

| Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures | |
|--|--|--|--|--|
| Military Retirement and Other Federal Employment Benefits | | | | |
| MB.3 | Military Retirement and Other Federal Employment Benefits included in the financial statements may be recorded at incorrect amounts, or are valued on an inappropriate basis (V) (Wave 4, ROMM #45, #64, #65, and #66) | Military Retirement and Other Federal Employment Benefits are recorded at correct amounts and valued on an appropriate valuation basis (Wave 4, FRO #24, #26, and #27) | Memoranda from a determining Federal agency (e.g., Office of Personnel Management and Department of Labor (DoL)) showing the reporting entity's allocation of employment related liabilities (funded and unfunded) such as civilian pension, FECA and unemployment benefits Schedule(s) detailing calculation of current year expenses Detail listing of factors, data, assumptions, and formulas used to prepare the actuarial calculations for each retirement/benefit trust fund involved in the projection | See Suggested Test Procedures for MB.1 |
| MB.4 | The reporting entity may not have an obligation for recorded Military Retirement and Other Federal Employment Benefits (R) (Wave 4, ROMM #72) | Recorded Military Retirement and Other Federal Employment Benefits are the reporting entity's obligations at a given date (Wave 4, FRO #41) | Memoranda from a determining Federal agency (e.g., Office of Personnel Management and DoL) showing the reporting entity's allocation of employment related liabilities (funded and unfunded) such as civilian pension, FECA and unemployment benefits | See Suggested Test Procedures for MB.1 |
| MB.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 **Military Retirement and Other Federal Employment Benefits** footnote disclosures included in **Note 17** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for the Military Retirement and Other Federal Employment Benefits 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.1.9 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and Disposal Liabilities are future outflows or expenditures of resources that exist as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. For Environmental and Disposal Liabilities, reporting entities must be able to

assert the audit readiness of all business processes and sub-processes associated with the recording and disclosure of environmental liabilities including identification, probability determination, and liability estimation.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Environmental and Disposal Liabilities are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|--|
| <ul style="list-style-type: none"> SFFAS No. 1, 5, 6 (and amendments) FASAB Technical Release (TR): 2, 10, 11, 14 FASAB Technical Bulletin (TB): 2011-2, DoD FMR: Volume 4, Chapter 13 Joint OUSDC/OSD AT&L Policy Memorandum: <i>Strategy for Environmental & Disposal Liabilities Audit Readiness issued 09/30/2015</i> 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 Environmental and Disposal Liabilities line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|--|--------------------------|---------------|
| OMB Designated Audit | | |
| Army GF | \$ 27,508,693,000 | 45.8% |
| Air Force GF | 8,382,297,000 | 14.0% |
| Navy GF | 20,856,972,946 | 34.7% |
| Marine Corp GF | 263,567,406 | 0.4% |
| USACE – Civil Works Program | 956,888,035 | 1.6% |
| Subtotal - OMB Design. Audit | \$ 57,968,418,388 | 96.6% |
| DoD Designated Audit | | |
| DLA WCF | \$ 1,758,848,355 | 2.9% |
| DLA GF | 165,980,848 | 0.3% |
| DLA Strategic Materials | 10,186,501 | 0.0% |
| DoD Component Level Accounts | 19,677,461 | 0.0% |
| DeCA GF | 28,984,601 | 0.0% |
| Subtotal - DoD Design. Audit | \$ 1,983,677,766 | 3.3% |
| DoD Designated Examination | | |
| WHS – Office of the SecDef | 47,990,341 | 0.1% |
| Defense Threat Reduction Agency | 30,043,326 | 0.1% |
| Subtotal - DoD Design. Exam | \$ 78,033,667 | 0.1% |
| DoD Non-material Reporting Entities | | |
| Other Reporting Entities | - | 0.0% |
| Total | \$ 60,030,129,821 | 100.0% |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Environmental and Disposal Liabilities. 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 Environmental and Disposal Liabilities, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|--|
| Environmental and Disposal Liabilities | | | |
| <p>EL.1</p> | <p>Recorded Environmental and Disposal Liabilities are not representative of legal environmental costs incurred by the reporting entity, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #2, #19, #20, #21, and #22)</p> | <p>Recorded Environmental and Disposal Liabilities are valid, pertain to the reporting entity, and represent legal costs incurred by the reporting entity (Wave 4, FRO #35)</p> | <p>Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items</p> <p>Record of Decision</p> |
| <p>Identify the specific types of assets and associated liabilities that could and do contribute to the organization's liability balance (e.g., asbestos in real property assets; closure requirements for real property assets such as underground storage tanks, water treatment facilities, hazardous waste storage areas)</p> <p>Review the methodology used to inspect total asset inventories and arrive at those assets contributing to liability balances</p> <p>Select a sample of recorded Environmental and Disposal Liabilities and determine whether:</p> <ul style="list-style-type: none"> • estimate amounts were reviewed and approved by an authorized official • sufficient and appropriate documentation exists to support the estimates. <p>Verify that Environmental Liability subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity</p> | | | |

| Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures | |
|---|---|---|--|---|
| Environmental and Disposal Liabilities | | | | |
| <p>EL.2</p> | <p>Valid Environmental and Disposal Liabilities were not recorded or are improperly summarized (C) (Wave 4, ROMM #25, #42, #43 and #44)</p> | <p>All valid Environmental and Disposal Liabilities are recorded, are properly allocated across reporting periods and are properly summarized in the financial statements (Wave 4, FRO #33 and #77)</p> | <p>Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items</p> <p>Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation</p> | <p>Identify the specific types of assets and associated liabilities that could and do contribute to the organization's liability balance (e.g., asbestos in real property assets; closure requirements for real property assets such as underground storage tanks, water treatment facilities, hazardous waste storage areas)</p> <p>Review the methodology used to inspect total asset inventories and arrive at those assets contributing to liability balances</p> <p>Select a sample of recorded Environmental and Disposal Liabilities and determine whether estimates include all relevant phases and costs to complete the project and are valid.</p> <p>Examine the listing of Environmental and Disposal Liabilities and determine whether the list includes all locations for reporting entity Environmental Liabilities.</p> <p>Review real property subledger and APSR to ensure that all site locations and property have been considered for environmental liabilities.</p> |

| Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|--|---|---|--|
| Environmental and Disposal Liabilities | | | |
| <p>EL.3 Environmental and Disposal Liabilities may not be valued appropriately or recorded at the best possible estimated cost in the financial statements (V) (Wave 4, ROMM #46, #64, #65, and #66)</p> | <p>Environmental and Disposal Liabilities are valued using appropriate estimation methodologies and are recorded at best possible estimated cost in the financial (Wave 4, FRO #33 and #34)</p> | <p>Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items</p> <p>Record of Decision</p> <p>Contracts, invoices, receiving reports/status reports</p> <p>Documentation supporting clean-up cost estimates and related facts and assumptions</p> <p>Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation</p> | <p>Select a sample of recorded environmental liabilities and determine whether:</p> <ul style="list-style-type: none"> • cost factors are valid and appropriate • estimates include all relevant phases and costs to complete the project and are valid |
| <p>EL.4 The obligation for Environmental and Disposal Liabilities may not apply to the reporting entity (R) (Wave 4, ROMM #72)</p> | <p>Recorded Environmental and Disposal Liabilities are the reporting entity's obligations at a given date (Wave 4, FRO #36)</p> | <p>Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items</p> <p>Record of Decision</p> <p>Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation</p> | <p>Examine the listing of Environmental Liabilities and determine whether the Environmental Liabilities are appropriately classified based upon U.S. GAAP criteria for recognition and/or disclosure (occurrence of a transaction or event, future outflows are probable, future outflows are measurable).</p> |
| <p>EL.5 IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)</p> | <p>All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.</p> | <p>See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities</p> | |

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Environmental and Disposal Liabilities** footnote disclosures included in **Note 14** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Environmental and Disposal Liabilities 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.1.10 OTHER LIABILITIES

Other Liabilities represent liabilities not recognized in specific categories. Separate reporting of items normally characterized as "Other Liabilities" is appropriate if the amounts are significant to the balance sheet. Footnote 15 of the FY 2014 DoD Agency Financial Report mentions various Other Liabilities, including accrued unfunded annual leave, accrued funded payroll and benefits, custodial liabilities, contingent liabilities, advances from others, non-environmental disposal liabilities, disbursing officer cash, FECA reimbursement to the Department of Labor, contract holdbacks, employer contribution and payroll taxes payable, deposit funds and suspense account liabilities, unemployment compensation liabilities, Judgment Fund liabilities, deferred credits, and capital lease liability. Intragovernmental Other Liabilities primarily consists of unfunded liabilities for Federal Employees Compensation Act, Unemployment Insurance, and Judgment Fund. Non-Federal Other Liabilities primarily consists of unfunded annual leave, contingent liabilities and expected expenditures for disposal of conventional munitions

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with Other Liabilities, including adequately supported accruals and estimates and the proper recognition of contingencies.

Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for OL.1 – OL.2 and OL.4 – OL.7 can be leveraged to test both Intragovernmental and Non-Federal Other Liabilities. The suggested test procedures provided in OL.3 are for Intragovernmental Other Liabilities only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Other Liabilities related transactions, are covered in the Financial Reporting assessable unit.

Standards and Guidance

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

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|--|
| <ul style="list-style-type: none"> SFFAS No. 5, 6, 12 (and amendments) DoD FMR: Volume 4, Chapter 12 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 FMR: Volume 1, Chapter 9 |

Balance By Reporting Entity

The following reporting entities comprise the Intragovernmental Other Liabilities line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|-----------------------------|------------------|------------|
| OMB Designated Audit | | |
| Army GF | \$ 2,255,166,503 | 26.7% |
| Air Force GF | 1,183,958,651 | 14.0% |
| Navy GF | 805,493,886 | 9.5% |