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—Department of Defense Secretary Leon E. Panetta, October 2011

Audit Readiness: Sustaining the Army's Strength

All of the Defense Department's financial statements are required to be auditable by fiscal year 2017. The Army is preparing its organizations to meet that deadline.

■ By William Roberts

A hand-receipt holder signs off on an inaccurate physical inventory of his property books. A supply technician authorizes property movement without authority. A property book office cannot produce supporting documents for transactions conducted within its organization. A unit does not maintain an updated command supply discipline program.

What do all of these scenarios have in common? They stand in the way of the Army achieving its first clean audit opinion. Having a clean audit opinion means that the auditor did not have any significant reservations about information contained in the

organization's financial statements.

Every time Army personnel order, move, or use equipment and supplies, they have an impact on the Army's financial statements. All Army personnel may not understand how asset management at the installation level affects the Army's financial statements, but that is about to change.

Leaders Have Spoken

In a testimony to the House Armed Services Committee in October 2011, then Department of Defense (DOD) Secretary Leon E. Panetta said, “Today DOD is one of only two major agencies that has never had a clean audit opinion on its financial

statements. That is inexcusable, and it must change.”

Army leaders are fully behind the effort to achieve audit readiness. Both the Chief of Staff and Vice Chief of Staff of the Army have sent messages to general officers on the importance of improved financial management and audit readiness.

Army Chief of Staff Gen. Raymond T. Odierno, through an April 16, 2012, General Officer Management Office message, said, “Leaders at all levels are responsible for instilling proper levels of discipline and oversight into all business processes within their command. The processes span all functional areas

of our Army—resource management, acquisition, personnel, and logistics. Auditability is not just a Comptroller function.”

On the same day, then Vice Chief of Staff of the Army Gen. Lloyd J. Austin III sent a message through the General Officer Management Office specifically about property accountability. He stated, “Everyone in the Army is responsible for accounting for assigned property and other resources. By effectively accounting

achieve audit readiness. The Army’s goal is to have mission-critical assets and asset records ready for independent audit by December 2013. A plan is in place, and the Army is actively supporting commands and installations in this transition to a new way of doing business.

The Plan to Achieve Audit Readiness

Under the leadership of the Assistant Secretary of the Army (Financial Management and Comptroller),

the assets it maintains are complete. The Army also verifies this assertion through a book-to-floor test.

Before an E&C assertion, the Army needs to test the internal controls involved within its property accountability environment, identify where deficiencies exist, and then implement and complete corrective actions. Internal controls are policies and procedures put into place to safeguard the integrity of Army finances, operations, and information systems.

“Commanders are accountable for the proper execution of business processes, including the associated internal controls and the overall audit readiness in their organizations.”

—Secretary of the Army John M. McHugh

for our property we will ensure we are responsible stewards of tax payer dollars. This will ultimately enable a stronger and more capable Army.”

Soon the Army will test internal controls to hold commanders accountable for ensuring those controls are in place and operating effectively.

In a recent memo, Secretary of the Army John M. McHugh said, “Commanders are accountable for the proper execution of business processes, including the associated internal controls and the overall audit readiness in their organizations.” He also said that the “Army will review monthly scorecards and hold quarterly meetings with commanders to ensure continued progress toward financial improvement.”

Congress has mandated that all of the DOD’s financial statements be auditable by fiscal year 2017. In fact, in September the Senate introduced a bill that would penalize the DOD for not meeting its audit goals. Penalties range from stricter reporting requirements to halting any new weapon systems past the research and development stage.

Asset management accountability is a key component for the Army to

the Army is focusing on the following three priorities to achieve an auditable state:

- Improving the budget execution processes that affect the statement of budgetary resources.
- Verifying the existence and completeness (E&C) of mission-critical assets and asset records.
- Maximizing the investment in enterprise resource planning systems, such as the Global Combat Support System–Army.

E&C Assertions

When the Army asserts the existence of mission-critical assets, it states that it has a reasonable assurance that the assets reported in its information systems actually exist. The Army verifies this assertion through an independent audit organization, which traces an asset from the Army’s information systems to its physical location in a motor pool, flight line, or storage facility. Auditors commonly refer to this as a “book-to-floor” test.

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E&C of Mission-Critical Assets

The Army’s E&C assertion of mission-critical assets covers various asset classes. Two of the main asset classes that directly affect logisticians are military equipment and general equipment (ME/GE) and operating materials and supplies (OM&S).

ME/GE includes class VII (major end items) assets with a unit acquisition cost of \$100,000 or more. ME includes ships, aircraft, and combat vehicles. GE includes materials-handling equipment, training equipment, special tools, and test equipment. The Army reported more than \$122.1 billion of ME/GE assets on its fiscal year 2011 financial statements.

OM&S covers class V (ammunition) assets. The Army reported more than \$31.1 billion of OM&S assets on fiscal year 2011 financial statements.

Audit Readiness Team Visits

In preparation for the Army E&C assertion in December 2013, audit readiness teams are visiting Army, Army National Guard, and Army Reserve organizations and installations. The teams are documenting business processes, testing internal controls on processes that contribute information to the financial statements, and providing corrective actions to address weaknesses within the processes. Audit readiness teams coordinate with internal review, supervisory auditor, mission support element, G–4/S–4, and directorate of logistics offices to arrange site visits

and implement and report corrective actions.

Property accountability inefficiencies at the local level compound to create material weaknesses across the Army and prevent the creation of reliable and accurate financial statements. Without an accurate understanding of our resources, we cannot properly plan for the future and we have more difficulty justifying funding from Congress.

The Army must be able to prove it is a responsible steward of taxpayer dollars through a financial audit. As mentioned, Congress is considering penalties that include withholding funds for weapon systems if the Army cannot obtain a clean audit opinion of its books.

Key Improvement Areas

At the more than 150 installations and locations maintaining Army property, improvements to internal controls should be made in physical inventory accuracy, property lifecycle transaction completion, standard operating procedures, quality assurance reviews, and warehouse safeguarding.

Physical inventory accuracy. Accurate physical inventory of assets and complete transaction documentation ensure that asset records accurately depict a unit's property and that the Army has assurance of its assets.

Accountable personnel should ensure a three-way match during a physical inventory of assets. The accuracy and consistency of asset serial numbers and data elements (as reported within the Property Book Unit Supply Enhanced [PBUSE] system), asset supporting documentation, and the asset itself should all match. Where appropriate, accountable personnel should submit a Department of the Army Form 4949, Administrative Adjustment Report, along with a PBUSE update with correct data. Personnel should update supporting documentation to reflect any changes to that form.

Assets deemed "found on instal-

lation" and "not found on installation" should be processed through the appropriate procedures to reflect an accurate property book. This may entail closing pending transactions in PBUSE, processing a receipt form for an asset, or completing a financial liability investigation of property loss.

Property lifecycle transaction completion. Accurate, complete, and authorized property movement ensures recorded transactions represent actual events, reducing the Army's exposure to loss of assets and potential misstatements.

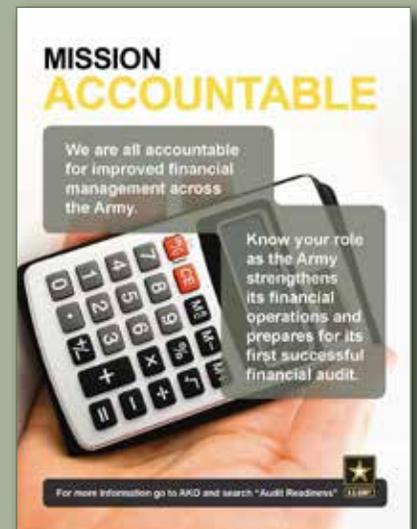
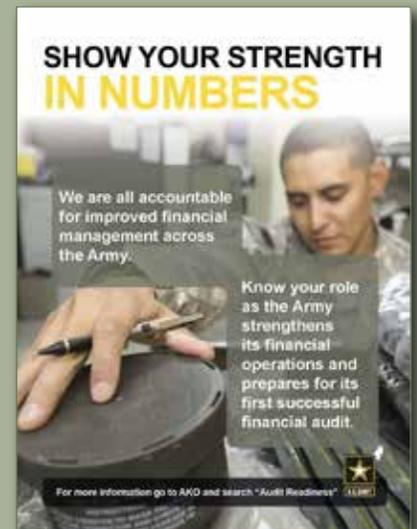
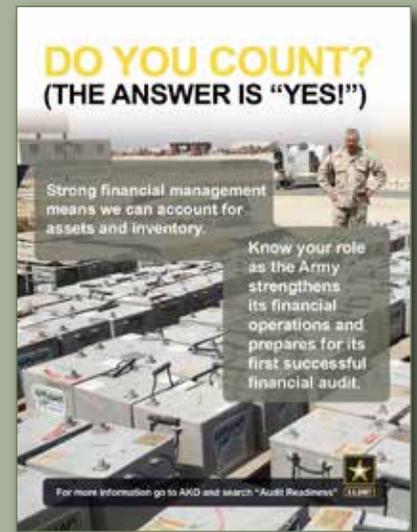
Property book officers (PBOs) should establish processes to reconcile transactions that are due-in and those that are deemed as pending within PBUSE. When an organization has received and accepted transactions, the PBO should process and close the transaction within PBUSE according to timeframes listed in Army Regulation (AR) 710-2, Supply Policy Below the National Level.

PBOs and property control custodians should record when a transaction document is received with a stamp that includes the date and initials of who received the document.

PBOs and asset property managers should engage hand receipt holders in increased training and process discipline to ensure that all supporting documentation is filled out accurately and completely and is signed by authorized personnel.

PBOs should ensure the commander or delegated individual signs appointment orders. Each command must establish segregation of duties to mitigate potential asset misstatements. All members of the property chain should use consistent signatures (either manual or digital).

PBOs should update document retention policies to retain initial purchase documents for capital assets permanently and documents supporting accounting records for a minimum of six years, as outlined in AR 710-2. PBOs should substitute any missing documentation with a statement that includes all informa-



The Army is promoting audit awareness through a series of informational posters.

tion recorded in the document register for the lost document. The PBO should sign the document.

SOP documentation. Documenting policies and procedures of the organization in a standard operating procedure (SOP) ensures consistency in proper classification and accounting principles from period to period.

A unit supply SOP should outline the following:

- The responsibilities of unit supply personnel.
- The kinds of records, reports, and forms required.
- Detailed procedures for requesting, receiving, storing, inventorying, issuing, and turning in supplies and equipment.
- Procedures for initiating adjustment actions for lost, damaged, or destroyed items.

Organizational SOPs should be accessible and reviewed annually to ensure they follow U.S. generally accepted accounting principles and ARs. The approval authority should review, sign, and date the SOP at regular intervals.

Quality assurance reviews. Quality control programs ensure the accuracy of property records during periods of time between inventories.

The Army has established quality assurance processes through its command supply discipline program (CSDP). When implemented properly, the CSDP provides reasonable assurance of property accountability, asset record accuracy, and adequate documentation supporting all transactions.

Organization leaders and PBOs should implement CSDP evaluations within their organizations. Organizations should document CSDP results and resolve findings in line with AR 710-2, Appendix B. The frequency of CSDP evaluations should conform to Appendix B, Table B-7.

Warehouse safeguarding. The use of appropriate safeguarding ensures controlled access to assets, critical forms, records, processing, and stor-

age areas. It also provides greater certainty that recorded assets exist on a given date.

Accountable personnel should ensure the warehouse SOP contains procedures for segregating duties, securing property, and preventing fraud, waste, and abuse. Where appropriate, all personnel not assigned to the warehouse should sign in and be escorted.

All gates and doors should be secured during nonbusiness hours. Sensitive items should be kept in locked cages, and lockers should be located within a locked fenced area. Accountable personnel should secure pilferable equipment located outside the warehouse or keep it in secured containers. Organizations should use a key control log to account for all locker, cage, fence, and entry door keys.

Audit Readiness Support

The audit readiness team has developed a suite of resources to ensure commands and installations are following business processes to audit-ready standards.

Overview and business process training. Classroom and virtual training modules are available and cover internal controls in detail. Find virtual training on the Army Learning Management System by searching for “audit readiness.” Currently, the ME/GE business process module is available, and one for OM&S is coming soon.

Audit readiness site. The Army Knowledge Online (AKO) audit readiness site features audit readiness resources and site visit schedules. Log into AKO first and then go to <https://www.us.army.mil/suite/page/auditready> or search “audit readiness.”

Audit Readiness Command and Installation Guide. This guide, available on the AKO audit readiness site, provides a description of key supporting resources available to commands and installations for becoming audit ready. It also includes a description of key internal

control activities identified for each command and installation and the authoritative guidance and policies requiring the internal control activities. The guide discusses the common internal control deviations discovered by Army audit readiness teams during discovery and testing site visits.

Financial Improvement Plan. The Army provides regular updates to business process owners through a quarterly report called the Financial Improvement Plan. It provides updates on audit readiness activities, information on upcoming training, and other current financial management topics.

“Responsible stewardship of taxpayer resources and operating business processes within an effective control environment are consistent with high standards of military readiness and support Army values,” said Gen. Odierno in his April message to general officers.

The effort for the Army to become auditable is about more than just receiving a clean opinion. When we better manage Army resources, Army leaders can rely on accurate and timely financial data to make better informed decisions, especially in tight fiscal times.

A clean audit opinion shows we are accountable to taxpayers and better justifies future funding requests to Congress. Efficiently managing our resources allows us to better support our Soldiers and their missions.

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We welcome your comments on this or any other sustainment-related topic. Email usarmy.lee.tradoc.mbx.leeasm@mail.mil.