



American Society of Military Comptrollers (ASMC)
Washington DC Chapter Luncheon

Marine Corps Financial Statement Audit: Audit Readiness and Lessons Learned

19 January 2011



Achieving Audit Readiness: “Doing Business the Right Way”

- ◆ **Objective:** improve warfighter support through improved financial management and accounting governance and sustainability across “5 Key Strategic Areas.”

Management/Internal Controls

Organization &
Infrastructure

Policies &
Procedures

Information
Systems

People

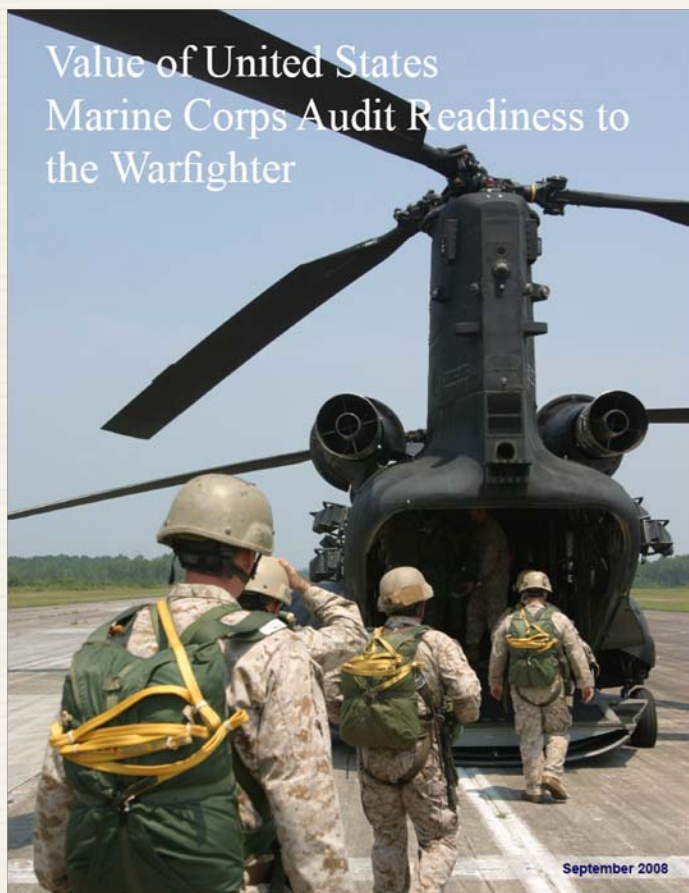
“The Marine Corps is a combat force-not a business. To be successful, however, we need to support warfighting excellence with well-managed business processes that are both effective and efficient.”

*General Michael W. Hagee
33rd Commandant of the Marine Corps*



Bringing Value to the Warfighter... Through Audit Readiness

Value of United States
Marine Corps Audit Readiness to
the Warfighter



*For each \$1 spent on financial improvement, an
estimated \$2.77 in value was created for the warfighter.*

Audit Readiness Results

- ✓ Decreased Undelivered Orders
- ✓ Reduced Abnormal Accounts Payable
- ✓ Decreased Unmatched Disbursements
- ✓ Decreased Interest Penalty Payments

| | |
|--------------------|----------------|
| Total Investments: | \$ 9.9M |
| Total benefit: | \$27.3M |
| Net Present Value: | \$17.4M |





Audit Readiness via Training and Testing

- ◆ Engaged our field commands in several audit-like tests.
- ◆ Implemented an aggressive Internal Control over Financial Reporting (ICOFR) program.
- ◆ Demonstrated that Fund Balance w/ Treasury is fully reconciled.
- ◆ **Final Test**: audit trail assessment by the Department of Defense Inspector General (DoDIG) and Financial Improvement and Audit Readiness Directorate (FIAR).

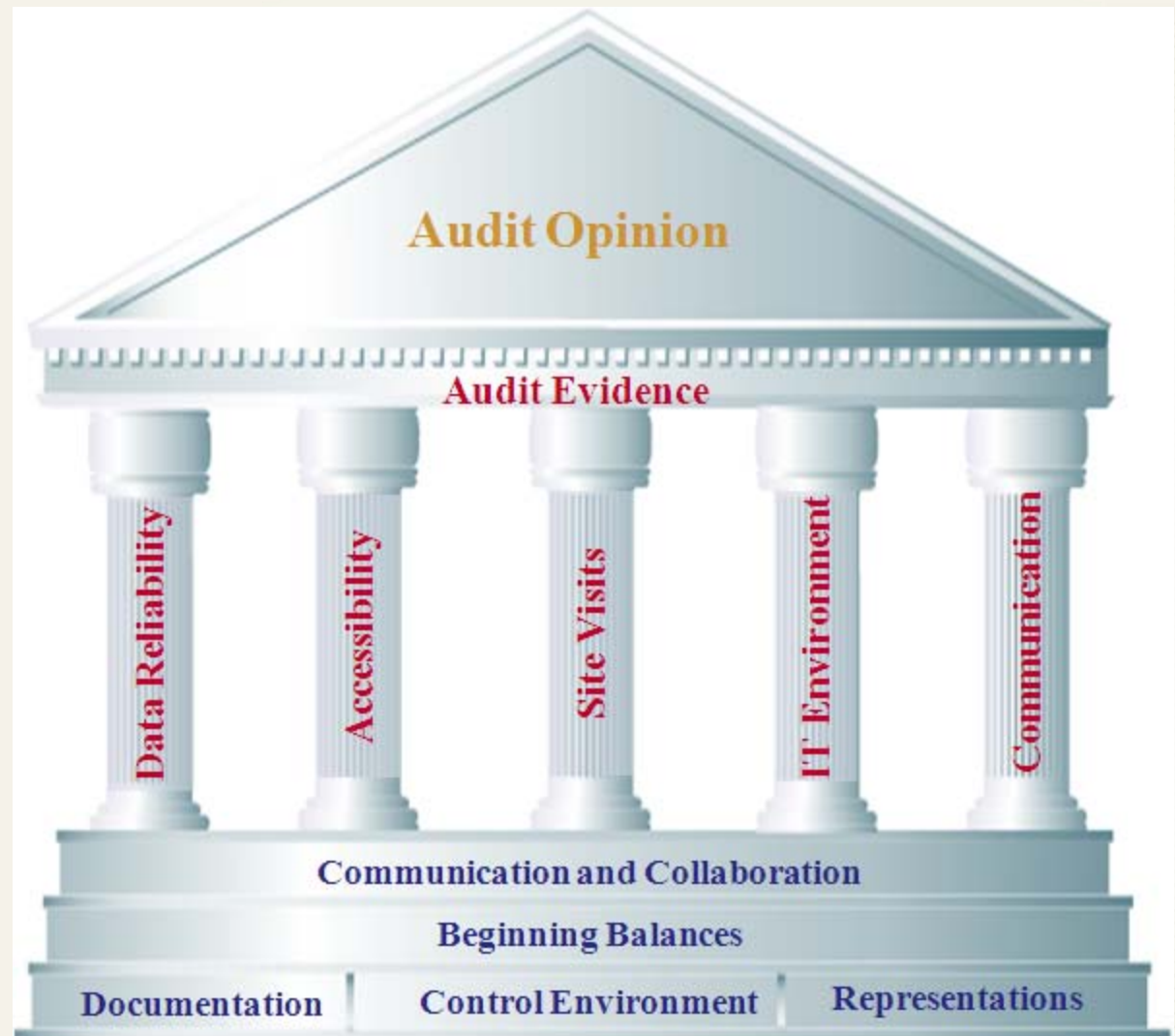




Marine Corps Financial Statement Audit: How to Reach an Opinion?

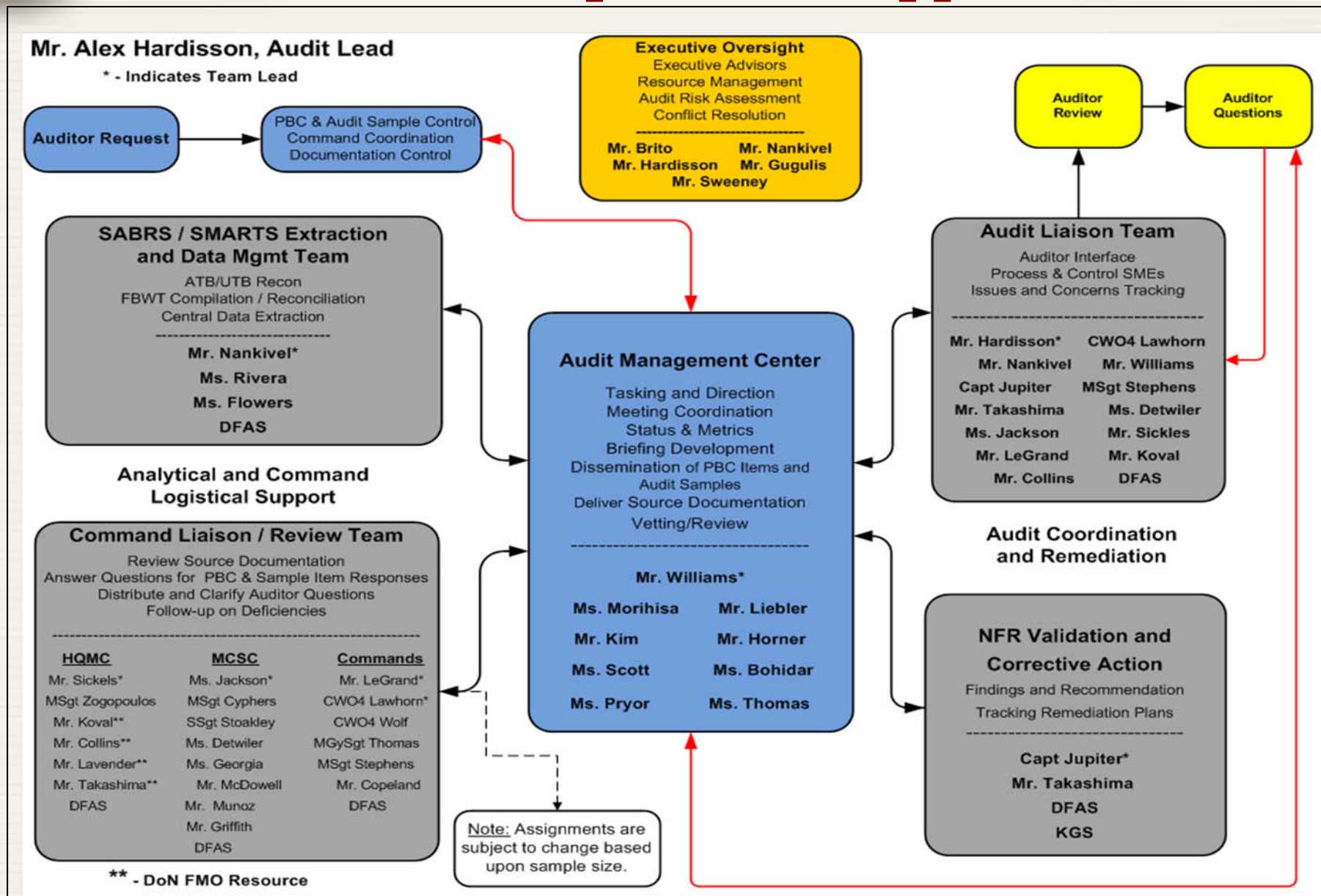
Audit Phases

1. Planning
2. Internal Control
3. Testing
4. Reporting





FY10 Marine Corps Audit Support Structure

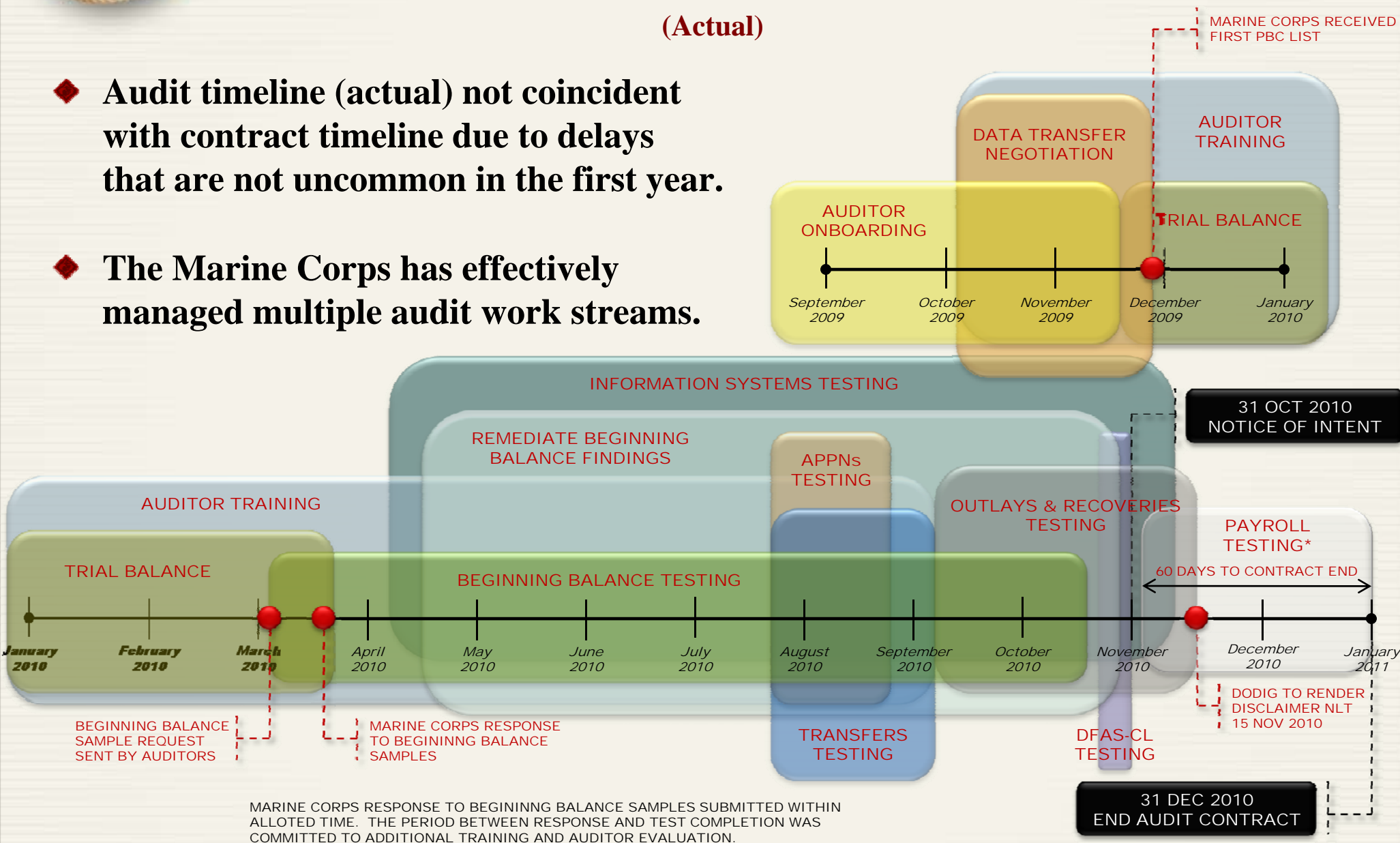




SBR Audit Timeline

(Actual)

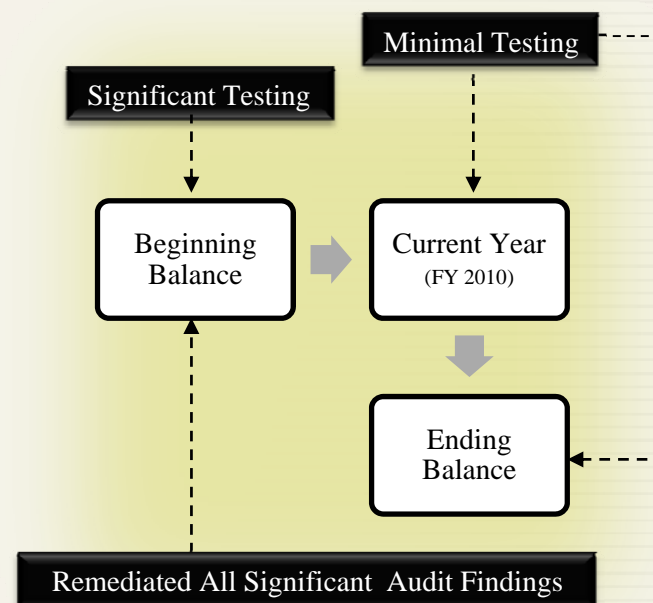
- ◆ Audit timeline (actual) not coincident with contract timeline due to delays that are not uncommon in the first year.
- ◆ The Marine Corps has effectively managed multiple audit work streams.





Key Financial Statement Audit Actions

1. **Beginning Balance Testing:** assessment of the initial, brought forward amount that forms the opening balance to the financial statement.
 - ♦ Efforts have concluded
 - ♦ Auditors have issued audit findings and recommendations
2. **Remediation of Beginning Balance Concerns:** actions to address 11 auditor findings that surfaced during beginning balance testing.
 - ♦ Marine Corps provided Plan of Actions and Milestones addressing all beginning balance concerns
 - ♦ Auditors validated corrective actions associated with beginning balance findings
 - ♦ Auditor remediation testing concluded 03 DEC 2010
3. **FY10 Non-Beginning Balance Testing:** assessment of transactions and events that were initiated in FY10 and were not part of the beginning balance amount identified in bullet #1 (*above*).
 - ♦ Responded to more than 400 samples for Transfers, Outlays and Recoveries
 - ♦ Auditors tested financial statement compilation process and adjusting journal entries
 - ♦ Auditors performed a cursory assessment of Military Payroll





Key Audit Recommendations

1. Fund Balance w/ Treasury (FBWT) Reconciliation

- ◆ Establish a mechanism to reconcile FBWT on a monthly/quarterly basis.
 - ◆ Reconciliation must be at the detailed transaction level.
 - Is there comparability between DCAS and the core accounting system(s)? Can you explain your variances (i.e., undistributed, suspense, CMET failures, etc.)?
 - After accounting for late registers, is the Government-Wide Account (GWA) supported by the FBWT reconciliation?
- ◆ Ensure that FBWT reconciliation efforts are sustainable via documented ownership and process control.
 - ◆ Assign responsibility and document procedures for completing the reconciliation on a quarterly basis.
 - Will DFAS be performing the reconciliation?
 - Are there automated requirements that must be established in order to reconcile DCAS, your core accounting system(s), and GWA?
 - What quality control procedures exist prior to delivery to the auditors?



Key Audit Recommendations *(cont.)*

2. Unadjusted to Adjusted Trial Balance Reconciliation

- ♦ Audit sampling occurs at the USSGL account level.
 - ♦ Must be able to produce a reconciled trial balance for all budgetary and proprietary accounts.
 1. For your first year audit, produce a reconciled unadjusted to adjusted trial balance for Beginning Balances (i.e., balances brought forward at 9/30).
 2. Separately, produce a reconciled trial balance for the current FY at the end of each quarter.
 - ♦ Trial balance must be supported by detailed transaction records.
 1. Generate an unadjusted to adjusted trial balance from DDERS by General Ledger account.
 2. Support the unadjusted trial balance with transaction-level details from your core accounting system(s).
- ♦ The auditor may further stratify the General Ledger account by appropriation.
 - ♦ This will increase sample sizes given additional segmentation.
 - ♦ This will improve the granularity of audit findings and recommendations.
 - May yield improvement opportunities that are specific to the appropriation (O&M, Procurement, etc.)
 - May limit auditor retesting to only those appropriations requiring remediation.



Key Audit Recommendations *(cont.)*

3. Military Payroll Reconciliation and Disbursement Processing

- ◆ Establish a mechanism to reconcile gross payroll on a monthly basis.
 - ◆ Are your payroll and core accounting systems accurately reflecting payroll outlays?
 - ◆ Within your core accounting system, are you capturing all payroll disbursements that occurred outside of your payroll system? Are these being reconciled for accuracy?
 - ◆ Do you have traceability to the individual Service member in order to validate entitlements and garnishment? What source documentation exists to support this?
- ◆ Ensure that payroll reconciliation efforts are sustainable via documented ownership and process control.
 - ◆ Assign responsibility and document procedures for completing the reconciliation on a monthly basis.
 - Will DFAS be performing the reconciliation?
 - What quality control procedures exist prior to delivery to the auditors?
 - ◆ Ensure that Active and Reserve payroll disbursements are accurately captured, especially where reserve activation is concerned.
 - Are you disbursing from the wrong appropriation?
 - What mechanisms are in place to ensure that a payroll related ADA violation is not possible?



Key Audit Recommendations *(cont.)*

4. Service Provider Agreements and Expectations

- ◆ The audit scope will envelop the efforts of others where an accounting, recording and reporting impact exists.
 - ◆ Is there reasonable assurance through testing that service provider systems and processes are accurate and reliable?
- ◆ Reinforce service provider expectations prior to the audit.
 - ◆ Has the service provider identified audit support POCs and/or established an audit support cell?
 - ◆ How will audit support and remediation be prioritized and coordinated?
 - ◆ Do you have an updated Service Level Agreement that reinforces process expectations and audit support requirements?
- ◆ Preparation for audit should be thoroughly rehearsed with service providers participating in every audit readiness exercise.



Key Audit Recommendations *(cont.)*

5. Bulk Obligation Estimation and Support

- ◆ All financial processes must be supported by an audit trail that includes documented analysis and periodic monitoring where bulk obligations exist.
 - ◆ The auditors will place greater scrutiny on bulk obligations to ensure that estimates are reasonable and not causing a misstatement.
 - Are you recording estimated bulk obligations? How are these supported?
 - Are reconciliations performed timely and accurately (e.g., Tri-Annual Review)?
- ◆ Validate the population for Undelivered Orders and Delivered Orders Unpaid (Unliquidated Obligations) across all appropriations not cancelled.
- ◆ Establish ownership and controls to monitor obligations and outlays to ensure consistency with estimation models and requirements; adjust (deobligate) where appropriate.



Key Audit Recommendations *(cont.)*

6. Contract Management and Payment Processing

- ◆ All Services and their providers must process contracts in a manner that supports the accurate and timely recording of contract obligations, accruals and payments.
 - ◆ The auditors will test for proper contract posting and payment processing at the Contract Line Item Number (CLIN) and the Sub-Line Item Number (SLIN) level.
 - Are payments improperly processed where CLIN/SLIN information is missing?
 - Are contracts executed at the SLIN-level processed for payment at the CLIN-level? If so, this causes unmatched disbursements.
 - ◆ The auditor will review if disbursements are processed as end-use charges (general payment), advances, or reimbursable collections.
 - Transaction Type Codes (TTCs) must be properly assigned based on contract parameters for financing and delivery schedules. Advance payments must be stated clearly in the contract and thoroughly verified prior to DFAS payment processing.
 - ◆ Contract award, modification and/or closeout must be performed and communicated to the fund holder in a timely manner .
 - Contract award, modifications and closeout must be communicated to the fund holder in the period in which the action occurred.
 - ◆ To enable timely receipt and acceptance processing, the accounting station code (Authorized Accounting Activity) must be accurately reflected in Wide Area Workflow.



Questions?

Questions?

Contact Information

Mr. Alex Hardisson

Risk and Compliance Manager

E-mail: alex.hardisson@usmc.mil

Phone No.: (703) 695-3470