

Meeting Minutes

1. Meeting identifier

Meeting Name	DON Audit Committee Quarterly Meeting		
Date	16 May 2007	Location	Pentagon 4C355
Start Time	1400	End Time	1530

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
Ms. Ashley Godwin (Chair)	ASN (FM&C)
Mr. Robert Uhrich	Representing ASN (I&E)
Dr. Russ Beland	Representing ASN (M&RA)
CAPT Frances Tisak	Representing ASN (RD&A)
Mr. Wes McNair	Representing Deputy Director, Navy Budget Office
Mr. Mark Easton	Director, DON Office of Financial Management
Ms. Mark Wilkoff	Representing Office of the General Counsel
Mr. Charles Cook	Representing ACMC
Mr. Richard Leach	DON Auditor General
Mr. Victor Ackley	Representing VCNO
Mr. Gus Gustafson	Air Force
Mr. Zach Gaddy *	DFAS
Mr. John Knubel	Highly Qualified Expert, ASN (FM&C) FMO
Mr. Paul Granetto *	Representing DoDIG
Mr. Ron Tollefson *	Representing OUSD(C) FIAR
Ms. Becky Allen *	Representing OUSD(C) FIAR
Ms. Diane Tucker **	NAVFAC
Ms. Carmen Covey **	Director CFO Compliance, Missile Defense Agency

* Non-voting member

** Invited guest

4. Agenda

#	Details	Responsible
1	Welcome and Opening Remarks	Ms. Godwin
2	Audit Committee Endorsements	Mr. Easton
3	Audit Committee Update	Mr. Easton
3	Review of Select Focus Areas	Mr. Easton
	- Military Equipment	
	- Real Property	
	- USMC Financial Improvement Initiative	
4	Closing Remarks and Adjournment	Ms. Godwin



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

- | # | Details |
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| 1 | Meeting Brief |
| 2 | Environmental Liabilities Assertion Letter |
| 3 | Preliminary Management Representation Letter |
| 4 | USD(C) Audit Readiness Memo |

6. Meeting Minutes

- | # | Details |
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| 1 | Ms. Ashley Godwin opened the meeting and announced that this would be her last Audit Committee meeting as she is leaving the Department to pursue other interest. Ms. Godwin also welcomed Mr. John Knubel to the Committee. Mr. Knubel is a recently hired highly qualified expert who previously served as CFO of the Department of Housing and Urban Development and a senior manager in numerous private sector organizations. Mr. Mark Easton concluded the opening remarks by welcoming Mr. Gus Gustafson, Air Force representative, to the Committee. |
| 2 | Mr. Easton briefed the Committee on items asserted audit readiness and the Preliminary Management Representation Letter and sought endorsement, which he received. <ul style="list-style-type: none"> - In January, DON asserted audit readiness on the Environmental Liabilities Weapons Systems sub-line on the financial statement. OUSD(C) and DoDIG have accepted the package and DoDIG will conduct an audit of the sub-line using internal resources. - DON is preparing to assert the Cash and Other Monetary Assets financial statement line item at the end of June. ASN (FM&C) will provide members of the committee additional information as we approach the assertion date. - DON recently submitted its Preliminary Management Representation Letter (MRL). The letter details the current state of financial management inside the Department and corresponds to private sector practices. Mr. Easton noted that the development of this representation letter might be perfunctory at this time but is consistent with the Department's desired future state. |
| 3 | Mr. Easton continued to provide updates on financial improvement related initiatives or events: <ul style="list-style-type: none"> - DON continues to provide Statement of Assurance deliverables in coordination with the progress of the FIP. A status of the SOA submissions was included in the backup slides of the presentation. - USD(C) signed out a memorandum in April defining a shift in the Department's financial improvement focus from a "Clean Audit" to "Audit Readiness" emphasis. Following the Air Force experience with Fund Balance with Treasury and considering cost factors associated with audit, the Department's shift in approach emphasizes demonstration of progress and recognizes the inseparable relationship between financial statement line items. - SECNAV recently met with the Deputy Secretary of Defense to present DON's intent to use the Marine Corps Total Force System as the Department of the Navy's human resource management system. The report prescribed by the FY2007 NDAA has been sent forward to Congress and GAO for their review. ASN (RD&A) was meeting with Senator Vitter on 16 May to present the DON position. - On 1 May, ASN (FM&C) presented the DON Financial Statement Mid-Year Brief to USD(C). A common theme raised in the discussion was the question of value and what use the Department getting out of improved financial information. Mr. Knubel raised the point that DoD is the single organization standing in the way of the Federal government receiving a clean audit opinion. Therefore, there is value from the external credibility derived from the audit opinion. - Mr. Wes McNair opened a brief discussion by raising the issue of the accelerated (21 day) financial reporting schedule and questioning its value in light of the "heroic" effort required to produce the statements. Mr. Easton responded by noting that we have demonstrated an ability to meet the schedule and that the FMO was conducting a Lean Six Sigma effort on its portion of the process. Mr. Charles Cook concurred with Mr. McNair assessment that the timeline was |



unreasonable particularly due to the limited reliability of the information produced. Mr. Paul Granetto reminded the committee of the tremendous pressure to keep the 21 day schedule and his thought that the schedule would not change. Mr. Gustafson and Mr. Zach Gaddy raised their concerns that the accelerated schedule led to bad information. Mr. Gaddy also noted that this is a monthly process at DFAS for the budgetary reporting and DFAS was also conducting a Lean Six Sigma effort on their process. An action was taken to report back to the committee on the results of the Lean Six efforts.

- 4 The meeting shifted focus to discuss specific focus areas. Mr. Easton introduced CAPT Francis Tisak as the functional lead for the Military Equipment effort. CAPT Tisak was given the opportunity to describe where the effort stands. CAPT Tisak emphasized two main points regarding the effort:
 - Dr. Etter, ASN (RD&A), conducted a program manager workshop and the managers voiced a concern regarding the amount of required overhead and paperwork for their programs. In deference to this concern, CAPT Tisak said the recognized light at the end of the tunnel is Item Unique Identification (IUID). This methodology will allow for easier tracking of information in relation to a particular piece of equipment. He anticipates that the 80-20 rule will apply for Military Equipment Valuation, meaning the coverage of the first 80% will be easy but the last 20% will be very resource intensive.
 - CAPT Tisak raised concern over the proposed change in the Military Equipment depreciation method from straight line to a usage method. CAPT Tisak stated that this change would be very burdensome to manage and provided limited value unless it was supported by replacement funds from Congress. Mr. Gustafson supported CAPT Tisak and stated that the concept of a sinking fund from Congress would be the only mechanism to make this work.
- 5 Ms. Diane Tucker from NAVFAC addressed the Real Property focus area.
 - Ms. Tucker started by defining the relationship between SECNAV and CNO defined goals and the goals of the FIP. She underlined the significance of the inventory and process documentation performed under the FIP aligns with and provides input to the functional initiatives. Ms. Tucker did note that the gathering of historic cost was only valuable in relation to the assertion.
 - NAVFAC is working on establishing a process and format for establishing Installation Commander accountability supported by a Real Property Accountability Officer at each installation. The concept has been briefed to CNIC and they concur with the need and concept.
 - Ms. Tucker raised a few issues in relation to the Real Property effort. The major issues are: no sustainable funding mechanism to support periodic inventories; funding to support the Real Property Accountability Officer is required; and the level of effort to align controls with audit requirements is not fully known.
 - Ms. Tucker concluded her remarks by underscoring NAVFAC's perspective that the link between the RPIR and FIP is crucial for the success of both initiatives.
- 6
 - Mr. Easton transitioned the discussion to the USMC preparation for audit. To introduce the subject, he defined the objectives of the financial statement audit and the re-emphasized the Audit Committee's role as the oversight body for DON financial statement audits. Mr. Easton then passed the floor to Mr. Charles Cook to discuss the USMC efforts.
 - USMC has worked closely with the Army Corps of Engineers (COE) to gain some lessons learned from their audit experience. From this coordination with COE, USMC is attempting to review their audit readiness process from an auditors' lens, including emphasizing the need for coordination from all parties that impact USMC financial information.
 - Recently, USMC held an audit readiness summit to socialize its plan for audit readiness in FY2008. It was recognized at the summit that this schedule is aggressive with the two main issues discussed: 1) gathering systems information and assertions for all systems that impact USMC financial data; and 2) disconnects between policy and GAAP regulations. From the summit, USMC has developed a 90 day plan of action and milestones to work these two main issues. An advisory group has been established comprising representatives from USMC, Naval Audit Service, DoDIG, OUSD(C), and FMO to help address the policy issues.
 - Mr. Cook mentioned that they would like the Army and Air Force involved in the discussion,



- particularly regarding the policy issues, which will have an impact across the Department.
 - Mr. Cook concluded his remarks by stating that the focus for USMC now is maintaining the focus and keeping the plan of action moving forward.
- 7 As the new member to the Committee, John Knubel was afforded the opportunity to present his perspective on audit readiness efforts and the USMC audit preparation. His comments focused on three main points:
- Governance and Accountability: A clear delineation of roles and responsibilities for oversight of audit preparation efforts for both internal and external stakeholders;
 - Determining standards by which the Department would be judged: Defining measures that define success and managing towards those measures, including considerations for technical feasibility and cost benefit; and
 - Having an “audit value trail” to address potential Congressional concerns: Keep score based on your defined standards and consistently document improvements gained from efforts.
- 8 Ms. Godwin thanked the attendees for their time and participation in the meeting. Adjourned at 1530.

7. Actions

#	Details	Responsible
1	Provide update to the Committee on Financial Statement Lean Six Sigma initiatives.	ASN(FM&C) FMO and DFAS

8. Next Meeting

Date	22 August 2007	Location	Pentagon 4C355
Start Time	1400	End Time	1530

