

U.S. Department of Defense



Financial Improvement and Audit Readiness Plan

FIAR Plan

March 31, 2008

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The Financial Improvement and Audit Readiness (FIAR) Plan is a major achievement and exemplifies the Department's commitment to financial management excellence. The FIAR Plan establishes the approach for making improvements across the Department that lead to audit readiness. Its comprehensive framework ensures that all business functions are improved, and that consistency and efficiency is achieved across the Department of Defense components.

Since its inception in 2005, the FIAR Plan has continued to evolve and improve. The March 2008 FIAR Plan is a testament to the hard work that has gone into creating and implementing an achievable and cost-effective strategy. Today, the challenge is to continue that commitment and accelerate our efforts to transform DoD's financial management and improve financial stewardship in all DoD business operations.

A handwritten signature in black ink that reads "Gordon England". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Gordon England
Deputy Secretary of Defense

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Executive Summary

The U.S. Department of Defense (DoD) is the largest financial entity in the world. Each year, the Department manages over 57 million General Ledger transactions, maintains more than 2,900 business systems, and executes an average of 5 pay transactions every second. In Fiscal Year 2008, Defense appropriations totaled over \$669 billion.

In 2001, the Department of Defense embarked upon a comprehensive program to transform its business systems and operations to improve financial management and financial stewardship, and prepare the department for audit.

The Defense Financial Improvement and Audit Readiness (FIAR) Plan has three primary objectives: 1) improve decision making by providing relevant, accurate, reliable, and timely financial information; 2) sustain improvements through a process of annual assessments and internal control; and 3) achieve unqualified audit opinions on DoD's annual financial statements.

The first FIAR Plan identified financial management improvement priorities, established standard business rules for all financial management improvement efforts, and aligned itself with other business transformation efforts. This approach has not changed, although the framework upon which the Department structures, plans, and monitors financial management improvement efforts is today more comprehensive complete.

AUDIT READINESS

In 2007, the Department refined the FIAR Plan's audit strategy to validate and sustain financial improvement and audit readiness across *segments* of the business environment, rather than individual line items. A segment is an essential part of the financial environment that can be individually assessed, validated, and asserted on for audit readiness. The FIAR Plan

Figure 1. Segment Audit Readiness Status

Business Rule	Segment	Values
Audit Readiness Sustainment	DLA Contingent Legal Liabilities	less than \$1 million
Financial Statement Audit Underway	DISA General Fund Balance Sheet	\$1.6 billion in assets and \$197.0 million in liabilities
	DISA Working Capital Balance Sheet	\$1.3 billion in assets and \$857.0 million in liabilities
Audit Readiness Validation	Air Force Appropriations Received	\$147.7 billion
	Air Force Nonexpenditure Transfers	\$861.3 million
	Navy Nuclear and Conventional Ships Environmental Liability	\$13.1 billion
	TMA Contract Resource Management Segment Balance Sheet	\$1.3 billion in assets and \$236.0 billion in liabilities
Segment Asserted	TMA Uniformed Services University of the Health Sciences Segment Balance Sheet	\$151.6 million in assets and \$10.3 million in liabilities
	TMA Uniformed Services University of the Health Sciences Segment Statement of Net Cost	\$158.3 million
	TMA Uniformed Services University of the Health Sciences Segment Statement of Changes in Net Position	\$141.2 million
Other	Air Force Fund Balance with Treasury	\$80.0 billion
	Air Force Cash and Other Monetary Assets	\$108.0 million
	Navy Cash and Other Monetary Assets	\$143.0 million

Source: Assertions, approvals, and applicable audit reports,

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business rules, which are consistently applied regardless of the size, scope, or materiality of the segment, prescribe the process. At any one time, multiple segments are moving through the audit readiness process. This approach is delivering results, as shown in Figure 1 on the preceding page.

In addition to the progress being made in segments, five Defense reporting entities, which represent 15 percent of the Department's assets and 50 percent of the liabilities, have received unqualified audit opinions:

- Defense Commissary Agency
- Defense Contract Audit Agency
- Defense Finance and Accounting Service
- Military Retirement Fund
- Office of the Inspector General

Further, the Medicare-Eligible Retiree Health Care Fund has had a qualified opinion for the fifth consecutive year; the U.S. Army Corps of Engineers has been audited for the first time and received a qualified opinion. Together, these represent 10 percent of the Department's assets and 25 percent of the liabilities. In addition three DoD-wide financial statement line-items have received favorable audit reviews. Section 1 highlights significant accomplishments that have been achieved from October 1, 2007, through March 31, 2008.

A COMPREHENSIVE FRAMEWORK

Business processes employed by the Defense community directly affect not only individual financial statements but ultimately the Department's ability to achieve full financial management improvement and audit readiness.

To ensure that every segment of the business environment that triggers a financial transaction is addressed and made auditable, the Department initiated a comprehensive or end-to-end business process framework, as defined in the Department's Business Enterprise Architecture.

By cross-walking the financial transactions of the relevant functional communities to Department-wide business processes, the Department can more easily identify gaps in its improvement efforts and ensure that milestones are consistent across Components. Section 2 describes this approach and the FIAR Plan's comprehensive framework.

Implementation of the framework has begun across four processes: Acquire to Retire for Military Equipment; Acquire to Retire for Real Property; Hire to Retire; and Procure to Pay. Components have prepared Key Milestone Plans (KMPs) for each of these business processes. The KMPs contain a key milestone for each process step in the end-to-end business process.

For each business area, the Components compared completed, ongoing, and planned improvement tasks in their Financial Improvement Plans to the process steps in the end-to-end business processes. The resulting Progress and Status Reports show the progress to date, for example, whether the work begun is on schedule or behind schedule, and whether the improvements have been started or completed. Section 3 describes the end-to-end business process, the Component's activities, challenges, and next steps in applying the end-to-end business process framework to the business area, and the Progress and Status Reports.

I. ACCOMPLISHMENTS

The Defense Financial Improvement and Audit Readiness Plan details the long-term financial improvement plans of the Departments of the Army, Navy, and Air Force, and the Defense Logistics Agency (DLA), and progress in achieving those plans. As indicated in Figure 2, seven reporting entities received an audit opinion on their FY 2007 financial statements.

Figure 2. DoD Reporting Entity Improvements

DoD Reporting Entity	Audit Opinion
Defense Commissary Agency	Unqualified
Defense Contract Audit Agency	Unqualified
Defense Finance and Accounting Service	Unqualified
Military Retirement Fund	Unqualified
Office of the Inspector General	Unqualified
Medicare-Eligible Retiree Health Care Fund	Qualified
U.S. Army Corps of Engineers	Qualified

Source: Applicable Audit Reports

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For the fourth consecutive year, the Department has received favorable audit reviews on three DoD-wide financial statement line items as shown in Figure 3.

Figure 3. Financial Statement Line Items Receiving Favorable Audit Reviews

DoD-Wide Financial Statement Line Items	Audit Reviews
Investments	Favorable
Federal Employees' Compensation Act Liabilities	Favorable
Appropriations Received	Favorable

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ACCOMPLISHMENTS OCTOBER 2007 – MARCH 2008

The Department is making substantial progress in achieving audit readiness. For example, the U.S. Army Corps of Engineers has been audited for the first time and received a qualified opinion. Audit readiness accomplishments in the first and second quarter of FY 2008 represent approximately \$49 billion in assets and \$241 billion in liabilities as listed in the following table:

Audit Readiness Accomplishments: October 2007 – March 2008	
✓	USACE received a qualified audit opinion on its FY 2007 and FY 2006 financial statements. This represents \$44.6 billion in assets and \$4.4 billion in liabilities.
✓	DISA's General and Working Fund Balance Sheets (\$2.9 billion in assets and \$1.1 billion in liabilities) are undergoing financial statement audit.
✓	TMA Contract Resource Management (\$1.3 billion in assets and \$236.0 billion in liabilities) is undergoing an independent examination to validate audit readiness.
✓	TMA Uniformed Services University of the Health Sciences asserted that the Balance Sheet (\$151.6 million in assets and \$10.3 million in liabilities), Statement of Net Cost (\$158.3 million), and the Statement of Changes in Net Position (\$141.2 million) are audit ready.

Many accomplishments relating to audit readiness have Department-wide impact by increasing awareness, improving systems, and sustaining results. The following table highlights Department-wide accomplishments:

Department-wide Accomplishments: October 2007 – March 2008	
✓	The Department completed Phase One of the Check it campaign, which heightened awareness of internal management controls throughout the Department.
✓	The Office of the Inspector General reported zero material weaknesses in the DoD civilian pay system internal controls design.
✓	The Defense Contract Audit Agency completed audits of the Department's \$358 billion in FY 2007 contracts resulting in \$2.4 billion saved and \$225 million recovered.
✓	The Services attested to the accuracy of CAMS-ME data. CAMS-ME is the Department's system for capitalizing and depreciating military equipment. Attestation gives DoD management confidence that the information presented on financial statements is materially correct.
✓	AT&L expanded CAMS-ME to enable automated updates from the Item Unique Identification Registry and Accountability Systems of Record. Automation allows for more timely and accurate information; saves cost and time associated with manual updates; and provides asynchronous status with the appropriate Accountability Systems of Record for military equipment assets. The Accountability Systems of Record for Navy ships and airplanes are the first systems to use the automated interface.
✓	AT&L published "Determining the Presence of Environmental Liabilities in Department of Defense Equipment," a quick reference guide for acquisition and financial management personnel.
✓	AT&L assigned a unique identifier to each DoD real property asset. The identifiers link financial transactions to assets using SFIS and ensure more responsive, accurate, and complete financial accountability data for real property.
✓	AT&L published an updated Supply Chain Materiel Management Regulation. The regulation clarifies for Components how to assign accountability for, and properly report, Inventory and OM&S assets that are in transit between reporting entities.

The Services are making gains in audit readiness. The following table highlights the Services' significant accomplishments:

Services' Accomplishments: October 2007 – March 2008	
✓	Army implemented a system change that provides daily updates to the Fund Balance with Treasury account at the transaction level and enhances end-of-month reconciliation processes.
✓	Navy documented the following segments: Military Labor Hire to Retire; Civilian Labor Hire to Retire; Contingent Liabilities; and General Fund Financial Reporting.
✓	NAVAIR (Naval Air Systems Command) rolled out the Navy ERP that improves and standardizes business processes, internal controls, and, ultimately, audit readiness. The NAVAIR ERP deployment will serve as the basis for subsequent Navy ERP deployments.
✓	Air Force established a sampling methodology and identified the asset universe necessary to conduct a physical inventory of Air Force assets maintained at DLA sites.
✓	Air Force developed and published a policy that standardizes the reporting of cost information for OM&S – Drones, Cruise Missile Engines, and Missile Motors assets on financial statements.
✓	Air Force issued its first comprehensive policy for identifying and estimating environmental liabilities. This policy covers all aspects applicable to BRAC, Installation Restoration Program, Building Demolition and Debris Removal Program, Military Munitions Response Program, Environmental Corrective Action, and Environmental Closure Requirements. This policy serves as the foundation for compliance for the entire financial statement line and establishes requirements for the functional community.
✓	Air Force estimated the environmental requirements for BRAC (\$1.4 billion), the Military Munitions Response Program (\$3.5 million), and the Environmental Corrective Action and Closure Requirements (\$9.9 million).
✓	Air Force implemented tighter General Property system controls to improve audit trails, separation of duties, and interface standards. Improvements also corrected trading partner transfers, capital lease recognition, donated asset recognition, and capitalization of equipment enhancement costs, and resulted in the ability to revise incorrect acquisition cost data and greater accounting compliance.

THE DEPARTMENT'S INTERNAL MANAGEMENT CONTROLS CAMPAIGN



The Department of Defense is a large and complex organization with an awesome responsibility: to protect and defend the Nation and its citizens. But that mission does not fall to the warfighter alone. Every person has a job to do, and every job is important, because it affects the safety and security of all, including the men and women in uniform who put their lives on the line to protect our freedom. Attention to detail, and strict adherence to policies and procedures minimizes risks and ensures safety, and every one of DoD's 2.6 million employees must understand the stakes.

To underscore the importance of internal management controls, the Deputy Secretary of Defense launched an internal management controls awareness campaign called "Check It" in 2006. Internal management controls ensure that what should happen, does happen—every day. The campaign's motto is "What Gets Checked, Gets Done."

Phase One of the Check It campaign, which was completed in 2007, was a multi-media effort that highlighted the significant role controls play at every level of the Department. Public service announcements were broadcast on the Pentagon Channel and the American Forces Information Service, and posters were distributed to U.S. forces and Defense Department personnel around the world. Department leaders participated fully in the campaign, reinforcing its message in interviews, briefings, and other events.

In Phase Two, which was launched in October 2007, the Deputy Secretary of Defense biannually recognizes DoD Components that have made significant improvements in internal management controls. Public service announcements, posters, and other media efforts continue to raise awareness.



CORRECTING MATERIAL WEAKNESSES

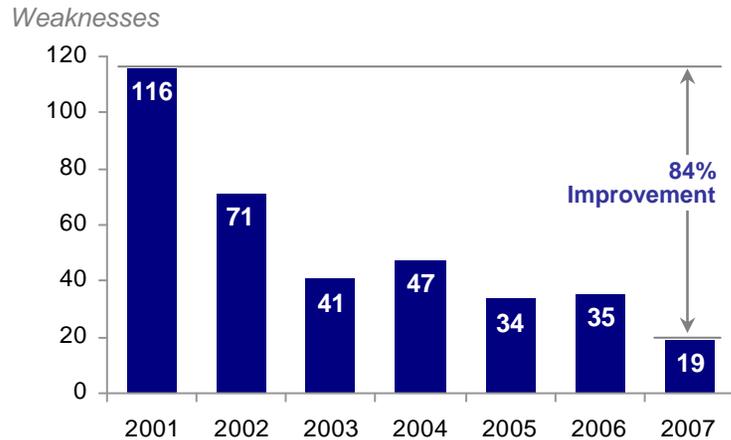
Through the Managers' Internal Control Program, the Department self-assesses the effectiveness of its controls. Self-assessments are performed in accordance with the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control."

The Managers' Internal Control Program is divided into two processes: 1) the overall operations Statement of Assurance; and 2) the Statement of Assurance over Financial Reporting, which addresses the effectiveness of internal controls over financial reporting.

The emphasis on strengthening controls is paying off. For example, the Department:

- Avoided \$247 million in late payment penalties while experiencing a two-fold increase in payment volume
- Achieved over 99 percent accuracy in paying over 2.3 million military and civilian personnel.

Figure 4. Reducing Internal Management Control Weaknesses



Source: FY 2001-2007 DoD Performance and Accountability Reports 336-08

As part of this program, Components annually self-report material weaknesses with projected completion dates. The Department reduced its self-identified internal management control weaknesses from 116 in 2001 to 19 in 2007 (Figure 4). Deputy Secretary of Defense England has challenged leaders to accelerate the completion of the 19 remaining material weaknesses, including the 9 related to financial reporting.

REDUCING ANTI-DEFICIENCY ACT VIOLATIONS

The Anti-Deficiency Act (ADA) is one of the most important laws governing federal expenditures. The ADA prohibits government officials from making payments or committing the United States to make payments at some future time for goods or services unless there is enough of the right type of money in the “bank” to cover the cost in full. The “bank” is the available appropriation. Potential violations of the ADA, which may be self-identified or identified during audits, must be reported and investigated. Since 2005, 640 potential ADA violations have been identified—589 were identified through DoD Inspector General (DoDIG)

audits of purchases made for DoD through non-DoD Agencies; 51 were self-identified by the Components.

To address identified potential violations, the Department established an ADA Task Force to oversee the investigation process; reduce the preliminary investigation cycle time; and develop an automated system solution for better visibility and control. The Department also imposed strict guidance on interagency transactions and tighter intern controls through more specific policy and increased training.

As of March 31, 2008, 93 percent of the potential violations identified in interagency audit reports were determined not to be violations of the ADA. The remaining transactions identified as potential violations are undergoing formal investigation, pending accounting correction, in legal or other review, or have been substantiated, closed and reported.

DEFENSE FINANCE AND ACCOUNTING SERVICE

The Department relies on world-class business operations; accurate, timely, and reliable financial information; and advanced technological capabilities to deliver critical finance and accounting services. In FY 2007, the Defense Finance and Accounting Service (DFAS) made 154.6 million pay transactions and 6.9 million travel payments; paid 14 million commercial invoices; and accounted for 865 active DoD appropriations. DFAS demonstrates its commitment to its customers through service, integrity, and innovation. Five long-term goals anchor the DFAS strategic plan:

- Support DoD in prevailing in the Global War on Terror
- Lead transformation of finance and accounting functions throughout DoD
- Perform the DFAS mission at best value for DoD
- Attain operational excellence in finance and accounting services
- Attract, develop, and retain a highly capable workforce with relevant skills and competencies

To achieve these goals, DFAS is committed to continual improvement through its Lean6 program. Lean6 combines the tools and methodologies of Lean Thinking and Six Sigma. In FY 2007, DFAS implemented 84 process improvement projects, which resulted in an estimated savings of \$22.1 million. Other significant DFAS accomplishments include the following:

- Deployed MOCAS (the Mechanization of Contract Administration Services) accounts payable database tool. The tool links the Department's accounts payable monthly summaries to transaction data and facilitates reconciliation. The tool links an average of 175,000 transactions per month.
- Developed standard functional requirements for seven core financial areas. The functional requirements were developed by the Financial Management Center of Excellence and serve as the foundation for the finance and accounting processes of the ERPs.
- Deployed the Corporate Electronic Document Management System, which reduces paper documents between DFAS organizations and BRAC locations. Over 10 million documents have been scanned and made available online to the gaining site for accounting and audit functions.
- Deployed the Corporate Electronic Document Management System for theater operations. This system allows remote disbursing agents to submit information to the Disbursing Office within 24 hours of the disbursement instead of weekly.
- Increased electronic invoicing from 82 percent to 85 percent, and electronic receiving reports from 66 percent to 71 percent, during first quarter FY 2008. Results include cost avoidance for the quarter of nearly \$1 million in DFAS manual rate processing charges.
- Completed the identification and documentation necessary to ensure that the complete universe of Accounts Payable is recorded from the major entitlement systems.
- Made 2007 tax statements and the Military and Civilian Leave and Earnings Statements available in myPay for 5.9 million customers, thereby reducing DoD postage, printing, and mailing costs, as well as the risk of identity theft for its customers.
- Received a benchmark award for outstanding results on the 2007 Annuitant Customer Satisfaction Survey from the Office of Personnel Management, Performance America Consortium. The survey results set new highs for large organizations on three of seven dimensions: tangibles (93 percent satisfied), reliability (90 percent satisfied), and problem resolution (75 percent satisfied).
- Completed a follow-on audit of the Wounded Warrior Program and confirmed a 58 percent decline in the percentage of soldier pay accounts that require correction and a 77 percent decline in the dollar value of those discrepancies.

U.S. MARINE CORPS

The U.S. Marine Corps, an organizational segment of the Department of the Navy, is improving its financial information and management practices by identifying and remediating material deficiencies; documenting policies, processes, and procedures; and validating the availability of timely and accurate financial information. The Marine Corps' goal is to achieve audit readiness on select financial statements starting in FY 2009.

The Marine Corps is revising its audit readiness plan based on the segment approach and comprehensive end-to-end business process framework. Throughout the planning process, the Marine Corps has engaged the Department's senior leaders, the DoD Inspector General, and the Government Accountability Office. A recent All-Marine Corps memorandum from the Commandant reinforced the commitment to achieving audit readiness by highlighting the need for strengthened discipline

and internal controls, and improved quality of information for decision-making.

Three segments of the Marine Corps' financial environment are being targeted for initial examinations: 1) Fund Balance with Treasury reconciliation; 2) financial statement compilation and reconciliation; and 3) Statement of Budgetary Resources recording, recognition, and reconciliation. Additional information, including a selected control environment assessment, testing, and analysis performed by an independent public accounting firm, is being gathered and evaluated to determine the timing of these evaluations. The Marine Corps aims to initiate full financial statement audit engagements in FY 2009.

Significant Marine Corps accomplishments include the following:

- Received a favorable report on an External Naval Audit Service validation of Personal Property business processes and internal controls.
- Completed FSIO (Financial System Integration Office) testing of the CAPS-W (Computerized Accounts Payable for Windows) entitlement system with favorable results.
- Implemented an approval process to eliminate unsupported Journal Voucher accounting entries.
- Established a source document repository to provide auditors with a central location for Marine Corps controlled business processes.
- Evaluated the balance sheet compilation process, at the underlying transactional data level, to ensure general ledger integrity.
- Implemented MOCAS accounts payable estimation procedures for accruing accounts payable.
- Analyzed transactional postings to ensure compliance with U.S. Standard General Ledger posting standards.
- Mapped financial statement compilation procedures in coordination with DFAS.

II. The FIAR Plan Approach and Framework

The Department of Defense's commitment to modernizing its business and financial management and achieving excellence began long ago.

The first FIAR Plan, published in December 2005, set the course for moving financial management improvements forward and achieving audit opinions on financial statements. Each subsequent FIAR Plan has advanced the Department's comprehensive improvement activities based on a thorough analysis of financial operations and system requirements. As lessons are learned, and best practices captured and replicated, the FIAR Plan continues to evolve and improve.

APPROACH

Improving the timeliness and accuracy of financial information for decision makers and achieving audit readiness on DoD's consolidated financial statements is best achieved by breaking down business processes into manageable increments. Financial management improvement efforts are prioritized to ensure the efficient use of resources, and processes are standardized and integrated with other business transformation initiatives to ensure consistency and continuity across the enterprise. The March 2008 FIAR Plan continues this approach.

Incremental

Because the Department's extensive, global business and financial operations cannot be assessed and made audit ready simultaneously, the FIAR Plan employs an incremental approach that breaks down the business environment into *segments*. A segment may be a Department-wide business or financial process, or the operations of a single entity.

Examples include:

- End-to-end business processes, such as Acquire to Retire and Procure to Pay.

- Organizations and Commands, such as the U.S. Marine Corps.
- Financial Statement lines, such as individual lines in which improvements can be easily segregated; closely related groups of lines that need similar improvements; or material sub-lines.

Prioritized

Because the Department must plan and execute financial improvement activities incrementally, segments are prioritized by areas that will have the most material impact. Auditor-identified and self-identified material weaknesses may also affect how the Department prioritizes segments. Military Equipment and Real Property, for example, are two segments that are material, have had long-standing weaknesses, and are therefore priority segments in the FIAR Plan.

Governed by Business Rules

The Department's efforts to achieve and sustain financial improvement and audit readiness are governed by a set of business rules that can be uniformly applied. The business rules guide the process for examining operations; diagnosing and correcting problems; achieving audit readiness; and sustaining improvements through an independent validation of continued audit readiness.

The FIAR Plan Business Rules were modified in June 2007, when the Department refined its audit strategy to focus on validating audit readiness by segment through auditor examinations. Audit opinions are not sought until a Component's financial statements are ready for audit.

The business rules are as follows:

1. **Discovery and Correction:** Management evaluates individual financial segments, identifies weaknesses and deficiencies, and implements corrective actions.

2. **Segment Assertion:** Management asserts audit readiness to Office of the Inspector General (OIG) and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for concurrence.
3. **Audit Readiness Validation:** OIG or an Independent Public Accounting (IPA) firm validates management's assertion using an examination engagement.
4. **Audit Readiness Sustainment:** Annual verification of segments is conducted using OMB Circular A-123, Appendix A as guidance.
5. **Financial Statement Assertion:** Management asserts financial statement audit readiness to OIG and OUSD(C) for concurrence.
6. **Financial Statement Audit:** OIG or IPA firm audits the organization's financial statements.

(See Appendix 1, Audit Readiness Strategy, for additional details.)

Integrated with the Enterprise Transition Plan

The FIAR Plan integrates business transformation initiatives and systems modernization efforts identified in the DoD Enterprise Transition Plan (ETP). Integration with the ETP is essential because financial statement opinions cannot be achieved for many entities until system improvements identified in the ETP are completed. In the FIAR Plan and Key Milestone Plans, ETP initiatives and system deployments are identified as dependencies. For example, the Department of the Army will not be fully audit ready until its Enterprise Resource Planning systems are successfully deployed.

Each Military Department is implementing one or more Enterprise Resource Planning (ERP) systems. Timelines for deploying ERPs vary depending on when the acquisition program began and the complexity of the business environment.

Each ERP deployment requires extensive business process reengineering, significant efforts to cleanse and migrate data, and the development of interfaces with other systems.

The ERP system deployments are also critical to achieving Federal Financial Management Improvement Act (FFMIA) compliance and unqualified financial statement audit opinions. The Department's FFMIA remediation plan is the FIAR Plan, and ERP schedules are an integral part of FIAR Key Milestone Plans. The timeline and relationship to achieving incremental financial improvement and auditability is depicted in Appendix 2. More information on the ERPs may be found in the Enterprise Transition Plan.

Financial Improvement Plans and Key Milestone Plans

Each Component maintains a Financial Improvement Plan (FIP) that details the steps and estimates the dates for achieving audit readiness. The FIAR Plan extracts key milestones from the FIPs to form Key Milestone Plans (KMP). Key Milestone Plans continue to be the heart of the FIAR Plan. Each KMP represents a coordinated approach for resolving deficiencies, validating progress, and achieving and sustaining audit readiness. (See Appendices 8 – 23.) As the FIAR Plan improves and the framework is made more comprehensive, so are the KMPs.

The Federal Financial Management Improvement Act requires financial management systems to comply with:

- Federal financial management system requirements
- Applicable Federal accounting standards
- U.S. Government Standard General Ledger at the transaction level

The Act also requires the entity whose financial management systems do not comply to prepare a plan with remedial actions and the timeframes. DoD's FFMIA remediation plans are the integrated FIAR Plan and the ETP.

CREATING A MORE COMPREHENSIVE FRAMEWORK

The more comprehensive framework emphasizes end-to-end business processes defined in the Department’s Business Enterprise Architecture (BEA) and delineates activities into five standard elements.

End-to-End Business Processes

The end-to-end business processes are the step-by-step activities performed within a business area.

The Department is modifying the FIAR Plan, and the underlying tasks in the Component Financial Improvement Plans, based on segments and end-to-end business processes.

Building the FIAR Plan around segments and end-to-end business processes provides a more structured and systematic approach for implementing improvements.

The Business Transformation Agency has identified 14 end-to-end business processes in the Department of Defense:

- Acquire to Retire
- Hire to Retire
- Procure to Pay
- Budget to Report
- Order to Cash
- Concept to Product
- Service to Satisfaction
- Market to Prospect
- Prospect to Order
- Plan to Stock (Inventory)

- Cost Management
- Service Request to Resolution
- Proposal to Reward
- Deployment to Redeployment/ Retrograde

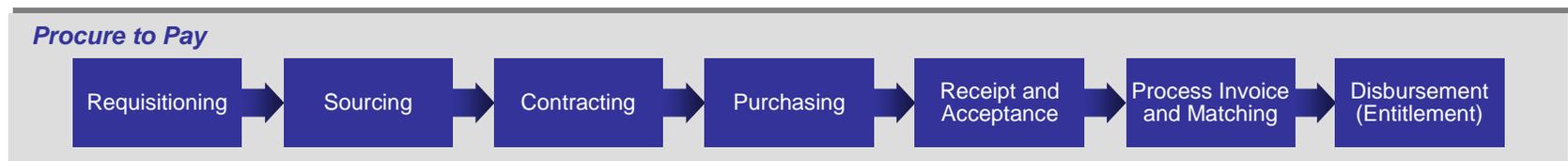
(See Appendix 6 for end-to-end business processes’ definitions.)

For example, Figure 5 illustrates Procure to Pay, the end-to-end business process the Department uses to purchase goods and services. Procure to Pay includes seven process steps.

The Procure to Pay end-to-end business process begins with preparing requisitions, determining the best sources (vendors), preparing and awarding purchase agreements or contracts, receiving goods or services, processing vendor invoices, and paying vendors for the goods and services that were delivered or performed. Many of the process steps trigger financial transactions that must be both timely and accurately recorded in Component financial systems. Understanding the end-to-end business process and using it as a framework for organizing Procure to Pay improvement actions ensures more complete and comprehensive financial improvement and audit readiness.

The 14 end-to-end business processes and the BEA provide a standard and consistent format on which the FIAR Plan framework is structured. This framework allows business processes to be linked to process steps and activities in the BEA. Linking to the BEA also gives the Components access to other architecture products that may be useful as Components execute financial improvement activities. For example, the BEA

Figure 5. Procure to Pay



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contains an extensive database of laws, regulations, and policies (LRPs) with which the Components' processes must comply. The LRPs are linked to each end-to-end business process step in the BEA.

Another benefit of using the end-to-end business process framework for the FIAR Plan is the BEA connection to the Department's programs for business and financial systems modernization. Every new business and financial system deployed in the Department today must be BEA compliant and certified for investment funding by the Defense Business Systems Management Committee chaired by the Deputy Secretary of Defense. As a result of the improved framework, FIAR policies, processes, controls, and personnel performance improvements are aligned with system improvements and deployments.

The Department has begun implementing the end-to-end business processes framework in four business areas. Components have prepared KMPs for each of these business areas. The KMPs are based on end-to-end business processes and contain a key milestone for each process step. Figure 6 shows the business process, the relevant business area, and which Components have prepared KMPs for that area. The KMPs listed in Figure 6 have been modified to incorporate an end-to-end business process framework. End-to-end business processes and the more comprehensive framework are described in more detail in Section 3.

Other KMPs have been updated as necessary. Over time, additional KMPs will be modified to incorporate the end-to-end business process framework.

Figure 6. Key Milestone Plans

End-to-End Business Process	Business Area	Component
Acquire to Retire	Military Equipment	Army, Navy, and Air Force
	Real Property	Army, Navy, Air Force, and DLA
Hire to Retire	Civilian Pay	Army, Navy, Air Force, and DLA
Procure to Pay	Procurement	DLA

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End-to-End Business Processes and DoD Financial Statements

To ensure no auditor-identified material weaknesses are overlooked, the Department mapped end-to-end business processes to line items on the DoD Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources. Most end-to-end business processes produce dollar amounts that are reported on more than one financial statement. Understanding the relationship between the end-to-end process and the financial statements, and aligning improvement activities to those relationships, ensures there are no gaps. (See Figure 7 on the following page.)

Figure 7. End-to-End Business Processes and DoD Financial Statements

Balance Sheet	Fin Stmt Amount FY 2007 (billions)	% of Assets or Liabilities	Procure to Pay	Acquire to Retire*	Order to Cash*	Plan to Stock (Inventory)*	Concept to Product* (R&D)	Service Request to Resolution	Hire to Retire	Budget to Report	Fin Stmt Lines Not in E2Es
Assets											
Fund Balance with Treasury	\$407.2	27%	X	X	X	X	X	X	X	X	3
Cash and Other Monetary Assets	\$15.0	1%								X	X
Accounts Receivable	\$8.9	1%			X		X	X		X	
Loans Receivable	\$3.2	0%								X	
Inventory & Related Property - Inventory	\$84.2	6%			X					X	
Inventory & Related Property - OM&S	\$139.9	9%				X				X	
GPP&E – Military Equipment	\$346.3	23%		X						X	
GPP&E – Real Property	\$101.8	7%		X						X	
GPP&E – Internal Use Software	\$3.5	0%		X						X	
GPP&E – General Property	\$22.1	1%		X						X	
Investments	\$335.1	22%								X	X
Other Assets	\$37.5	2%		X	X			X	X	X	
Total Assets	\$1,506.0										
Liabilities											
Accounts Payable	\$31.6	2%	X	X	X	X	X		X	X	
Other Liabilities	\$68.7	3%			X			X	X	X	
Military Retirement Benefits	\$1,874.7	91%								X	X
Environmental Liabilities	\$72.5	4%		4						X	X
Debt	\$3.2	0%									X
Loan Guarantee	\$0.0	0%								X	X
Total Liabilities	\$2,050.7										
Statement of Net Cost			X	X	X	X	X	X	X	X	
Statement of Budgetary Resources			X	X	X	X	X	X	X	X	
Statement of Changes in Net Position										X	

Notes:

Numbers may not add due to rounding

* Includes Procure to Pay

1. Not all of the BTA identified 14 End-to-End Business Processes apply to the FIAR Plan framework
2. High level mapping of the relationship between End-to-End business process and the financial statements
3. Reconciliation only
4. Environmental liabilities associated with the acquisition of Military Equipment and Real Property

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Elements of Financial Management Improvement

The comprehensive end-to-end business process framework breaks down each business process step into five elements that are reviewed and evaluated during Discovery and Correction. In the past, each Component defined and performed different Discovery and Correction activities. Because these activities were delineated at the FIP level, the Department had minimal visibility into how the actions were planned or completed, and no way to make comparisons across Components. Without a systematic review of the process steps within a business area, Components had little assurance that all deficiencies had been identified and corrected.

The more comprehensive framework uses defined end-to-end business processes, standardized business process steps, and the following five essential elements for financial management improvement:

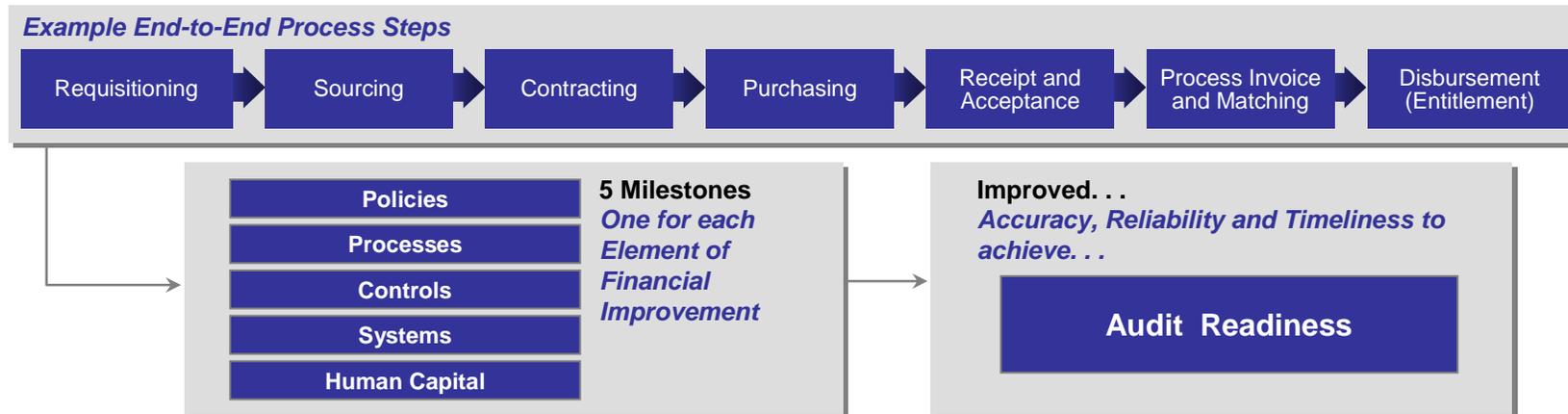
- Policies
- Processes

- Controls
- Systems
- Human Capital

During Discovery and Correction, each Component reviews and evaluates every business process step, and develops corrective actions for each of the five essential elements of financial management improvement. Corrective actions for each element are captured as milestones in the FIPs and KMPs. A business process, such as Procure to Pay that has 7 process steps, therefore has 35 milestones. (Figure 8). Corrective actions and progress can now be tracked across Components at the end-to-end business process level, the business process step level, or the element level.

An explanation of each element and a description of the Discovery and Correction activity that takes place within each milestone follow:

Figure 8. Five Elements of Financial Management Improvement



Policies

A review and evaluation of *policies* ensures that Component policies, regulations, procedures, and other guidance are consistent with applicable Federal and DoD business and financial management laws, regulations, and policies (LRPs). The BEA contains a database of Federal and DoD LRPs that link to process steps. Using the Business Transformation Agency's Web-based tool, Components can extract LRPs from the BEA, rather than perform redundant research.

Reviews and evaluations of policies are not limited to financial management LRPs. Often, functional LRPs impact the financial community's ability to properly record financial transactions. For example, the Defense Federal Acquisition Regulation (DFAR) was recently modified to prescribe requirements for the acquisition community during the Procure to Pay end-to-end business process. This modification supports the Department's ability to capture the cost of military equipment in accordance with Federal accounting standards. Such changes may not have been made to Component guidance, which must be reviewed and evaluated to ensure consistency.

Additionally, reviews and evaluations of Component guidance must consider changes to processes and systems, which could require modification of procedural guidance and documents.

Processes

A review and evaluation of *processes* ensures that business and financial processes produce accurate and timely financial information. Processes may be manual, automated, or both.

Actions to achieve this objective must be coordinated with business transformation initiatives, system deployments, and other process improvements. For example, a review and evaluation of processes may require the Component to determine whether a legacy system should be replaced. Similarly, process improvement work must be consistent with Component ERPs.

A review and evaluation of *processes* coincides with a review and evaluation of *controls*. OMB Circular A-123, Appendix A "Internal Control Over Financial Reporting," which is applied to document, test, and strengthen internal controls, begins with documenting and flow-charting processes.

Controls

A review and evaluation of *controls* ensures that proper controls are in place to achieve:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal management controls promote efficiency, reduce the risk of asset loss, help ensure the reliability of financial information reported on financial statements, and facilitate compliance with laws, regulations, and policies. During Discovery and Correction, Components document existing controls, design missing controls, test controls, and perform risk assessments of a control failure. Efforts under the *controls* element meet OMB Circular A-123, Appendix A requirements.

Establishing and maintaining a strong control environment depends on the controls programmed into systems and the people who perform the business and financial functions and activities. Therefore, the *controls* element also links to the *systems* and *human capital* elements.

Systems

A review and evaluation of *systems* ensures that system capabilities and functionalities reliably produce the financial information or data needed to record financial transactions in a timely manner, and confirms that system documentation is up-to-date, properly maintained, and readily available for auditors. A system may be exclusively a financial or accounting system, or it may be a mixed business system that also produces financial information.

Human Capital

A review and evaluation of *human capital* ensures that Components have the right number of people with the right skills, knowledge, and experience to accomplish financial management improvement goals. Successful financial management requires hiring and maintaining a sufficient mix of people with functional knowledge, subject matter expertise, and general analytical skills vital to performing each process step. Carrying out the business and financial objectives of most process steps requires a multidisciplinary staff.

Efforts related to *human capital* include establishing staffing requirements, recruiting and retaining staff with needed technical expertise, defining roles and responsibilities, preparing current position descriptions, issuing performance objectives, and training employees to perform associated tasks.

BENEFITS OF THE MORE COMPREHENSIVE FRAMEWORK

Although the Department is only starting to incorporate the more comprehensive framework in the FIAR Plan, the benefits are becoming clear and significant. The most significant benefit has been the identification of gaps in the KMPs and FIPs. The gaps represent portions of the Department's business or financial environment that had not been addressed in DoD financial improvement plans and that need to be evaluated to determine whether there are deficiencies or problems that affect the Department's ability to produce accurate and timely financial information. Gaps also existed where the Department had not assessed and tested internal controls or adequately taken all of the steps necessary to prepare for future financial statement audits. The comprehensive framework more adequately:

- Provides for structured, systematic, and consistent planning and execution
- Highlights dependencies on functional communities

- Builds on the Business Enterprise Architecture
- Incorporates OMB Circular A-123, Appendix A
- Integrates business transformation and system deployments
- Demonstrates improvement progress and status

A description of each of these benefits follows.

Provides for Structured, Systematic, and Consistent Planning and Execution

The use of end-to-end business processes provides consistency across the FIAR Plan and FIPs and supports systematic planning, executing, and monitoring of KMPs—all of which facilitate sharing and coordinating improvement actions, approaches, and lessons learned. The standard and consistent structure also provides a unified means of monitoring, comparing, and reporting status and progress.

The Components are converting existing KMPs to the end-to-end business process framework. To do so, the Components align each of their completed, ongoing, and planned project tasks with each business and financial process step as well as each of the five elements of financial improvement (i.e., Policies, Processes, Controls, Systems, and Human Capital). The conversion process has revealed gaps where needed improvements were not planned, made, or sustained. The Components are developing additional improvement tasks and activities that will resolve these gaps.

Highlights Dependencies on Functional Communities

The end-to-end business processes on which the more comprehensive framework is based are the same business processes that the functional community performs every day. When a business event triggers a financial transaction, it must be properly recorded and reported in order to meet FIAR objectives. The involvement of the functional community is critical.

Often, functional community policies, processes, and systems must be changed in order for the Department to comply with Federal accounting standards and other requirements. Further, as functional communities modernize business systems, changes must be coordinated with the financial community to ensure that systems support the Department's ability to produce auditable financial information. By aligning with shared business processes, the framework highlights dependencies on functional policies, processes, and systems. As a result, the financial and functional communities can better identify policy, process, and system dependencies and work together to develop and execute improvement plans.

Builds on the Business Enterprise Architecture

The end-to-end business processes in the FIAR Plan framework were provided by the Business Transformation Agency and have been mapped to the process steps and activities in the Business Enterprise Architecture. Three significant benefits result from using BEA end-to-end business processes:

- Consistency with ERP system architectures

Modernized business and financial system architectures are based on the same end-to-end business processes and BEA requirements that the FIAR Plan framework uses. The common framework helps ensure that any corrective actions that may result from a review of policies, processes, controls, and systems during the FIAR Discovery and Correction phase will be sustainable by new or modernized systems.
- Access to BEA products that facilitate financial improvement activities

Business and financial activities must comply with thousands of disparate laws, regulations, and policies (LRPs). The BEA contains the LRPs and maps each LRP to one or more applicable process steps. During Discovery and Correction,

each process step is reviewed and validated as compliant with LRPs. With the framework, Components can extract the LRPs directly from the BEA, thus saving time and resources.

- Expands the use and application of BEA

By expanding the use and application of the BEA, process and control problems, inconsistencies, or inaccuracies are more likely to be identified. The financial community's use of the BEA may also help drive future content development, which could further BEA's applicability.

Incorporates OMB Circular A-123, Appendix A

The Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting" prescribes a process for assessing internal control over financial reporting and requires an annual management assurance statement that addresses the effectiveness of the process. Creating an annual Statement of Assurance includes flowcharting key business processes; identifying and assessing risks; testing controls and correcting or establishing controls when controls were found to be deficient; and reporting results. The process of fully implementing A-123 requirements helps the Department shine light on areas that need additional testing before asserting audit readiness. As a result, evidential matter that a Component gathers to support an assertion is more robust and credibility reinforced.

Internal control is the cornerstone of a successful audit. Under the FIAR framework, *controls* is one of the five elements of financial management. Each Component must include a *controls* milestone in their KMPs for each end-to-end business process step. The *controls* element underscores Appendix A requirements by requiring the Components to identify risks associated with each process step and document, assess, test, and strengthen associated internal controls.

Integrates Business Transformation and System Deployments

System deployments under business transformation occur at the Component-level, at the Enterprise-level, and across functional areas. In the past, FIAR KMPs included system milestones that affected Balance Sheet line items. The more comprehensive framework better integrates policy, process, control, and human capital improvement efforts with business transformation. Better integration facilitates the implementation of system-compliant processes.

Shows Improvement Progress and Status

The framework supports meaningful and consistent monitoring and reporting across end-to-end business processes, process steps, and elements of financial management improvement. Section 3 of this report contains Progress and Status Reports prepared by the Army, Navy, Air Force, and DLA for each FIAR end-to-end business process KMP. At a glance, management can see how close the Component is to completing the improvement activity for an end-to-end business process and can move to assess and remediate problems. The Progress and Status Reports will be updated quarterly based on FIAR KMPs and Component FIPs.

SUSTAINING AUDIT READINESS

The Department must be able to confirm that progress is being sustained. Failure to do so is a material risk to the Department's ability to obtain an annual unqualified audit opinion on its financial statements. To sustain improvements, management must continue the financial policies, procedures, and controls that supported management's initial audit-readiness assertions, and maintain momentum toward overall improvement.

The Audit Readiness Sustainment phase calls for continually monitoring progress and annually verifying that audit-ready segments remain audit ready while Discovery and Correction is being completed on other segments. Four basic areas of the

financial environment are verified to assure continued compliance with Generally Accepted Accounting Principles (GAAP):

- Internal control policies and procedures
- Business processes
- Automated systems
- Compliance with laws and regulations

Monitoring and Reporting Sustained Progress

Segments that have been validated as audit ready are continually reviewed, monitored, and reported by management and the entity's audit committee or senior assessment team. Any material changes to the segment's dependencies or newly identified deficiencies are reported to the Office of the Under Secretary of Defense (Comptroller) (OUSDC). When material changes have been made that effect the segment's audit readiness status, then the segment, or the changes to the segment, is revalidated as audit ready. The OUSDC and the Office of the Inspector General (OIG) will jointly monitor progress and provide a forum for resolving issues. Any material weaknesses that are identified during the sustainment phase are reported in the entity's annual Statement of Assurance and corrective actions are taken. Once material weaknesses are corrected, the segment is revalidated as audit ready.

Annual Evaluations Using Appendix A as Guidance

Annual evaluations of each audit-ready segment are completed using OMB Circular A-123, Appendix A as guidance. The evaluation is performed by a Service Audit Agency, if available. Otherwise, management may choose to use either the OIG or an Independent Public Accountant, depending on the risk and materiality of the segment.

Risk evaluations and testing for verifying audit readiness sustainment will be more rigorous than those required by Appendix A. The sustainment evaluation requirements are being developed jointly by the OUSDC and the OIG.

III. End-to-End Business Processes

To implement the end-to-end business process framework, the Department engaged financial and functional representatives of the Office of the Secretary of Defense, Army, Navy, Air Force, Defense Logistics Agency, Defense Finance and Accounting Service, Business Transformation Agency, and the Office of the DoD Inspector General. Meetings were held to prioritize segments; develop the more comprehensive framework; confirm the business rules and definitions; and share approaches for analyzing existing KMPs and modifying KMPs based on end-to-end business processes.

The Department selected four priority business areas on which to focus its initial efforts to restructure KMPs: Military Equipment, Real Property, Civilian Pay, and Procurement. The business area, end-to-end business process on which the KMPs are being structured, and the Components that have modified their respective key milestone plans, are identified in Figure 9.

For each business area, this section of the FIAR Plan contains a description of the end-to-end business process, Component Progress and Status Reports, and a description of the Component’s activities, challenges, and next steps in applying the end-to-end business process framework to the business area. The Progress and Status Reports present the Component’s improvement actions by process step and for each

of the five essential elements of financial improvement (*policies, processes, controls, systems, and human capital*).

The Components prepared Progress and Status Reports by comparing completed, ongoing, and planned improvement tasks in their FIPs to the process steps in the end-to-end business processes. Each Progress and Status Report details work that has not yet begun, is ongoing, on schedule, behind schedule, or completed. It also highlights which community (financial or functional) owns the process step and is responsible for progress. If the Component is still developing the tasks needed to accomplish the element milestone, the report indicates “To Be Determined.” Where the process step does not apply to the business activity being performed or the business activity does not impact financial management or financial information, the report indicates “Not Applicable.” Following each Progress and Status Report is a summary of Component discovery and correction activities, challenges, and next steps.

ACQUIRE TO RETIRE END-TO-END BUSINESS PROCESS

The Acquire to Retire end-to-end business process (Figure 10) encompasses the business functions and activities that the Department must complete to obtain or construct, and manage general purpose equipment and property, military equipment, information technology equipment and software, land, buildings, and structures from acquisition through disposal (i.e., the life-cycle of property, plant, and equipment).

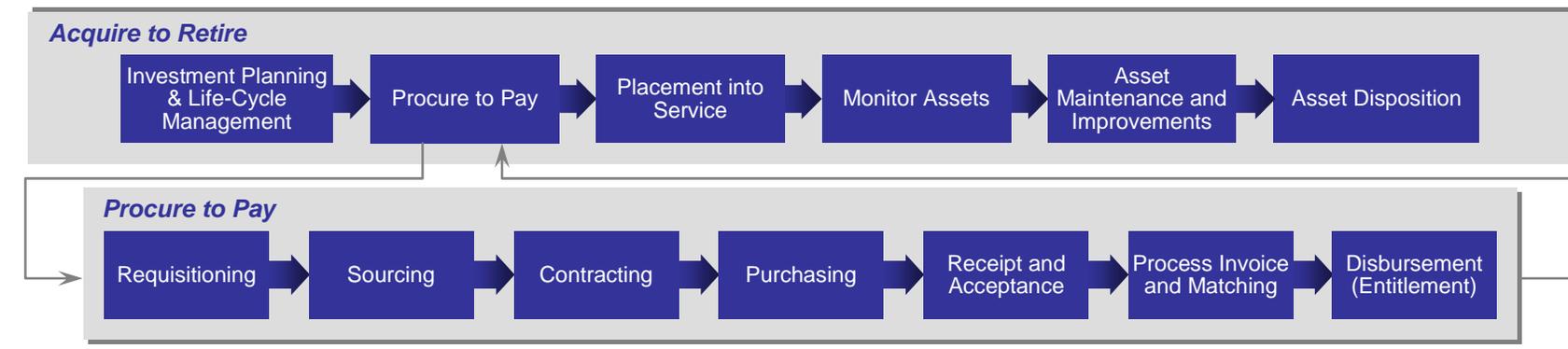
Procure to Pay, a business activity within Acquire to Retire, is also an end-to-end business process. The Procure to Pay end-to-end business process includes preparing requisitions, vendor sourcing, managing contracts, purchasing, managing payments, receiving and accepting items, and managing debt or accounts payable.

Figure 9. Key Milestone Plans

End-to-End Business Process	Business Area	Component
Acquire to Retire	Military Equipment	Army, Navy, and Air Force
	Real Property	Army, Navy, Air Force, and DLA
Hire to Retire	Civilian Pay	Army, Navy, Air Force, and DLA
Procure to Pay	Procurement	DLA

336-09

Figure 10. Acquire to Retire and Procure to Pay Process Steps



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The Acquire to Retire end-to-end business process describes the business activities for both Military Equipment and Real Property, two asset classes that are critical to performing the DoD mission. Improving asset visibility, asset control and accountability, and asset management information are extremely important to DoD decision-makers. Military Equipment and Real Property are material to DoD financial statements and critical to audit readiness and future unqualified audit opinions. Because of the importance of improved asset information and the materiality of the business areas, the Department selected Acquire to Retire for Military Equipment and Acquire to Retire for Real Property as two of the initial areas to begin implementing the end-to-end business process framework. More detail on these processes follows.

Acquire to Retire for Military Equipment

For FY 2007, the Department reported a baseline net book value of \$346.3 billion in Military Equipment. This represents 23 percent of DoD assets and 73 percent of General Property, Plant, and Equipment. Key Milestone Plans for the Military Equipment end-to-end business process address valuation activities, acquisition

and disposal decisions, and systems modifications.

Applying the end-to-end business process framework has helped identify gaps in the Component Financial Improvement Plans. To address the gaps, the acquisition community must modify its acquisition processes, procedures, guidance, and systems to better support capturing the full cost of military equipment items at the time of delivery. Changes to the acquisition process will require additional system changes and training for personnel. The Progress and Status Reports indicate gaps as “To Be Determined.”

The September 2007 FIAR Plan projected the Department would achieve Military Equipment audit readiness by FY 2012. As the more comprehensive end-to-end business framework is applied, the audit readiness date will be adjusted.

The following section begins with an overview of overall progress being made by the Department through the Office of the Secretary of Defense. Progress and Status Reports and narrative descriptions based on the Acquire to Retire and Procure to Pay end-to-end business processes for the Army, Navy, and Air Force are also included.

Office of the Secretary of Defense

Acquire to Retire – Military Equipment Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Investment Planning and Life-Cycle Management	C	C	N/A	N/A	N/A	N/A	N/A	N/A	C	C
Procure to Pay										
Requisitioning	C	C	N/A	N/A	N/A	N/A	N/A	N/A	C	C
Sourcing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contracting	C	C	N/A	N/A	N/A	N/A	N/A	N/A	C	C
Purchasing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Receipt and Acceptance	C	C	N/A	N/A	N/A	N/A	N/A	N/A	S	OS
Process Invoice and Matching	N/A	N/A	C	C	C	C	N/A	N/A	N/A	N/A
Disbursement Entitlement	S	OS	C	C	C	C	S	OS	C	C
Placement Into Service	S	OS	C	C	C	C	S	OS	S	OS
Monitor, Maintain, and Improve Assets	S	OS	C	C	C	C	S	OS	S	OS
Asset Disposition	C	C	C	C	C	C	S	OS	S	OS

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)

Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

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Progress and Status Description

The Property and Equipment Policy Office is making progress toward audit readiness for Military Equipment and has:

- Developed 10 principle-based business rules implementing GAAP.
- Standardized valuation methodology and reviewed over 1100 programs.
- Established a military equipment baseline using budget authority.

- Developed CAMS-ME (Capital Asset Management System - Military Equipment), a fixed asset accounting system for use in quarterly financial statement updates.
- Developed a management assertion and audit readiness process and completed annual attestations for FY 2006 and FY 2007.
- Established policy on proper financial accounting treatment for military equipment (PFAT4ME) and developed two Business/Financial Management Analyst tools to facilitate application of the policy to military equipment and subsequent modifications to military equipment.

- Developed new software to enable Components to transition from using the CAMS-ME Portal for asset status updates to a more efficient automated process using the Item Unique Identification (IUID) Registry.
- Developed an Accountability Improvement plan for military equipment to improve asset visibility and an Accountability Transition Plan to provide for efficient changeover to new accountability processes for all military equipment programs.
- Developed an Environmental Liabilities Quick Reference Tool to determine the presence of environmental liabilities in Department of Defense equipment.
- Analyzed the affect of OPTEMPO (the rate of military operations) on the useful life of military equipment

Challenges

In order to assert audit readiness enterprise-wide, the Department must comply with the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 and fully implement DoD Instruction 5000.64, Accountability and Management of DoD-Owned Equipment and Other Accountable Property. In the near-term, the Department must determine the level of precision that is needed in the valuation process and its cost. Specifically, the level of detail for Federal financial

reporting has not been determined and whether the benefits gained in terms of improved management decision-making are worth the time, effort, and cost of a detailed process. The Federal Accounting Standards Advisory Board generally agrees with the need for clarification on this point.

Numerous policy issues also arise as processes and systems change and affect other processes and systems. Addressing these policy issues in a timely and effective manner is an important challenge to the Department.

Next Steps

The Department will continue to improve asset identification and management, establish a more accurate basis to determine the full cost of equipment, and identify and resolve policy issues. Efforts will continue to focus on moving from a budget-based valuation, to an obligation-based valuation, to an expenditure-based valuation of Department assets. The results of the study of military operations on the useful life of military equipment will be applied to the Department's budget and financial reporting processes. The Department will also continue to work toward full automation of valuation and accountability processes and will improve internal controls on financial reporting for military equipment. Policy, process, and system solutions will support transition to Enterprise Resource Planning systems.

ARMY

Acquire to Retire – Military Equipment Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Investment Planning and Life-Cycle Management	S	OS	S	OS	S	OS	NS	TBD	NS	OS
Procure to Pay										
Requisitioning	NS	TBD	S	TBD	S	TBD	S	OS	NS	TBD
Sourcing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contracting	NS	TBD	S	TBD	S	TBD	NS	TBD	NS	TBD
Purchasing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Receipt and Acceptance	S	TBD	S	OS	S	OS	S	TBD	NS	TBD
Process Invoice and Matching	NS	TBD	S	TBD	S	OS	S	TBD	NS	TBD
Disbursement Entitlement	NS	TBD	S	OS	S	OS	NS	TBD	NS	TBD
Placement Into Service	S	TBD	S	TBD	S	OS	NS	TBD	S	TBD
Monitor, Maintain, and Improve Assets	NS	TBD	S	OS	S	OS	S	TBD	S	TBD
Asset Disposition	NS	TBD	S	TBD	S	OS	NS	TBD	S	TBD

Progress Legend: Completed Improvement Activities (C) Started Improvement Activities (S) Not Started Improvement Activities (NS) Not Applicable (N/A)

Status Legend: Completed (C) On Schedule (OS) Behind Schedule (SS) Not Applicable (N/A) To Be Determined (TBD)

336-30-8

Progress and Status Description as Submitted by the Army

The Army is making progress toward audit readiness for Military Equipment and has:

- Trained its program managers to use CAMS-ME to update military equipment programs.
- Developed an OMB Circular A-123, Appendix A compliance program for documenting processes, identifying risks and controls, and incorporating military equipment into the Army’s annual statement of assurance.
- Completed annual attestation on military equipment programs.

- Embedded IUID requirements in the interim system solution.
- Created the Army Asset Improvement Plan (AAIP) to support proper valuation and visibility over military equipment end items. The AAIP complements the Army CFO Strategic Plan.

Challenges

The Army will further analyze the Military Equipment Acquire to Retire end-to-end business process to address gaps. Several challenges impede Army progress:

- The baseline valuation must be reconciled with the system of record.

- The current contracting process does not allow the Army to accurately obtain all information required for a financial statement audit.
- Financial management systems cannot accurately separate military equipment expenditures from general equipment expenditures, which materially affects financial statement balances.

Next Steps

The Army will continue to expand and enhance its FIP to comprehensively address the Military Equipment Acquire to Retire business process. By the end of FY 2009, the Army expects to:

- Complete and disseminate implementation guidance for adhering to SFFAS No. 6 requirements to establish an environmental liability when an asset is placed in service.

- Determine and implement a long-term military equipment system solution that includes the property accountability system of record (PBUSE) and GFEBS.
- Assess hiring and training policies and processes.

The Army's approach will include monthly meetings to identify and define the Military Equipment Acquire to Retire process steps that impact financial information and reporting. The meetings will include representatives from the Office of the Assistant Secretary of the Army (OASA) Financial Management and Comptroller (FM&C), Army G-4, and OASA Acquisitions, Logistics, and Technology. Outcomes of these meetings will be compared with the Army CFO Strategic Plan to develop new financial improvement tasks to address identified gaps. The OASA(FM&C) will work with DFAS on any the DFAS-specific key milestones (e.g. "Process and Match Invoice" and "Disbursement").

NAVY

Acquire to Retire – Military Equipment Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Investment Planning and Life-Cycle Management	S	OS	S	OS	S	OS	S	OS	NS	TBD
Procure to Pay										
Requisitioning	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Sourcing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contracting	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Purchasing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Receipt and Acceptance	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Process Invoice and Matching	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Disbursement Entitlement	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Placement Into Service	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Monitor, Maintain, and Improve Assets	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD
Asset Disposition	S	TBD	S	TBD	S	TBD	S	TBD	NS	TBD

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)
Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

336-30-7

Progress and Status Description as Submitted by the Navy:

The Navy continues to make progress in improving Military Equipment. The Navy completed the following:

- Implemented CAMS-ME for use in quarterly financial statement updates.
- Completed the annual attestations on military equipment programs.
- Interfaced two core accountability systems to the IUID registry.
- Created a Military Equipment Accountability Improvement Plan to improve asset visibility and proper valuation.

- Identified four segments within Military Equipment: Ships, Aircraft, Communications, and Marine Corps.

Challenges

Improving Navy military equipment business processes represents a significant challenge. Proper accounting requires coordination and change across many organizations in and out of the Navy.

Achieving the Navy goal of tying a specific acquisition value to an individual asset will require significant system and process changes. Issues such as government-furnished equipment and sponsor-owned materials complicate processes. Furthermore,

achieving an auditable financial accounting treatment for modifying military equipment assets requires guidance and logistical systems improvements that are better defined.

Next Steps

The Department of the Navy will continue moving from a Military Equipment valuation environment that complies with SFFAS No. 23 (historical cost, based on budgetary date) to a Military Equipment valuation environment that complies with SFFAS No. 6. The new environment includes improved asset identification and management, and a full cost, expenditure-based valuation. The Navy will document the full life cycle end-to-end acquisition process in the air acquisition program segment as it will function in the Navy ERP. NAVAIR will play a

lead role in this effort. The Navy's ship and communications program segments will also participate and incorporate lessons learned. Other major end-item acquisition programs may also be documented. The Marine Corps will separately address military equipment life cycle procurement in systems environments specific to the Marine Corps.

NAVAIR will finalize process documentation, develop a plan for data migration to Navy ERP, and develop a detailed, long-term execution plan. The Department of the Navy will build on its success with documenting ship and aircraft Military Equipment by interfacing asset tracking systems within the Communications and Marine Corps organizational segments to the IUID registry.

AIR FORCE

Acquire to Retire – Military Equipment Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Investment Planning and Life-Cycle Management	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Procure to Pay										
Requisitioning	S	OS	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Sourcing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contracting	S	OS	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Purchasing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Receipt and Acceptance	S	OS	C	C	S	OS	C	C	S	OS
Process Invoice and Matching	S	TBD	S	TBD	S	TBD	S	TBD	S	TBD
Disbursement Entitlement	S	TBD	S	TBD	S	TBD	S	TBD	S	TBD
Placement Into Service	S	OS	C	C	S	OS	C	C	S	OS
Monitor, Maintain, and Improve Assets	S	OS	S	OS	S	OS	S	OS	S	OS
Asset Disposition	S	OS	S	OS	S	OS	C	C	S	OS

Progress Legend:	Completed Improvement Activities (C)	Started Improvement Activities (S)	Not Started Improvement Activities (NS)	Not Applicable (N/A)
Status Legend:	Completed (C)	On Schedule (OS)	Behind Schedule (SS)	Not Applicable (N/A) To Be Determined (TBD)

336-30-9

Progress and Status Description as Submitted by the Air Force:

The Air Force continues to make progress toward audit readiness of military equipment. Highlights of the Air Force effort follow:

- Implemented the two primary Air Force accountability systems of record for military equipment, REMIS (Reliability and Maintainability Information System) and RAMPOD (Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods).
- Developed a strategy and compliance program for meeting OMB Circular A-123, Appendix A requirements that is consistent with the end-to-end business process framework.

The Air Force has identified three distinct functional areas within the Acquire to Retire end-to-end business process for Military Equipment: acquisition, financial, and logistics. Each area has a specific functional community owner responsible for ensuring that the respective FIAR key milestones are completed on schedule.

To incorporate the end-to-end business process approach, the Air Force analyzed its FIP against each process step. Functional communities conducted self-assessments to determine the status of each FIAR key milestone and related FIP milestones. The initial analysis revealed:

- The Air Force FIP does not include all of the acquisition initiatives currently underway. The Air Force will further

refine its Military Equipment KMP to more comprehensively capture initiatives.

- The Financial area makes up a small percentage of completed tasks. For example, completion of Financial area tasks is reflected in the Receipt and Acceptance process step where the milestones for *processes* and *systems* are both indicated as “Complete.” The Financial area also contains several processes that are dependent on DFAS and in which the Air Force has no control. The Air Force cannot at this time project completion dates for such efforts. The Air Force will continue to work with DFAS to ensure full and accurate future Progress and Status Reports.
- Logistics is the area in which the Air Force has made the most progress. The Placed in Service, Monitor and Maintain Assets, and Asset Disposition milestones are listed as “Complete.” The Air Force systems of record for military equipment accountability, REMIS and RAMPOD, have been in use for several years and are annually reconciled to property records. All of the logistics area tasks in the Air Force FIP have begun and are on schedule.

The Air Force will conduct a more comprehensive analysis of the

entire Military Equipment end-to-end business process with the functional communities.

Challenges

Application of the end-to-end business process revealed that the Air Force had predominantly focused its military equipment financial improvement efforts in the logistics area.

Dependence on DFAS exists within the financial process steps, and, in particular, within the process steps for Disbursements and Invoice Matching. These dependencies may affect the projected completion dates for these processes as well as the overall assertion for the Military Equipment Acquire to Retire.

Next Steps

The Air Force will continue to work with the logistics and acquisition communities, and DFAS to define and confirm the way ahead to refine milestone dates. The Air Force will use the Accountability and Financial Management Integrated Product Team to ensure progress continues in this area. The Military Equipment sub-team will initiate, at a minimum, quarterly working groups to discuss specific issues.

Acquire to Retire for Real Property

The Department's \$101.8 billion of Real Property (net book value) accounted for 7 percent of the Department's assets in FY 2007. Real property data reside in the real property inventory systems of the three Military Departments (Army, Navy, and Air Force), the Washington Headquarters Services, and the United States Army Corps of Engineers.

Currently, functional and financial processes for managing real property differ by Military Department. Several business transformation initiatives are being implemented that will improve standardization. The Department is making progress including the publication of Real Property Inventory and Forecasting Instruction and the development and execution of Real Property Inventory Requirements (RPIR) implementation plans.

The RPIR initiative, part of the Enterprise Transition Plan, establishes sustainable real property business process standards, management controls, and standard data elements. Real property data are consolidated at the Department-level in the Real Property Asset database (RPAD), a net-centric data warehouse that when fully implemented will be the single source of standardized real property. Such initiatives and systems ensure that reliable and timely information will be readily accessible by managers when making strategic decisions on the acquisition, operation, and disposal of assets.

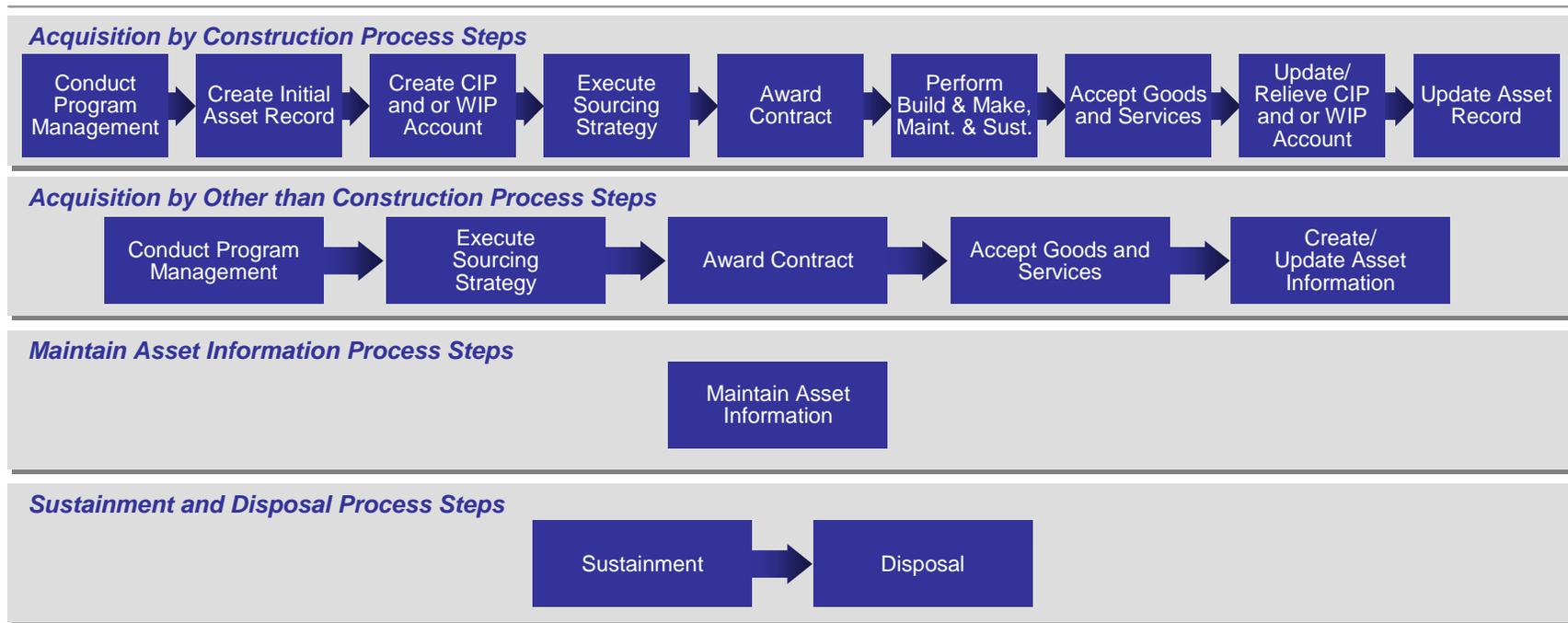
The September 2007 FIAR Plan projected the Department would achieve Real Property audit readiness by FY 2010.

However, as the more comprehensive end-to-end business framework is applied, the audit readiness date will be adjusted. Use of the framework for Real Property has also identified gaps in the Component FIPs. The Real Property functional community is addressing the gaps by modifying its processes, procedures, guidance, and systems. The Progress and Status Reports indicate gaps as "To Be Determined." However, the Army is continuing its efforts to identify the financial management and accounting gaps and is reporting on schedule.

The following sections present the Army, Navy, Air Force, and DLA Real Property Progress and Status Reports, and narrative descriptions, based on the Acquire to Retire end-to-end business process. For real property, the BEA expanded the Acquire to Retire end-to-end business process to distinguish the process for acquiring real property by construction from other methods of acquiring real property, such as by transfer or donation. The Real Property Progress and Status Reports are based on the more detailed Acquire to Retire end-to-end business process as shown in Figure 11.

Additionally, and because RPIR data is critical to resolving real property issues, *data* has been added to the five essential elements of financial improvement. A review and evaluation of *data* ensures that data elements are complete and available for use in Components' systems. Available for use means that data elements are available when appropriate to the lifecycle of a real property asset and meet the metadata requirements published in the Real Property Information Model.

Figure 11. Acquire to Retire for Real Property Process Steps



336-19

ARMY

Acquire to Retire – Real Property Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Data		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Acquisition by Construction												
Conduct Program Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Create Initial Asset Record	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Create CIP and/or WIP Account	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Perform Build	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Accept Goods and Services	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Update Relieve CIP and/or WIP Account	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Update Asset Record	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Acquisition by Other than Construction												
Conduct Program Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Create Update Asset Information	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Accept Goods and Services	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Maintain Asset Information	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sustainment	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS
Disposal	S	OS	S	OS	S	OS	S	OS	S	OS	S	OS

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)

Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

Progress and Status Description as Submitted by the Army:

The Army is on schedule for completing audit readiness key milestones in the Acquisition by Construction, Acquisition by Other than Construction, Sustainment, and Disposal segments by September 30, 2010. The Army has:

- Obtained FFIA compliance certification on the Integrated Facilities System (IFS), which serves as one of the Army’s systems of record for real property assets.
- Drafted the Real Property Audit Preparation Handbook, a comprehensive “how-to” guide for preparing real property for audit.

- Updated policies and procedures in training courses for installation real property and real estate personnel, and garrison commanders.
- Developed a compliance program to meet OMB Circular A-123, Appendix A requirements to document processes, identify risks and controls, and incorporate real property into the Army's annual Statement of Assurance.
- Implemented 95 percent of RPIR data elements in Army real property-related systems.

Challenges

The Army faces resource constraint and competing requirement challenges.

Next Steps

Over the next 18 months, the Army will continue improving and integrating its life-cycle business processes.

NAVY

Acquire to Retire – Real Property Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Data		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Acquisition by Construction												
Conduct Program Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Create Initial Asset Record	S	OS	S	OS	S	OS	C	C	S	OS	NS	TBD
Create CIP and/or WIP Account	S	OS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Perform Build	C	C	C	C	C	C	C	C	C	C	NS	TBD
Accept Goods and Services	S	SS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Update Relieve CIP and/or WIP Account	S	OS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Update Asset Record	S	OS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Acquisition by Other than Construction												
Conduct Program Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Create Update Asset Information	S	OS	S	OS	S	OS	NS	OS	S	OS	NS	TBD
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	C	C	S	OS	S	OS	S	OS	S	OS	NS	TBD
Accept Goods and Services	S	OS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Maintain Asset Information	S	TBD	S	TBD	S	TBD	S	TBD	S	TBD	S	TBD
Sustainment	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Disposal	S	OS	S	OS	S	OS	S	OS	S	OS	NS	TBD
Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A) Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)												

Progress and Status Description as Submitted by the Navy:

The Navy continues to make progress in transforming its Real Property business processes. The Navy created a cross functional team of representatives from the Naval Facilities Command and Naval Installations Command to address

weaknesses in the Real Property Acquire to Retire end-to-end business process. The cross functional team is focusing on the following initiatives:

- Proper accounting for the transfer and acceptance of real property, including required data elements, as required by RPIR and Construction-in-Progress Requirements (CIPR).

- Defining a process for reporting capital leases and the capitalization of Leasehold Improvements.
- Establishing an effective document archival and retrieval process for real property source documentation.
- Clarifying guidance on the current preponderance of use guidance and implementing an audit ready solution.
- Defining a methodology for periodic inventories of real property assets.
- Determining an acquisition value for real property assets will be limited by existing historical documentation.
- Testing of controls for the new DD 1354 Transfer and Acceptance of Real Property process may not be complete by the end of FY 2009.

Next Steps

The Navy will continue the efforts of the Department of the Navy Real Property Cross-Functional Team correcting known deficiencies involving systems, data, processes, policies and guidance, and human capital. These deficiency correction efforts include:

Challenges

There are a number of challenges to improving Real Property business processes that limit the Navy's ability to assert audit readiness. The most significant challenges are listed below:

- Completing a real property asset inventory (to validate existence and completeness) will be very time-consuming and may be cost-prohibitive.
- Aligning to the DoD capitalization threshold of \$20,000 will require significant control enhancements, as this value falls below the small purchase threshold.
- Implementing proper accounting treatment for preponderance of use will depend on additional guidance and may require system modifications to support an updated process.
- Implementing the reengineered process for Transfer and Acceptance of Real Property.
- Implementing process reengineering, process improvements, and new data elements as part of the RPIR, CIPR, RPUID, and RPAR initiatives.
- Reporting capital leases.
- Improving leasehold reporting.
- Disposing of BRAC real property.
- Retaining and retrieving documentation.

AIR FORCE

Acquire to Retire – Real Property Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Data		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Acquisition by Construction												
Conduct Program Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	S	TBD	N/A	N/A
Create Initial Asset Record	S	OS	C	C	S	OS	S	OS	NS	TBD	C	C
Create CIP and/or WIP Account	S	OS	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	C	C	S	OS	S	OS	N/A	N/A	C	C
Perform Build	S	OS	S	OS	S	OS	S	OS	NS	TBD	S	OS
Accept Goods and Services	S	OS	S	OS	S	OS	S	OS	S	SS	S	OS
Update Relieve CIP and/or WIP Account	S	OS	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Update Asset Record	S	OS	S	OS	S	OS	S	OS	S	SS	S	OS
Acquisition by Other than Construction												
Conduct Program Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Create Update Asset Information	S	OS	S	OS	S	OS	S	OS	S	SS	S	OS
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	C	C	S	OS	S	OS	S	SS	C	C
Accept Goods and Services	S	OS	S	OS	S	OS	S	OS	S	SS	S	OS
Maintain Asset Information	S	OS	S	OS	S	OS	S	OS	S	SS	S	OS
Sustainment	S	OS	S	OS	S	OS	S	OS	NS	TBD	S	OS
Disposal	S	OS	C	C	S	OS	S	OS	S	SS	C	C
Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A) Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)												

Progress and Status Description as Submitted by the Air Force:

The Air Force plans to assert on three real property segments—RPIR, RPAR, and CIPR.

RPIR and related system processes and data elements have

been included in the Automated Civil Engineering System – Real Property (ACES-RP). The Air Force has completed a technical review of real property accountability and reporting. Roles and responsibilities for personnel updating RPIR data elements have been established and changes implemented as needed. The Air Force is also evaluating, testing, performing risk assessments,

and documenting internal controls as part of the Air Force Audit Agency validation and implementation of OMB Circular A-123, Appendix A.

Next Steps

The Air Force will continue working with Civil Engineering, Acquisition, and DFAS to refine RPIR implementation steps. The Air Force expects to complete populating the RPIR data elements in ACES-RP by the end of FY 2008. The Air Force Instruction (AFI) 32-9005, Real Property Accountability and Reporting, which addresses establishing financial and physical accountability, designating installations, maintaining real property records, and reporting real property assets, will be issued by September 2008. This Instruction will also include guidance, implementation, assessments, and documentation required by RPAR, CIPR, and other relevant processes.

The Air Force will work closely with the civil engineering, information technology, and DFAS functional staffs to develop and implement RPAR and CIPR processes, including migrating the sustainable processes for RPIR to the new enterprise system. The Air Force will deploy RPAR and CIPR with the Information Technology Transformation Real Estate Capability in late FY 2009. Data population for RPAR and CIPR will be based on data elements in the real estate capability. The last milestone for RPAR and CIPR is evaluating, testing, performing risk assessment, and documenting internal controls. Implementation of RPAR should be complete by the end of FY 2010, and CIPR implementation will be complete by the end of FY 2011. ACES-RP functionality is expected to migrate to IT Transformation Real Estate Capability by FY 2010.

The Air Force will reassess and update its FIP to capture RPIR, RPAR, and CIPR implementation changes.

DLA

Acquire to Retire – Real Property Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Data		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Acquisition by Construction												
Conduct Program Management	S	OS	NS	TBD	S	OS	S	SS	S	SS	NS	OS
Create Initial Asset Record	S	OS	NS	OS	S	OS	NS	SS	S	SS	NS	OS
Create CIP and/or WIP Account	S	OS	NS	OS	S	OS	NS	SS	NS	SS	NS	OS
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	NS	TBD	S	OS	NS	SS	S	SS	NS	OS
Perform Build	S	OS	NS	TBD	S	OS	S	SS	S	SS	NS	OS
Accept Goods and Services	S	OS	S	OS	S	OS	S	SS	S	SS	NS	OS
Update Relieve CIP and/or WIP Account	C	C	NS	OS	S	OS	NS	SS	NS	SS	NS	OS
Update Asset Record	C	C	NS	OS	S	OS	NS	SS	NS	SS	NS	OS
Acquisition by Other than Construction												
Conduct Program Management	S	OS	S	OS	NS	TBD	S	SS	S	SS	NS	OS
Create Update Asset Information	C	C	NS	OS	NS	TBD	NS	SS	NS	SS	NS	OS
Execute Sourcing Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Award Contract	S	OS	S	OS	NS	TBD	S	SS	S	SS	NS	OS
Accept Goods and Services	S	OS	S	OS	NS	TBD	S	SS	S	SS	NS	OS
Maintain Asset Information	S	OS	NS	OS	S	OS	NS	SS	NS	SS	NS	OS
Sustainment	C	C	C	C	NS	TBD	S	SS	S	SS	NS	OS
Disposal	S	OS	NS	OS	NS	TBD	S	SS	S	SS	NS	OS
Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A) Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)												

Progress and Status Description as Submitted by the Defense Logistics Agency:

The Defense Logistics Agency's real property efforts center on achieving auditability across all aspects of DLA's Real Property end-to-end processes. At a high level, DLA's efforts are focused on improving and implementing processes and internal controls

to ensure consistently accurate financial reporting and compliance with laws and regulations. This requires commitment from across the DLA enterprise and significant participation from the Services to reconcile DLA's real property inventory with the Services' internal records and obtain documentation that supports asset lifecycle transactions.

The first step is developing comprehensive real property policy and procedural guidance including DLA's One Book Chapters that address real property lifecycle transactions. Chapters have been published for acquisitions, disposals, and Sustainment, Restoration and Modernization (SRM) of real property assets. Draft policy has also been developed for asset additions through the Military Construction (MILCON) program and for Real Property Asset Management (RPAM).

Procedures for implementing policy have been published for the SRM program and drafted for the RPAM program. Procedures for implementing MILCON and addressing real property acquisitions for other than constructed assets will be completed during FY 2009. Real property internal controls will be published by June 30, 2008.

DLA has supported the existence and completeness of real property management assertions and is verifying that all real property assets are reflected in its records. Substantial progress has been made. However, two business areas that represent the largest and most geographically dispersed number of assets are still conducting surveys and verifying records. These areas will be completed in FY 2013.

DLA has established a methodology for estimating acquisition cost and placed-in-service date when adequate documentation does not exist. DLA is testing the methodology. Once approved, valuations will be developed and asset records updated.

DLA designed the Facility Management System (FMS), a database that complies with DoD Real Property Inventory Lifecycle Management (RPILM) requirements. DLA is evaluating the cost-effectiveness of replacing FMS with a property management module that could be integrated into the Enterprise Business System (EBS), DLA's ERP. Further development of FMS is on hold pending results of this review. DLA remains committed to achieving full RPIR compliance in FY 2009.

To comply with OMB Circular A-123, Appendix A new process

cycle memoranda and flowcharts were prepared and additional key internal controls were identified.

Challenges

Significant challenges face DLA's real property team, including:

- Implementing an acceptable real property management system solution.
- Obtaining dedicated support from various functional areas within DLA.
- Gaining full participation from the Services in reconciling real property inventories.
- Creating an accurate valuation methodology for assets.

Next Steps

Initiatives planned for completion over the next 18 months are briefly described below:

- Publish policies for real property business activities.
DLA will publish draft policies for the MILCON and RPAM programs. The policies will establish the framework within which real property business activities are conducted and that forms the basis for sustainability.
- Document standard operating procedures and internal controls.

The procedures standardize DLA's approach to real property asset accountability and management, and facilitate compliance with policies and applicable laws and regulations. Once documented and approved for use, DLA will train Accountable Property Officers, Real Property Accountable Officers (RPAOs), and Realty Specialists.

- Test the Real Property valuation methodology.
Once DLA has agreement from OUSD(C) on the methodology,

DLA will estimate acquisition costs and in-service dates for a significant number of unsupported assets in its real property inventory. Due to the volume of unsupported assets, these estimates are critical to achieving auditability.

- Assign accountability and provide training.

Policy designating senior DLA managers as responsible for accounting for all real property assets under their control will be published by June 30, 2008. Managers will be required to appoint RPAOs and ensure they are available for training. RPAO training is planned for the fourth quarter of FY 2008.

- Adhere to OMB Circular A-123, Appendix A.

The DLA real property team will continue to meet the requirements of OMB Circular A-123, Appendix A, including providing input into DLA's Annual Statement of Assurance. The team will monitor progress on corrective action plans.

HIRE TO RETIRE END-TO-END BUSINESS PROCESS

The Hire to Retire end-to-end business process encompasses the business functions and activities necessary to recruit, in-process, develop, retain, and out-process employees. Business functions include providing employee benefits, recording time and attendance, performing payroll activities, training and developing personnel, garnishing wages, and collecting and paying taxes.

Hire to Retire applies to both military and civilian personnel. This section focuses only on the civilian personnel business area. The Department’s annual civilian payroll exceeds \$50 billion, approximately 10 percent of the Department’s budget.

The Navy has made significant progress in executing an end-to-end business process approach for civilian pay. The end-to-end business process for Hire to Retire from the BEA was further defined by the Navy to show a lower-level of process step detail and can be mapped to BEA process steps and products.

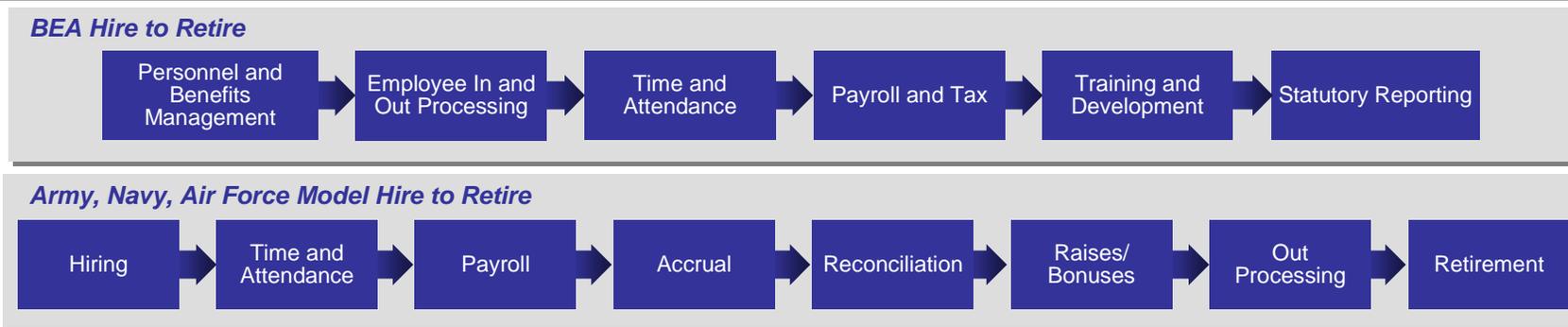
Additionally, the Defense Civilian Pay System (DCPS) has been successfully audited. The Defense Finance and Accounting Service uses DCPS to process and automate payroll and tax functions for the Department. DCPS has received successful

SAS 70 audits. SAS 70 (Statement on Auditing Standards No. 70) is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). An auditor’s examination performed in accordance with SAS No. 70, a “SAS 70 audit,” is a thorough and in-depth audit of control objectives and activities, including controls over information technology and related processes. Service organizations or service providers undergoing a SAS 70 audit must demonstrate that they have adequate controls and safeguards in place when processing data belonging to their customers.

Because of the materiality of civilian pay, the progress made by the Navy, and successful audits, the Department designated the civilian pay portion of Hire to Retire as one of the initial areas to begin implementing the end-to-end business process framework. The Hire to Retire Civilian Pay end-to-end process from the BEA and the Navy-developed process used by the Services are shown in Figure 12.

The following sections present the Army, Navy, Air Force, and DLA Progress and Status Reports and narrative descriptions based on the Hire to Retire end-to-end business process for civilian pay.

Figure 12. Hire to Retire Process Steps



336-21

ARMY

Hire to Retire Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Hiring	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Time and Attendance	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Payroll	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Accrual	S	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Reconciliation	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Raises/Bonuses	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Out-Processing	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Retirement	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)

Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

336-30-10

Progress and Status Description as Submitted by the Army:

The Army has begun financial improvement efforts to achieve auditability of the civilian pay portion of the Hire to Retire end-to-end business process. The Army is developing a compliance program to meet OMB Circular A-123, Appendix A requirements for documenting processes, identifying risks and controls, and incorporating civilian pay into the Army’s annual statement of assurance. In addition, the Army is developing procedures to properly account for outstanding civilian pay advances.

The Army is improving its civilian pay accountability and reporting processes. During the analysis of the Army’s civilian personnel Hire to Retire end-to-end business process, the Army found that significant gaps existed between the end-to-end business process and the previous financial improvement focus areas as detailed in the Army CFO Strategic Plan.

Challenges

The Army is addressing several challenges currently impeding its progress, including resource constraints that inhibit fully investing in civilian personnel financial improvement efforts.

Next Steps

Over the next 18 months, the Army will continue evaluating the civilian pay Hire to Retire end-to-end business process. Several functional offices will collectively identify civilian personnel processes and develop the KMP.

NAVY

Hire to Retire Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Hiring	S	OS	S	OS	S	OS	S	OS	S	OS
Time and Attendance	S	OS	S	OS	S	OS	S	OS	S	OS
Payroll	S	OS	S	OS	S	OS	S	OS	S	OS
Accrual	S	OS	S	OS	S	OS	S	OS	S	OS
Reconciliation	S	OS	S	OS	S	OS	S	OS	S	OS
Raises/Bonuses	S	OS	S	OS	S	OS	S	OS	S	OS
Out-Processing	S	OS	S	OS	S	OS	S	OS	S	OS
Retirement	S	OS	S	OS	S	OS	S	OS	S	OS

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)

Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

336-30-11

Progress and Status Description as Submitted by the Navy:

The Navy has made significant progress in preparing its civilian pay portion of the Hire to Retire end-to-end business process for audit. The Navy established a work group (including resources from Command Human Resource and Financial Management offices, the Office of Civilian Human Resources, and DFAS Civilian Pay) to document a standard Navy civilian labor business process. The Navy completed a risk analysis and an initial control assessment based on the results of the work group.

The Navy is performing a gap analysis of the standard civilian personnel process and correcting any variances from the required control objectives.

Challenges

To date, the Navy has not identified any material weaknesses in the civilian pay business process that would limit its ability to

assert audit readiness. However, it has not yet determined whether the National Security Personnel System will affect the process.

Next Steps

The Navy will complete a gap analysis across commands, implement standard key controls over financial reporting, and execute corrective actions where commands are not meeting defined control objectives. The Navy will establish regular control testing for commands that align with control objectives. Audit readiness will be asserted when a preponderance of the Commands align with control objectives and demonstrate effective control testing procedures.

Air Force

Hire to Retire Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Hiring	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Time and Attendance	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Payroll	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Accrual	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Reconciliation	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Raises/Bonuses	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Out-Processing	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD
Retirement	NS	TBD	S	TBD	NS	TBD	NS	TBD	NS	TBD

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)

Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

336-30-12

Progress and Status Description as Submitted by the Air Force:

The Air Force has created high-level process flows that show the Hire to Retire end-to-end business process. However, in the past, civilian pay had not been fully documented, and the Air Force FIP included minimal discovery and corrective actions, and validation testing. As a result, Air Force progress for all elements other than Process is shown as “Not Started.” The Air Force developed a plan for documenting civilian personnel processes, verifying systems, and testing controls. As progress is made, Progress and Status Reports will identify ongoing and completed improvement efforts.

Challenges

The Air Force faces geographical limitations, an abundance of manual processes, as well as a need for training and additional expertise. These challenges will be addressed as the Air Force develops and executes financial improvement action plans in this business area.

Next Steps

In accordance with OMB Circular A-123, Appendix A, the Air Force will identify documentation, complete risk assessments, and develop corrective actions. The Air Force will also update its FIP to reflect the end-to-end business process.

DLA

Hire to Retire Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Personnel and Benefits Management	S	OS	S	OS	S	OS	NS	TBD	NS	TBD
Employee In and Out Processing	S	OS	S	OS	S	OS	NS	TBD	NS	TBD
Time and Attendance	S	OS	S	OS	S	OS	NS	TBD	NS	TBD
Payroll and Tax	S	OS	S	OS	S	OS	NS	TBD	NS	TBD
Training and Development	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD
Statutory Reporting	NS	TBD	NS	TBD	NS	TBD	NS	TBD	NS	TBD

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)
Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) □ To Be Determined (TBD)

336-30-13

DLA is using the Hire to Retire end-to-end business process framework defined in the BEA and which is supported by DLA’s Enterprise Resource Planning System.

Progress and Status Description as Submitted by DLA:

DLA is making progress toward audit readiness for Civilian Personnel Hire to Retire and has:

- Documented the creation and maintenance of employee data files within the DLA Human Resources Center and the Center of Excellence.
- Identified internal controls and the systems used for employee master files.
- Documented unemployment compensation processes, and employee benefits and compensation.
- Reviewed policies, regulations, and guidance relating to unemployment compensation and determined that DLA’s current process does not comply with published regulations and needs improvement.

- Documented the process for recording time and attendance and expenses and liabilities in EBS.
- Assessed internal controls for DLA’s payroll process. All automated controls, and most manual controls, were rated high risk. Corrective action plans are being developed.

Challenges

Because human capital affects all end-to-end business processes, not just Hire to Retire, the mission of DLA Human Resources Strategy (J-1) may need to be transformed to meet the needs of the DLA enterprise.

Next Steps

DLA will finish documenting processes and submit the documentation to DLA’s Office of Internal Investigation and Audit for validation. DLA is planning to move the manual portion of the processes originally defined as Other Liabilities on the Balance Sheet into a Sustainment mode, pending completion of the automated portion. The manual portion is anticipated to be

completed by September 2009, providing DLA resources are available to complete the tasks.

DLA will also review and assess reconciliations related to recording and reporting Payroll and Benefits and identify evidential matter supporting the reconciliations.

Corrective Action plans will be developed from completed OMB Circular A-123 risk analyses. All automated controls relating to EBS and most manual controls were rated as high risk in FY 2008.

Existing standard operating procedures will be reviewed and new procedures prepared for manual Hire to Retire processes.

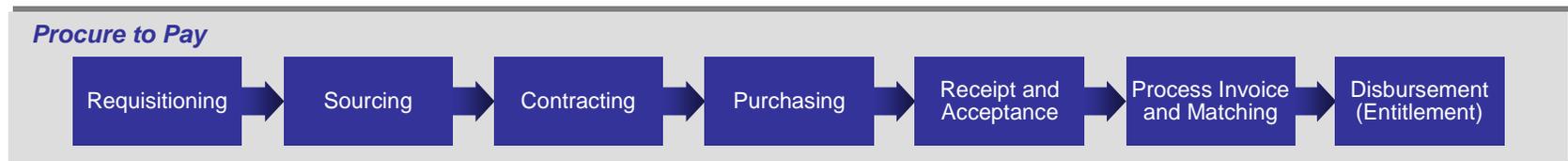
PROCURE TO PAY END-TO-END BUSINESS PROCESS

The Procure to Pay end-to-end business process (Figure 13) encompasses the business functions and activities for purchasing goods and services. This includes preparing requisitions, determining the best sources (vendors), preparing and awarding purchase agreements or contracts, receiving goods or services, processing vendor invoices, and paying vendors for the goods and services that were delivered or performed. The Department procures hundreds of billions of dollars of goods and services annually. Improving the policies, processes, controls, and systems that support this end-to-end business process will improve the Department’s purchasing

power and ability to deliver the right goods and services to the warfighter at the right time.

The Defense Logistics Agency’s primary mission is to ensure that all necessary items are available to the warfighter at the right time and place. Procure to Pay is a critical business process for DLA. Financial management improvements to Procure to Pay improves DLA’s ability to identify quantities and locations of materiel and report costs. Other benefits include the ability to provide precise location and cost information (historical and latest acquisition) per unit and by program. Improvements also enhance DLA’s ability to formulate, justify, and defend budget submissions.

Figure 13. Procure to Pay Process Steps



336-16

DLA

Procure to Pay Progress and Status Report

Process Steps	Policies		Processes		Controls		Systems		Human Capital	
	Progress	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status
Procure to Pay	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Requisitioning	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Sourcing	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Contracting	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Purchasing	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Receipt, Acceptance, and Match	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Process Invoice and Match	NS	TBD	S	OS	S	OS	S	OS	NS	TBD
Disbursement (Entitlement)	NS	TBD	S	OS	S	OS	S	OS	NS	TBD

Progress Legend: ■ Completed Improvement Activities (C) ■ Started Improvement Activities (S) ■ Not Started Improvement Activities (NS) ■ Not Applicable (N/A)

Status Legend: ■ Completed (C) ■ On Schedule (OS) ■ Behind Schedule (SS) ■ Not Applicable (N/A) To Be Determined (TBD)

336-30-6

Progress and Status Description as Submitted by DLA:

DLA continues making critical progress toward audit readiness, including:

- Developing and implementing action plans and milestones for remediating known deficiencies.
- Identifying material weaknesses within the Procure to Pay end-to-end business process.
- Documenting Procure to Pay end-to-end processes.
- Identifying and documenting Procure to Pay internal controls and performing risk assessments.
- Identifying needed system documentation improvements.
- Identifying internal and external points of contact for the Procure to Pay business process.
- Developing formal educational briefings and presentations across the financial community.

To continue to meet OMB Circular A-123, Appendix A requirements, DLA has:

- Expanded the documentation for vendor setup and maintenance, which has critical touch points across the Procure to Pay.
- Identified additional vendor setup controls.
- Monitored progress on corrective action plans.
- Documented the General Fund processes, beginning with Budget Execution through disbursement.

DLA has begun documenting and testing other key areas and is using the results at one location as a model for other Inventory Control Points. The Defense Supply Center Richmond is testing this model. If successful, it will be employed by other Inventory Control Points.

Challenges

The DLA Procure to Pay team faces many challenges, including resourcing and dedicated support from other functional areas. Audit readiness on end-to-end business processes requires personnel (both federal and contractor) who understand the functional and technical issues facing the Procure to Pay process area and DLA as a whole. Current personnel skills have not been sufficiently evaluated.

Implementing the end-to-end business process framework requires that functional and technical personnel from multiple divisions form cross-functional teams to document processes, identify controls, and identify and correct weaknesses. Senior leadership support must continue to be strong. Additionally, system architectures must be able to support financial management improvements and activities.

Next Steps

Several initiatives are planned over the next 18 months. Following is a brief description of each:

- Resolve previously identified material weaknesses.
DLA will address known deficiencies and work to discover additional impediments to achieving audit readiness. Efforts will focus on deficiencies related to the authorization, use and management reviews of receivings reports; accurate

and timely recording of transportation accruals; review errors related to Bulk Contracting; and creation and authorization of purchase orders for goods or services.

- Meet OMB Circular A-123, Appendix A requirements.
DLA will continue to meet the requirements for OMB Circular A-123, Appendix A and to strengthen its control environment.
- Create accurate and supportable financial statement line-item balances for areas that affect Procure to Pay.
DLA will begin identifying the financial events that make up the Procure to Pay balances and identify the relationships between the systems and all other affected areas. This will be accomplished through transactional tracing from the general ledger account balances to the source documents and vice versa; by identifying evidential matter supporting line item balances; and by identifying evidential matter required for each transaction initiated, recorded, and reported.
- Document sustainable business processes.
DLA will continue to verify and expand the existing EBS process cycle memorandum documentation to incorporate all aspects of the Procure to Pay business process.

General Appendices

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Appendix 1 – DoD Audit Readiness Strategy

The Department's strategy for achieving unqualified audit opinions on its financial statements is to make and validate incremental improvements. Once sufficient progress is demonstrated and validated at lower levels, the Department can progress to full financial statement audits.

EVOLUTION

While the FIAR Plan strategy continues to focus on making incremental improvements that lead to audit readiness, the business rules supporting that strategy have been refined. Under the original business rules, incremental improvements would be followed by audits on both financial statement line-items and financial statements. How incremental progress would be sustained was not addressed by the business rules, and financial statement line-items and sub-lines were the exclusive focus. Additionally, solutions to deficiencies were not linked to implementation of Enterprise Resource Planning systems.

Since publication of the initial FIAR Plan, the business rules and solutions have been refined to:

- Limit audits to entire financial statements rather than audits on financial statement lines.
- Implement alternative methods of verifying incremental progress or audit readiness.
- Incorporate a model to sustain progress once audit readiness of a segment has been verified.
- Focus on the business processes that underlie the amounts reported on the financial statements rather than exclusively on balance sheet lines.
- Recognize that financial statement auditability and the correction of deficiencies for many business processes must be tied to implementation of Enterprise Resource Planning systems.

Segment

An essential part of the financial environment that can be individually assessed, validated, and asserted on for audit readiness.

- End-to-end business processes, such as Acquire to Retire and Procure to Pay.
- Organizations and Commands, such as the U.S. Marine Corps.
- Financial Statement lines, such as individual lines in which improvements can be easily segregated; closely related groups of lines that need similar improvements; or material sub-lines.

Segments

The FIAR Plan breaks down the business environment into segments. A segment is an essential part of the financial environment that can be individually assessed, validated, and asserted on for audit readiness. A segment may be a Department-wide business or financial process, or the operations of a single entity. Segments are formed either by bringing together closely related areas of financial management or by breaking apart areas into more manageable portions. This approach allows the Department greater flexibility in how it organizes and prioritizes financial management improvement efforts. Segments more closely align financial improvement initiatives with end-to-end business processes, which is consistent with the methodology frequently used by auditors during audit engagements.

Business Rules

The Department's rules for preparing and evaluating a segment include examining operations; diagnosing and correcting

problems; and reaching audit readiness. The business rules call for an independent validation of segment improvements with an emphasis on sustainment.

Financial improvements are sustained through an evaluation of continued audit readiness rather than by examination engagements.

The business rules, which can be applied uniformly regardless of the size, materiality, or scope of a segment, are as follows:

1. **Discovery and Correction:** Management evaluates individual financial segments, identifies weaknesses and deficiencies, and implements corrective actions.
2. **Segment Assertion:** Management asserts audit readiness to Office of the Inspector General (OIG) and Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for concurrence.
3. **Audit Readiness Validation:** OIG or an Independent Public Accounting (IPA) firm validates management's assertion using an examination engagement.
4. **Audit Readiness Sustainment:** Annual verification of segments is conducted using OMB Circular A 123, Appendix A as guidance.
5. **Financial Statement Assertion:** Management asserts financial statement audit readiness to OIG and OUSD(C) for concurrence.
6. **Financial Statement Audit:** OIG or IPA firm audits the organization's financial statements.

The business rules delineate responsibilities between management and the auditors. Management's responsibilities focus on completing discovery and correction, asserting audit readiness of segments, sustaining financial improvements to segments, and asserting audit readiness of the financial

statements (rules 1, 2, 4 and 5). Independent auditors validate segment audit readiness and perform the eventual audit of financial statements (rules 3 and 6).

Management can assert segment audit readiness at any time during the year. Following OUSD(C) and OIG concurrence, management initiates the contracting process for the validation phase. The standard timeline for completion of the independent evaluation and examination engagement is one year and proceeds as follows:

- Three months: OUSD(C) and OIG review of management's assertion.
- Three months: Prepare Statement of Work, Request for Proposals issued, and contract awarded for independent validation.
- Six Months: Independent validation.

The established standard timeline may vary as some of the review and contract preparation actions can be accomplished concurrently. Additionally, the complexity of a given segment may increase or decrease time necessary for completion.

AUDIT READINESS SUSTAINMENT

The Department must be able to confirm that progress, once made, is being sustained. Failure to do so is a material risk to the Department's ability to attain an annual unqualified audit opinion on its financial statements. To sustain improvements, management must continue the financial policies, procedures, and internal controls that supported management's initial audit-readiness assertions, and maintain momentum toward overall improvement.

The Audit Readiness Sustainment phase calls for continually monitoring progress already made and annually verifying that audit-ready segments remain audit ready while Discovery and

Correction is being completed on other segments. Four basic areas of the financial environment are verified to assure continued compliance with Generally Accepted Accounting Principles (GAAP):

- Internal control policies and procedures
- Business processes
- Automated systems
- Compliance with laws and regulations

Monitoring and Reporting Sustained Progress

Segments that have been validated as audit ready are continually tested, reviewed, monitored, and reported on by management and the entity's audit committee or senior assessment team. Any material changes to the segment's dependencies or newly identified deficiencies are reported to the OUSD(C). When material changes have been made that effect the segment's audit readiness status, then the segment, or the changes to the segment, is revalidated as audit ready. The OUSD(C) and the OIG will jointly monitor progress and provide a forum for resolving issues. Any material weaknesses that are identified during the sustainment phase are reported in the entity's annual Statement of Assurance and corrective actions are taken. Once material weaknesses are corrected, the segment is revalidated as audit ready.

Annual Evaluations Using Appendix A as Guidance

Annual evaluations of each audit-ready segment are being completed using OMB Circular A-123, Appendix A, as guidance. The evaluation is performed by a Service Audit Agency, if available. Otherwise, management may choose to use either the OIG or an Independent Public Accountant, depending on the risk and materiality of the segment.

While Appendix A will be used as guidance, risk evaluations and

testing for verifying audit readiness sustainment will be more rigorous than those required by Appendix A. The sustainment evaluation requirements are being developed jointly by the OUSD(C) and the OIG.

AUDIT ADVISORY COMMITTEE

As the business transformation efforts of the Department grew in complexity and scope, the OUSD(C) recognized a need for an independent, Department-level committee to offer insight into the audit strategy and support coordination between the Enterprise Transition Plan and the FIAR Plan.

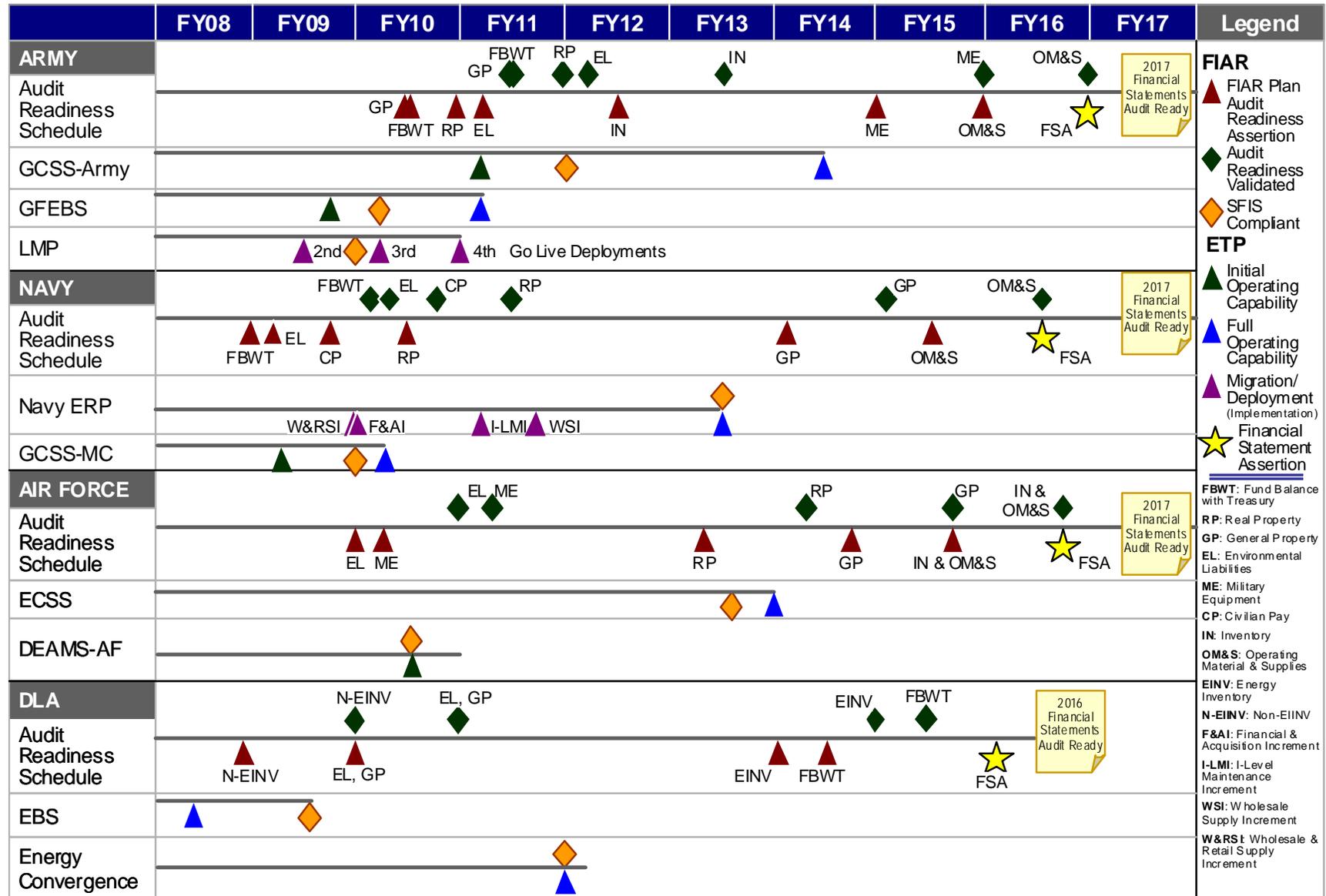
Under the provisions of the Federal Advisory Committee Act of 1972 (PL 92-463, as amended), the DoD Audit Advisory Committee is being formed to advise and make recommendations on DoD financial management, including reporting processes, internal controls, audit readiness, and compliance.

The Audit Committee will comprise not more than five distinguished members of the audit, accounting, and financial communities appointed by the Secretary of Defense to three-year terms. None of the members may be a DoD employee, and terms are limited to not more than three consecutive terms. Meetings will be held an estimated four times per year.

An annual report on the Committee's activities and recommendations will be submitted to the Deputy Secretary of Defense. It is envisioned that the Committee will monitor and oversee audit engagements throughout the Department, and foster awareness of the available options to achieve audit readiness.

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Appendix 2 – Audit Readiness and ERP Deployment Timelines



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Appendix 3 – Federal Requirements

For many years, the Executive and Legislative branches have worked together to realize an accountable, results-oriented government that strives every day to better serve the American people. Many initiatives and laws shape the Department of Defense's strategy for improving financial management and achieving audit readiness. Brief descriptions of the most predominant follow:

The Chief Financial Officers Act of 1990 (PL 101-576) (CFO Act) was the first of a series of management reform legislation designed to improve the general and financial management of the Federal government. It laid the foundation for other key legislative reforms that followed a common thread of increased accountability and better management practices. The CFO Act requires that each Federal agency improve its systems of accounting, financial management, and internal controls so that issued financial information is reliable and fraud, waste, and abuse are deterred. Further, each agency must prepare timely, complete, consistent, and reliable financial statements for Congress and the Administration to use in financing, managing, and evaluating Federal programs.

The Federal Managers Financial Integrity Act of 1982 (PL 97-255) (FMFIA) requires all functions within DoD to assess the effectiveness of management controls. The CFO Act built on the FMFIA by establishing internal controls for financial management and systems. Under the FMFIA, if material deficiencies are discovered, DoD must report those deficiencies with scheduled milestones leading to the resolution of the deficiency. The ongoing evaluation and testing of controls ensures that obligations and costs comply with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and

accounted for on financial and statistical reports.

The Federal Financial Management Improvement Act of 1996 (PL 104-208) (FFMIA) addresses the need for agencies to have systems that can generate reliable, useful, and timely information with which to make fully informed decisions and ensure accountability on an ongoing basis. FFMIA requires DoD to develop a corrective action plan when its financial management systems do not comply with Federal financial management system requirements. FFMIA does three things:

- Establishes in statute certain financial management system requirements that are already Executive Branch policies. Specifically, Section 803(a) requires each agency to implement and maintain systems that comply substantially with:
 - Federal financial management system requirements,
 - applicable Federal accounting standards, and
 - the Standard General Ledger at the transaction level;
- Requires auditors to report on agency compliance with Section 803(a) as part of financial statement audit reports.
- Requires agency heads to determine, based on the audit report and other information, whether financial management systems comply with FFMIA. If systems do not comply with FFMIA, agencies must develop remediation plans and file them with OMB.

The Clinger-Cohen Act of 1996 (PL 104-106) (also known as the Information Technology Management Reform Act of 1996) sets forth a variety of initiatives to support better decision making for capital investments in information technology. The need for better decision making has led to the development of the Federal Enterprise Architecture and better-informed capital investment and control processes.

The Government Management Reform Act of 1994 (PL 103-356) requires changes in four main areas: limitation on pay, human resource management, streamlining management control, and financial management.

The National Defense Authorization Act for FY 2002 (PL 107-107), Section 1008, “Reliability of Department of Defense Financial Statements” describes the requirements for the Annual Report on Reliability, limits the use of resources for preparing unreliable financial statements, requires information submitted to auditors, and limits the Inspector General’s audits to procedures required by Generally Accepted Government Auditing Standards. For Components that cannot rely on their financial statements, the section concentrates on redirecting resources from preparing financial statements to improving the systems underlying financial management and improving financial management policies, procedures, and internal controls within the Department of Defense.

The Anti-Deficiency Act (ADA) (31 U.S.C. Chapters 13 and 15) prevents departments and agencies from making or authorizing obligations or expenditures in advance or in excess of an appropriation. Government agencies establish administrative control systems for keeping obligations within the amount of apportionment and for detecting violations. Violations of the ADA are subject to administrative and penal sanctions and must be reported through the Executive Branch to Congress.

The Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” Appendix A, “Internal Control Over Financial Reporting” prescribes a strengthened management process for assessing internal control over financial reporting. Appendix A also requires an annual management assurance statement that specifically addresses the effectiveness of internal control over financial reporting based on the results of management’s assessment.

Creating an annual Statement of Assurance includes flowcharting key business processes that impact financial report balances; identifying and assessing risks within the processes and related internal controls; testing controls believed to be effective and correcting or establishing controls found to be deficient; and reporting on the results of the assessments and tests.

The Office of Management and Budget Circular A-127, “Financial Management Systems,” serves as a reference document for government-wide financial management systems. It prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

Agency financial management systems must comply with the following requirements:

- Agency-wide Financial Information Classification Structure. The design of the financial management systems must reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger.
- Federal Accounting Standards. Agency financial management systems must maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB).
- Agency financial management systems must conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in the Federal Financial Management Systems Requirements publication series issued by the Financial Systems Integration Office.

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Appendix 4 – Managing the FIAR Plan

To manage the FIAR Plan and ensure that DoD-wide financial improvement efforts continue to mature and are integrated with transformation activities across the Department, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) established the FIAR Directorate, a program management office. The Department also looks to the Financial Management Leadership Council to oversee the management of the FIAR Plan.

The Financial Management Leadership Council

The Financial Management Leadership Council (FMLC) is chaired by the Under Secretary of Defense Comptroller (USD(C)) and meets monthly. The FMLC comprises financial management senior executives from the Military Services, Defense Logistics Agency, Defense Information Systems Agency, Business Transformation Agency, Defense Finance and Accounting Service, and OUSD(C). The Deputy Inspector General for Auditing acts as an adviser, and senior representatives from the Office of Management and Budget and the Government Accountability Office also attend. The FMLC monitors FIAR Plan progress and challenges, and makes recommendations to the USD(C), who establishes FIAR Plan priorities.

The FIAR Committee

The FIAR Committee, a chartered organization, leads the process for establishing and monitoring FIAR Plan priorities. Chaired by the Deputy Chief Financial Officer, the Committee comprises executive-level representatives of the Military Departments, Defense Logistics Agency, Business Transformation Agency, and Defense Finance and Accounting Service. The Deputy Inspector General for Auditing acts as an adviser to the FIAR Committee. An active subcommittee of

senior accountants, financial managers, management analysts, and auditors support the FIAR Committee. This collaborative management structure reinforces business integration.

The FIAR Directorate

The FIAR Directorate, which reports to the Deputy Chief Financial Officer, organizes and convenes cross-Component financial improvement planning workshops, manages the audit readiness process, and semiannually publishes the FIAR Plan. The Directorate also maintains the FIAR Planning Tool.

The FIAR Planning Tool

The FIAR Planning Tool (FIAR-PT) is an Internet-based resource designed to assist in managing the Department of Defense's financial improvement process.

The FIAR-PT:

- Enables Components to organize and report on the FIAR Plan
- Provides a standard tool from which Components manage their Financial Improvement Plans
- Serves as an integrated repository for linking multiple business transformation efforts within the Department

Many benefits have been realized by making the FIAR-PT accessible over the Internet. Among the obvious advantages are easy access and better communication with other financial management team members, leadership, and stakeholders. Further, making the FIAR-PT Web-accessible keeps involved parties accountable to their shared goal of improving financial management by allowing for real-time visibility of identified deficiencies, corrective action plans, tasks, milestones, and progress. Visibility allows Components to view and analyze existing plans and use them as models for preparing and

structuring their own plans. Components can then better draw on solutions and lessons learned by other financial management teams. By centralizing reporting data, the FIAR-PT helps Component financial management teams view the most current information available and efficiently report status to the rest of the Department.

Every effort has been made to keep the FIAR-PT easy to use. To assist new users, the FIAR Directorate has made a number of resources available. The FIAR Planning Tool is an ongoing project and under continual construction. Suggestions and concerns are always welcome. Comments and questions should be submitted via e-mail to <FIARSupport@osd.mil>.

FIAR Planning Tool - Web-Accessible Enables Easy Visibility to View and Analyze Current Data

The screenshot shows the DoD FIAR Portal interface. A red box highlights the navigation menu on the left, which includes sections for 'Entry Site', 'Sites', 'Documents', and 'Lists'. Another red box highlights a breadcrumb trail at the top of the main content area: 'FIAR Planning Tool > ETP Progress Tracker > DFAS Military Pay'. Below this, there are 'Announcements' and a 'Calendar' section. The calendar table lists several events with their titles, locations, and start/end times.

Title	Location	Start Time	End Time
FIAR Key Milestone Monthly Reporting		2/25/2008 10:00 AM	2/29/2008 10:00 AM
FIAR Subcommittee Meeting	Crystal Mall 3, 3rd Floor, Conference Room 309	1/29/2008 9:30 AM	1/29/2008 12:00 PM
FIAR Key Milestone Monthly Reporting		1/28/2008 8:00 AM	2/1/2008 5:00 PM
FIAR Key Milestone Monthly Reporting	KM Reporting Site	12/19/2007 8:00 AM	1/3/2008 5:00 PM

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Appendix 5 – Auditor-Identified Material Weaknesses

From audits performed by the DoD Inspector General, 13 material weaknesses have been identified. A material weakness is an identified problem that may impact the accuracy and reliability of financial information. The Department is committed to implementing solutions that best resolve these weaknesses.

Resolving many of the material weaknesses requires the realization of initiatives and system solutions under the Enterprise Transition Plan (ETP). Other material weaknesses can be resolved through corrective actions outlined in the FIAR Plan.

The material weaknesses and the Department's approach to resolving each are presented below.

Financial Management Systems

The Department's systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.

The Department cannot collect and report accurate, reliable, and timely financial and performance information because of most of the Department's accounting and business processes and systems were not designed to meet today's financial reporting requirements.

The financial management initiatives and systems in the ETP are the solutions for this material weakness. Where financial improvement is dependent on such solutions, critical key milestones are also contained in the FIAR Plan. Below are some of the initiatives and system solutions being developed and implemented by the Department. Detailed information on these initiatives and systems can be found in the ETP.

- Army General Fund Enterprise Business System (GFEBS) and Logistics Modernization Program (LMP)
- Navy Enterprise Resource Planning (ERP)
- Air Force Defense Enterprise Accounting Management System (DEAMS) and Expeditionary Combat Support System (ECSS)
- Defense Logistics Agency Enterprise Business System
- Standard Financial Information Structure (SFIS) and Business Enterprise Information Services (BEIS)

Intragovernmental Eliminations

The inability to reconcile most intragovernmental transactions results in adjustments that cannot be fully supported.

The Department cannot reconcile transactions involving the exchange of goods and services within DoD and with other federal agencies. These transactions are referred to as inter- or intra-governmental transactions. For DoD and the Federal Consolidated Financial Statements, the transactions for the buying and selling of goods and services must be identified for off-setting entries. Because DoD's processes and systems do not have information needed to identify trading partners, unsupported estimates and adjustments are made during financial statement preparation.

Two solutions will resolve this material weakness. At the Component-level, core financial systems identified in the Financial Management Systems material weakness are being deployed. These systems collect information on sales and purchases. The BTA is also leading an initiative, the Intragovernmental Value Added Network (IVAN), to develop a process for exchanging information on sales and purchases between DoD organizations.

Accounting Entries

The Department continues to enter material amounts of unsupported accounting entries.

Unsupported accounting entries are adjustments made to out-of-balance general ledgers using the best information available.

The adjustments do not have supporting documentation and cannot be verified in an audit.

In many instances, current accounting systems do not have the capability to collect information necessary for preparing complete financial reports and statements. Differences between similar types of information cannot always be identified. Out-of-balance general ledgers result from inadequate or incorrect information in processes and systems. To fill these gaps, adjustments to the records are made using the best available information.

The Department continues to emphasize the importance of fully documenting adjustments, and progress has been made. Resolving this weakness relies on the new core accounting systems in the Financial Management Systems material weakness.

Fund Balance with Treasury

The Department has been unable to fully reconcile its records to those of the U.S. Treasury.

The Department cannot reconcile its accounting of disbursements and collections and keep an accurate balance of funds with the U.S. Treasury.

Significant progress has been made as a result of work by the Army, Navy, and Air Force to reengineer their processes and resolve many of the discrepancies between their Department's records and those of the U.S. Treasury.

Environmental Liabilities

Guidance and audit trails are insufficient. The inventory of ranges and operational activities (landfills, open burning pits, etc.) is incomplete.

The Department lacks the necessary infrastructure to identify, estimate, and report environmental liabilities.

The Environmental Liabilities corrective actions and activities in the FIAR Plan and other initiatives will resolve this weakness. Policies, processes, and controls are being modified so the Department can have a complete inventory of sites and equipment, prepare estimates that can be verified by auditors, and reconcile environmental sites with asset records.

General Property, Plant and Equipment (PP&E)

The cost and depreciation of DoD General PP&E is not reliably reported due to: 1) accounting requirements that went into effect in FY 2003 that classify military equipment as General PP&E (such costs were previously expensed); 2) a lack of supporting documentation for General PP&E purchased many years ago; and 3) most legacy property and logistics systems not being integrated with acquisition and financial systems and not designed to capture the acquisition cost, cost of modifications and upgrades, or calculate depreciation.

The root cause of this weakness is the lack of a standardized, Department-wide costing methodology with supporting systems, and processes and a complete inventory of all existing PP&E.

To resolve this weakness, General PP&E is broken down into property categories (Military Equipment, Real Property, Internal Use Software, and General Property and Equipment). Each category is being addressed by individually-focused initiatives. The approach for each initiative is to identify and record existing

inventories, modify processes and procedures to accurately capture acquisition and disposal information, implement costing methodologies, and deploy modernized or new property accountability systems.

Government Property and Materiel in Possession of Contractors

The cost of DoD property and material in the possession of contractors is not reliably reported due to a lack of an integrated reporting methodology.

Closely related to the GPP&E weakness, the Department does not have an accurate inventory and related cost for property and material in the possession of contractors. As a result, the values are not reported on the financial statements.

The solution for this weakness is closely linked with the military equipment portion of the GPP&E weakness, because most of the government property and material in the possession of contractors is used in the production of weapons systems.

Inventory

The existing inventory valuation of most activities is not reported in accordance with Generally Accepted Accounting Principles (GAAP).

The Department has long-standing deficiencies in accounting for inventories. Costing methodologies, inventory counts, and appropriate levels of inventories needed to support missions are not reported accurately on financial statements in accordance with GAAP.

The ETP provides solutions to this weakness. The Military Services' logistics communities and the DLA have been actively developing and deploying integrated inventory and accounting systems for several years. These systems are designed to

record both the physical and fiscal inventory levels and will be capable of reporting the value of DoD inventories in accordance with GAAP. The FIAR Plan includes a Key Milestone Plan for Inventory.

Operating Materials and Supplies

The Department's systems were designed to expense materials when purchased rather than when consumed.

Historically, the Department expensed materials at the time of purchase because processes and systems were unable to track and record increases and decreases in inventory amounts and values at the time of use.

The solution to this weakness is closely related to the solutions for Inventory. Again, and as referenced in the Enterprise and Component Transition Plans, the Military Services are modernizing systems to resolve this weakness.

Statement of Net Cost

The Statement of Net Cost is not presented by programs that align with major goals and outputs in DoD's strategic and performance plan. A strategic and performance plan was required by the Government Performance and Results Act (GPRA) (PL 103-62). Revenues and expenses are reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.

The Secretaries of the Departments must identify programs that need to be included in the Statement of Net Cost. Each program identified should be directly linked to the Department's strategic and performance goals. In addition, the Department must develop a common language to capture financial information in a standard manner to enable accumulating revenue and costs by program.

Solving this material weakness involves the coordination and completion of many initiatives, most of which are contained in the ETP. In addition, the identification of programs that support DoD's strategic and performance goals will require senior leadership approval for reporting. Essential ETP initiatives for resolving this material weakness include SFIS, BEIS, and IVAN initiatives. Furthermore, deployment of the new Component accounting systems (e.g., GFEBs and DEAMS) is critical to implementing SFIS.

Reconciliation of Net Cost of Operations to Budget

The Department cannot reconcile budgetary obligations to net cost without making unsupported adjustments.

The Statement of Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing) reconciles the financial (or proprietary) net costs of operations with the obligated budgetary authority. It is accrual-based reporting as contrasted to the budget-based reporting of the Statement of Budgetary Resources.

Resolving this material weakness requires the implementation of several initiatives. These solutions include the SFIS, BEIS, and the use of modern accounting systems capable of using the SFIS.

Accounts Payable

The Department of Defense does not meet accounting standards for the financial reporting of public accounts payable because of its inability to support balances due to a lack of standard procedures for recording, reporting, and reconciling the amounts between the financial, accounting, and reporting systems.

Accounts Payable are amounts owed to other entities for goods and services received, progress in contract performance, and rents. Proper authorization, timely recording of receipt of goods and services, valid and accurate payment, and management of payables permit the Department to effectively manage cash balances thereby decreasing improper payments, optimizing vendor discounts, and avoiding interest payments and penalties.

To address the accounts payable weaknesses, ensure reliable internal controls, and provide for sustained performance, the Defense Finance and Accounting Service (DFAS) has oriented its focus on process improvements and maximization of electronic technologies. For example, an end-to-end process view of public payables allows for proper recognition throughout the payable's lifecycle. The Department's end-to-end focus with an aggressive electronic environment implementation strategy allows for seamless recording, processing, and reporting from when the goods and services are accepted via the Wide Area Work Flow (WAWF) system. A secure Web-based system, WAWF automates the timely recording of accounts payable and enables the electronic submission of invoices, and government inspection and acceptance documents.

DFAS actions to resolve this weakness are included in the FIAR Plan. The short/intermediate and long-term approaches complement each other by correcting existing flaws, cleaning up existing balances and transferring reliable balances into the ERP systems. The FIAR and the ERP initiatives will provide the Department with timely, accurate, and reliable accounts payable information.

Accounts Receivable

Accounts Receivable represents amounts owed to DoD by individuals, organizations, public entities, or other government organizations. Examples include sales of goods and services, return of overpayments to contractor or employee salaries, and penalties and interest. The Department of Defense is unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable and accounts receivable due from the public.

Receivables should be recorded when recognized or earned, and collected when due. So that assets and liabilities are not misstated on consolidated DoD financial statements, intragovernmental transactions (transactions between DoD Components or between a DoD Component and another federal agency) must be eliminated.

Accurate reporting, timely collection of debts, and management of receivables are essential to achieving reliable accounts receivable information. Reliable information permits improved management of the Department's cash flow and accelerates billing and collecting, optimizes collection potential of debts, and minimizes losses due to uncollectible debts.

DFAS has developed Key Milestone Plans for improvements that will facilitate Department-wide audit readiness on Accounts Receivable and is implementing a series of short- and long-term solutions that will improve the quality and timeliness of data reported on financial statements. Short-term solutions incorporate policy and process changes with COTS database programs to improve data integrity, reconciliations, and timeliness. Long-term solutions call for ERP implementations.

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Appendix 6 – End-to-End Business Processes Defined

Business Process	Business Process Definition
Acquire to Retire	Acquire to Retire encompasses all business functions necessary to obtain, manage and dispose of accountable property and capitalized assets. This includes such functions as sourcing, contract management, purchasing, payment management, PP&E management, and retirement.
Budget to Report	Budget to Report encompasses all business functions necessary to plan, formulate, create, execute against, and report on the budget and business activities of the entity. This includes updates to the general ledger.
Concept to Product	Concept to Product encompasses all business functions necessary to develop a new product. These functions include generating ideas, product definition, design, and prototyping.
Cost Management	Cost Management encompasses all business functions necessary to identify, collect, measure, accumulate, analyze, interpret, and communicate cost information to accomplish the many objectives associated with control, decision-making, planning, and reporting. This includes Cost Accounting Procedures, Costing Methodology, Cost Assignment, Period End Close, and Reporting.
Deployment to Redeployment/Retrograde	Deployment to Redeployment/Retrograde encompasses all business functions necessary to plan, notify, deploy, sustain, recall, and reset tactical units to and from theaters of conflict.
Hire to Retire	Hire to Retire encompasses all business functions necessary to plan for, hire, develop, assign, sustain, and separate personnel resources in the Department of Defense.
Market to Prospect	Market to Prospect encompasses all business functions necessary to identify target markets, develop marketing strategies, execute promotions, and perform lead management.
Order to Cash	Order to Cash encompasses all business functions necessary to accept and process customer orders for services and/or inventory held for sale. This includes such functions as managing customers, accepting orders, prioritizing orders, fulfilling orders, performing distribution, managing receivables, and managing cash collections.
Plan to Stock (Inventory)	Plan to Stock encompasses all business functions necessary to plan, procure, produce, inventory, and stock materials used both in operations and maintenance (OM&A) as well as for resale.

Business Process	Business Process Definition
Procure to Pay	Procure to Pay encompasses all business functions necessary to obtain goods and services. This includes such functions as requirements identification, sourcing, contract management, purchasing, payment management, and receipt and debt management.
Proposal to Reward	Proposal to Reward encompasses the life cycle of the grant process from both the grantor and grantee perspective. It includes all the business functions necessary to plan, solicit or apply, review, award, perform, monitor or manage, and close out a grant.
Prospect to Order	Prospect to Order encompasses all business functions necessary to generate and sustain sales by pursuing qualified leads, employing effective sales techniques, efficient order processing, maintaining customer relationships, and providing support functions
Service Request to Resolution	Requested maintenance that is performed by a service request on materiel or assets requiring major overhaul or a complete rebuild of parts, assemblies, subassemblies, and end-items, including the manufacture of parts, modifications, testing, and reclamation. Depot maintenance serves to support all asset categories of maintenance by providing technical and enhancement assistance, and performing required maintenance beyond their respective depreciable life.
Service to Satisfaction	Service to Satisfaction encompasses all business functions necessary to determine service requirements, secure funding, contract with outside vendor, establish service, and measure customer satisfaction.

Appendix 7 – Commonly Used Acronyms

Acronym	Definition
AAIP	Army Asset Improvement Plan
ACES-RP	Automated Civil Engineering System – Real Property
ACWA	Assembled Chemical Weapons Assessment
ADA	Anti-Deficiency Act
AFB	Air Force Base
AFFSC	Air Force Financial Services Center
AFI	Air Force Instruction
AIM	Agile Inventory Management
ALT	Acquisitions, Logistics, and Technology
AP	Accounts Payable
AR	Accounts Receivable
ASD	Assistant Secretary of Defense
ATO	Authority to Operate
BAM	Business Activity Monitoring
BEA	Business Enterprise Architecture
BEIS	Business Enterprise Information Services
BEP	Business Enterprise Priority
BRAC	Base Realignment and Closure
BTA	Business Transformation Agency
BUMED	Bureau of Medicine and Surgery
CAMD	Chemical Agents Munitions Destruction
CAMS-ME	Capital Asset Management System – Military Equipment
CBM	Core Business Mission
CCAS	Columbus Cash Accountability System

Acronym	Definition
CCE	Coding Compliance Editor
CCSS	Commodity Command Standard System
CDS	Contracting Debt System
CEDMS	Corporate Electronic Document Management System
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CGAC	Common Government-wide Accounting Classification
CIP	Construction-in-Progress
CIPR	Construction-in-Progress Requirements
CONUS	Continental United States
COTS	Commercial Off-the-Shelf
CRM	Customer Relationship Management
DAE	Defense Acquisition Executive
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DBSMC	Defense Business Systems Management Committee
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCFO	Deputy Chief Financial Officer
DCMA	Defense Contract Management Agency
DCPS	Defense Civilian Pay System
DDMS	Defense Debt Management System

Acronym	Definition
DEAMS	Defense Enterprise Accounting Management System
DeCA	Defense Commissary Agency
DepSecDef	Deputy Secretary of Defense
DERP	Defense Environmental Restoration Program
DFAR	Defense Federal Acquisition Regulation
DFAS	Defense Finance and Accounting Service
DHS	Defense Health Program
DIA	Defense Intelligence Agency
DIMHRS	Defense Integrated Military Human Resources System
DISA	Defense Information Systems Agency
DITPR	Department of Defense Information Technology Portfolio Repository
DLA	Defense Logistics Agency
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
DON	Department of the Navy
DPAS	Defense Property Accounting System
DSS	Defense Security Service
DUSD(FM)	Deputy Under Secretary of Defense (Financial Management)
EBS	Enterprise Business System
ECSS	Expeditionary Combat Support System
EFD	Enterprise Funds Distribution
ERP	Enterprise Resource Planning
ETP	Enterprise Transition Plan
FACA	Federal Advisory Committee Act

Acronym	Definition
FAD	Fund Authorization Document
FBWT	Fund Balance with Treasury
FCS	Future Combat Systems
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FIAR-PT	Financial Improvement and Audit Readiness Planning Tool
FIP	Financial Improvement Plan
FISMA	Federal Information Security Act
FM&C	Financial Management and Comptroller
FMFIA	Federal Managers' Financial Integrity Act
FMLC	Financial Management Leadership Council
FMLOB	Financial Management Line of Business
FMS	Facility Management System
FMS	Foreign Military Sales
FMTT	Financial Management Transformation Team
FSM	Facilities Sustainment Model
FV BEP	Financial Visibility Business Enterprise Priority
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCSS	Global Combat Support System
GF	General Fund
GFEB	General Fund Enterprise Business System

Acronym	Definition
GL	General Ledger
GPP&E	General Property, Plant and Equipment
GPRA	Government Performance and Results Act
HPO	High-Performing Organization
IFS	Integrated Facilities System
IGT	Intragovernmental Transactions
IPA	Independent Public Accountant or Independent Public Accounting
IT	Information Technology
ITS	International Treasury Service
IUID	Item Unique Identification
IUS	Internal Use Software
IVAN	Intragovernmental Value Added Network
KMP	Key Milestone Plan
LMP	Logistics Modernization Program
LRP	Laws, Regulations, and Policies
MDA	Missile Defense Agency
MERHCF	Medicare-Eligible Retiree Health Care Fund
MEV	Military Equipment Valuation
MHS	Military Health System
MILCON	Military Construction
MOCAS	Mechanization of Contract Administration Services
MPIAP	Military Pay Improvement Action Plan
MTF	Medical Treatment Facilities
MV BEP	Materiel Visibility Business Enterprise Priority
NAVAIR	Naval Air Systems Command

Acronym	Definition
NISP	National Industrial Security Program
NSN	National Stock Numbers
OASA	Office of the Assistant Secretary of the Army
OCONUS	Outside the Continental United States
ODO	Other Defense Organization
OFFM	Office of Federal Financial Management
OIG	Office of the Inspector General
OM&S	Operating Material and Supplies
OMB	Office of Management and Budget
OPTEMPO	Operations Tempo
OSD	Office of the Secretary of Defense
OUID	Organization Unique Identifier
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PAR	Performance and Accountability Report
PBUSE	Property Book Unit Supply Enhanced
PDTS	Pharmacy Data Transaction Service
PL	Public Law
PMA	President's Management Agenda
PP&E	Property, Plant, and Equipment
PSA	Principal Staff Assistant
PSI	Personnel Security Investigation
RAMPOD	Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods
RCRA	Resource Conservation and Recovery Act

Acronym	Definition
REMIS	Reliability and Maintainability Information System
RFP	Request for Proposals
RPAD	Real Property Asset Database
RPAM	Real Property Asset Management
RPAO	Real Property Accountability Officer
RPAR	Real Property Acceptance Requirements
RPILM	Real Property Inventory Lifecycle Management
RPIR	Real Property Inventory Requirements
SAFE	Single Army Financial Enterprise
SALE	Single Army Logistics Enterprise
SARA	Superfund Amendment and Reauthorization Act
SDS	Standard Depot System
SecDef	Secretary of Defense
SES	Senior Executive Service
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SMA	Service Medical Activities
SPAWAR	Space and Naval Warfare Systems Command
SRM	Sustainment, Restoration and Modernization
STANFINS	Standard Finance System
TMA	TRICARE Management Activity

Acronym	Definition
TMA CRM	TRICARE Management Activity Contract Resource Management
TMOP	TRICARE Mail Order Pharmacy
TROR	Treasury Report on Receivables
TSEAS	Telecommunications Services and Enterprise Acquisition Services
USAAA	United States Army Audit Agency
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USD	Under Secretary of Defense
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)
USD(C)	Under Secretary of Defense (Comptroller)
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USMC	United States Marine Corps
USN	United States Navy
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command
WAWF	Wide Area Work Flow
WCF	Working Capital Fund
WHS	Washington Headquarters Services
WIA	Wounded in Action

End-to-End Business Processes – Key Milestone Plans

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APPENDIX 8 – Acquire to Retire Military Equipment

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Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	
Acquire to Retire Military Equipment Key Milestones								
OUSD (C)								
Review Segment Assertion Package for Air Force for everything except Disbursing, Invoice, and Matching								
Review Segment Assertion Package for Navy								
Review Segment Assertion Package for Army								
Review Segment Assertion Package for Air Force for Disbursing, Invoice, and Matching								
OUSD (AT&L)								
Receipt and Acceptance								
Human Capital - Develop and deliver DAU Training Module for Fiscal & Physical Accountability and Management of DoD Equipment	6/30/08 ◆							
Disbursement (Entitlement)								
Policy - Develop and issue guidance on Full Cost								9/30/09 ◆
System - Spiral B FOC: Capital Asset Management System - Military Equipment (CAMS-ME) Increment 2 (Replace manual update of asset additions)								
Placement Into Service								
Policy - Develop and issue guidance on Full Cost								9/30/09 ◆
System - Spiral B FOC: Capital Asset Management System - Military Equipment (CAMS-ME) Increment 2 (Replace manual update of asset additions)								
Human Capital - Develop and deliver DAU Training Module for Fiscal & Physical Accountability and Management of DoD Equipment	6/30/08 ◆							
Monitor/Maintain/Improve Assets								
Policy - Develop and issue guidance on Modifications								9/30/09 ◆
System - Spiral B FOC: Capital Asset Management System - Military Equipment (CAMS-ME) Increment 2 (Replace manual update of asset additions)								
Human Capital - Develop and deliver DAU Training Module for Fiscal & Physical Accountability and Management of DoD Equipment	6/30/08 ◆							
Asset Disposition								
System - Spiral B FOC: Capital Asset Management System - Military Equipment (CAMS-ME) Increment 2 (Replace manual update of asset additions)								
Human Capital - Develop and deliver DAU Training Module for Fiscal & Physical Accountability and Management of DoD Equipment	6/30/08 ◆							
Army								
Investment Planning & Life Cycle Management								
Policy								
Process								
Control								

Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
System								
Human Capital								
Requisitioning								
Policy								
Process								
Control								
System								
Human Capital								
Contracting								
Policy								
Process								
Control								
System								
Human Capital								
Receipt and Acceptance								
Policy								
Process								
Control								
System								
Human Capital								
Process Invoice & Matching								
Policy								
Process								
Control								
System								
Human Capital								
Disbursement (Entitlement)								
Policy								
Process								
Control								
System								

Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Human Capital								
Placement Into Service								
Policy								
Process								
Control								
System								
Human Capital								
Monitor/Maintain/Improve Assets								
Policy								
Process								
Control								
System								
Human Capital								
Asset Disposition								
Policy								
Process								
Control								
System								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Navy								
Investment Planning & Life Cycle Management								
Policy								
Process								
Control								
System								
Human Capital								
Requisitioning								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Policy								
Process								
Control								
System								
Human Capital								
Contracting								
Policy								
Process								
Control								
System								
Human Capital								
Receipt and Acceptance								
Policy								
Process								
Control								
System								
Human Capital								
Process Invoice & Matching								
Policy								
Process								
Control								
System								
Human Capital								
Disbursement (Entitlement)								
Policy								
Process								
Control								
System								
Human Capital								
Placement Into Service								
Policy								

Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Process								
Control								
System								
Human Capital								
Monitor/Maintain/Improve Assets								
Policy								
Process								
Control								
System								
Human Capital								
Asset Disposition								
Policy								
Process								
Control								
System								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Air Force								
Investment Planning & Life Cycle Management								
Policy								
Process								
Control								
System								
Human Capital								
Requisitioning								
Policy								
Process								
Control								

12/31/09

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
System								
Human Capital								
Contracting								
Policy								12/31/09
Process								
Control								
System								
Human Capital								
Receipt and Acceptance								
Policy								12/31/08
Control								12/31/08
Human Capital								9/30/08
Process Invoice & Matching								
Policy								
Process								
Control								
System								
Human Capital								
Disbursement (Entitlement)								
Policy								
Process								
Control								
System								
Human Capital								
Placement Into Service								
Policy								12/31/08
Control								12/31/08
Human Capital								9/30/08
Monitor/Maintain/Improve Assets								
Policy								12/31/09
Process								12/31/08

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Control				12/31/08	◆			
System				12/31/08	◆			
Human Capital			9/30/08	◆				
Asset Disposition	◆							
Policy				12/31/08	◆			
Process				12/31/08	◆			
Control				12/31/08	◆			
Human Capital							9/30/09	◆
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for everything except Disbursing, Invoice, and Matching								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Disbursing, Invoice, and Matching								
Contract for Independent Public Accountant								
Audit Readiness Validation								

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APPENDIX 9 – Acquire to Retire Real Property

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Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Acquire to Retire Real Property Key Milestone								
 OUSD (C)								
Review Segment Assertion Package for Navy Real Property								
Review Segment Assertion Package for Army Real Property								
Review Segment Assertion Package for Air Force Real Property Inventory Requirements								
Review Segment Assertion Package for Air Force Real Property Acceptance Requirements								
Review Segment Assertion Package for Air Force Construction In Progress Requirements								
Review Segment Assertion Package for DLA Real Property								
 Army								
Acquisition by Construction								
Conduct Program Management								
Policy								12/31/09
Process								12/31/09
Control								12/31/09
System								12/31/09
Data								12/31/09
Human Capital								12/31/09
Create Initial Asset Record								
Policy								12/31/09
Process	9/30/08							12/31/09
Control								12/31/09
System	9/30/08							12/31/09
Data	9/30/08							12/31/09
Human Capital								12/31/09
Create CIP or WIP Account								
Policy								12/31/09
Process	9/30/08							12/31/09
Control								12/31/09
System	9/30/08							12/31/09
Data	9/30/08							12/31/09

Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Human Capital								12/31/09
Award Contract								
Policy								12/31/09
Process			9/30/08	◆				
Control								12/31/09
System			9/30/08	◆				
Data			9/30/08	◆				
Human Capital								12/31/09
Perform Build								
Policy								12/31/09
Process			9/30/08	◆				
Control								12/31/09
System			9/30/08	◆				
Data			9/30/08	◆				
Human Capital								12/31/09
Accept Goods and Services								
Policy								12/31/09
Process			9/30/08	◆				
Control								12/31/09
System			9/30/08	◆				
Data			9/30/08	◆				
Human Capital								12/31/09
Update/Relieve CIP and/or WIP Account								
Policy								12/31/09
Process			9/30/08	◆				
Control								12/31/09
System			9/30/08	◆				
Data			9/30/08	◆				
Human Capital								12/31/09
Update Asset Record								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Policy								12/31/09
Process			9/30/08	◆				12/31/09
Control								12/31/09
System			9/30/08	◆				12/31/09
Data			9/30/08	◆				12/31/09
Human Capital								12/31/09
Acquisition Other Than Construction								
 Create / Update Asset Information								
Policy								12/31/09
Process			9/30/08	◆				12/31/09
Control								12/31/09
System			9/30/08	◆				12/31/09
Data			9/30/08	◆				12/31/09
Human Capital								12/31/09
 Award Contract								
Policy								12/31/09
Process			9/30/08	◆				12/31/09
Control								12/31/09
System			9/30/08	◆				12/31/09
Data			9/30/08	◆				12/31/09
Human Capital								12/31/09
 Accept Goods and Services								
Policy								12/31/09
Process			9/30/08	◆				12/31/09
Control								12/31/09
System			9/30/08	◆				12/31/09
Data			9/30/08	◆				12/31/09
Human Capital								12/31/09
Maintain Asset Information								12/31/09
Policy								12/31/09

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Process								12/31/09
Control								12/31/09
System								12/31/09
Data								12/31/09
Human Capital								12/31/09
Sustainment								
Policy								12/31/09
Process				9/30/08	◆			12/31/09
Control								12/31/09
System				9/30/08	◆			
Data				9/30/08	◆			
Human Capital								12/31/09
Disposal								
Policy								12/31/09
Process				9/30/08	◆			
Control								12/31/09
System				9/30/08	◆			
Data				9/30/08	◆			
Human Capital								12/31/09
Storage and retrieval of supporting documentation to support auditor requests								12/31/09
Submit Segment Assertion Package for Disposal								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Navy								
Acquisition by Construction								
Create Initial Asset Record								
Policy				9/30/08	◆			
Process						12/31/08	◆	
Control							3/31/09	◆
Data						12/31/08	◆	

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Human Capital						3/31/09	◆	
Create CIP or WIP Account								
Policy				9/30/08	◆			
Process					12/31/08	◆		
Control						3/31/09	◆	
System						3/31/09	◆	
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Award Contract								
Policy								
Process					12/31/08	◆		
Control						3/31/09	◆	
System						3/31/09	◆	
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Accept Goods and Services								
Policy				9/30/08	◆			
Process					12/31/08	◆		
Control						3/31/09	◆	
System						3/31/09	◆	
Data				9/30/08	◆			
Human Capital						3/31/09	◆	
Update/Relieve CIP and/or WIP Account								
Policy				9/30/08	◆			
Process					12/31/08	◆		
Control						3/31/09	◆	
System						3/31/09	◆	
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Update Asset Record								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008				2009			
	2	3	4	1	2	3	4	1
Policy			9/30/08	◆				
Process				12/31/08	◆			
Control						3/31/09	◆	
System						3/31/09	◆	
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Acquisition Other Than Construction	◆—————◆							
Award Contract	◆—————◆							
Process						3/31/09	◆	
Control						3/31/09	◆	
System						3/31/09	◆	
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Accept Goods and Services						◆—————◆		
Policy			9/30/08	◆				
Process						3/31/09	◆	
Control						3/31/09	◆	
System						3/31/09	◆	
Data			9/30/08	◆				
Human Capital						3/31/09	◆	
Create Update Asset Information						◆—————◆		
Policy			9/30/08	◆				
Process						3/31/09	◆	
Control						3/31/09	◆	
System						3/31/09	◆	
Data			9/30/08	◆				
Human Capital						3/31/09	◆	
Maintain Asset Information								
Policy								
Process								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Control								
System								
Data								
Human Capital								
Sustainment								
Policy								
Process								
Control								
System								
Data								
Human Capital								
Disposal								
Policy								
Process								
Control								
System								
Data								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								12/31/09
Submit Segment Assertion Package for Real Property								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Air Force								
Acquisition by Construction								
Create Initial Asset Record								
Policy								
Control								
System								9/30/09
Data Population								9/30/09
Create CIP and/or WIP Account								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Award Contract								
Policy				◆ 9/30/08				
Control								
System							9/30/09 ◆	
Data Population							9/30/09 ◆	
Perform Build								
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Accept Goods and Services								
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Update/Relieve CIP and/or WIP Account								
Policy								
Process								
Control								
System								

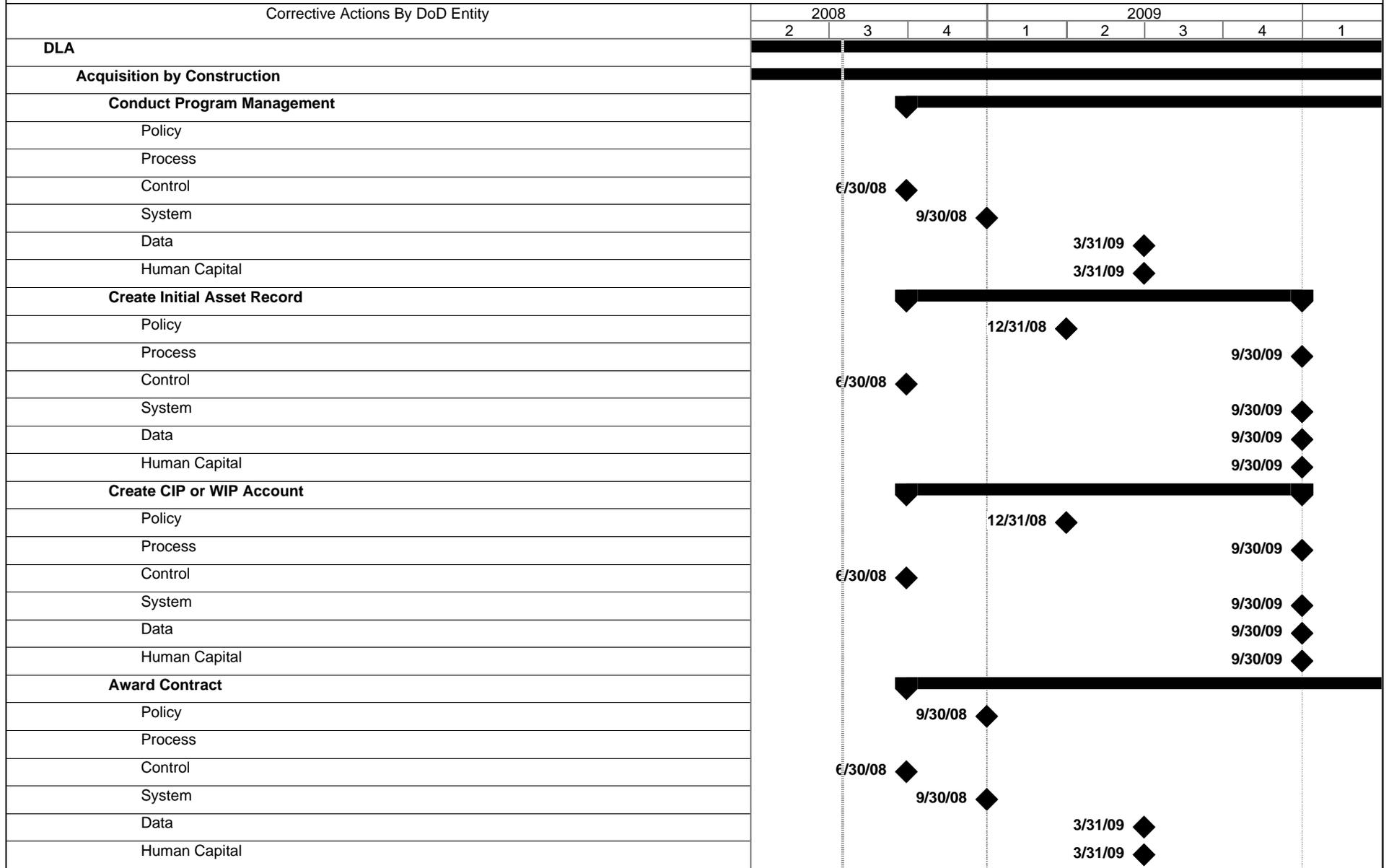
Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Data Population								
Human Capital								
Update Asset Record								
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Acquisition Other Than Construction								
Award Contract								
Policy				◆ 9/30/08				
Control								
System							◆ 9/30/09	
Data Population							◆ 9/30/09	
Accept Goods								
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Create/Update Asset Information								
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Maintain Asset Information								

Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Sustainment								
Policy								
Process								
Control								
System								
Data Population								
Human Capital								
Disposal								
Policy				◆ 9/30/08				
Control								
System							◆ 9/30/09	
Data Population							◆ 9/30/09	
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Real Property Inventory Requirements								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Real Property Acceptance Requirements								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Construction In Progress Requirements								
Contract for Independent Public Accountant								
Audit Readiness Validation								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)



Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008				2009			
	2	3	4	1	2	3	4	1
Perform and Build	[Timeline bar from Q3 2008 to Q4 2009]							
Policy			9/30/08	◆				
Process								
Control		6/30/08	◆					
System			9/30/08	◆				
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Accept Goods and Services	[Timeline bar from Q3 2008 to Q4 2009]							
Policy				12/31/08	◆			
Process		6/30/08	◆					
Control		6/30/08	◆					
System			9/30/08	◆				
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Update/Relieve CIP and/or WIP Account	[Timeline bar from Q3 2008 to Q4 2009]							
Process							9/30/09	◆
Control		6/30/08	◆					
System							9/30/09	◆
Data							9/30/09	◆
Human Capital							9/30/09	◆
Update Asset Record	[Timeline bar from Q3 2008 to Q4 2009]							
Process							9/30/09	◆
Control		6/30/08	◆					
System							9/30/09	◆
Data							9/30/09	◆
Human Capital							9/30/09	◆
Acquisition Other Than Construction	[Timeline bar from Q3 2008 to Q4 2009]							
Conduct Program Management	[Timeline bar from Q3 2008 to Q4 2009]							
Policy				12/31/08	◆			
Process		6/30/08	◆					

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Control								
System			9/30/08	◆				
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Award Contract								
Policy					12/31/08	◆		
Process		6/30/08	◆					
Control								
System			9/30/08	◆				
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Accept Goods and Services								
Policy					12/31/08	◆		
Process		6/30/08	◆					
Control								
System			9/30/08	◆				
Data						3/31/09	◆	
Human Capital						3/31/09	◆	
Create Update Asset Information								
Process							9/30/09	◆
Control							9/30/09	◆
System							9/30/09	◆
Data							9/30/09	◆
Human Capital							9/30/09	◆
Maintain Asset Information								
Policy					12/31/08	◆		
Process							9/30/09	◆
Control		6/30/08	◆				9/30/09	◆
System							9/30/09	◆
Data							9/30/09	◆

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Human Capital							9/30/09	◆
Sustainment	◆—————◆							
Process							9/30/09	◆
Control								
System								
Data								
Human Capital								
Disposal	◆—————◆							
Policy								
Process								
Control								
System								
Data								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Real Property								
Contract for Independent Public Accountant								
Audit Readiness Validation								

APPENDIX 10 – Hire to Retire Civilian Pay

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Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Hire to Retire Civilian Pay Key Milestones				▶				
 OUSD (C)								
Review Segment Assertion Package for Navy Civilian Pay						3/31/09		
Review Segment Assertion Package for Army Civilian Pay								
Review Segment Assertion Package for Air Force Civilian Pay								
Review Segment Assertion Package for DLA Civilian Pay								
 Army								
Hiring								
Policy								
Process								
Control								
System								
Human Capital								
Time & Attendance								
Policy								
Process								
Control								
System								
Human Capital								
Payroll								
Policy								
Process								
Control								
System								
Human Capital								
Accrual								
Policy								
Process								
Control								
System								
Human Capital								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Reconciliation								
Policy								
Process								
Control								
System								
Human Capital								
Raises / Bonuses								
Policy								
Process								
Control								
System								
Human Capital								
Out-Processing								
Policy								
Process								
Control								
System								
Human Capital								
Retirement								
Policy								
Process								
Control								
System								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Civilian Pay								
Contract for Independent Public Accountant								
Audit Readiness Validation								
Navy								
Hiring								
Policy								

9/30/08



Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Process			9/30/08	◆				
Control			9/30/08	◆				
System			9/30/08	◆				
Human Capital			9/30/08	◆				
Time and Attendance								
Policy			9/30/08	◆				
Process			9/30/08	◆				
Control			9/30/08	◆				
System			9/30/08	◆				
Human Capital			9/30/08	◆				
Payroll								
Policy			9/30/08	◆				
Process			9/30/08	◆				
Control			9/30/08	◆				
System			9/30/08	◆				
Human Capital			9/30/08	◆				
Accrual								
Policy			9/30/08	◆				
Process			9/30/08	◆				
Control			9/30/08	◆				
System			9/30/08	◆				
Human Capital			9/30/08	◆				
Reconciliation								
Policy			9/30/08	◆				
Process			9/30/08	◆				
Control			9/30/08	◆				
System			9/30/08	◆				
Human Capital			9/30/08	◆				
Raises and Bonuses								
Policy			9/30/08	◆				
Process			9/30/08	◆				

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008				2009				
	2	3	4	1	2	3	4	1	
Control			9/30/08	◆					
System			9/30/08	◆					
Data			9/30/08	◆					
Human Capital			9/30/08	◆					
Out Processing									
Policy			9/30/08	◆					
Process			9/30/08	◆					
Control			9/30/08	◆					
System			9/30/08	◆					
Data			9/30/08	◆					
Human Capital			9/30/08	◆					
Retirement									
Policy			9/30/08	◆					
Process			9/30/08	◆					
Control			9/30/08	◆					
System			9/30/08	◆					
Data			9/30/08	◆					
Human Capital			9/30/08	◆					
Storage and retrieval of supporting documentation to support auditor requests						3/31/09	◆		
Submit Segment Assertion Package for Civilian Pay							6/30/09	◆	
Contract for Independent Public Accountant									12/30/09
Audit Readiness Validation									
Air Force									
Hiring									
Policy									
Process									
Control									
System									
Human Capital									
Time and Attendance									
Policy									

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Process								
Control								
System								
Human Capital								
Payroll								
Policy								
Process								
Control								
System								
Human Capital								
Accrual								
Policy								
Process								
Control								
System								
Human Capital								
Reconciliation								
Policy								
Process								
Control								
System								
Human Capital								
Raises / Bonuses								
Policy								
Process								
Control								
System								
Human Capital								
Out Processing								
Policy								
Process								

Financial Improvement and Audit Readiness Plan
March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Control								
System								
Retirement								
Policy								
Process								
Control								
System								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Civilian Pay								
Contract for Independent Public Accountant								
Audit Readiness Validation								
DLA								
Personnel Compensation and Benefits Management								
Policy								9/30/09
Process								9/30/09
Control								9/30/09
System								
Human Capital								9/30/09
Employee In and Out Processing								
Policy								9/30/09
Process								9/30/09
Control								9/30/09
System								
Human Capital								9/30/09
Time & Attendance								
Policy								
Process								9/30/09
Control								9/30/09
System								
Human Capital								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Payroll and Tax								
Policy								
Process							9/30/09	◆
Control							9/30/09	◆
System								
Human Capital								
Training and Development								
Policy								
Process							9/30/09	◆
Control							9/30/09	◆
System							9/30/09	◆
Human Capital								
Statutory Reporting								
Policy								
Process								
Control								
System								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Civilian Pay								
Contract for Independent Public Accountant								
Audit Readiness Validation								

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APPENDIX 11 – Procure to Pay

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Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				1
	2	3	4	1	2	3	4	
Procure to Pay Key Milestones								
OUSD (C)								
Review Segment Assertion Package for DLA Procure to Pay								
DLA								
Requisitioning								
Policy								
Process								
Control								
System								
Human Capital								
Sourcing								
Policy								
Process								
Control								
System								
Human Capital								
Contracting								
Policy								
Process								
Control								
System								
Human Capital								
Purchasing								
Policy								
Process								
Control								
System								
Human Capital								
Receipt, Acceptance and Match								
Policy								

Financial Improvement and Audit Readiness Plan
 March 2008 (June 2008 - December 2009)

Corrective Actions By DoD Entity	2008			2009				
	2	3	4	1	2	3	4	1
Process								
Control								
System								
Human Capital								
Process, Invoice and Match								
Policy								
Process								
Control								
System								
Human Capital								
Disbursement (Entitlement)								
Policy								
Process								
Control								
System								
Human Capital								
Storage and retrieval of supporting documentation to support auditor requests								
Submit Segment Assertion Package for Procure to Pay								
Contract for Independent Public Accountant								
Audit Readiness Validation								

Key Milestone Plans

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APPENDIX 12 – Fund Balance with Treasury

Total amount of funds on deposit with the Treasury Department for DoD, not including seized cash.

The Fund Balance with Treasury (FBWT) asset account reflects the available spending authority of federal agencies. The account balance fluctuates throughout the year as collections and disbursements by agencies increase or decrease the balance in the account, respectively. At year-end FY 2007, the Department reported \$407 billion in FBWT, or 27 percent of assets. Funds are deposited in the account from appropriations, transfers, reimbursements from other agencies, and borrowed funds. The balance decreases when funds are spent, invested, or transferred to other federal agencies.

To correct the FBWT material weakness, transparency—the ability to clearly see the fund’s current balance and all supporting transactions—must be achieved. Transparency makes it easier for Department managers to reconcile accounts with Treasury. Reconciling accounts not only helps the Department comply with the Antideficiency Act, but also improves information necessary for financial decisions and resource allocation.

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Financial Improvement and Audit Readiness Plan
March 2008

Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2013				2014				2015				2016			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3
Fund Balance With Treasury Key Milestones																																		
OUUSD (C)																																		
Review Segment Assertion Package for Army General Fund (GF)		◆ 12/31/08																																
Review Segment Assertion Package for Army Working Capital Fund (WCF)		◆ 6/30/10																																
Review Segment Assertion Package for DLA General Fund (GF) and Working Capital Fund (WCF)		◆ 6/30/14																																
Army General Fund (GF)																																		
Submit Segment Assertion Package		◆ 9/30/08																																
Contract for Independent Public Accountant		◆ 3/31/09																																
Audit Readiness Validation		◆ 9/30/09																																
Army Working Capital Fund (WCF)																																		
Implement sustainable process to report Fund Balance with Treasury (FBWT)		◆ 9/30/09																																
Internal Validation		◆ 9/30/09																																
Submit Segment Assertion Package		◆ 3/31/10																																
Contract for Independent Public Accountant		◆ 9/30/10																																
Audit Readiness Validation		◆ 3/31/11																																

Financial Improvement and Audit Readiness Plan
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Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2013				2014				2015				2016			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4			
Air Force General Fund (GF)			6/30/08																															
Audit Readiness Validation			6/30/08																															
Air Force Working Capital Fund (WCF)			9/30/09																															
Audit Readiness Validation			9/30/09																															
Defense Logistics Agency (DLA) General Fund (GF)																																		
Document processes and controls for reconciling, tracking, and reporting unsupported undistributed disbursements and collections			3/31/08																															
Document processes and controls for reconciling, tracking, and reporting Statement of Differences for deposits, payments and collections, Check Issue Differences, and resolve deficiencies identified			6/30/08																															
Document processes and controls for reconciling, tracking, and reporting clearing accounts (suspense) and resolve deficiencies identified as part of this Discovery & Correction process at DFAS			9/30/08																															
Document processes and controls for reconciling, tracking, and reporting intransit disbursements and collections and resolve deficiencies identified as part of this Discovery & Correction process at DFAS			12/31/08																															
Document processes and controls for reconciling, tracking, and reporting unmatched disbursements and collections and resolve deficiencies identified			3/31/12																															
Perform Discovery and Correction effort on critical systems and implement compensating controls to mitigate and assist with the tracking, reporting, and correction of undistributed disbursement and collections			9/30/13																															
Prepare and submit the DFAS Fund Balance with Treasury (FBWT) Validation package in accordance with the OUSD(C) business rules			9/30/13																															
Internal Validation			12/31/13																															
Submit Segment Assertion Package			3/31/14																															
Contract for Independent Public Accountant			9/30/14																															

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APPENDIX 13 – Inventory

Tangible personal property that is held for resale; used in the process of production for sale; consumed in the production of goods for sale or in the provision of service for a fee. Inventory includes generators, fuel, rations, aircraft and combat vehicle engines held for repair, etc.

For FY 2007, the Department reported \$84 billion for Inventory, 6 percent of the Department's assets. The Inventory KMP improves the Department's ability to identify quantities and locations of materiel, and report the cost. Improvements help ensure that necessary items are available to the warfighter at

the right time and place, and in the accurate quantities. Other benefits include enhanced ability to provide precise location and cost information (historical and latest acquisition) both per unit and by program. Improvements also enhance the Department's ability to formulate, justify, and defend budget submissions to the Congress in this critical area.

Achieving Inventory audit readiness will allow the Department to utilize precise location and cost information (historical and latest acquisition) both per unit and by program. Inventory improvement efforts are very complex and heavily dependent upon system improvements. Effectively improving these capabilities is essential to the Department's ability to formulate, justify, and defend budget submissions.

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Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2013				2014				2015				2016				2017		
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3			
Inventory and Related Property Key Milestones																																					
OUISD (C)																																					
Publish revised Financial Management Regulation Policy for Inventory and Related Property (DoD FMR, Volume 4, Chapter 4)		◆ 6/30/08																																			
Review Segment Assertion Package for Army Inventory		◆ 6/30/12																																			
Review Segment Assertion Package for Defense Logistics Agency (DLA) Energy Inventory		◆ 12/31/13																																			
Review Segment Assertion Package for Defense Logistics Agency (DLA) Non-Energy Inventory		◆ 12/31/14																																			
Review Segment Assertion Package for Air Force Inventory		◆ 9/30/15																																			
Army																																					
Identify requirements to accurately report Inventory		◆ 9/30/08																																			
Full Operational Capability for Army ERP Logistics Modernization Program (LMP)		◆ 9/30/10																																			
Develop and implement a sustainable process for capturing and reconciling physical inventories supported by documentation and internal controls		◆ 3/31/11																																			

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Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2013				2014				2015				2016				2017																							
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3																								
Complete phase one process blue-printing for Expeditionary Combat Support System (ECSS)			◆	9/30/08																																																						
Implement a sustainable physical inventory process that includes regular reconciliations supported by documentation and internal controls																																																										
Convert all inventory valuation processes to the moving average cost (MAC)																																																										
Complete and document baseline valuation process with values based upon available historical acquisition data and other supporting documentation																																																										
Full Operational Capability (FOC) for Expeditionary Combat Support System (ECSS)																																																										
Implement a sustainable, auditable process to track and document "In-transit" inventory moving between systems, Service organizations, or third party inventory control points																																																										
Internal Validation																																																										
Submit Segment Assertion Package																																																										
Contract for Independent Public Accountant																																																										
Audit Readiness Validation																																																										
DLA				◆																																																						

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APPENDIX 14 – Operating Material and Supplies

Tangible personal property that will be consumed in normal operations. Operating Material and Supplies includes such things as centrally managed aircraft engines, spare parts for military equipment, uniforms, ammunition, bombs, and tactical missiles.

For FY 2007, the Department reported \$140 billion for Operating Materials and Supplies (OM&S), representing 9 percent of the Department's assets. Similar to improvements in the Inventory

focus area, the OM&S KMP improves the Department's ability to identify quantities and locations of materiel, and report the cost. Corrective actions also enhance the Department's ability to formulate, justify, and defend budget submissions in this critical area.

Achieving OM&S audit readiness will allow the Department to identify precise quantities and locations of material, which is essential to supporting the warfighter. In addition, the benefits of effectively accomplishing these capabilities are essential to the Department's ability to formulate, justify, and defend OM&S budget submissions.

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APPENDIX 15 – Medicare-Eligible Retiree Health Care Fund

A trust fund for paying the cost of providing health care through the TRICARE program to all Medicare-eligible Uniformed Services retirees, family members, and survivors. The Fund receives income from Uniformed Services contributions, Treasury contributions, and investment interest.

The future cost of providing Medicare-eligible health care is estimated at \$516 billion, or 25 percent of the Department's liabilities. Beginning with the FY 2003 financial statements, the Medicare-Eligible Retiree Health Care Fund (MERHCF) has been audited annually and received qualified opinions. This is a significant achievement for the Department. The MERHCF KMP

addresses auditor-identified material weaknesses. Resolving process issues will result in a more accurate projection of the actuarial liability.

The September 2007 FIAR Plan projected that the MERHCF audit opinion would be upgraded from qualified to unqualified in FY 2009. The Department has changed its MERHCF strategy for correcting auditor-identified material weaknesses from market rates to a per capita methodology. The use of per capita methodology will enable the actuaries to eliminate the reliance on Military Treatment Facilities for auditable financial information. In FY 2009, the Department will revise the DoD Instruction and implement the per capita methodology and receive an unqualified audit opinion in FY 2010.

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				
		3	4	1	2	3	4	1	2	3	4	1	2	3		
Medicare-Eligible Retiree Health Care Fund (MERHCF) Key Milestones																
OUSD (P&R) Health Affairs																
Develop methodology to use per capita rates for patient encounters into MERHCF Military Treatment Facility (MTF) distribution plan and for use by Office of the Actuaries for use in annual update to the MERHCF health care liability				◆ 9/30/08												
Publish revised DOD Instruction reflecting per capita methodology								◆ 6/30/09								
Implement per capita methodology										◆ 12/31/09						
MERHCF qualified opinion upgraded to unqualified (opinion issued 11/15/10)															◆ 12/31/10	

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APPENDIX 16 – Environmental Liabilities

Estimated future outflow or expenditure for environmental costs from past activities, including environmental cleanup, closure, and disposal.

For FY 2007 financial statements, the Environmental Liabilities balance sheet line stated \$72 billion in Environmental Liabilities, or 4 percent of the Department's liabilities. Primary contributors include cleanup funded from Defense Environmental Restoration Accounts (\$32.5 billion), and weapon systems disposal (\$31 billion) for primarily Navy Nuclear and Chemical Weapons.

In the past, incomplete environmental liabilities records have caused a misstatement of the Department's financial position.

Cost estimating procedures for additional business segments are being developed. For example, the Components are assessing asset retirement obligations associated with the disposal of general equipment and facilities. Environmental closure costs associated with the 2005 Base Realignment and Closure round may further increase the liability. In addition, business processes and systems require further modernization in order to meet audit standards.

Achieving audit readiness for Environmental Liabilities improves the Department's ability to produce accurate estimates of clean-up costs. An environmental liability can be associated with both real and personal properties. The acquisition communities also play a role and must work together to develop an integrated plan.

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				2012				2	
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
Environmental Liabilities Key Milestones																					
OUSD (C)																					
Review Segment Assertion Package for Air Force Defense Environmental Restoration Program (DERP) Installation Restoration Program/ Building Demolition/Disposal Program (IRP/BDDR)		◆ 12/31/09																			
Review Segment Assertion Package for Air Force Defense Environmental Restoration Program (DERP) Military Munitions Resource Program (MMRP)		◆ 12/31/09																			
Review Segment Assertion Package for Air Force Non-Defense Environmental Restoration Program (Non-DERP) Environmental Corrective Action (ECA)		◆ 12/31/09																			
Review Segment Assertion Package for Air Force Non-Defense Environmental Restoration Program (Non-DERP) Environmental Closure Requirements (ECR)		◆ 12/31/09																			
Review Segment Assertion Package for Air Force Base Realignment and Closure (BRAC) Program		◆ 12/31/09																			
Review Segment Assertion Package for DLA Defense Environmental Restoration Program (DERP), Non-DERP and Base Realignment and Closure (BRAC)		◆ 12/31/09																			
Review Segment Assertion Package for Army Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC) DERP		◆ 12/31/10																			
Review Segment Assertion Package for Army Chemical Agents and Munitions Destruction (CAMD) Assembled Chemical Weapons Alternatives (ACWA)		◆ 3/31/11																			
Review Segment Assertion Package for Army Chemical Demilitarization / Chemical Agents and Munitions Destruction (CAMD)		◆ 3/31/11																			
Review Segment Assertion Package for Army Non-Defense Environmental Restoration Program (Non-DERP) and Base Realignment and Closure (BRAC) Non-DERP		◆ 12/31/11																			
Army: Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC) DERP																					
Develop implementation plan with milestones and schedules to aid in transition to the enterprise architecture process and data model		◆ 9/30/08																			
Submit Segment Assertion Package		◆ 9/30/10																			

Financial Improvement and Audit Readiness Plan
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Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2		
Contract for Independent Public Accountant									◆ 3/31/10										
Audit Readiness Validation																	◆ 9/30/10		
Air Force: Defense Environmental Restoration Program (DERP) Active Military Munitions Response Program (MMRP)		▶																	
Complete and document initial estimates for all sites in the Environmental Liabilities (EL) universe	🚩		◆ 6/30/08																
Correct compliance areas and resolve issues for active Air Force Military Munitions Response Program (MMRP) assertion and advise Air Force Audit Agency (AFAA) of audit readiness for internal validation (DERP).			◆ 6/30/08																
Submit Segment Assertion Package	🚩								◆ 9/30/09										
Contract for Independent Public Accountant																	◆ 3/31/10		
Audit Readiness Validation																	◆ 9/30/10		
Air Force: Non-Defense Environmental Restoration Program (Non-DERP) Environmental Correction Action (ECA)		▶																	
Identify universe of Environmental Liabilities (EL) candidate units, facilities, property and/or operations where environmental issues have been identified	🚩		◆ 6/30/08																
Document that all property plant and equipment (PP&E) records have been reviewed for Environmental Liabilities (EL) and liability properly recorded	🚩			◆ 9/30/08															
Populate data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and cumulative costs incurred	🚩			◆ 9/30/08															
Correct compliance areas and resolve issues for Environmental Corrective Action (ECA) assertion and advise Air Force Audit Agency (AFAA) of audit readiness for internal validation (non-DERP).				◆ 9/30/08															
Submit Segment Assertion Package	🚩								◆ 9/30/09										
Contract for Independent Public Accountant																	◆ 3/31/10		

Financial Improvement and Audit Readiness Plan
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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				2012				2			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2		
Complete and document initial estimates for all sites in the Environmental Liabilities (EL) universe				◆ 12/31/08																			
Identify universe of Environmental Liabilities (EL) candidate units, facilities, property and/or operations where environmental issues have been identified				◆ 12/31/08																			
Document that all property plant and equipment (PP&E) records have been reviewed for Environmental Liabilities (EL) and liability properly recorded				◆ 12/31/08																			
Populate data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and cumulative costs incurred					◆ 6/30/09																		
Internal Validation					◆ 6/30/09																		
Submit Segment Assertion Package							◆ 9/30/09																
Contract for Independent Public Accountant									◆ 3/31/10														
Audit Readiness Validation											◆ 9/30/10												

APPENDIX 17 – General Property and Equipment

Includes general-purpose property and all other tangible property of a durable nature, not addressed by Military Equipment, Real Property, Inventory, OM&S, or Internal Use Software. Examples include furniture, fixtures, and certain vehicles.

For FY 2007, the Department reported \$22 billion for General Property and Equipment (GP&E), or 1 percent of the Department's assets. Financial management improvements

enable the Department to more accurately capture the cost and age of existing property. With better data, comparisons can be made between various acquisition programs across different fiscal years, thus improving acquisition and disposal decisions.

Achieving GP&E audit readiness will enhance a multitude of financial management functions, including improved asset management and better visibility into operational and program costs. Achieving these capabilities is essential to the Department's ability to accurately and timely record acquisitions and disposals.

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APPENDIX 18 – Other Assets

Assets not reported in a separate category on the Balance Sheet. Examples include pay and travel advances, advance payments on contracts, etc.

In FY 2007, the Department reported \$37 billion for Other Assets, which included \$25 billion in outstanding contract financing payments. Contract financing payments include advance payments, performance-based payments, commercial advances and interim progress payments based on cost, and other types of special payments.

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Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2013				2014						
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
Other Assets Key Milestones																													
OUSD (C)																													
Review Segment Assertion Package for Defense Logistics Agency (DLA) General Fund (GF) and Working Capital Fund (WCF)		◆ 12/31/09																											
Review Segment Assertion Package for Air Force Working Capital Fund (WCF)		◆ 9/30/10																											
Review Segment Assertion Package for Air Force General Fund (GF)		◆ 9/30/11																											
Review Segment Assertion Package for Army General Fund (GF)		◆ 12/31/11																											
Review Segment Assertion Package for Army Working Capital Fund (WCF)		◆ 12/31/11																											
Army General Fund (GF)																													
Develop procedures to properly account for contract financing payments (public only)		◆ 12/31/08																											
Identify requirements to accurately report Other Assets		◆ 9/30/10																											
Internal Validation		◆ 3/31/11																											
Submit Segment Assertion Package		◆ 9/30/11																											
Contract for Independent Public Accountant		◆ 3/31/12																											
Audit Readiness Validation		◆ 9/30/12																											

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				2012				2013				2014					
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
Army Working Capital Fund (WCF)																													
Develop procedures to properly account for contract financing payments (public only)		◆ 12/31/08																											
Develop procedures to identify requirements to accurately report Other Assets		◆ 9/30/10																											
Properly account for advances and prepayments (intragovernmental only)		◆ 9/30/10																											
Internal Validation		◆ 3/31/11																											
Submit Segment Assertion Package		◆ 9/30/11																											
Contract for Independent Public Accountant		◆ 3/31/12																											
Audit Readiness Validation		◆ 9/30/12																											
Air Force General Fund (GF)																													
Defense Enterprise Accounting Management System (DEAMS) Initial Operational Capability (IOC) expected		◆ 3/31/10																											
Complete preparation of process documentation and data flow mapping and request internal validation from Air Force Audit Agency		◆ 9/30/10																											
Validation by Air Force Audit Agency		◆ 3/31/11																											
Submit Segment Assertion Package		◆ 6/30/11																											
Contract for Independent Public Accountant		◆ 12/31/11																											
Audit Readiness Validation		◆ 6/30/12																											

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APPENDIX 19 – Cash and Other Monetary Assets

Cash that disbursing officers have and are authorized to use for paying bills, cashing checks, or providing advance payments to members of the military. The amount of cash and other monetary assets that the reporting entity holds and is authorized to spend is entity cash. The assets under this category that a federal entity collects and holds on behalf of the U.S. Federal Government or other entities are nonentity cash and other monetary assets.

Cash consists of coins, paper currency, and other negotiable instruments, such as money orders, checks, and bank drafts; amounts on deposit with banks or other financial institutions; cash held; and foreign currencies. Other Monetary Assets also includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. The Army, for example, uses cash to support its forward deployed tactical units. The Marine Corps uses cash to support its Expeditionary Forces for Operations Iraqi and Enduring Freedom, and the Global War on Terrorism. For FY 2007, the Department reported \$15 billion in Cash and Other Monetary Assets. Tighter internal controls over the handling of Cash and Other Monetary Assets assures management that controls are documented, modified, and effective, and that the amount recorded on the financial statements is accurate.

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Corrective Actions By DoD Entity	Critical Path	8				2009				2010				2011				1		
		3	4	1	2	3	4	1	2	3	4	1	2	3	4					
Cash & Other Monetary Assets Key Milestones																				
OUSD (C)																				
Review Segment Assertion Package for Army General Fund (GF)																				
Army General Fund (GF)																				
Identify requirements to accurately report OCONUS Cash and Other Monetary Assets																				
Implement sustainable process to report OCONUS Cash and Other Monetary Assets																				
Identify requirements and implement an auditable process to accurately report cash																				
Internal Validation																				
Submit Segment Assertion Package																				
Contract for Independent Public Accountant																				
Audit Readiness Validation																				

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APPENDIX 20 – Other Military Health Care

The cost of providing health care for beneficiaries who are not Medicare-eligible.

As of September 30, 2007, DoD projects a future cost of \$317 billion to provide health care to Army, Navy, Air Force, and Marine Corps active duty and retirees, and their family members and survivors. This represents 15 percent of the Department's liabilities.

To improve the accuracy of financial reporting, a clear audit trail and standardized accounting practice are needed within the TRICARE Management Activity (TMA) and the Service Medical Activity (SMA).

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				2012				2013				2014				2015				2016					
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	
Other Military Health Care Key Milestones		▶																																			
TRICARE Management Activity Key Milestones		▶																																			
OUSD (C)		▶																																			
Review Segment Assertion Package for Uniformed Services University of the Health Sciences Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position		◆ 6/30/08																																			
Review Segment Assertion Package for Uniformed Services University of the Health Sciences Statement of Budgetary Resources		◆ 12/31/08																																			
Review Segment Assertion Package for Contract Resource Management Other Financial Statements		◆ 12/31/08																																			
Review Segment Assertion Package for Financial Operations Division (FOD) Balance Sheet		◆ 12/31/10																																			
Review Segment Assertion Package for Financial Operations Division (FOD) Other Financial Statements		◆ 12/31/11																																			
Review Segment Assertion Package for TRICARE Management Activity Financial Statements		◆ 12/31/12																																			
Contract Resource Management (CRM)		▶																																			
Balance Sheet		▶																																			

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Corrective Actions By DoD Entity	Critical Path	8	2009				2010				2011				2012				2013				2014				2015				2016			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1		
Contract for Independent Public Accountant		◆	6/30/08																															
Audit Readiness Validation			◆ 12/31/08																															
Other Financial Statements			◆																															
Submit Segment Assertion Package	◆	◆	9/30/08																															
Contract for Independent Public Accountant			◆ 3/31/09																															
Audit Readiness Validation			◆ 9/30/09																															
Financial Operations Division (FOD)			◆																															
Balance Sheet			◆																															
Submit Segment Assertion Package	◆	◆	9/30/10																															
Contract for Independent Public Accountant			◆ 3/31/11																															
Audit Readiness Validation			◆ 9/30/11																															

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APPENDIX 21 – Other Liabilities

Liabilities not recognized in specific categories. This includes liabilities related to capital leases, advances and prepayments, deposit fund amounts held in escrow, and accrued liabilities related to ongoing continuous expenses such as federal employee salaries and accrued employee annual leave.

In FY 2007, the Department reported a value of \$68 billion for Other Liabilities, which consists of approximately \$11 billion of intragovernmental and \$57 billion of public Other Liabilities. Other Liabilities represents 3 percent of DoD's liabilities. Improving controls and procedures leads to a more accurate and reliable reported value for Other Liabilities and enables management to better assess current costs and determine budget needs.

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				2012				2013				2014			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Identify requirements to accurately report Other Liabilities				◆	12/31/08																						
Implement an auditable process for Other Liabilities														◆	9/30/10												
Internal Validation	▲																										
Submit Segment Assertion Package	▲																										
Contract for Independent Public Accountant																											
Audit Readiness Validation																											
Air Force General Fund (GF) - Intragovernmental and Public																											
Defense Enterprise Accounting Management System (DEAMS) Initial Operational Capability (IOC) expected	▲																										
Complete preparation of process documentation and data flow mapping and request internal validation from Air Force Audit Agency																											
Internal Validation	▲																										
Submit Segment Assertion Package	▲																										
Contract for Independent Public Accountant																											
Audit Readiness Validation																											
Air Force Working Capital Fund (WCF) - Intragovernmental and Public																											
Complete preparation of process documentation and data flow mapping and request internal validation from Air Force Audit Agency																											

APPENDIX 22 – Navy Segments

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Corrective Actions By DoD Entity	Critical Path																												
		2009			2010			2011			2012			2013			2014			2015			2016			2017			
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1
Navy Segments Key Milestones		[Timeline Bar]																											
OUSD (C)		[Timeline Bar]																											
Review Segment Assertion Package for Naval Research Laboratory (NRL) - Navy Working Capital Fund (WCF)		◆ 12/31/08																											
Review Segment Assertion Package for Contingent Liabilities - Navy General Fund (GF)		◆ 12/31/08																											
Review Segment Assertion Package for Collections - Navy General Fund (GF)		◆ 3/31/09																											
Review Segment Assertion Package for Disbursements - Navy General Fund (GF)		◆ 3/31/09																											
Review Segment Assertion Package for Environmental Liabilities - Navy General Fund (GF)		◆ 3/31/09																											
Review Segment Assertion Package for Funds Receipt and Distribution - Navy General Fund (GF)		◆ 6/30/09																											
Review Segment Assertion Package for Military Sealift Command (MSC) - Navy Working Capital Fund (WCF)		◆ 6/30/09																											
Review Segment Assertion Package for Financial Reporting - Navy General Fund (GF)		◆ 6/30/09																											
Review Segment Assertion Package for Naval Facilities Command (NAVFAC) - Navy Working Capital Fund (WCF)		◆ 6/30/09																											
Review Segment Assertion Package for Reimbursable Work Orders (Performer) - Navy General Fund (GF)		◆ 12/31/09																											
Review Segment Assertion Package for Reimbursable Work Orders (Grantor) - Navy General Fund (GF)		◆ 12/31/09																											
Review Segment Assertion Package for BUMED Balance Sheet		◆ 3/31/10																											

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Corrective Actions By DoD Entity	Critical Path																																				
		8			2009			2010			2011			2012			2013			2014			2015			2016			2017								
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
Perform discovery effort in documenting and analyzing the field level (Account Maintenance and Control) accounting process and associated internal controls	▶	3/31/08																																			
Perform discovery effort in documenting and analyzing the department of treasury process and associated internal controls	▶	3/31/08																																			
Perform discovery effort in documenting and analyzing the department level (Budget Execution) accounting process and associated internal controls	▶	3/31/08																																			
Perform discovery effort in documenting and analyzing the Audited Financial Statement (AFS) process and associated internal controls	▶	3/31/08																																			
Complete Systems Assessment	▶	3/31/08																																			
Prepare and submit the DFAS/Command Collections Validation package	▶	3/31/08																																			
Transition to A-123 for Collections Process	⚠	◆ 9/30/08																																			
Internal Validation of the Collections process	⚠	◆ 9/30/08																																			
Submit Segment Assertion Package	⚠	◆ 12/31/08																																			
Contract for Independent Public Accountant		◆ 6/30/09																																			
Audit Readiness Validation		◆ 12/31/09																																			
Disbursements - General Fund		▶																																			
Perform discovery effort in documenting and analyzing the entitlement process and associated internal controls	▶	3/31/08																																			
Perform discovery effort in documenting and analyzing the disbursement process and associated internal controls	▶	3/31/08																																			

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Corrective Actions By DoD Entity	Critical Path																															
		2009			2010			2011			2012			2013			2014			2015			2016			2017						
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	
Perform discovery effort in documenting and analyzing the nondisbursing process and associated internal controls		3/31/08																														
Perform discovery effort in documenting and analyzing the treasury registration process and associated internal controls		3/31/08																														
Perform discovery effort in documenting processes and controls for reconciling, tracking, and reporting problem disbursements		3/31/08																														
Perform correction effort in documenting of processes and controls for reconciling, tracking, and reporting problem disbursements		3/31/08																														
Perform discovery effort in documenting and analyzing the treasury reporting process and associated internal controls		3/31/08																														
Perform discovery effort in documenting and analyzing the field level (Account Maintenance and Control) accounting process and associated internal controls		3/31/08																														
Perform discovery effort in documenting and analyzing the department of treasury process and associated internal controls		3/31/08																														
Perform discovery effort in documenting and analyzing the department level (Budget Execution) accounting process and associated internal controls		3/31/08																														
Perform discovery effort in documenting and analyzing the AFS process and associated internal controls		3/31/08																														
Complete Systems Assessment		3/31/08																														
Prepare and Submit the DFAS Command Disbursements Validation package		3/31/08																														
Transition to A-123 for Disbursements process		◆ 9/30/08																														
Internal Validation of Disbursements process		◆ 9/30/08																														
Submit Segment Assertion Package		◆ 12/31/08																														

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Corrective Actions By DoD Entity	Critical Path																																						
		8		2009				2010				2011				2012				2013				2014				2015				2016				2017			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
Discovery and Documentation of Military Standard Requisitioning and Issue Procedures (MILSTRIPS) process		◆	6/30/08																																				
Discovery and Documentation of Fuel process		◆	6/30/08																																				
Discovery and Documentation of Purchase Card process		◆	6/30/08																																				
Transition to A-123 for Supplies and Materials processes		◆	9/30/08																																				
Complete systems assessment		◆	12/31/08																																				
Correct deficiencies associated with Supplies and Materials processes		◆	6/30/09																																				
Internal Validation of Supplies and Materials processes		◆	12/31/09																																				
Submit Segment Assertion Package		◆	3/31/10																																				
Contract for Independent Public Accountant		◆	9/30/10																																				
Audit Readiness Validation		◆	3/31/11																																				
Transportation of People - General Fund																																							
Transition to A-123 for Transportation of People processes		◆	6/30/08																																				
Discovery and Documentation of Transportation of People processes		◆	9/30/08																																				
Complete Systems Assessment		◆	9/30/08																																				

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Corrective Actions By DoD Entity	Critical Path																											
		2009			2010			2011			2012			2013			2014			2015			2016			2017		
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	
Correct deficiencies associated with the Transportation of People processes		◆ 9/30/08																										
Develop capability in Defense Travel System (DTS) to record Accounts Payable		◆ 9/30/08																										
Internal Validation of Transportation of People processes		◆ 12/31/09																										
Submit Segment Assertion Package		◆ 6/30/10																										
Contract for Independent Public Accountant		◆ 12/31/10																										
Audit Readiness Validation		◆ 6/30/11																										
Transportation of Things - General Fund		◆																										
Transition to A-123 for Transportation of Things processes		◆ 9/30/08																										
Discovery and Documentation of Household Goods (HHG) processes		◆ 12/31/08																										
Discovery and Documentation of Freight processes		◆ 12/31/08																										
Complete Systems Assessment		◆ 12/31/08																										
Develop capability in Power Track to record Accounts Payable		◆ 12/31/08																										
Implement Power Track across Department of Navy (DON)		◆ 9/30/09																										
Internal Validation of Transportation of Things processes		◆ 3/31/10																										

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Corrective Actions By DoD Entity	Critical Path																																				
		2009			2010			2011			2012			2013			2014			2015			2016			2017											
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3						
Military Labor																																					
Discovery and Documentation of Military Pay process		▶ 3/31/08																																			
Complete Systems Assessment		◆ 9/30/11																																			
Correct deficiencies associated with the Military Pay process		◆ 9/30/11																																			
Implement DIMHRS		◆ 9/30/11																																			
Transition to A-123 for Military Pay process		◆ 12/31/11																																			
Internal Validation of Military Pay		◆ 6/30/12																																			
Submit Segment Assertion Package		◆ 9/30/12																																			
Contract for Independent Public Accountant		◆ 3/31/13																																			
Audit Readiness Validation		◆ 9/30/13																																			
Acquire to Retire/Dispose																																					
General Equipment - General Fund																																					
Discovery and documentation of General Equipment processes		◆ 3/31/11																																			
Transition to A-123 for General Equipment processes		◆ 6/30/11																																			

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Corrective Actions By DoD Entity	Critical Path																																					
		2009			2010			2011			2012			2013			2014			2015			2016			2017												
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3							
Correct deficiencies													◆	6/30/12																								
Internal Validation of General Equipment	⚠														◆	6/30/13																						
Submit Segment Assertion Package	⚠															◆	9/30/13																					
Contract for Independent Public Accountant																	◆	3/31/14																				
Audit Readiness Validation																		◆	9/30/14																			
Internal Use Software - General Fund																																						
Discovery and documentation of Internal Use Software processes													◆	9/30/11																								
Transition to A-123 for Internal Use Software processes	⚠													◆	3/31/12																							
Correct deficiencies																		◆	3/31/13																			
Internal Validation of Internal Use Softwares	⚠																		◆	12/31/13																		
Submit Segment Assertion Package	⚠																			◆	3/31/14																	
Contract for Independent Public Accountant																				◆	9/30/14																	
Audit Readiness Validation																					◆	3/31/15																
Environmental Liabilities for Defense Environmental Restoration Program, Non-Defense Environmental Restoration Program, and the Base Realignment and Closure Program Management Office																																						

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Corrective Actions By DoD Entity	Critical Path	2009												2010												2011												2012												2013												2014												2015												2016												2017											
		8			2009			2010			2011			2012			2013			2014			2015			2016			2017																																																																																
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4																																																																		
Internal Validation of Environmental Liabilities		◆ 9/30/08																																																																																																											
Submit Segment Assertion Package		◆ 12/31/08																																																																																																											
Contract for Independent Public Accountant		◆ 6/30/09																																																																																																											
Audit Readiness Validation		◆ 12/31/09																																																																																																											
Nuclear and Conventional Ships and Submarines		◆ 9/30/08																																																																																																											
Audit Readiness Validation		◆ 9/30/08																																																																																																											
Operating Materials and Supplies - General Fund		◆																																																																																																											
Correct OIS Deficiencies		◆ 9/30/08																																																																																																											
Correct Integrated Logistics Support Management System (ILSMIS) Deficiencies		◆ 9/30/08																																																																																																											
Issue clarifying guidance on definition of OM&S and procedures for special operational situations (Coordinated Shipboard Allowance List (COSAL), Ship Supplies, Sponsor Owned Materials (SOM))		◆ 6/30/10																																																																																																											
Identify OM&S systems that will migrate to Navy Enterprise Resource Planning (ERP)		◆ 9/30/11																																																																																																											
Migrate OM&S data to Enterprise Resource Planning (ERP)		◆ 9/30/12																																																																																																											
Identify Ordnance Information System (OIS) system interfaces requirements with Enterprise Resource Planning (ERP)		◆ 9/30/12																																																																																																											
Discovery and documentation of Other Materials and Supplies (OM&S) processes		◆ 9/30/13																																																																																																											

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Corrective Actions By DoD Entity	Critical Path																																						
		8		2009				2010				2011				2012				2013				2014				2015				2016				2017			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
Discovery and documentation of Contingent Liabilities process		▶ 3/31/08																																					
Transition to A-123 for Contingent Liabilities process		◆ 6/30/08																																					
Internal Validation of Contingent Liabilities process		◆ 6/30/08																																					
Submit Segment Assertion Package		◆ 9/30/08																																					
Contract for Independent Public Accountant		◆ 3/31/09																																					
Audit Readiness Validation		◆ 9/30/09																																					
Financial Reporting - General Fund		▶ 3/31/08																																					
Discovery and documentation of Financial Reporting process		▶ 3/31/08																																					
Implement process to validate all financial statement values are supported by auditable detail		◆ 6/30/08																																					
Transition to A-123 for Financial Reporting process		◆ 6/30/08																																					
Correct process to eliminate unsupported adjustments for intragovernmental eliminations		◆ 9/30/08																																					
Internal Validation of Financial Reporting process		◆ 12/31/08																																					
Submit Segment Assertion Package		◆ 3/31/09																																					
Contract for Independent Public Accountant		◆ 9/30/09																																					

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Corrective Actions By DoD Entity	Critical Path																														
		8	2009			2010			2011			2012			2013			2014			2015			2016			2017				
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Correct Deficiency 1443 Invoice Aging Report		◆	6/30/08																												
Document and Implement Revised Guidance to clarify Accrual Policies and Procedures		◆	6/30/08																												
Correct Mass Allocation - Supporting documentation for allocated amounts not readily identifiable		◆	6/30/08																												
Discovery and Documentation of the Budget to Authorize Process		◆	6/30/08																												
Discovery and Documentation of the Collections & Disbursements Process		◆	6/30/08																												
Discovery and Documentation of the Plan to Pay Process		◆	6/30/08																												
Discovery and Documentation of the Pay our People Process		◆	6/30/08																												
Discovery and Documentation of the Acquire to Retire/Dispose Process		◆	6/30/08																												
Discovery and Documentation of the Plan to Perform Process		◆	6/30/08																												
Discovery and Documentation of the Post to Report Process		◆	6/30/08																												
Complete Systems Assessment		◆	6/30/08																												
Perform Full A-123 Compliant Business Process Testing		◆	9/30/08																												
Perform Balance Reconciliation		◆	9/30/08																												
Transition to A-123 Sustainment		◆	9/30/08																												

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Corrective Actions By DoD Entity	Critical Path																														
		2009			2010			2011			2012			2013			2014			2015			2016			2017					
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3
Submit completed Validation Packages to FMO		◆ 9/30/08																													
Internal Validation of Systems		◆ 12/31/08																													
Internal Validation of Financial Statements		◆ 12/31/08																													
Submit Segment Assertion Package		◆ 3/31/09																													
Contract for Independent Public Accountant		◆ 9/30/09																													
Audit Readiness Validation		◆ 3/31/10																													
Naval Facilities Command (NAVFAC) - Working Capital Fund		◆																													
Complete Discovery and Documentation of All Material Business Processes (Part 1)		◆ 9/30/08																													
Correct Deficiency 1478 Problem Disbursements, if not researched and resolved in a timely manner, could lead to a misstatement of Accounts Payable balances		◆ 9/30/08																													
Correct Deficiency 467 Failure to reconcile P-Card charges to disbursements		◆ 9/30/08																													
Correct Deficiency 198 The Accounts Receivable - Public value reported includes over-aged balances		◆ 9/30/08																													
Correct Deficiency 1142 High volume of Unmatched Collections (UMCs)		◆ 9/30/08																													
Correct Deficiency 994 Lack of Standardized Process for Field Level Balancing of Defense Working Capital Fund Accounting System (DWAS), DON Industrial Budget Information System (DONIBIS) and Department of Defense Reporting System - Budgetary (DDRS-B)		◆ 9/30/08																													
Correct Deficiency 995 Lack of Journal Voucher (JV) Verification between DFAS and Defense Working Capital Fund Accounting System (DWAS)		◆ 9/30/08																													

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Corrective Actions By DoD Entity	Critical Path																														
		2009			2010			2011			2012			2013			2014			2015			2016			2017					
		8	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3
Correct Deficiency 203 Depreciation is not accurately recorded in Personal Property Management System (PPMS) and Central Data Base (CDB)		◆ 9/30/08																													
Correct Deficiency 208 Advances from Others contain aged and/or dormant accounts		◆ 9/30/08																													
Correct Deficiency 210 Abnormal balances exist in the Other Liabilities, non Federal Other line item		◆ 9/30/08																													
Correct Deficiency 481 MWR Security Deposit Payments submitted to DFAS without proper documentation		◆ 9/30/08																													
Transition to A-123 Sustainment		◆ 9/30/08																													
Submit completed Validation Packages to FMO		◆ 9/30/08																													
Internal Validation of Systems		◆ 12/31/08																													
Internal Validation of Financial Statements		◆ 12/31/08																													
Complete Discovery and Documentation of All Material Business Processes (Part 2)		◆ 3/31/09																													
Submit Segment Assertion Package		◆ 3/31/09																													
Contract for Independent Public Accountant		◆ 9/30/09																													
Audit Readiness Validation		◆ 3/31/10																													
Naval Air Command Warfare Centers (NAVAIR-NAWC) - Working Capital Fund		▬																													
Correct Unmatched Disbursements (UMDs)		◆ 12/31/09																													

APPENDIX 23 – DFAS Accounts Payable

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011			
		3	4	1	2	3	4	1	2	3	4	1	2	3	4
DFAS Accounts Payable Key Milestones															
DFAS															
Accounts Payable															
Flowchart the processes for the Major Financial Statement activities reporting public payables to include their related sources - Top Down Approach		◆ 6/30/08													
Flowchart the processes for the remaining existing entitlement systems producing payments to public vendors to include their related sources and output to Financial Statements - Bottom Up Approach		◆ 6/30/08													
Identify the disconnects between the reporting and major entitlement systems		◆ 6/30/08													
Validate all DFAS Locations have implemented the standard guidance provided in the DoD FMR Volume 4, Chapter 9		◆ 6/30/08													
Complete implementation of the A-123 requirements		◆ 6/30/08													
Establish and implement guidance to properly initiate, record, report and document a financial event	🚩	◆ 6/30/08													
Document processes and procedures for electronic Commerce (D-2007 091 Report)		◆ 9/30/08													
Management of Accounts Payable (Aging), internal controls, aged beyond 90 days, receipt with no invoice (D-2007 091 Report)		◆ 9/30/08													
Identify and document A/P universe and the relationships between the accounting and entitlement systems	🚩	◆ 9/30/08													
Establish a standard reporting level for reconciling the DoD Financial Statements, budgetary reports and the entitlement systems		◆ 9/30/08													
Development of test scenarios to ensure accounts payable DFAS functional requirements are properly implemented for ERPs, identifying the functionality required in the ERPs to meet the end to end business processes		◆ 9/30/08													

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Corrective Actions By DoD Entity	Critical Path	8		2009				2010				2011				
		3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Ensure all public AP amounts are accounted for appropriately to include identify, document key business processes, internal controls, and risk assessments of accounting & financial reporting (D-2007 091 Report)						◆	3/31/09									
Ensure all public accounts payable amounts initiated by the entitlement systems are identified, recorded, reported and reconciled to the accounting systems						◆	3/31/09									
Complete reconciliation at transaction level to support accounts payable amounts on both budgetary and proprietary reports and reduce the differences to an immaterial amount						◆	3/31/09									
DFAS internal review will validate the implementation of the standard DFAS reconciliation process						◆	3/31/09									
Complete the cleanup of DoD's entitlement and accounting systems at transaction level.						◆	3/31/09									
Review all audit recommendations and ensure material ones are addressed						◆	3/31/09									
Internal Validation						◆	3/31/09									
Measuring Progress								◆	6/30/09							
Key measures for monitoring accounts payable								◆	6/30/09							
Periodic tests to determine supportability of accounts payable transactions								◆	6/30/09							
Gap analysis of the accounts payable standard DFAS functional requirements to the ERPs requirements to the ERPs requirements document ensuring completeness										◆	12/31/09					