

Meeting Minutes

1. Meeting identifier

Meeting Name	DON Audit Committee Quarterly Meeting		
Date	11 February 2009	Location	Pentagon 4C355
Start Time	1300	End Time	1400

2. Objectives

Convene the DON Audit Committee for its quarterly review of efforts to improve DON's financial management information by strengthening processes and preparing for future audit.

3. Attendees

Name	Office
Mr. Wes McNair	Acting ASN(FM&C), Chair
Mr. Russ Beland	Representing ASN (M&RA)
Mr. Dennis Biddick	Representing ASN (I&E)
CAPT Francis Tisak	Representing ASN(RD&A)
Mr. Charles Cook	Representing ACMC
Mr. Richard Leach	DON Auditor General
Mr. Victor Ackley	Representing VCNO
Mr. Mark Wilkoff	Representing General Counsel
Mr. Mark Easton	DASN (FMO)
Mr. Fred Carr	Air Force
Mr. Hee Lee	Army
Mr. Dave McDermott *	DFAS
Ms. Radha Sekar *	Representing OUSD(C) FIAR
Mr. Bob McNamara **	Representing OUSD(C) Policy
Ms. Patricia Marsh *	Representing DoDIG
Mr. John Knubel **	Highly Qualified Expert, ASN (FM&C) FMO
Mr. Marc Brito **	USMC
Mr. Dan Blair **	Representing DoDIG
Mr. Michael Gugulis **	Representing OUSD(C) FIAR
Mr. Luther Bragg **	Representing Naval Audit Service

* Non-voting member

** Invited guest

4. Agenda

#	Details	Responsible
1	Welcome and Opening Remarks	Mr. McNair
2	Audit Committee Update	Mr. Easton
3	Report Out from Executive Subcommittee	Mr. Easton,
	- USMC Audit Readiness	Mr. Brito, Mr. Gugulis



4 Closing Remarks and Discussion

Mr. McNair

5. Handouts (provided at the meeting and available upon request)

#	Details
1	Meeting Brief
2	DON FY2008 Annual Financial Report
3	8 October 2008 Audit Committee Meeting Minutes
4	FIAR Executive Summary

6. Meeting Minutes

#	Details
1	Mr. Wes McNair opened the meeting by thanking everyone for attending. He described his role as Acting ASN (FM&C) and said he expected a new ASN (FM&C) to be in place within the next 3 months. He noted the shortened meeting timeframe and the focus on the USMC audit readiness. Mr. McNair continued with an overview of the agenda and passed the floor to Mr. Mark Easton to lead the next discussion.
2	Mr. Mark Easton began the Audit Committee Update by reviewing the content of the Audit Committee meeting package, noting the handouts as described in section 5 of the minutes. Highlights of the discussion are described below: <ul style="list-style-type: none"> - Mr. Easton referred the group to the copy of the 8 October 2008 Meeting Minutes available in their packages. He opened up the floor for comments on the notes. Mr. Fred Carr noted a typographical error in reference to Ms. Audrey Davis on the current meeting agenda. Previous meeting minutes were approved without comment. - Mr. Easton presented to the Committee the DON FY2008 Annual Financial Report to the Committee. He drew attention to the letters from the Secretary of the Navy and the Assistant Secretary of the Navy (Financial Management and Comptroller) included in the report. He also noted the DoD IG disclaimer included in the report and explained that one of the outcomes of the FIP us to improve DON's financial information to a point where a more favorable opinion is possible. - Mr. Easton presented the Executive Summary of the OSD Financial Improvement and Audit Readiness (FIAR) Plan released in the December 2008, in which DON is a component of the overall DoD Plan. He noted the timeframes for audit readiness which includes 1/3 of DoD's assets and liabilities having already been asserted audit ready, 1/3 to assert audit readiness in FY2009, and 1/3 that have a longer time horizon. Mr. Easton noted that the Navy had important components in each of those time windows. Ms. Radha Sekar further described the FIAR Plan identifying the six focus areas included: Fund Balance with Treasury, Environmental Liabilities, Military Equipment, Real Property, Inventory, and Operating Materials and Supplies. She explained that the emphasis of the FIAR Plan was on impediments to achieving audit readiness and how the Department is working to overcome the impediments. She also explained the need for both functional and financial management participation in developing and implementing the solutions to address the impediments. Ms. Sekar noted that the next FIAR Plan, already under preparation, is scheduled for delivery to Congress on 15 May 2009. - Mr. Easton presented the newly instituted OSD Audit Advisory Committee. He identified Ms. Sandra Gregory as the Chair of the Committee and noted membership from highly regarded people from outside of the DoD Community. Ms. Sekar stated that the first meeting of the OSD Audit Advisory Committee occurred on 18 December. The meeting was mostly an administrative meeting. Mr. McNair asked if this Committee was a group that DON could tap into to address audit issues. Ms. Sekar stated that all components could have involvement in raising issues for the Committee. - Mr. Easton concluded the Audit Committee Update by emphasizing the FY2009 goals and the anticipated payoff if the goals are achieved. The priority areas are: Fund Balance with Treasury, Accounts Receivable, Environmental Liabilities, Civilian Labor, select Navy Working Capital Fund Commands, and Marine Corps Statement of Budgetary Resources. The priority



areas represent a payoff of approximately 32% of DON GF assets, 55% of DON GF Liabilities, and 20% of DON WCF Revenue Earned. Mr. Easton identified his two critical items for audit readiness in the priority areas are effective internal controls and audit evidence. He will continue to emphasize these critical items for success.

- 3 Mr. Easton introduced the Report Out from Executive Subcommittee. Highlights of the discussion are described below:
- Mr. Easton identified the members of the Executive Subcommittee to include: Mr. Easton, Mr. Charles Cook, Mr. Russ Beland, Mr. Luther Bragg, Mr. John Knubel, and additional representation from DFAS and USMC. DoD IG provides an advisory role to the Committee.
 - Mr. Easton reiterated the USMC's audit readiness focus of Statement of Budgetary Resources (SBR), Fund Balance with Treasury (FBWT), and the Financial Statement Compilation Process. He described the final three audit readiness items outstanding for the SBR: stabilization of the workload transitioned from DFAS Kansas City to DFAS Cleveland; reconciliation of FBWT at the transaction level; and completion of the attribute testing for the 3000 transaction sample. Mr. Easton referred the group to a backup slide on travel to describe his perspective on the auditor's lens as being executed in the attribute testing. He noted that the Marine Corps preparation has been a learning experience for the Executive Subcommittee on how the auditors will approach their work and the preparation required to prepare for the auditors' arrival. Mr. Easton then passed the floor to Mr. Marc Brito to describe the issue with FBWT in more detail.
 - Mr. Brito described FBWT as having many moving parts. He directed the Committee's attention to a diagram included in the brief that documents that process for USMC FBWT and walked the Committee through the process. He explained the need for a detailed reconciliation at the transaction level to support the audit readiness assertion. USMC has provided a detailed walkthrough of the process to DoD IG and currently USMC staff is at DFAS Cleveland finalizing the detailed reconciliation. Ms. Patricia Marsh described the DoD IG request for FBWT as simple; just show us the detail. Mr. McNair inquired as to how far USMC was from completion. Mr. Brito indicated that the effort was 75-80 percent complete. Mr. Brito then transitioned to a related issue of the support for 13 large journal vouchers. USMC is currently working to provide adequate support for the journal vouchers, which mostly represent late register items. Mr. Brito was confident that USMC would be able to provide the support by Friday, 13 February. Mr. Brito then passed the floor to Mr. Michael Gugulis to describe the attribute testing effort.
 - Mr. Gugulis described the goal of the attribute testing effort as provide reasonable assurance that support exists for management's assertion of the SBR. OSD is performing various tests to gain assurance. Mr. Gugulis described how the universe of samples was identified for the testing and the limitations of the review, including the exclusion of payroll and the non-statistical nature of the review. Mr. McNair asked how the universe would differ for the actual audit. Mr. Charles Cook explained that there would be an expanded universe for the actual audit but the additional items included in the audit that were not included in the testing sample were of lower risk and under the monitoring of OMB Circular A-123, Appendix A testing with no indications of issue. Mr. Gugulis continued explaining the procedure and success measure for the attribute testing, where the transactions were broken into three categories: Obligation, Expense, and Disbursement. To date, issues identified have been associated with accuracy and timing of the transactions. Mr. Gugulis noted that the success rate was better than he anticipated entering the review and, also, that the current processes were better than reflected in the metrics because many of the issues identified were related to system or process errors that have been corrected. Mr. Gugulis stated that one of his main concerns was with the resourcing to support the audit. Mr. Brito responded by noting that the Marine Corps has identified 465 resources to support the audit and are currently going through training exercises in preparation for an audit engagement. Mr. Gugulis also noted a concern with documentation support from external service providers and the availability of audit evidence from those organizations.
 - Mr. Cook summed up the Executive Subcommittee outbrief stating his view that the audit is the by-product of doing business the right way and that the Marine Corps was working diligently to implement effective processes. He noted that this effort has functionals are critical to implementing these improved processes and solicited the Committee members support in

addressing process and control weaknesses.

- Mr. McNair raised a question on the notional timeline included in the Committee presentation, particularly the realism of issuing an RFP by 1 March. Mr. Cook and Mr. Brito stated that they were confident in the realism of milestones to address the outstanding audit readiness items, which are scheduled for completion by 25 February; however, they also had questions about the timeline after achieving those milestones. Mr. Dan Blair said that 1 March was unrealistic and there was typically a 90-day contracting lead time. Ms. Sekar expressed the need for a “go-no-go” decision process after the completion of the interim milestones. She anticipated that 10 March would be a realistic timeframe for that decision if the interim milestones were met. Mr. McNair asked if there was a deadline that would impact an “in cycle” vs “out of cycle” audit. Ms. Marsh explained that a first year audit would more than likely be “out of cycle” no matter when the decision was made, and therefore, that was not a factor. Ms. Sekar concluded the conversation saying that she believed the Marine Corps effort would be a great test for all of DoD.
- 4 Mr. McNair closed the meeting by thanking the participants for the discussion and their comments during the meeting. Meeting adjourned at 1405.

7. Actions

#	Details	Responsible
1	N/A	

8. Next Meeting

Date	Time and Location
8 April 2009	1400, Pentagon 4C355

