

Meeting Minutes

1. Meeting identifier

Meeting Name	DON Audit Committee Quarterly Meeting		
Date	12 July 2006	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
Hon. Richard Greco (Chair)	ASN (FM&C)
Ms. Ashley Godwin	DASN (FM&C)
Dr. Russ Beland	Representing ASN (M&RA)
Mr. John Thackrah	Representing ASN (RD&A)
Mr. Michael Galgano	Representing ASN (I&E)
Mr. Wes McNair	Deputy Director, Navy Budget Office
Mr. Mark Easton	Director, DON Office of Financial Management
Ms. Anne Brennan	Representing Office of the General Counsel
Mr. Marc Brito	Representing Marine Corps Finance
Mr. James Short	Deputy Assistant Air Force Secretary (Financial Operations)
Mr. Richard Leach	DON Auditor General
Mr. Luther Bragg	Director of Financial Management Auditing, NAVAUDSVC
Mr. Victor Ackley	Representing OPNAV
Mr. Zack Gaddy *	Director, DFAS
Mr. Dave McDermott *	DFAS, Client Executive - Navy
Ms. Patricia Marsh *	Representing DoDIG
Ms. Becky Allen *	Representing OUSD(C) FIAR
Ms. Carmen Covey **	Director CFO Compliance, Missile Defense Agency
Ms. Diane Tucker **	Representing NAVFAC Base Development
Ms. Martha Midgette **	Representing NAVFAC Environmental
Ms. Lorraine Williams **	Representing NAVFAC Financial Management

* Non-voting member

** Invited guest

4. Agenda

#	Details	Responsible
1	Welcome and Opening Remarks	Mr. Greco
2	Action Item Review	Mr. Easton
3	Regular Updates, including FIAR, Focus Area Review, and A-123 Appendix A Update	Mr. Easton
4	Issues Requiring Resolution	Ms. Tucker and Ms. Midgette
5	Closing Remarks	Mr. Greco



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

- 1 Meeting Brief including Issues Discussion
- 2 A-123 Test Results
- 3 SECNAV Coordination Questions
- 4 Government Executive Article

6. Meeting Minutes**# Details**

- 1 Mr. Greco opened the meeting and provided introductory comments:
 - DON was awarded a Gold Medal in the League of American Communications Professionals 2005 Annual Financial Report competition. DON was rated 63rd out of over 1,900 entries and was behind only the State Department in Federal agencies. This contest included entries from many of the Fortune 1000. Mr. Greco expressed his pride in receiving this recognition and his hope that this achievement will set a standard for the DON moving forward.
 - Mr. Greco met with the Secretary of the Navy to update him on the events of the Financial Improvement Program (FIP) and the March version of the OSD Financial Improvement and Audit Readiness (FIAR) Plan. The Secretary asked several questions during the discussion. The questions and responses are included in the Audit Committee package. The important point is that the Secretary is engaged and interested in the outcome of the FIP efforts and Mr. Greco will continue to update him regularly.
 - DON is preparing its input for the September version of the FIAR Plan update. The Plan will include updated Key Milestone Plans and expanded focus areas.
 - ERP implementation planning is currently underway, beginning with NAVAIR in October 2007. Mr. Greco has emphasized his support, along with Dr. Etter, in a joint memo emphasizing the significance of the ERP in the future state of the DON, as well as in a recent memo to SYSCOM Commanders highlighting its importance to financial management. The VCNO has also shown his support of the ERP in a memo to his Chain of Command.
 - DON recently completed testing of internal controls for the A-123 Appendix A process. The results of the testing were included in the Audit Committee package. A-123 Appendix A test results represent an initial and limited assessment of the state of the Department's internal controls over financial reporting.
 - Included in the Audit Committee package, a recent Government Executive article is highly critical of the Department of Defense and its inability to receive an unqualified financial statement audit opinion. Mr. Greco noted that the article is focused on the current state without recognizing the history that led to this state, the complexity of DoD, nor the progress that has been made to date.
 - Mr. Greco concluded his opening remarks by expressing his view that the Real Property capitalization threshold should be maintained at \$100k. His concern is based on cost benefit to comply with a lower threshold, citing a doubling of estimated incremental cost to establish a baseline value (\$17M to \$34M) with only a 4% gain in Real Property assets. The requirement for these additional resources does not make good business sense or use of taxpayer dollars.
- 2 Mr. Easton provided an update of status following the agenda. Key points from the discussion are as follows:
 - Two action items from the previous meeting were reviewed. Discussion surrounded the addition of a private sector member to the Audit Committee. Ms. Brennan asked if the member would be a voting or non-voting member. After brief discussion, it was determined that the proposed member would be a non-voting member who could provide private sector audit committee experience. Counsel will review the proposed role and define how the member can be added to the Audit Committee. Discussion regarding the second action, on Environmental Liabilities reconciliation with Real Property records, was delayed until the



- issues discussion later in the meeting.
- A FIAR Plan update was scheduled for 15 July submission to OMB. Ms. Allen that her understanding was the Update will be signed out by the Under Secretary of Defense (Comptroller) and provided to Congress and that a quarterly update to Congress is under consideration. Mr. Short and Mr. Gaddy shared the position that the FIAR Plan update should remain a biannual event, citing the effort required to coordinate the document. Mr. Greco agreed and DON took action to voice the position to OUSD(C). Mr. Easton asked members to note the expanded focus areas that will be included in the September FIAR Plan update (Accounts Receivable, Accounts Payable, Inventory, OM&S, and Military Pay Obligations).
 - The milestones for the Fund Balance with Treasury focus area were revised in the March FIAR Plan update. Mr. Gaddy noted that DFAS is making progress and are moving forward as fast as they can make it happen. In regards to BRAC, Mr. Gaddy stated that transition plans for the consolidation are in place and they are executing to the plan. DFAS Oakland has closed; the next site closure to impact DON will be DFAS Norfolk in January. Currently, DFAS Cleveland is in a state of open recruitment.
 - The Military Equipment PMs have successfully completed two cycles of baseline iterations. As of 3rd Quarter, Military Equipment values on the DON Financial Statements are now reported vice derived from model estimates. Mr. Thakrah noted that there are 402 Navy and 49 Marine Corps programs reporting. The effort is moving forward including a review of TRIM as a mechanism to capture source documentation for ME transactions. Mr. Gaddy inquired as to the nature of the data reconciliation issue. Mr. Easton noted the issue was similar to DCD and was a technical extract issue.
 - The Environmental Liabilities focus area is approaching completion for the Weapons Systems. Mr. Easton noted the Weapons System project should be seen as a positive step forward for the FIP effort. The DERP and Non-DERP areas continue to move forward. Discussion regarding the issue with Real Property reconciliation was delayed until the issues discussion later in the meeting.
 - Discussion regarding Real Property noted the significant changes in this focus area since the last Audit Committee meeting. The project is currently under a yellow status pending a change to the Plan which will most likely impact the Assertion date. Ms. Tucker stated the emerging requirements of the Real Property Inventory Requirements (RPIR) have a significant impact on the FIP Plan for Real Property requiring an extension of the assertion date by at least a year even though the RPIR has a very aggressive schedule. Ms. Allen provided the OSD perspective that the revision of the Real Property plan reflects the logical integration of the BTA, the Enterprise Transition Plan, and the FIAR. The revised Real Property plan will be included in the September version of the FIAR Plan. Mr. Short noted the need to make sure a financial perspective is not forcing the issue and that finance and functionals are working together to get a cohesive, executable plan. Mr. Short cited the Air Force issues with the 1998 baseline as an example of failure due to lack of a cohesive effort.
 - Mr. Brito provided a status update on the Marine Corps Financial Improvement Initiative (FII). He stated that the Marine Corps is confident in the action items that they have control over. The Marine Corps, however, is dependent on other organizations for a number of actions, particular in regards to systems, and have less confidence in these actions. The Marine Corps will continue to work with the other organizations to accomplish the required actions by the proposed assertion dates. Mr. Easton mentioned that the Marine Corps should provide DON with an opportunity to test the audit process. Mr. Greco noted high visibility of this initiative and asked that a mechanism be established to keep the Audit Committee apprised of issues that might restrict Marine Corps' ability to meet the proposed dates. Mr. Gaddy asked whether the requirement in the systems area was for a full SAS 70 audit. Mr. Easton commented that the assertion is not fully dependent on a SAS 70 audit; however, if one has not been done the system will be reviewed in the financial audit.
 - DON has completed a majority of the 2006 requirements for OMB A-123, Appendix A. For the Statement of Assurance on Internal Controls over Financial Reporting for 2006, to be completed 1 September 2006, DON will be providing a Statement of No Assurance. The



floor was opened for comments on the results of the A-123 Testing and the Statement of No Assurance. Mr. Greco expressed his desire to be as open and forthcoming as possible in regards to A-123. DON should be willing to expose any material weaknesses that exist and develop and implement a plan to correct those deficiencies. The Committee accepted and approved the summary report of initial testing results.

- 3 Mr. Easton kicked off a discussion of three issues requiring decisions from the Audit Committee:
Ms. Tucker presented the NAVFAC Base Development position on the Real Property Baseline Valuation.
 - NAVFAC recommends using the 1998 historic cost baseline, adjusted for adds and deletes post baseline.
 - Ms. Tucker began by noting that there was no true business value for NAVFAC in defining a historic cost baseline for Real Property assets because the program budget was driven by quantity, size, and usage. Ms. Tucker provided the three options for establishing a baseline valuation and the thought process behind the NAVFAC recommendation (see brief for options).
 - Mr. Greco agreed with the recommendation noting that private sector would focus on the way forward and that he was not confident that any of the options would satisfy GAO.
 - Mr. Short stated that the Air Force effort was focusing on the process and infrastructure to move forward.
 - Mr. Gaddy commented that he didn't feel there was much of a point in defining asset values and concurred with the recommendation.
 - Mr. Thakrah inquired about the cost of the recommendation; Ms. Tucker estimated the effort at approximately \$3M.
 - The recommendation was put to a vote and the recommendation carried.Ms. Tucker presented the NAVFAC Base Development position on the Real Property Capitalization Threshold.
 - NAVFAC recommends complying with a lower capitalization threshold prospectively; however, they believe the threshold should be tied to the Small Purchase Threshold, which is currently at \$25k.
 - Discussion surrounded the business case for the change. Mr. Greco stated his position that he believes \$100k makes the most business sense.
 - Dr. Beland asked about the consideration of moving the Small Purchase Threshold to \$20k. NAVFAC said it did not have data in regards to this and took action to quantify impact of a change.
 - Ms. Allen noted that the memorandum establishing the threshold left open the possibility of reviewing the threshold value in March of 2008.
 - Mr. Gaddy expressed his position that he did not see value in a reduction of the threshold.
 - Mr. Short explained the Air Force's position will be to comply with the guidance prospectively but not do anything with previously acquired property, although he still believes \$100k makes the most sense.
 - The committee determined that additional information was required to determine the impact of complying with a lower threshold. Vote was delayed until additional information is available.Ms. Midgette presented the NAVFAC Environmental position on Environmental Liabilities reconciliation with Real Property asset records.
 - NAVFAC recommends reconciliation at the installation level and participation in an OSD-sponsored pilot of GIS.
 - The recommendation was put to a vote and the recommendation carried.
- 4 Mr. Greco thanked the participants for their time and participation in the lively meeting. Meeting adjourned at 1550.



7. Decision Made

#	Details	Vote
1	A-123 Fiscal Year 2006 Deliverable on Internal Controls Over Financial Reporting: Testing Report approved	Unanimous
2	NAVFAC will work to establish a Real Property historic cost baseline utilizing the results of the 1998 Baseline Study updated with additions and deletions since the completion of the Study.	Unanimous
3	NAVFAC will perform Environmental Liabilities reconciliation with Real Property at the installation level. Movement to a GIS solution will depend on the OSD GIS test pilot.	Unanimous

8. Actions

#	Details	Responsible
1	Define requirements for adding a non-voting, private sector Audit Committee member and solicit interest following required process.	Office of General Counsel and ASN(FM&C) FMO
2	Voice disagreement with providing a formal FIAR Plan update more than twice per year.	ASN(FM&C)
3	Provide regular updates no less frequent than monthly for Marine Corps FII on key issues to the Audit Committee.	USMC and ASN(FM&C)
4	Quantify the impact of a change to the Real Property Capitalization Threshold from \$100k to \$20k, as well as, the impact of changing the Small Purchase Threshold on Real Property.	NAVFAC

9. Next Meeting

Date	13 September 2006	Location	Pentagon 4C355
Start Time	1400	End Time	1530

