

GAO Highlights

Highlights of [GAO-16-47](#), a report to congressional committees

Why GAO Did This Study

The National Defense Authorization Act for Fiscal Year 2014 mandates an audit of DOD's fiscal year 2018 department-wide financial statements. To help achieve this, the DOD Comptroller issued the FIAR Guidance to provide a standard methodology for DOD components to follow to improve financial management and achieve audit readiness, and designated the SBR as an audit priority. Full implementation of the Navy's General Fund FIP for FBWT is essential to achieving audit readiness for its General Fund SBR. The Navy asserted Statement of Budgetary Activity (SBA) audit readiness as of September 30, 2014, and in February 2016 received a disclaimer of opinion on the audit of its SBA for fiscal year 2015.

GAO is mandated to audit the U.S. government's consolidated financial statements, which cover activities and balances of executive branch agencies, including DOD. GAO's objective in this report was to determine the extent to which the Navy developed and implemented the Discovery phase of its General Fund FBWT FIP in accordance with the FIAR Guidance. GAO analyzed the Navy's FBWT FIP to determine whether it contained the tasks and activities required by the FIAR Guidance for the Discovery phase. GAO also reviewed the Navy's FBWT FIP key deliverables, such as process narratives and flowcharts, internal control assessments, and test results.

What GAO Recommends

GAO recommended that the Navy fully implement the FIAR Guidance for FBWT in the areas of process analysis, prioritization, internal control assessment and testing, and evaluation of supporting documentation to support audit readiness. The Navy concurred with all seven recommendations.

View [GAO-16-47](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

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DOD FINANCIAL MANAGEMENT

Improvements Needed in the Navy's Audit Readiness Efforts for Fund Balance with Treasury

What GAO Found

The Navy has made progress in performing audit readiness activities, including developing a financial improvement plan (FIP) for its Fund Balance with Treasury (FBWT). These activities are critical to the Navy's General Fund Statement of Budgetary Resources (SBR) improvement efforts. The Navy's FBWT FIP is particularly important as it addresses improvement efforts across multiple business processes, including contract and vendor payments and military and civilian payroll that provide significant input to the SBR. However, the Navy did not fully implement certain tasks in its FBWT FIP in accordance with the Department of Defense's (DOD) Financial Improvement and Audit Readiness (FIAR) Guidance. These included activities in all four key tasks of the Discovery phase, the first of the five FIAR guidance phases. In the Discovery phase, the reporting entity documents processes, prioritizes audit readiness efforts, assesses and tests controls, and evaluates supporting documentation.

Document processes. The Navy did not fully document its FBWT process in system narratives and flowcharts. For example, the Navy's analysis did not explain the complex process that occurs within the Defense Departmental Reporting System - B, including merging data and deleting duplicative transactions. In the Navy's case, the process analysis is particularly important because the Navy's transactions do not follow the typical flow of data used to produce financial statements. Without a complete FBWT process analysis and system narratives, internal controls and risks for each of the systems in the process may not be readily identified and appropriately tested.

Prioritize audit readiness efforts. The Navy did not prioritize FBWT audit readiness efforts or fully implement its audit readiness prioritization and strategy for key information systems prior to its assertion of audit readiness. The Navy's lack of prioritization of key information technology limits management's ability to focus audit readiness efforts on the systems with the highest risk.

Assess and test internal controls. Within the FBWT assertion package, the Navy did not document information technology general computer controls for significant systems or the hardware and software interfaces, as required. Also, the Navy did not identify internal controls by assessable units (e.g., information systems supporting financial statement line items or other discrete portions of the program). Identifying controls by assessable unit is important for determining whether assessable units, sub-assessable units, and associated systems are producing reliable information and helps link systems and controls to the transaction flows.

Evaluate supporting documentation. Although the Navy performed substantive tests for supporting documents, such testing may not provide sufficient evidence of the Navy's ability to produce documentation in a substantive manner for future audits. An evaluation of key supporting documentation is important for determining whether the Navy would be able to support amounts presented in the financial statements or provide an external auditor with sufficient and appropriate evidence to perform the audit.

Addressing these shortfalls is critical to achieving audit readiness.