

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
RP.5	IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)	All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.	See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Real Property** footnote disclosures included in **Note 10** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Real Property footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

5.D.1.5.3 Internal Use Software

Internal Use Software is included as General Property, Plant & Equipment on the Balance Sheet and represents the costs of software, whether commercial off-the-shelf (COTS), internally developed or contractor developed, that meet the DoD capitalization criteria.

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with the proper recording and classifying of Internal Use Software, including the proper recognition of full capitalization cost and valuation.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Internal Use Software are contained in the following table.

Financial Management and Accounting Guidance	Record Retention Policies
<ul style="list-style-type: none"> SFFAS No. 6, 10 (and amendments) Technical Release 16 DoD FMR: Volume 6B, Chapter 4, 10 DCFO Policy Memorandum: <i>Strategy for Internal Use Software Audit Readiness</i> issued 09/30/2015 DCFO Memorandum: <i>Accurate and Reliable DoD Component-level Financial Management Trial Balances</i> 	<ul style="list-style-type: none"> National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1 DoD FMR: Volume 1, Chapter 9

Balance By Reporting Entity

The following reporting entities comprise the Internal Use Software line item.

Reporting Entities	FY 2015 Balance	% of Total
OMB Designated Audit		
Army GF	\$ 295,481,223	8.2%
Air Force GF	193,100,618	5.4%
Navy GF	1,701,224	0.0%
Navy WCF	48,240,096	1.3%
Air Force WCF	46,659,693	1.3%

Reporting Entities	FY 2015 Balance	% of Total
Army WCF	379,965,599	10.6%
USACE – Civil Works Program	26,680,246	0.7%
Subtotal - OMB Design. Audit	\$ 991,828,699	27.6%
DoD Designated Audit		
DHA – Comptroller FOD	\$ 31,875,563	0.9%
DLA WCF	361,115,548	10.0%
DLA GF	103,554,877	2.9%
DoD Component Level Accounts	1,566,803,845	43.6%
DISA WCF	20,465,951	0.6%
DISA GF	5,573,363	0.2%
TRANSCOM - Air Mobility Command	207,915,219	5.8%
TRANSCOM - Military SDDC	19,604,196	0.5%
TRANSCOM - Military Sealift Command	2,247,072	0.1%
TRANSCOM - Command Staff	131,905,050	3.7%
DeCA WCF	2,991,122	0.1%
DeCA GF	4,617,085	0.1%
DFAS WCF	69,201,900	1.9%
Subtotal - DoD Design. Audit	\$ 2,527,870,791	70.3%
DoD Designated Examination		
Washington Headquarters Services (WHS)	\$ 367,421	0.0%
WHS - Office of the SecDef	143,189	0.0%
Defense Contract Mgmt Agency	3,031,816	0.1%
Defense Threat Reduction Agency	1,872,236	0.1%
Joint Staff (includes NDU)	36,146,785	1.0%
Subtotal - DoD Design. Exam	\$ 41,561,447	1.2%
DoD Non-material Reporting Entities		
Other Reporting Entities	34,299,649	1.0%
Total	\$ 3,595,560,587	100.0%

Source: FY 2015 Reporting Entity DDRS-AFS Footnote Data

Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Internal Use Software. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Internal Use Software and assess the availability of KSDs that support the controls and amounts recorded.

Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for Internal Use Software are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Internal Use Software			
<p>IS.1 WAVE 3 WAVE 4</p>	<p>Recorded Internal Use Software may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22)</p>	<p>Recorded Internal Use Software exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the APSR (Wave 3, FRO #2, #3, #4, #7, and #8)</p>	<p>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).</p> <p>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).</p> <p>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).</p> <p>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:</p> <ul style="list-style-type: none"> • Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) • Declaration of Excess document • approval documentation (to include disposal of land) • documents supporting disposal start date • documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).

	Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Internal Use Software				
<p>IS.2 WAVE 3 WAVE 4</p>	<p>Internal Use Software transactions may not be recorded, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44)</p>	<p>All Internal Use Software transactions are recorded (all direct and indirect cost have been recognized and recorded) within the APSR and general ledger (Wave 3, FRO #1, #6, #9, and #10))</p>	<p>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).</p> <p>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).</p> <p>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).</p> <p>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:</p> <ul style="list-style-type: none"> • Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) • Declaration of Excess document • approval documentation (to include disposal of land) • documents supporting disposal start date <p>documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).</p>	<p>Select a sample of Internal Use Software additions (i.e., purchased (COTS) or developed) and examine documentation to determine whether:</p> <ul style="list-style-type: none"> • contractor-developed and internally developed software costs (software development stage) were recorded in the correct GL account (1832) at the correct amounts • sufficient, accurate and relevant documentation exists to support all Internal Use Software acquisition costs • Internal Use Software has been capitalized in accordance with the reporting entity's capitalization policy and FMR 7000.14, as revised. <p>Verify that all impairments are properly recognized and are recorded accurately in the correct accounting period.</p> <p>Select a sample of Internal Use Software assets and determine whether:</p> <ul style="list-style-type: none"> • Internal Use Software is appropriately entered in the APSR and general ledger. In cases where assets are not entered in the APSR, review documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission • Internal Use Software is properly classified in the APSR and general ledger. <p>Select a sample of purchases and additions to Internal Use Software and examine supporting documentation to verify that internally developed or contractor-developed software represents fully</p>

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Internal Use Software			
			implemented and functioning software that has met the "Final Acceptance Testing" and is rightfully owned by the reporting entity.
IS.3 WAVE 4	Internal Use Software transactions (purchases (COTS), impairments, development costs) may be recorded at incorrect amounts, or Internal Use Software may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66)	Internal Use Software transactions (all purchases, impairments, and development costs) are recorded at correct amounts, and Internal Use Software is valued on an appropriate valuation basis (Wave 4, FRO #13 and #14)	Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Documentation supporting "placed-in-service" date (e.g., DD-1354, "Transfer and Acceptance of Real Property," DD-250, "Material Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation). Documentation supporting mathematical calculations for recorded depreciation/amortization (demonstrating that the system is correctly calculating depreciation/amortization expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives and acquisition costs over the life of assets) (Tier 1 Asset Documentation). Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Internal Use Software			
		<p>ledger (Tier 1 Asset Documentation).</p> <p>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).</p> <p>Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation).</p> <p>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:</p> <ul style="list-style-type: none"> • Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) • Declaration of Excess document • approval documentation (to include disposal of land) • documents supporting disposal start date • documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). <p>Documentation supporting the allocation methodology for direct labor costs and the distribution methodology for indirect labor costs and overhead costs for internally developed software (software development stage only) (Tier 1 Asset Documentation).</p> <p>Documentation supporting the purchase of commercial off-the-shelf (COTS) purchases, plus any costs incurred for implementation (Tier 1 Asset</p>	<p>Internal Use Software acquisition costs</p> <ul style="list-style-type: none"> • Internal Use Software has been capitalized in accordance with the reporting entity's capitalization policy and FMR 7000.14, as revised. <p>Verify that all impairments are properly recognized and measured and all asset adjustments are recorded accurately.</p> <p>Select a sample of Internal Use Software assets and verify the following:</p> <ul style="list-style-type: none"> • the validity of useful life (consistent with that used for planning the software's acquisition) for the purpose of calculating amortization expense • the validity of the amortization method in conformity with U.S. GAAP • the accuracy of recorded current year accumulated amortization. <p>Verify that all Internal Use Software transactions are recorded at the correct amounts, using appropriate valuation methods that are in accordance with GAAP and SFFAS #10. Also verify that the reporting entity has established a methodology for capitalizing and amortizing Internal Use Software (e.g., capturing full cost incurred during the software development stage), which is consistently applied from period to period.</p>

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Internal Use Software			
		<p>Documentation).</p> <p>Documentation supporting the amounts paid to the contractor to design, program, install, and implement new software or to modify existing software, plus any costs incurred for implementation (Tier 1 Asset Documentation).</p>	
<p>IS.4 WAVE 3 WAVE 4</p>	<p>Recorded Internal Use Software may not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71)</p>	<p>The reporting entity has rights to the recorded Internal Use Software at a given date (Wave 3, FRO #5)</p> <p>Contract documentation, including (for base assets and asset modifications):</p> <ul style="list-style-type: none"> • Statement of Work • Contract clauses that define who owns assets and when the reporting entity takes possession • Purchase Orders • Receiving report or other acceptance document (e.g., DD-250, "Material Inspection and Receiving Report") (Tier 2 Asset Documentation). <p>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).</p> <p>Documentation supporting "placed-in-service" date (e.g., DD-1354, "Transfer and Acceptance of Real Property," DD-250, "Material Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).</p>	<p>Select a sample of Internal Use Software assets and determine whether documentation exists to evidence ownership/control and the right to report the Internal Use Software in its financial records.</p> <p>Select a sample of purchases and additions to Internal Use Software and examine supporting documentation to verify that internally developed or contractor-developed software represents fully implemented and functioning software that has met the "Final Acceptance Testing" and is rightfully owned by the reporting entity.</p>

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Internal Use Software			
			Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: <ul style="list-style-type: none"> • Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) • Declaration of Excess document • approval documentation (to include disposal of land) • documents supporting disposal start date • documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).
IS.5	IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)	All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.	See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **General Property, Plant & Equipment, Net (General PP&E, Net)** footnote disclosures included in **Note 10** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for the General PP&E, Net footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

Consideration of Historical Transactions

For all classes of G-PP&E, reporting entities need to consider whether documentation is available to support the valuation of historical assets. An initial analysis of G-PP&E acquisition dates and availability of supporting documentation is critical to making this determination. As reporting entities identify documentation gaps, they should coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy calculating valuations of historical assets, including proper application of SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*.