



Audit Committee Newsletter

Fourth Quarter 2006

Focus Area Highlights

The initial discovery efforts for the Financial Improvement Program are nearing completion. The process documentation, risk analyses, and internal control assessments developed in these discovery efforts are being collected and analyzed for completeness, audit readiness, and opportunities for standardization. Results of the analysis will determine the business process changes required to improve the quality of financial information produced.

FIAR Update

The Department of the Navy (DON) recently submitted updated Key Milestone Plans to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for inclusion in the September 2006 version of the Financial Improvement and Audit Readiness (FIAR) Plan. Key Milestone Plans for the focus areas Real Property, Environmental Liabilities, Military Equipment, and Fund Balance with Treasury define the Department of Defense's (DoD) steps toward achieving a "clean" financial statement audit opinion. Additionally, the new Plan expands the focus areas to include supplemental items for Inventory and Operating Materials and Supplies, Accounts Receivable and Accounts Payable. The Plan also includes a discussion on the FIAR relationship with the Business Transformation Agency. We reviewed the Plan with the Secretary of the Navy on 12 September, and it will be delivered to Congress and the Office of Management and Budget (OMB) on 20 October.

Annual DON Statement of Assurance

The annual DON Statement of Assurance (SOA) was released on 1 September. Those familiar with the SOA process will notice that the Fiscal Year (FY) 2006 version of the document is different from those of previous years. In addition to the SOA on "Federal Managers' Financial Integrity Act (FMFIA) Overall," DON has provided an SOA on the effectiveness of internal controls over financial reporting, "FMFIA over Financial Reporting." The additional SOA is a result of DON's ongoing efforts to implement the requirements of the revised OMB Circular A-123, and the related DoD Instruction 5010.40, *Manager's Internal Control Program Procedures*.

As in FY 2005, DON has provided a "qualified" SOA on "FMFIA Overall" for FY 2006. For "FMFIA over Financial Reporting," DON has provided a statement of "no assurance." An Executive Summary of weaknesses and other areas of emphasis is attached. A copy of the full FY

2006 DON SOA is also available at
http://www.fmo.navy.mil/mic/soa_index.htm.

Noteworthy Events Since Our Last Meeting

- The Honorable Richard Greco, Jr., Assistant Secretary of the Navy (Financial Management and Comptroller), appeared as a guest on the Federal News Radio program, "Ask the CFO." Aired on 13 July 2006, Mr. Greco's interview covered current DON topics, including ongoing financial management initiatives, such as the cash forecasting tool and investment portfolio analysis, and challenges posed by human capital, business transformation, and customer communications. Listen to the interview at <http://www.federalnewsradio.com>.
- DON received a Gold Vision Award from the League of Communications Professionals (LACP) and an Honors Award from MerComm, Inc., for its FY 2005 Annual Financial Report, *Combat and Compassion*. LACP (<http://www.lacp.com>) and MerComm (<http://www.mercommawards.com>) are organizations that host annual report competitions. The DON annual report was among LACP's top 100 annual reports of 2005, ranking 63rd out of 1,957 entries. The MerComm competition drew over 1,900 entries in which the DON report ranked fourth among the top non-profit annual reports.
- On 3 August, representatives from the Government Accountability Office and OUSD(C) appeared before the Senate Subcommittee on Federal Financial Management. The Honorable David Walker, U.S. Comptroller General, provided his thoughts on DoD's progress toward a "clean" financial statement audit opinion. A second panel included David Patterson (DoD Principal Deputy Under Secretary); Terri McKay (Deputy Director, Defense Accounting and Finance Service); and Thomas Gimbel (Acting DoD Inspector General). This group discussed the OSD FIAR Plan. More information on the testimony is available at <http://hsgac.senate.gov/index.cfm?Fuseaction=Hearings.Detail&HearingID=392>.