



Q: What is a financial statement audit?

A: "A financial audit is an independent evaluation of whether an organization's financial statements are fairly presented and in accordance with appropriate accounting standards."

Q: Is it a DoD requirement to do this?

A: "Yes, financial statement auditability is a DoD requirement. The 1990 Chief Financial Officers Act, 1994 Government Management Reform Act, and FY2010 National Defense Authorization Act (NDAA) require financial statement audits. On 13 October 2011, the Secretary of Defense issued a memorandum titled "Improving Financial Information and Achieving Audit Readiness." One of the goals laid out in this memorandum was to "Achieve audit readiness for the Statement of Budgetary Resources by the end of 2014." Due to the complexities of the Military Pay (MilPay) business segment, the Vice Chief of Naval Operations (VCNO) assigned responsibility for Navy MilPay audit readiness to the Chief of Naval Personnel (CNP) in a memorandum dated 25 January 2012. "

Q: What is the value of this audit to the Navy?

A: "The value of financial auditability is to comply with laws, improve business processes, make better use of resources, and increase public trust. Financial Improvement and Audit Readiness (FIAR) efforts have provided the Navy with greater visibility and control over its financial and accounting functions, improving the efficiency and effectiveness of the DON's operations, strengthen its ability to support the war fighter, and fulfill its mission in a more fiscally responsible approach."

Q: What is the goal of the Department of the Navy (DON) Financial Improvement and Audit Readiness?

A: "The goal of Department of Navy (DON) Financial Improvement and Audit Readiness (FIAR) is to produce financial information with greater accuracy, reliability, traceability, and accessibility and to work toward a constant state of audit readiness. This improvement provides senior leadership with the ability to efficiently allocate the command's resources in a more judicious way. The CNRFC DON FIAR Team's intent is not to serve as an external auditor but to ensure that CNRFC has the necessary tools and processes in place to achieve financial statement auditability."

Q: What does "audit readiness" mean?

A: "Audit readiness is a state of being prepared at all times to demonstrate proper manual and automated processes and documentation (e.g., process controls, financial controls, Information Technology (IT) controls) that are executed in accordance with policy and appropriate accounting standards."

Q: What type of audit is being performed?

A: "The impending examination will be an Independent Public Accounting (IPA) firm audit of Navy financial statements and will focus on the Navy's budgetary resources."

Q: Is this the first time that an audit like this will be performed?

A: "The upcoming examination will be the first time the Navy's MilPay business segment has been examined by an IPA. Going forward, the Navy's financial statement will be audited on an annual basis. "



Q: What will the MilPay audit entail?

A: *"The purpose of this audit is not to negatively impact the pay and bonuses of Sailors. In the coming months, the Navy's MilPay business segment will be undergoing its first audit examination by an IPA firm. This audit will likely involve demonstrating that a sample of members are receiving the correct pay and entitlements for their respective duties, skills, location, etc. by providing the auditor with supporting documentation to support the entitlements being recorded for the member. The IPA can review any entitlements that they deem applicable to their examination."*

Q: What should Sailors know about these specific audits?

A: *"The procedures performed by the IPA firm are meant to provide assurance that members are receiving the pay they are entitled. All members should regularly review their records to ensure that their information aligns with the amount and type of pay they are receiving. Additionally, members should ensure that their records at the Navy Reserve Activity (NRA) and program offices are up-to-date with appropriate pay and personnel documentation. Any changes to pay and personnel information should be communicated to the NRA promptly and supported by appropriate documentation in the Official Military Personnel File (OMPF). There are a number of documents within a member's OMPF that provide information pertaining to pay and will be critical to successfully supporting the IPA examination. These documents include:*

- *Agreement to Extend Enlistment (NAVPERS 1070/621)*
- *Agreement to Recall or Extend Active Duty (NAVPERS 1070/622)*
- *Enlistment/Reenlistment Document (DD 4)*
- *Immediate Reenlistment Contract (NAVPERS 1070/601)*
- *Officer Appointment Acceptance and Oath of Office (NAVPERS 1000/4)*
- *Statement of Service*
- *Dependency Application/Record of Emergency Data and Record of Emergency Data (NAVPERS 1070/602)"*

Q: How can Sailors best help the Navy's MilPay segment achieve a 'clean' audit opinion?

A: *"We ask that the members review their OMPF and work with their NRA to ensure that the most recent copies of the documents are maintained in OMPF. We will use OMPF as a source to retrieve documentation in response to auditor requests. Personally Identifiable Information (PII) will be handled in accordance with the applicable DoD policies and procedures. Audit or no audit, members should strive to update their records promptly and review their records to confirm accuracy. We appreciate everyone's cooperation and efforts as we work towards compliance with DoD mandated financial statement audit deadlines."*

Q: How can Navy Reservists assist with a successful audit of the Navy's MilPay segment?

A: *"Reservists must ensure all fully endorsed Annual Training (AT) orders, Active Duty for Training (ADT) orders, and properly completed individual (vice unit) Inactive Duty Training (IDT) muster sheets are returned to the NRA per established CNRFC policy."*

Q: Who should I contact if I notice a discrepancy in my records?

A: *"Please contact your NRA to assist in correcting any discrepancies noted."*

Q: How will the auditors select which documentation or entitlements will be audited?

A: *"The IPA may choose to sample however they see fit and review any documentation or entitlements that they deem applicable to their examination. The purpose of recent MilPay communications is to notify Sailors that a future audit examination will be occurring and asking for All-Hands support to ensure records are updated and accurate."*



Q: How is it determined who gets audited?

A: "The IPA will determine the selection process based on government auditing standards, its firm practices, and the level of risk it perceives within the MilPay segment. The Navy is not informed of the selection process, but it is likely that the IPA will select only a sample of members' entitlements for review."

Q: Will I be contacted to provide documentation?

A: "The Navy will look to respond to the IPA without involvement from the members, so it is unlikely that you will be contacted. We will use OMPF as a primary source to retrieve documentation in response to auditor requests. In addition, we will collect documents from reserve unit and individual IDT folders that pertain to entitlements for AT/ADT orders or IDT periods performed. This is why we are asking Sailors for their help in ensuring their records are updated in the OMPF, and to return orders and drill muster sheets to the NRA to reflect their current status. PII will be handled in accordance with the applicable DoD policies and procedures. If reservists do not provide these documents to their NRA, we will have no option but to contact individuals directly to obtain the required documents."

Q: "Will this affect my pay? If the audit finds that a Sailor is due money, is the Sailor reimbursed?"

A: "Yes, in the event that the auditors discover a discrepancy that should lead to a Sailor receiving additional funds, the appropriate parties will be informed and the discrepancy will be investigated and corrected."

Q: How common are these audits? How many Sailors will be audited? What percentage of documentation has some kind of discrepancy?

A: "Moving forward, the Navy's financial statements will be audited on an annual basis. However, the upcoming examination will be the first time the Navy's MilPay segment has been examined by an IPA. As such, we do not yet have information about how often the IPA will conduct its testing, the number of people that will be selected, and the discrepancy percentage."

Q: What is the most common discrepancy found?

A: "Since the upcoming examination will be the first time the MilPay segment has been audited by an IPA firm, we do not yet have information to provide for the most common discrepancy that will be found. However, the Navy's pre-examination preparatory testing found that supporting documentation pulled from OMPF was able to substantiate most of the entitlements selected for testing. The most common discrepancy for the Navy reservists was the lack of properly endorsed AT/ADT orders available in the individual's IDT folder to fully substantiate pay and entitlements for those periods of active duty. For this reason, it is vital that all members ensure their records are updated in OMPF to reflect their current status and that ALL endorsed orders are returned to the NRA for inclusion in the IDT folder."

Q: What other documentation at the NRAs should be up-to-date?

A: "Documentation supporting special pay entitlements such as: Confirmations that a member was in a Hostile Fire Zone; Confirmations that a member was in flight status and should be receiving CEFIP; Confirmations that the member has performed the necessary requirements to receive Foreign Language Proficiency Pay."



Q: Where can one find additional information on MilPay and MilPay audit readiness?

A: *The following links can provide more information:*

- MilPay Audit Readiness Fact Sheet – <http://www.public.navy.mil/bupers-npc/organization/bupers/Documents/MilPay%20Fact%20Sheet%203%2013%2013.pdf>
- Office of Financial Operations (FMO) FAQs – http://www.fmo.navy.mil/frequently_asked_questions.html
- OMPF Info – <http://www.public.navy.mil/bupers-npc/career/recordsmanagement/pages/myompf.aspx>
- Navy Personnel Command - <http://www.public.navy.mil/bupers-npc/Pages/default.aspx>

Q: What role does the NRA play as a field level activity?

A: *"Every NRA, as a field level activity performing many of the pay transactions, your involvement in the DON FIP effort is critical. Your subject level expertise of the MILPAY business processes as they relate to Navy Reserve pay and personnel transactions will be relied upon to ensure collection and retention of the appropriate Key Supporting Documents (KSDs) that are needed to perform and substantiate the internal controls. These include but are not limited to: Unit and individual IDT muster sheets, fully endorsed AT/ADT orders, contracts (enlistment, reenlistment, and extension), page 2's and SGLI elections."*

Q: What are key supporting documents?

A: *"The Financial Improvement and Audit Readiness (FIAR) December 2011 defines key supporting documents as, "Documentation retained to demonstrate control activities are properly designed and operate to satisfy [control objectives], as well support individual financial transactions and accounting events. Once internal control assessments begin, KSDs will be requested to determine the operating effectiveness of each internal control"."*

Q: Why focus on Military Pay now?

A: *"No single segment (e.g., Civilian Pay, Contracts and Vendor Pay, etc.) is more important than another. Testing of each segment follows a predetermined timeline set forth by the Office of Financial Operations (FMO). Segments are usually tested at different times to allow commands to focus their valuable resources on testing while minimizing the disruption to normal operations. The current testing of MilPay follows that timeline"*

Q: What are major challenges CNRFC faces with impending audit readiness?

A: *"Major challenges for the Navy Reserve include ensuring all reservists understand the importance of obtaining both endorsements for all AT/ADT orders, and returning the same to the NRA expeditiously. NRAs must validate the endorsements against the order dates to guard against over or under payment."*

Q: How will CNRFC move forward to overcome these challenges and achieve audit readiness?

A: *"CNRFC will continue to provide policy guidance to the Echelon IV Commanders and encourage continuous communication with Echelon V Commanding Officers. CNRFC will conduct periodic sustainment testing to ensure validity of implemented policies and procedures, and make adjustments as necessary to ensure the best outcome for all future audits."*