretary of the Navy for Financial Operations Dennis Taitano.

And that seems to be working. Since being posted, the video is the most visited page on the DON FMO website, surpassing pages on pay and other frequently sought information. To watch the video, visit <http://www.fmo.navy.mil>.

❖ SNAPSHOT

Each Military Department has committed to interim milestones for achieving audit readiness for each major element or business process for the statement of budgetary resources, such as civilian pay or contracts, and for addressing the existence and completeness of each major category of assets, such as military equipment or real property. The chart below gives a snapshot of the interim milestones on which the Services have successfully asserted audit readiness and how many remain.

Audit Readiness Interim Milestones

| Military Department | Completed As Of 1/31/2012 | Completed As Of 8/31/2012 | Future | Total |
|--|---------------------------|---------------------------|--------|-------|
| Statement of Budgetary Resources | | | | |
| Army | 2 | 3 | 1 | 4 |
| Navy | 2 | 4 | 8 | 12 |
| Air Force | 4 | 5 | 10 | 15 |
| Mission Critical Asset Existence and Completeness | | | | |
| Army | 0 | 1 | 8 | 9 |
| Navy | 1 | 3 | 12 | 15 |
| Air Force | 3 | 5 | 8 | 13 |

Completed: milestones completed and approved by OUSD(C) (i.e., not returned for additional work).

Future: milestones to be completed in the future.

Total: Total milestones to achieve auditability.

✦ **Case Study: Financial Culture Change at Signal Corps**

Reprinted with permission from "The FIP Report," Office of the Assistant Secretary of the Army (Financial Management & Comptroller), June 2012, pp. 4-5.

In 2009, Joe Capps was the deputy to the Commanding General of the Signal Center of Excellence at Fort Gordon, Ga. He took on a cost saving endeavor initially as part of a business school project that resulted in a \$26 million savings on purchases in the first year. In this interview for The FIP Report, Mr. Capps details how the project changed the culture of the organization and what lessons other organizations could learn.



Joe C. Capps is currently the executive director to the Commanding General, U.S. Army Installation Management Command, Fort Sam Houston, Texas.

How did this cost savings project start?

I did not have a whole lot of financial management training when I started in my position at the Signal Center of Excellence. I'm an engineer by trade. I had a year-long assignment for my MBA program to learn how to apply a for-profit financial model to a government organization. The more I got into it, the more I realized there was value to applying for-profit approaches in a government organization.

What was your approach?

We had two main concepts to our approach. First, know where your money is getting spent. Second, get the leadership involved.

Knowing where your money is spent is not as easy as it sounds. We created a statement of earnings. It let us track where our money was going. The second part entailed making purchasing decisions a leadership decision-making process instead of a financial decision-making process. We formed a business council that reviewed purchases. The council consisted of the five people, including me, that answered directly to the Commanding General who were pretty much responsible for everything in the organization. We reviewed all purchases. Once you know where your money is going and put the decisions in the hands of your leaders, you can ensure that what you are spending applies real value to the Army.

Of course, anyone can stop spending money. The real question is can you still complete the organization's objectives? We reduced spending but still accomplished all of our objectives in 2010 that we had in 2009. I left in 2011, but when I went back last year and checked, that level has gone down even further, and they are still meeting their mission objectives.

If others were to try to replicate this, what advice would you give them?

Find out where your money is going and translate it into language your leaders understand. I had reams of spreadsheets with codes that financial people had to explain to me. Your financial staff knows how the money is spent. They have to be your decoders. You have to spend a lot of time getting down to the detail level with the people who are managing the finances.

Once you have done that, get your organization leaders involved in the processes. You do not have to have a committee, but you must get the leaders involved. By the end of this process, I had people coming to me offering specific cuts, because they took ownership of this process. You have to change their hearts. If you don't do that, driving them to success is not going to happen.

How do you change a culture trained to believe you have to spend your money or lose it?

You must over-communicate your goal. We started out that way. We have a contract that pays for three people. I'd ask if we could do the work with two people. The answer would be, "But they sent us the money! If we don't burn it, it goes away!" No! The objective is not to spend the money, it is to accomplish the mission spending the least amount of money you can.

The first time you say that, it doesn't sink in. People have been taught for 20 or 30 years of their careers to spend the money. The leaders have to over-communicate the point to reinforce it. They shouldn't browbeat people, but state in a positive way the goal is to accomplish the mission, not spend the money. That has to be the leaders' strategic vision and said over and over until no one wants to hear anymore. Then they will begin to believe it, and you see a change.

✦ Looking for an Article You Saw in the News on DoD Audit Efforts?

You know you saw an article about the Department's progress toward auditability, but you can't quite remember where. Try looking on the CAC-enabled FIAR Planning Tool.

The FIAR-PT houses "FIAR In The News," a news library on FIAR, DoD Audits, and other related topics. The article name, print date, and publication source are catalogued for easy sorting. Click on the name of the news story to bring up a PDF "clipping." Articles published within the last month are visible from the portal homepage, or click on "FIAR In The News" to view the entire library. Still don't see what you're looking for? Let us know what we've missed, and we'll try to help.

To gain access to the FIAR-PT, submit a completed System Authorization Access Request (SAAR) form to the FIAR Directorate. FIAR-PT specific pre-populated SAAR forms can be obtained through a Component's FIAR liaison or by emailing FIARSupport@osd.mil.

✧ **A Lesson Learned: Receipt and Acceptance**

Auditing receipt of materials or services from government sources typically relies on *local* retention of records and supporting documentation (e.g., MILSTRIPS/MIPR) that are separate from the financial activity.

In Other Words: When materials and services are ordered from another government source, a local-level organization may receive the materials or service, but often it's a higher-level organization that records the business event. Both the local-level organization and the higher-level organization must retain supporting documentation.

The Problem Is: For transactions between government organizations, the payment process does not link to the receipt and acceptance documentation. The higher-level organization may issue payment for materials and services without local-level documentation of receipt and acceptance. In fact, an agency has 90 days after the payment is made to request adjustment of the charge. The Department does not have a systematic method for capturing documentation of receipt and acceptance for materials and services ordered from other government sources and linking that documentation to the payment process. As a result, the higher-level organization that records the financial activity may not have documentation that shows local-level receipt.

What That Means in an Audit: Without documentation to support receipt and acceptance for materials and services ordered from other government sources, the auditor may not be able to determine whether the payment was valid.

What That Means to Your Mission or Program: Without documentation to support receipt and acceptance for materials and services ordered from other government sources, we cannot show the true cost of your mission or make the case for sound management of resources.

Bottom Line: Receipt and acceptance must be communicated to the organization recording the business event, and supporting documentation must be maintained.

✧ **Help Us Get to 500 Members of the FIAR Group on milBook**

Join nearly 500 of your colleagues in the FIAR Group on milBook. For instructions, see "Stay Connected" at <http://comptroller.defense.gov/fiar/stayConnected.html>.

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