UBO Webinar: Audit Readiness

May 23rd and 25th, 2017

"Medically Ready Force…Ready Medical Force"

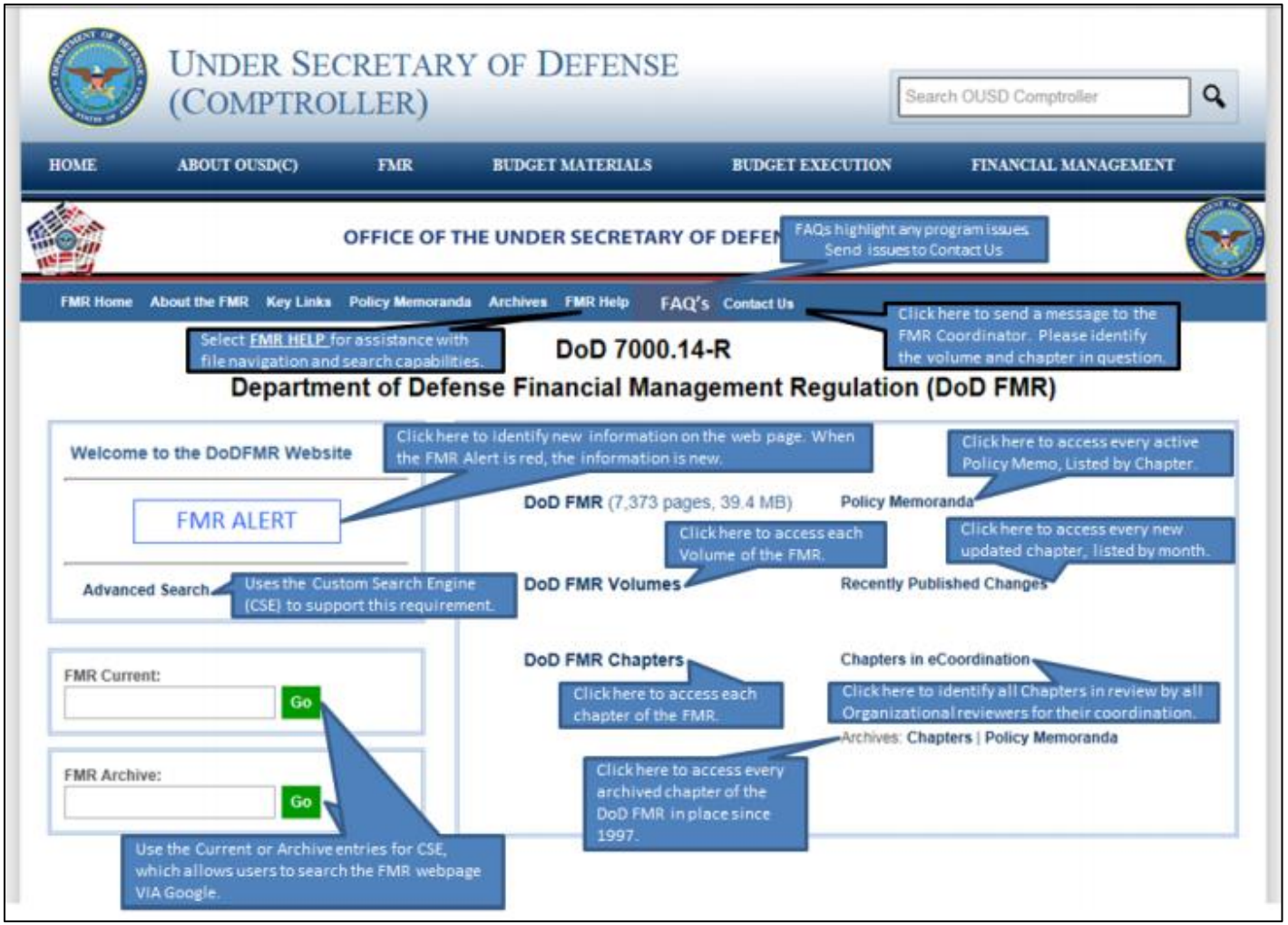
Agenda

- Intro to the DoD Financial Management Regulations (FMR)
- Using the FMR
- FMR Volume 1
- FMR Volume 4
- UBO Cost Recovery Programs
- Summary of UBO Responsibilities
- DHP Financial Statement Compilation
- Audit Readiness & Financial Audit
- Audit Response
- Engaging with Auditors
- Back-up Slides

Intro to the DoD Financial Management Regulations (FMR)

- Issued under the authority of DoD Instruction 7000.14, *"DoD Financial Management Policy and Procedures"*
- Available at http://comptroller.defense.gov/FMR.aspx
- Directs statutory and regulatory financial management requirements, systems, and functions for all appropriated and non-appropriated working capital, revolving, and trust fund activities
- Applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Unified and Specified Commands, the Inspector General of the DoD, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as "DoD Components")

Using the FMR



Using the FMR, cont.

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DoD 7000.14-R

Department of Defense Financial Management Regulation (DoD FMR)

DoD FMR Chapters

Intro | 1 | 2A | 2B | 3 | 4 | 5 | 6A | 6B | 7A | 7B | 8 | 9 | 10 | 11A | 11B | 12 | 13 | 14 | 15 | Glossary

Click the volume below and then select the PDF chapter in the block below for access.

Welcome to the DoDFMR Website

FMR Current: Advanced Search Go

FMR Archive: Advanced Search Go

Volume 1 Chapters

General Financial Management Information, Systems, and Requirements

Chapter 1	Chief Financial Officer (CFO) of the Department of Defense (11 pages, 106 KB)	June 2010
Chapter 2	Federal Accounting Standards Hierarchy (6 pages, 64 KB)	January 2011
Chapter 3	Federal Financial Management Improvement Act Compliance (15 pages, 116 KB)	July 2015
Chapter 4	Standard Financial Information Structure (SFIS) (9 pages, 73 KB)	June 2009
Chapter 5	Archived	
Chapter 6	Under Secretary of Defense (Comptroller) Financial Management Awards Program (21 pages, 192 KB)	December 2014
Chapter 7	United States Standard General Ledger (USSGL) (10 pages, 99 KB)	June 2009
Chapter 8	Archived	
Chapter 9	Financial Records Retention (4 pages, 50 KB)	August 2011
Appendix A	Object Classification (3 pages, 44 KB)	October 2008

FMR Volume 1
Gen. Fin. Mgmt. Info., Systems, and Reqs.

- Ch. 3 - audit readiness requirements
  - directs DoD financial management transformation and modernization activities
- Ch. 4 –Standard Financial Information Structure (SFIS)
  - a common business language that supports requirements for budgeting, financial accounting, cost/performance, and external reporting needs across the DoD enterprise

FMR Volume 1, cont.

- Ch. 7 – U.S. Standard General Ledger requirements
- Ch. 9 – financial records retention requirements
  - **Must retain all financial records, both paper and electronic, for 6 years and 3 months after the close of the fiscal year involved**
  - Documentation of financial transactions must be prepared, maintained, and, at a minimum, support the following aspects of the transaction:
    - authority for debt
    - amount ($ value)
    - date of transaction

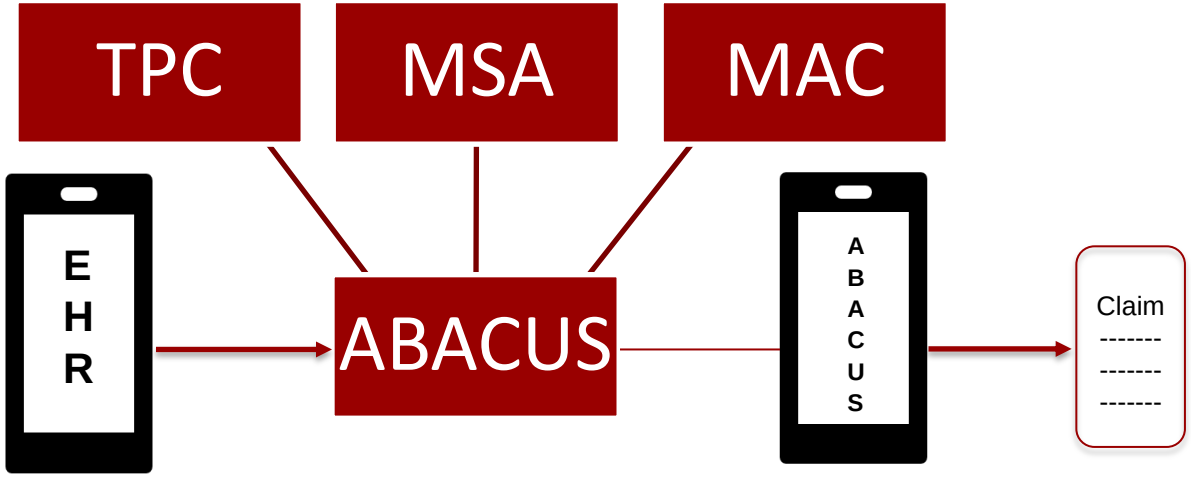
FMR Volume 4
Accounting Policy and Procedures

- Chapter 2 – Accounting for Cash and Fund Balances with Treasury Safeguard funds
- Chapter 3 – Receivables Policy and Procedures
  - Admin charges, penalties, interest (Annex 1)
  - Current (Non-Delinquent) Receivables
  - Allowance for Loss on Accounts Receivable
  - Close-Out (Applies to Public Debt Only)
  - Currently Not Collectible (CNC)
  - DCMO – the DFAS office that services referred individual out-of-service debt (uncollected debt from persons who left federal service prior to retirement)
  - Public v Intragovernmental receivables
    - Record MSA public funds collected in the year in year of receipt except record MSA intragovernmental funds in year the service was provided
  - Record TPC funds collected in the year of receipt
  - Delinquent receivables policies and processes

FMR Volume 4, cont.
Accounting Policy and Procedures

- Must maintain documentation supporting:
  - establishment of the AR
  - provision of due process
  - research and resolution of abnormal or erroneous balances
  - reversal of entries establishing the AR
  - termination, write-off and close-out of AR
  - bankruptcy
  - installment payment plan

Uniform Business Office (UBO)
Cost Recovery Programs



Third Party Collections (TPC)

Medical Service Accounts (MSA)

Medical Affirmative claims (MAC)

ABACUS - Government Billing Solution

Electronic Health Record (EHR)

Summary of UBO Responsibilities

- Work throughout the revenue cycle to identify billable patients and services provided
- Compute proper charges
- Submit bills and complete due process
- Manage follow-up correspondence and process collections
  - keep record of attempts to collect from debtor (dates, status of collection, POC names and phone numbers)
  - post payments, deposit checks to bank
  - prepare voluntary and involuntary offsets as applicable
  - correspond with DFAS and Resource Management (RM) on updated information of account
  - Provide RM with AR aging reports
- Maintain all financial documentation 6 years and 3 months

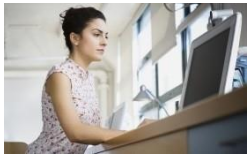
DHP Financial Statement Compilation

Financial Statement Compilation

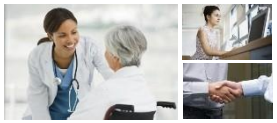
Financial transactions created every day roll up and lead to financial statements.

Examples of every day actions include:

- Ordering pharmaceuticals
- Submitting time
- Billing to a third party
- Entering into an agreement for contractual service

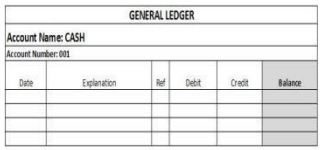


Each action triggers the beginning of a process that ultimately leads to a line item on a financial statement.



Action/Transaction

Line of Accounting (LOA) generated



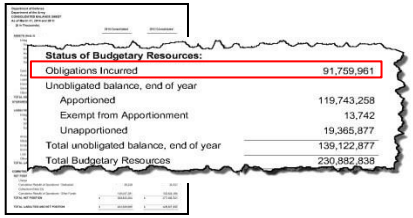
GENERAL LEDGER

Account Name: CASH

Account Number: 001

Date	Explanation	Ref	Debit	Credit	Balance

USSGL accounts impacted



Status of Budgetary Resources:

Obligations Incurred	91,759,961
Unobligated balance, end of year	
Apportioned	119,743,258
Exempt from Apportionment	13,742
Unapportioned	19,365,877
Total unobligated balance, end of year	139,122,877
Total Budgetary Resources	230,882,838

Transaction becomes a part of a financial statement line item

The USSGL is a key component of financial statement compilation.

Financial Statements Overview

Financial statements are important because they:

- Provide both a snapshot of the government's financial health
- Help demonstrate accountability
- Provide information for policy formulation and planning
- Provide information used to evaluate governmental performance

Balance Sheet

ASSETS (Note 2)
- Intragovernmental:
  - Fund Balance with Treasury (Note 3)
  - Investments (Note 4)
  - Accounts Receivable (Note 5)
  - Other Assets (Note 6)
  - Total Intragovernmental Assets
- Cash and Other Monetary Assets (Note 7)
- Accounts Receivable,Net (Note 5)
- Loans Receivable (Note 8)
- Inventory and Related Property,Net (Note 9)
- General Property, Plant and Equipment,Net (Note 10)
- Investments (Note 4)
- Other Assets (Note 6)

TOTAL ASSETS

STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)

LIABILITIES (Note 11)
- Intragovernmental:
  - Accounts Payable (Note 12)
  - Debt (Note 13)
  - Other Liabilities (Note 15 & 16)
  - Total Intragovernmental Liabilities
- Accounts Payable (Note 12)
- Military Retirement and Other Federal Employment Benefits (Note 17)
- Environmental and Disposal Liabilities (Note 14)
- Loan Guarantee Liability (Note 8)
- Other Liabilities (Note 15 and Note 16)

TOTAL LIABILITIES

COMMITMENTS AND CONTINGENCIES (NOTE 16)

NET POSITION
- Unexpended Appropriations - Dedicated Collections (Note 23)
- Unexpended Appropriations - Other Funds
- Cumulative Results of Operations - Dedicated Collections (N

TOTAL NET POSITION

TOTAL LIABILITIES AND NET POSITION

Budgetary Resources:

1000 Unobligated balance brought forward, Oct 1
1020 Adjustment to unobligated balance brought forward, Oct 1 (+ or -)
1020.5 Unobligated balance brought forward, Oct 1, as adjusted

1021 Recoveries of unpaid prior year obligations
1043 Other changes in unobligated balance (+ or -)
1051 Unobligated balance from prior year budget authority, net

1290 Appropriations (discretionary and mandatory)
1490 Borrowing Authority (discretionary and mandatory)
1690 Contract Authority (discretionary and mandatory)
1890 Spending Authority from offsetting collections (discretionary and mandatory)
1910 Total Budgetary Resources

Status of Budgetary Resources:
2190 New obligations and upward adjustments (total)

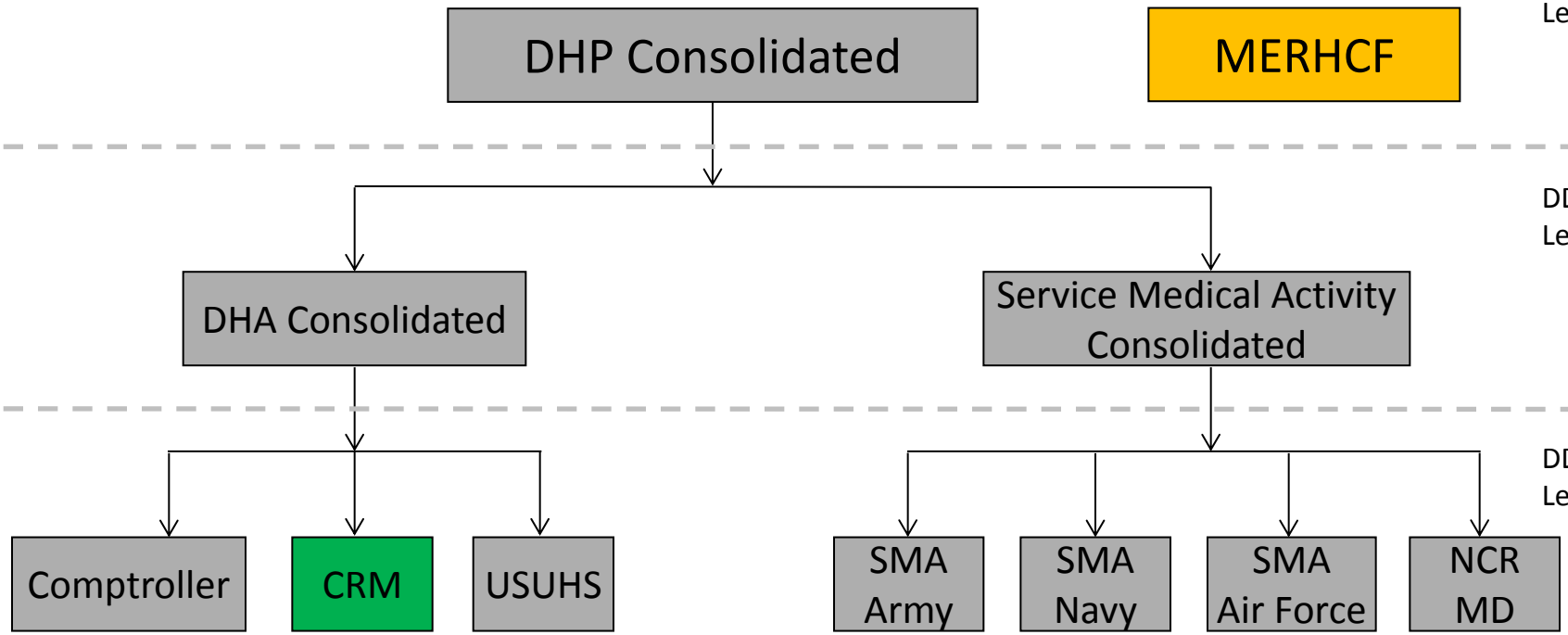
2200 Unobligated balance, end of year:
2204 Apportioned, unexpired accounts
2304 Exempt from apportionment, unexpired accounts
2404 Unapportioned, unexpired accounts
2412 Unexpired unobligated balance, end of year
2413 Expired unobligated balance, end of year
2490 Unobligated balance, end of year (total)
2500 Total Budgetary Resources

Change in Obligated Balance:
Unpaid obligations:
3000 Unpaid obligations, brought forward, Oct 1
3006 Adjustment to unpaid obligations, start of year (+ or -)
3012 New obligations and upward adjustments
3020 Outlays (gross) (-)
3032 Actual transfers, unpaid obligations (net) (+ or -)
3042 Recoveries of prior year unpaid obligations (-)
3050 Unpaid obligations, end of year
Uncollected payments:
3060 Uncollected pymts, Fed sources, brought forward, Oct 1 (-)
3066 Adj to uncollected pymts, Fed sources, start of year (+ or -)
3072 Change in uncollected pymts, Fed sources (+ or -)
3082 Actual transfers, uncollected pymts, Fed sources (net) (+ or -)
3090 Uncollected pymts, Fed sources, end of year (-)
Memorandum Entries:
3100 Obligated balance, start of year (+ or -)
3200 Obligated balance, end of year (+ or -)

Budget Authority and Outlays, Net:
4175 Budget authority, gross (discretionary and mandatory)
4176 Actual offsetting collections (discretionary and mandatory) (-)
4177 Change in uncollected payments, Federal Sources (discretionary and mandatory) (+ or -)
4178 Recoveries of prior year paid obligations (discretionary and mandatory)
4179 Anticipated offsetting collections (discretionary and mandatory) (+ or -)
4180 Budget Authority, net (total) (discretionary and mandatory)
4185 Outlays, gross (discretionary and mandatory)
4187 Actual offsetting collections (discretionary and mandatory) (-)
4190 Outlays, net (total) (discretionary and mandatory)

4200 Distributed offsetting receipts (-)
4210 Agency Outlays, net (discretionary and mandatory)

DHP Financial Statement Reporting



DHA: Defense Health Agency
SMA: Service Medical Activity
MERHCF: Medicare-Eligible Retiree Health Care Fund
CRM: Contract Resource Management
USUHS: Uniformed Services University of the Health Sciences
NCR-MD: National Capital Region Medical Directorate

Modified Audit Opinion

Unmodified "Clean" Audit Opinion

Defense Departmental Reporting System

Audit Readiness & Financial Audit

Audit Readiness Overview

What does it mean to be audit ready?

The organization is adhering to appropriate accounting standards and policy

Business processes are sustainable, traceable, and repeatable

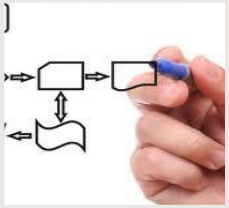
Proper documentation and processes are in place

Financial Audit Overview

What is an audit?

An audit is an official inspection of an individual's or organization's accounts, typically by an independent body.

Audits are performed to ascertain the validity and reliability of information provided by an entity.



Audits provide an assessment of a system's internal control.

Types of Audits

Internal	External
Performed by DHP or other group within the organization	Performed by an outside auditor who does not have any ties to the organization or its financial statements
Performance	**Financial**
Economy and efficiency, program	Financial statements, other financial related reports

What to Expect from a Financial Audit

Who is involved?

Auditors will talk to:

- Individuals at all levels and possibly external parties with whom the organization transacts business (e.g., Service Providers)
- Individuals throughout the end-to-end processes associated with sampled transactions

What is assessed?

Auditors will talk to individuals to:

- Identify key controls and assess/test their design and operating effectiveness
- Confirm that the process is compliant
- Gather supporting documentation for samples of transactions and perform testing
- Leverage results

What can you do?

Financial statement auditors will review end-to-end business operations, evaluate the controls in place, and evaluate supporting documentation. Prepare by:

- Validating audit readiness of financial recording and reporting processes for all business processes
- Ensuring controls are in place to enable accurate and timely recording of processes
- Organizing documents, use the audit trail checklist, and highlight key fields on the supporting documents

Audit feedback and findings improve business and IT processes and enable:

- Enhanced efficiency and prioritization in the use of funds;
- Strengthened internal controls that reduce the risk of fraud, waste, and abuse;
- Enhanced accuracy, effectiveness, and efficiency in the execution of the key business and IT processes that support the mission.

Benefits of Financial Audits

Expected outcomes of financial auditability: minimizing the risk of misusing taxpayer dollars and optimizing accountability. However, to succeed, the DHA team must work together to continuously improve our business environment.

"Doing Business the Right Way" will…

- Reduce the risk of misusing funds by strengthening internal controls…
- …generating efficiencies through streamlined business operations and optimization of systems

…lead to efficiencies from business improvements …

- A barometer to the transformation of the DHA culture of financial management …
- …demonstrating business improvements have been comprehensively implemented

…indicating increased accountability & reduced risk …

- Complying with financial audit standards through improved business processes and systems…
- …reduces the risk of funds misuse, increases accountability for using funds properly

…resulting in more accurate financial statements

- Precise asset visibility will result in greater readiness…and reduce spending on material
- Identifying un-needed material requirements early enough to re-purpose funds for other readiness requirements

Audit Lifecycle Roles and Responsibilities

DHA Defense Health Agency

DHA Level of Effort
O Low
O Medium
O High

	Planning Phase	Control Phase	Testing Phase	Reporting Phase
Auditor Role	Determine effective and efficient way to **obtain necessary evidence** to report on the entity's financial statements **Submit Document Requests** to seek explanatory information while familiarizing with DHP financial universe	**Assess control risk** and determine the nature, timing, and extent of control, compliance and substantive testing **Determine control weaknesses** and, if appropriate, form an opinion and/or reports on internal controls over financial reporting and compliance	**Plan the nature, timing, and extent of procedures to be performed** on budgetary transactions and effectiveness of controls **Perform substantive, control and compliance tests**	**Issue Notices NFRs** to outline problem areas within accounting, internal controls, IT Systems and business processes **Issue an opinion and issue an audit report**
DHP Audit Readiness Division	Provide **strategic guidance and technical expertise** to consolidate the audit response, communication, and training functions across DHP	Provide **coordination, communication, and liaison** that facilitates a close working relationship between DHP, components and auditors	Direct, oversee, and provide **quality control and quality assurance** for all audit response activity before delivery to the Independent Public Accountant (IPA)	**Communicate outcomes** of the audit and **coordinate NFR remediation and Corrective Action Plans CAP implementation** with assigned stakeholders
DHA	**Respond to Document requests** – a function that will continue throughout the audit cycle	**Facilitate the review of internal controls and processes** to include MICP, System Access & User Provisioning, etc.	**Respond to sample data requests** from the auditor in a timely manner and provide insight into the quality of line item supporting documentation	Assigned **stakeholders develop Corrective Action Plans (CAPs)**

Refer to back-up for additional details

Types of Opinions

Unmodified

In an unmodified (previously unqualified) opinion on the financial statements, the auditor concludes that the **financial statements and accompanying notes present fairly, in all material respects**, the assets, liabilities, and net position of the entity at the end of the period, and the net costs, changes in net position, budgetary resources, custodial activity (if applicable) for the period then ended, and the financial condition of the entity's social insurance programs (if applicable), as of the specified date in conformity with U.S. GAAP.

Modified

A qualified (modified) opinion states that **except for the effects of the matter to which the qualification relates, the financial statements present fairly, in all material respects**, the assets, liabilities, net position, net costs, changes in net position, budgetary resources, reconciliation of net costs with budgetary obligations, custodial activities (if applicable), and the financial condition of the entity's social insurance programs, (if applicable), in conformity with U.S. GAAP.

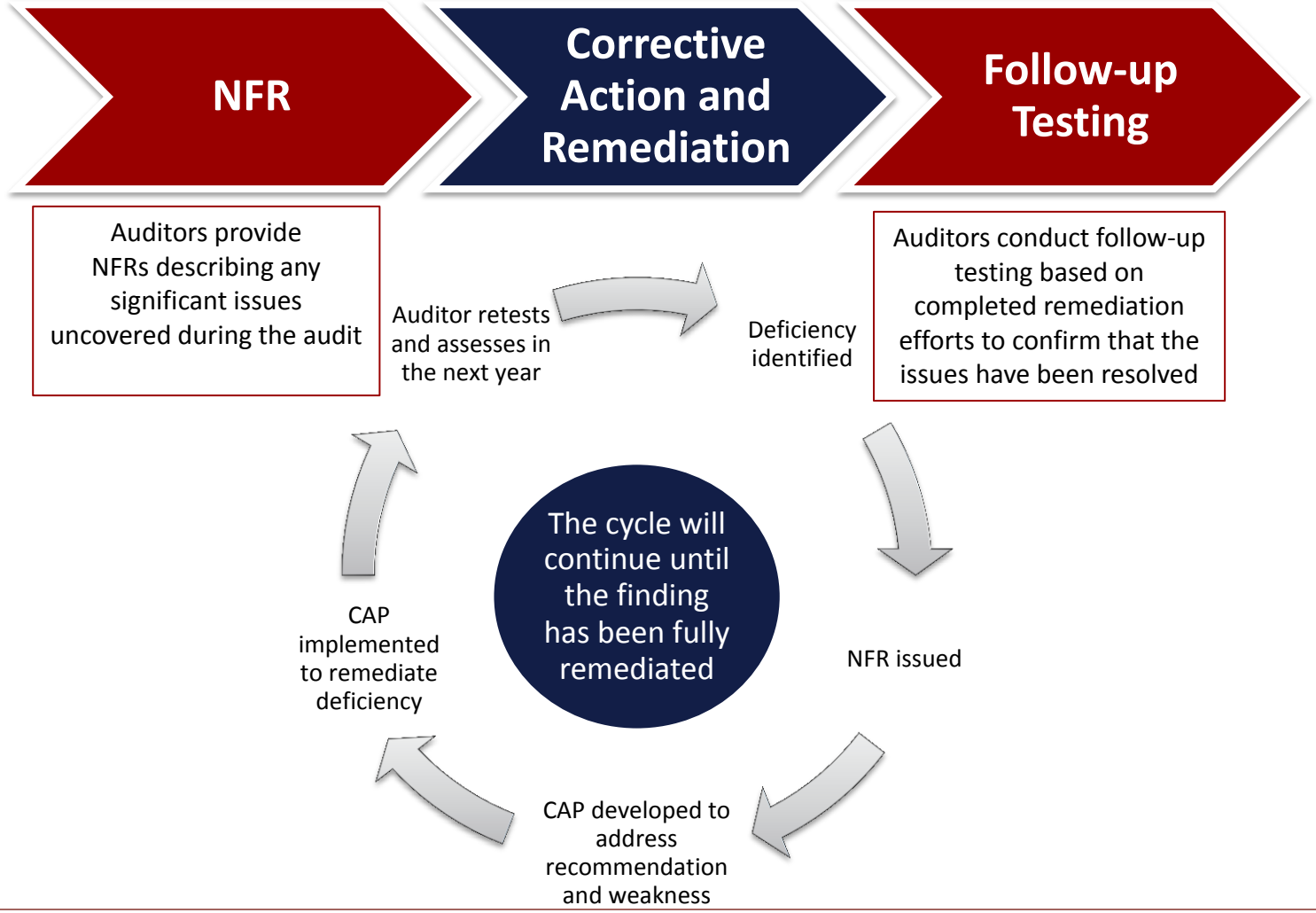
Disclaimer

In a disclaimer of opinion, **the auditor does not express an opinion on the financial statements**. A disclaimer of opinion is appropriate when the audit scope is not sufficient to enable the auditor to express such an opinion, or when there are material uncertainties involving a scope limitation.

Adverse

An adverse opinion states that the **financial statements do not present fairly the assets, liabilities, net position, net costs, changes in net position, budgetary resources, reconciliation of net costs with budgetary obligations, custodial activities, (if applicable), or the financial condition of the entity's social insurance programs, (if applicable), in conformity with U.S. GAAP**. This type of opinion is expressed on the financial statements taken as a whole when there are material departures from U.S. GAAP. The auditor will add an explanatory paragraph that includes all the substantive reasons for the adverse opinion and, if practicable, the principal effects on the financial statements of the matter giving rise to the adverse opinion.

Audit Outcomes



Audit Response

Audit Response Expectations

Dedicated DHA Audit POCs
POCs will directly interact with auditors for specific walk thru site visits. Must be readily available for auditor discussions and capable of conveying complex information.

Additional KSD Requirements
Auditors will perform procedures required by audit programs and audit standards, rather than adhering to control and substantive test scripts. Auditors may perform more IT Control testing than required by FIAR.

Efficient KSD Retrieval
The controls and key source document retrieval methods used during exams may need to change due to larger sample sizes across multiple business processes.

Short Timeframes
DHA will have to respond to audit requests timely and accurately. Additional time beyond the required turnaround will not be available during an audit.

Large Sample Sizes
Sample sizes will be significant, and samples will be across all business processes.

Added Reliance on Service Providers
Transactional support may need to be obtained from organizations such as DFAS. These samples will not be resampled and supporting documentation will be required to avoid an exception.

The Unknown
All budgetary transactions will be in play for the Financial Audit. Components should assess their business to determine if any other significant transaction sets (focus on high dollar value) exist outside of the AU. Auditor may determine DHA Ancillary System as Key.

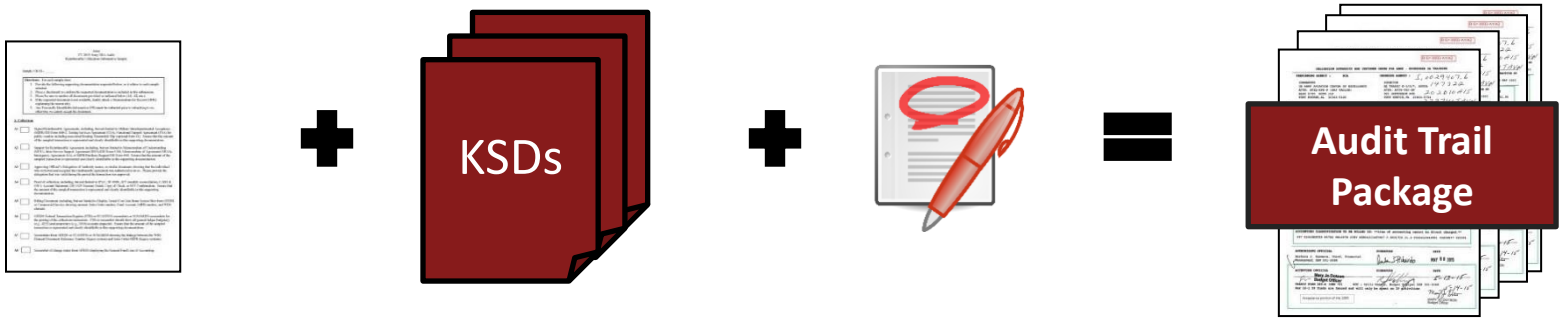
Support for Estimates and Accruals
Audit testing will focus more on the supportability and reasonableness of estimates, to include both obligations and accruals. Supporting receipt and acceptance will be in scope.

Auditor Criteria
Auditor will utilize GAAP and GAGAS auditing standards. Less emphasis will be placed on FIAR Guidance and DoD Financial Management Regulation (FMR).

Audit Documentation Package

There are five steps personnel should take to prepare documentation before responding to sample requests.

1. Review the auditors requested sample transaction
2. Locate the key supporting document (KSD) and validate accuracy of the document(s)
3. Highlight key sections of the document to help the auditors/testers find applicable attributes
4. Complete the coversheet and review the document(s) to verify the highlighted information tells the sample's "story" and completes the audit trail package
5. If necessary, complete a Memo for the Record (MFR) to highlight documentation deviations from the checklist or process explanations to help the auditors understand the documentation provided



Engaging with the Auditor

Consideration of Fraud in a Financial Statement Audit

- Directors, Division Chiefs, MICP personnel, and management at all levels are responsible for personnel and resources.
- The audit team will interview DHA management regarding:
  - Management's assessment of the risk of a material financial statement misstatement due to fraud;
  - The process management uses for identifying, responding to and monitoring the risks of fraud with the reporting entity; and
  - Communications management has had with employees regarding its views on business practices and ethical behavior.
- Three conditions typically present when fraud is committed:
  - Incentives/pressures
  - Opportunities
  - Attitudes/rationalizations
- Management must not only be able to identify signs of fraud, waste, and abuse (FWA); but must also foster an environment where FWA reduction is part of the organization's culture.

Functional and Subject Matter Experts

- ☑ Auditors expect and appreciate an organization that appears to be "in control" with a clean work area.
- ☑ Anticipate/identify problems and prepare clear and concise explanations beforehand.
- ☑ If you know an action is a mistake, they will know it's a mistake. Auditors do this for a living and are familiar with most excuses.
- ☑ Be honest and be consistent – build and maintain your credibility.
- ☑ Only answer the question that is being asked; **NO more, NO less.**
- ☑ Do not offer subjective opinions or theories. Avoid words such as "probably" or "should be."
- ☑ Prepare for the audit by familiarizing yourself with the audit process and business processes being audited.
- ☑ All questions should be in writing when feasible.
- ☑ Ensure you fully understand the question being asked before submitting documentation or responding to the auditor.

Questions

Instructions for CEU Credit

This in-service webinar has been approved by the American Academy of Professional Coders (AAPC) for 1.0 Continuing Education Unit (CEU) credit for DoD personnel (.mil address required). Granting of this approval in no way constitutes endorsement by the AAPC of the program, content or the program sponsor. There is no charge for this credit.

- **Live broadcast webinar (post-test not required)**
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- Other organizations, such as American Health Information Management Association (AHIMA), American College of Healthcare Executives (ACHE), and American Association of Healthcare Administrative Managers (AAHAM), may also grant credit for DHA UBO Webinars. Check with the organization directly for qualification and reporting guidance.

Presented by DHP Audit Readiness

Have questions or need to contact us? Email us at:

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