



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

NOV - 2 2009

MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
UNDER SECRETARY OF DEFENSE FOR PERSONNEL
AND READINESS
DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)
ASSISTANT DEPUTY CHIEF MANAGEMENT OFFICER
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTOR, TRICARE MANAGEMENT ACTIVITY

SUBJECT: Priorities for Improving Financial Information and Achieving Audit Readiness

Over the past few years, my office and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) have initiated efforts to improve asset accountability within the Department of Defense (DoD). Recently, the USD(C) issued updated guidance regarding the Department's priorities (attached) for improving financial and business information and achieving auditable financial statements. I endorse and support the USD(C) priority to validate the existence and completeness of mission-critical assets on the path to complete financial statement audit readiness.

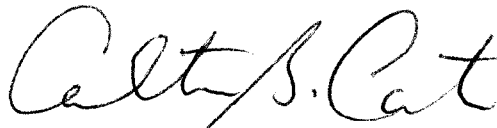
For the purposes of the actions requested in this memorandum, existence and completeness are defined as follows:

- **Existence** – All accountable property (military and general equipment, real property, inventory, and operating materials and supplies) in DoD systems of record exists and their records match actual physical assets.
- **Completeness** – All accountable property is identified and accurately recorded in a DoD system of record.

Under this priority, Components are tasked with either demonstrating that their assets are already being accounted for properly in Component Accountable Property Systems of Record (APSRs) or identifying process, control or system deficiencies impeding success and developing plans to remediate these impediments. My office is working with OUSD(C) and your Departments to develop discovery and corrective action plans, as well as to identify key management information to support the USD(C) priority. The assessment to ensure existence and completeness have been achieved will be performed by independent auditors. These plans will be included in the DoD Financial Improvement and Audit Readiness Plan, which is submitted semiannually to Congress.

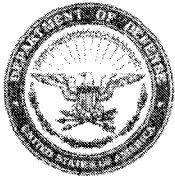
The Department is already making significant progress to complete DoD-wide real property transformation by the end of FY 2012. This transformation includes implementation of corrective actions that will achieve existence and completeness of real property assets as part of its ultimate goal to attain audit readiness. Therefore, there is no need to revise current financial improvement and transformation plans for real property. If ready, existence and completeness audits for real property should be conducted by FY 2012. Alternatively, real property assertions may be validated in FY 2013 along with other management assertions.

Thank you in advance for focusing on this important priority. My points of contact are: Mr. Steve Tkac at 703-604-6350 x121 for Military and General Equipment, Mrs. Lora Muchmore at 703-604-6025 for Real Property, and Mrs. Debra Bennett at 703-604-0098 x106 for Inventory and Operating Materials and Supplies.



Ashton B. Carter

Attachment:
As stated



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

AUG 11 2009

MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE
UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE FOR PERSONNEL
AND READINESS
DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)
ASSISTANT DEPUTY CHIEF MANAGEMENT OFFICER
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTOR, TRICARE MANAGEMENT ACTIVITY

Subject: Priorities for Improving Financial Information and Processes and Achieving
Audit Readiness

This memorandum outlines the priorities the Department of Defense (DoD) will follow with regard to improving its financial information and processes and for achieving audit readiness.

Background:

The Chief Financial Officers (CFO) Act of 1990, along with subsequent legislation, requires that federal agencies produce auditable financial statements. The first and most important step in this process requires improving financial information to make it more useful and reliable for managers. Unqualified audit opinions are one result of this effort and serve useful purposes. They verify improvements in information and processes and provide independent reassurance to the public that DoD is a good steward of their tax dollars.

In recent years, the DoD has made progress toward improving financial information and processes supporting auditability. For example, the Army Corps of Engineers improved its financial information and achieved an unqualified audit opinion in 2008, and the United States Marine Corps is close to being ready for audit of its Statement of Budgetary Resources.

However, many of the hardest problems remain unresolved, including implementing compliant systems and valuing our significant investment in property and

equipment. The remaining tasks will be daunting both because of the Department's size and complexity and because of the need to involve many functional communities that have pressing operational and management commitments. Further, some of the information required for a formal audit – including valuations of assets – is of limited use to DoD managers.

Priorities:

In order to focus limited resources in the most effective manner, I am directing that DoD pursue specific priorities as follows with regard to improving financial information and processes supporting audit readiness.

- In compliance with the law, the DoD Components will continue to work toward financial improvements that permit all their financial statements to receive unqualified audit opinions. DoD will also continue to place its primary emphasis on improving financial information and processes so that the information is more useful to managers. Successful audits will be one result of these improvements.
- DoD Components will focus first on improving information and processes supporting auditable statements for the financial information that is most often used to manage the Department. Because budgetary information is used widely and regularly for management, DoD will place the highest priority on improving its budgetary information and processes. That will eventually lead to unqualified opinions on the Statements of Budgetary Resources. A secondary goal will be to verify the existence and completeness of mission critical assets (that is, verifying that records accurately capture the number of each type of weapon system, real property, inventory, and operating materials and supplies). DoD Components will place a lower priority on valuing assets and on improving other information on their balance sheets but may continue to work in these areas.
- DoD Components are directed to adjust their current plans in August 2009 for improving financial information and processes and achieving successful audits to focus first on their Statements of Budgetary Resources. Then, focus on existence and completeness of mission critical assets. Once DoD Components have improved information and achieved successful audits in these higher priority areas, they may increase the priority placed on asset valuation and other balance sheet items.

While the financial management community is the leading advocate for this initiative, efforts to improve financial information must involve many functional communities and the Chief Management Officers who broadly direct business operations. Please distribute this memorandum widely to all those in your organization who are

responsible for improving financial information and processes and for achieving audit readiness.

My point of contact for this action is Ms. Radha Sekar. She may be reached by phone at (703) 697-3200 or by email at radha.sekar@osd.mil.

A handwritten signature in dark ink, appearing to read "Robert F. Hale". The signature is written in a cursive, flowing style.

Robert F. Hale

Cc:
DoDIG