

## Meeting Minutes

### 1. Meeting identifier

<b>Meeting Name</b>	DON Audit Committee Quarterly Meeting		
<b>Date</b>	31 January 2007	<b>Location</b>	Pentagon 4C355
<b>Start Time</b>	1400	<b>End Time</b>	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. Donald Schregardus	Representing ASN (I&E)
CDR Tom Berry	Representing ASN (M&RA)
CAPT Frances Tisak	Representing ASN (RD&A)
Ms. Caral Spangler	Representing Deputy Director, Navy Budget Office
Mr. Mark Easton	Director, DON Office of Financial Management
Ms. Rebecca Cressy	Representing Office of the General Counsel
Mr. Charles Cook	Representing ACMC
Mr. Luther Bragg	Representing DON Auditor General
Mr. Victor Ackley	Representing VCNO
Mr. Dave McDermott *	DFAS, Client Executive – Navy & OUSD(C) FIAR
Ms. Patricia Marsh *	Representing DoDIG
Ms. Becky Allen *	Representing OUSD(C) FIAR
Ms. Carmen Covey **	Director CFO Compliance, Missile Defense Agency
Mr. Marc Brito**	USMC FII
Mr. Joel Nankivel**	USMC FII

\* Non-voting member

\*\* Invited guest

### 4. Agenda

#	Details	Responsible
1	Welcome and Opening Remarks	Mr. Easton
2	Review of Action Items from Previous Meeting	Mr. Easton
3	FY2006 DON Financial Statements	Mr. Easton
4	A-123 Update and FY2007 Plan	Mr. Easton
6	Review of FIAR Focus Areas	Mr. Easton & Mr. Cook
7	Strategic Planning Discussion	Mr. Easton
8	Closing Remarks and Adjournment	Ms. Godwin

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

#	Details
1	Meeting Brief
2	Senate Armed Services Committee Hearing Questions and Answers



- 3 "Known Unknowns" Article from Government Executive Magazine
- 4 USMC Audit Plan Narrative

## 6. Meeting Minutes

- | # | Details  |
|---|--|
| 1 | Mr. Easton opened the meeting and proceeded directly into the first agenda topic. The action item from the previous meeting, "Solicit interest for a non-voting private sector member and nominate a candidate", will carry forward. Efforts to date to find a candidate that does not have a conflict of interest have not produced any viable candidates.  |
| 2 | The FY2006 Annual Financial Report has been published and a copy was provided to all attendees at the meeting. The report has a new format where much of the information, including the financial statement notes, is provided in PDF format on an enclosed CD. The new format saved approximately 2/3 of the cost of production compared to last year's report.   |
| 3 | <p>Mr. Easton reviewed the A-123 implementation plan for FY2006.</p> <ul style="list-style-type: none"> <li>- The A-123 implementation inside the DON is aligned with the FIP effort per an agreement with OSD. To date, DON has delivered available materials related to the focus areas. A chart was provided in the briefing package that outlined the schedule and how DON plans to meet the schedule. It is intended that all deliverables for the focus areas will be available by the end of the year.</li> <li>- For FY2006, the DON provided a Statement of No Assurance with the exception of progress. It is anticipated that DON will again provide a Statement of No Assurance in FY2007 with additional progress made.</li> </ul>  |
| 4 | <p>Mr. Easton reviewed progress on the FIAR Focus Areas:</p> <ul style="list-style-type: none"> <li>- The focus area updates began with Military Equipment. Mr. Easton explained that DON has established a baseline for Military Equipment (accountability and valuation) that was used on the FY2006 Financial Statements. Additional effort is still required and the DON has established a framework for that effort in the Accountability Improvement Plan (AIP). CAPT Tisak, representing RDA, provided his comments on the scope of the effort (Navy has about 500 programs; USMC about 50 programs) and the impact of combat usage on the useful life of the equipment and, therefore, the depreciation schedule. Mr. Cook asked the group if anyone was aware of a private sector organization that had a business event that impacted its equipment in a similar manner as fighting a war. The group agreed that the impact caused by war was unique and that the business value of deriving separate depreciation schedules by type of military equipment was limited.</li> <li>- Mr. Easton discussed the Environmental Liabilities focus areas. The DERP and Non-DERP efforts are making very good progress. DON believes it will meet the defined assertion schedule for these areas. Environmental Liabilities Weapons Systems was asserted at the end of December. DoDIG and OSD are currently reviewing the package. An issue regarding the liability for disposal of MSC ships was identified as an open item for the Weapons System liability.</li> <li>- Undistributed and Unmatched Disbursements and Collections were discussed as the big issues for Fund Balance with Treasury. The Business Activity Monitoring (BAM) tool has been proposed as a tool to help resolve the weaknesses in these areas. Mr. McDermott stated that DFAS has selected a vendor and an award is pending. Delivery is expected within 60-90 days of award.</li> <li>- The Real Property focus area is making steady progress. The implementation of changes that the team is performing is required to enable sustainment of a process to value real property. Ms. Godwin raised the question of whether the capitalization threshold had been defined. Mr. Easton stated that the DoD capitalization threshold has been changed to \$20K; however, the DON will proceed under the \$100K threshold until we attain more confidence that processes and controls are working effectively.</li> </ul> |



- 5 Mr. Cook led a discussion regarding the USMC Financial Improvement Initiative (FII):
- Mr. Cook started the conversation by stating that USMC has moved away from its original line item assertion dates and is now working towards asserting the FY2008 financial statements in their entirety. He noted that, although the USMC is behind its original schedule, it is still making significant progress.
  - He emphasized that one lesson learned from the FII is that Financial Improvement and Audit Readiness are not necessarily mutually exclusive but are, indeed, separate objectives. USMC focus has shifted focus away from process improvement to make sure that it is meeting the requirements for Audit Readiness.
  - Recently, USMC met with the Army Corps of Engineers, who currently have independent auditors looking at their financial statements. Mr. Cook discussed some of the lessons learned from the Corps of Engineers:
    - o The expected sample size for their effort was much greater than expected. This adds to the time and cost required to perform the audit.
    - o Much of the review at the Corps of Engineers has focused on validating beginning balances. Ms. Marsh noted that a lot of the time and effort associated with the Corps of Engineers audit was part of a learning curve associated with a “first year” audit.
    - o The Corps of Engineers underestimated the amount of prep time required for the audit, meaning the time to conduct the audit has exceeded expectations. Mr. Cook also noted that an audit plan is a “must-have” when entering into audit.
    - o The assertion packages generated were a good start but were not sufficient for conducting the audit. Mr. Ackley inquired if there was a way to improve the value of the assertion packages. It was agreed that improvements could be made to the package (Mr. McDermott noted that OUSD(C) was currently revising the rules for assertion packages) but there was still much to be learned to make the packages as useful as possible.
    - o Mr. Cook also noted that reliance on outside organizations’ information was an issue. Based on information learned for the Corps of Engineers, USMC was working on a way to validate information from outside groups.
    - o Roles and Responsibilities for the audit must be well defined and all participants must stay actively involved in the process throughout.
    - o Ms. Marsh added that DoDIG is working on a paper describing lessons learned from the Corps of Engineers.
  - Mr. Cook concluded his remarks by noting that the DCFO has agreed to a governance group to address questions regarding audits.
- 6 Mr. Easton provided a brief review of strategic topics to wrap-up the meeting:
- Mr. Easton provided key stakeholders perspectives on business transformation inside DoD and DON. He specifically discussed comments from SASC staff member, Peter Levine. Mr. Levine emphasized that DoD must be focused on improving business processes and the value of current efforts are in that business process transformation. Also, Mr. Easton noted that OMB has lowered DoD’s progress grade from green to yellow for financial performance in the President’s Management Agenda scorecard.
  - Mr. Easton discussed the current limited relationship between Lean Six Sigma and the FIP/A-123 effort. He stated that the continued integration of these efforts would help deliver business value to the DON.

Ms. Godwin discussed two channels she has to discuss financial management transformation with DON Senior Leadership.

- The Secretary of the Navy tracks progress of the FIP/FIAR in his monthly Strategic Management sessions. The Secretary has shown a keen interest in USMC Audit Progress and Ms. Godwin will continue to update him regularly.
- Ms. Godwin has been asked to speak at the Navy Enterprise Executive Committee. CNO’s has expressed interest in business transformation and this will be an excellent channel for conveying the importance of participation from the functional side of the DON in business



transformation efforts.

- 6 Ms. Godwin thanked the participants for their time and participation in the meeting. Adjourned at 1515.

**7. Actions**

#	Details	Responsible
1	Solicit interest for a non-voting private sector member and nominate a candidate.	ASN(FM&C) FMO

**8. Next Meeting**

<b>Date</b>	18 April 2007	<b>Location</b>	Pentagon 4C355
<b>Start Time</b>	1400	<b>End Time</b>	1530

