

APPENDIX C – FIAR STRATEGY DETAILS

This appendix provides FIAR Strategy details for reporting entities and service providers working to become audit ready. Organized by wave, this appendix includes specific key Risks of Material Misstatements (ROMMs), Financial Reporting Objectives (FROs), and Key Supporting Documents (KSDs) for each wave. **Additionally, the ROMMs and FROs have been cross-referenced to baseline financial reporting risks and related outcomes and suggested test procedures have been added.**

C.1 WAVE 1 – APPROPRIATIONS RECEIVED AUDIT

The DoD FMR 7000.14, Volume 6B, Chapter 7 defines appropriations as "... the amount of appropriations specified in the appropriations act or in substantive laws that become available for obligation on or after October 1 of the fiscal year (actual and anticipated)." Therefore, Wave 1 represents all budgetary funding appropriated from Congress and the related first level of funding distribution for the reporting entity's use.

C.1.1 Readiness Scope

To successfully prepare for an Appropriations Received audit, Wave 1 reporting entity readiness efforts must include all processes that result in financial transactions material to recording and distributing budget authority. This typically includes:

- Funding appropriated by Congress for the current fiscal year,
- Apportionment/re-apportionment activity approved by the OMB,
- Department-level allotment and reprogramming activity,
- Reporting entity-level allotment and reprogramming activity, and
- Treasury warrants documenting the availability of Fund Balance with Treasury (FBWT).

These processes include the receipt of congressional appropriations, the accurate apportionment of the funds, the proper dissemination of the funding apportionments downward, the recording in general ledgers, and finally, the reporting on the reporting entity financial statements. Specifically, this would include actions the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) or reporting entity headquarters takes to make the funding allocations flow from headquarters to the responsible manager at the installation level, as well as actions taken by Defense Finance and Accounting Services (DFAS) to prepare the financial statements.

Wave 1 processes and related controls include activities performed to control and record transactions related to: (1) the receipt of the budget ("Appropriations Received"), and (2) the distribution of the budget to the major command level.

Current year appropriations distribution includes the capability to support the completeness of funds distributed to the major command or equivalent. Reporting entities should demonstrate completeness of funds distribution by reconciling the current year budget authority apportioned and allotted to USSGL accounts 4510, "Apportionments", and 4610, "Allotments- Realized Resources", of the general ledger to the fund distribution system. The reconciliation should identify current year budget authority as an element of the entire balance, which includes beginning balances, reductions for executed funds and upward or downward adjustments, recorded in these accounts.

The first event is the receipt of the budget funding. This involves SBR Line 1290, Appropriations (discretionary and mandatory) and preparing that line item for audit. Financial events resulting from appropriations include an increase to the Appropriations line item on the SBR and a corresponding increase to FBWT on the proprietary side. Note that during the apportionment process (SF 132), not only are the actual and anticipated resources apportioned (such as appropriations supporting Line 1290), but also the actual and anticipated additions and reductions to resources (such as rescissions and general provision reductions, rescissions, and transfers).

The second area of importance is the distribution of the budget. While SBR Line 1290 reports appropriated resources received, the distribution of these resources, reported as changes to status within SBR lines 2204, 2304 and 2404, plays a critical role in each organization's funding and execution control

activities. The evaluation of distribution controls for activity recorded to these status lines becomes a critical component of a comprehensive audit of the SBR. Success depends on implementation of effective control activities that mitigate the risk of potential misstatement within all material lines and account balances. In particular, effective control activities for receipt and distribution of funds aid in the prevention of Anti-Deficiency Act violations. These control activities also provide mid-year monitoring of spending to identify the need for reprogramming, transfers and/or journal vouchers as applicable. Refer to Section C.1.2 for a listing of KSDs used to demonstrate the accuracy of the transactions recorded and the control activities are in place.

C.1.2 Risks, Financial Reporting Objectives, Key Supporting Documents and Assessable Unit Risks and Outcomes

Risks

The following table presents the key ROMM related to Wave 1, Appropriations Received, by each of the five financial statement assertions. A reference to the source of each risk is included in parentheses. Reporting entities must identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs, relevant to the subject matter, assertion, or processes, (e.g., contract pay) have been achieved. Refer to the FROs in the table following this risk table for further details.

Wave 1 – Appropriations Received Key Risks of Material Misstatement	
Financial Statement Assertions	Key Risks of Material Misstatements
Existence	1. Recorded budget authority does not exist (e.g., not authorized by Public Law) (FAM 395B: 4)
Completeness	2. All new budget authority made available for obligation was not recorded (GAO-02-126G; p. 26)
Valuation	3. New budget authority was recorded at incorrect amounts (GAO-02-126G; p. 25) 4. Apportionment amounts do not agree to the total appropriated amount (FAM 395F: 01b) 5. Allotted amounts do not agree to appropriated/apportioned amounts (FAM 395F: 01c)
Presentation and Disclosure	6. Accumulated accounts or transactions are not properly classified and described in the SBR and SF-133 (FAM 395B: 15) 7. The current period SBR is based on accounting principles different from those used in prior periods presented (FAM 395B: 16) 8. Information needed for fair presentation in accordance with U.S. GAAP is not disclosed in the financial statements (including OMB and FASAB guidance) (FAM 395B: 17)
Rights and Obligations	9. Agencies do not have rights to budgetary resources reported on the SBR (FAM 395F: 01a)

Financial Reporting Objectives

Reporting entities must achieve the FROs relevant to the subject matter, assertion, or processes (e.g., contract pay), to demonstrate audit readiness. Each FRO has been linked to its relevant financial statement assertions (as indicated with an “X” in the relevant columns), including if the FRO relates to compliance with laws and regulations. At the end of each FRO is a source reference. This is not a complete listing of control objectives, but rather those FROs needed to address key risk areas most likely to be present based on the Department of Defense’s (Department or DoD) experience. **Reporting entities must apply judgment to determine if additional FROs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B and 395F for a list of general control objectives based on financial statement assertions.

Wave 1 – Appropriations Received Financial Reporting Objectives						
Financial Statement Line Items	Financial Reporting Objectives	Financial Statement Assertions				
		Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations
Appropriations (discretionary and mandatory) Note: While not a part of Wave 1, these same FROs should be used for Borrowing Authority and Contract Authority, if applicable¹	1. Appropriation transactions (or other forms of budget authority): Recorded appropriation (or other forms of budget authority) is the same as the appropriation or other legislation, that was made available for obligation (including restrictions on amount, purpose & timing) and pertains to the reporting entity (FAM 395F: 01a)	x		x		x
	2. Appropriation transactions (or other forms of budget authority): All new budget authority that was made available for obligation was recorded in the proper accounts and properly summarized (GAO-02-126G; p. 26)	x	x		x	
	3. Apportionment transactions: Recorded apportionments agree with the OMB apportionments (as indicated on the apportionment schedules), and the total amount apportioned does not exceed the total amount appropriated (FAM 395F: 01b)	x		x		x
	4. Allotment and sub-allotment transactions: The total amount allotted does not exceed the total amount apportioned (FAM 395F: 01c)					x

Key Supporting Documents

The following table lists the minimum internal control documentation and supporting documentation required to assert as audit ready for Wave 1, Appropriations Received. The table links each listed document to the potential financial statement assertions that it supports. Internal control documentation is marked as meeting all financial statement assertions, because the specific control activities described in the internal control documentation will determine which specific financial statement assertions are satisfied. Specific to Wave 1 supporting documentation:

- Reporting entities must retain all internal control documentation that demonstrates the design and operation of processes and activities.
- Reporting entities must retain supporting documentation that constitutes financial transaction evidence substantiating the accuracy of all relevant financial statement assertions. For example, reporting entities must retain appropriation documentation for the life of the appropriation.

¹ The current format of the SBR combines all types of budgetary authority including transfers and temporarily/permanently restricted. However, since all reporting entities have already asserted to Wave 1, the scope of Wave 1 will not change. Reporting entities will be responsible for achieving these FROs as part of their Wave 2 assessable unit assertions.

Wave 1 – Appropriations Received Key Supporting Documents							
Financial Statement Line Items	Documentation Type	Key Supporting Documents	Financial Statement Assertions				
			Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations
All Financial Statement Line Items	Internal Control Documentation	1. Statement-to-process analyses demonstrating the dollar amount and quantity of activity flowing through various processes and/or locations	x	x	x	x	x
		2. Applicable policies and procedures	x	x	x	x	x
		3. Process narratives and flowcharts	x	x	x	x	x
		4. Control worksheets, identifying risks, FROs and corresponding control activities	x	x	x	x	x
		5. Test plans documenting planned procedures used to test the operating effectiveness of control activities	x	x	x	x	x
		6. Control assessments with test results	x	x	x	x	x
		7. Evaluation of test results	x	x	x	x	x
		8. Documentation evidencing the operation of internal control activities for the period under audit. For example: <ul style="list-style-type: none">Approval signature documentation (electronic or manual) demonstrating accuracy reviews of appropriation transactions recorded in the general ledger (compared to supporting documentation such as Appropriation Act/Public Law)	x	x	x	x	x
		9. System inventory list, listing of system users and their access privileges	x	x	x	x	x
Budgetary Authority: Appropriations	Transaction Documentation	10. Appropriation Act (Public Law)	x	x	x	x	x
		11. Treasury Warrants (FMS 6200)	x	x	x	x	x
		12. Apportionment and Reapportionment Schedule (SF 132)	x	x	x	x	x
		13. Funding Authorization Documents (FADs) supporting Departmental Allotments					x
		14. Reporting entity-level sub-allotment documentation (if applicable)					x
		15. Report on Budget Execution and Budgetary Resources (SF 133)				x	
		16. Trial balance by fund code (Treasury account) corresponding to each appropriation				x	
		17. Year-End Closing Statement (FMS 2108)				x	

Assessable Unit Risks and Outcomes

For the assessable unit for Wave 1 (Appropriations Received), FIAR has defined baseline financial reporting risks and related outcomes demonstrating audit readiness. Specifically, FIAR has identified the key risks for this assessable unit that may cause a financial statement balance to be materially misstated. Once the risks are mitigated, the related assessable unit outcome can be achieved. FIAR has also identified suggested test procedures that reporting entities may perform to meet the requirements of the FIAR Methodology and achieve audit readiness for the assessable unit. Please see Section C.4.2 for risks, outcomes and suggested test procedures for the Wave 1 assessable unit.

C.1.3 Example Work Products

Refer to SBR Section C.2.3 for examples of SBR work products and related guidance.

C.1.4 Wave-Specific Audit Execution

Wave 1 reporting entity audit readiness efforts must include all processes that result in financial transactions material to the receipt and distribution (first level of distribution within the reporting entity) of budget authority. Reporting entities must prepare and submit assertion documentation (i.e., risk assessments, control assessments, process narratives, test plans, etc.) to the FIAR Directorate as they complete the key tasks and activities in the Discovery and Corrective Action phases. The FIAR Directorate will review the assertion documentation and provide feedback to the reporting entities on an ongoing basis. Once a reporting entity asserts audit readiness for Appropriations Received, the FIAR Directorate will validate that all key audit readiness dealbreakers (i.e., reconciled population, sufficient testing of control activities, etc.) have been sufficiently addressed. The FIAR Directorate will then engage an Independent Public Accountant (IPA) or the Department of Defense Office of Inspector General (DoD OIG) to perform an examination on the assessable unit's audit readiness assertion.

If the examination results in an unqualified opinion, the reporting entity will be required to sustain its audit readiness state for Appropriations Received until Wave 2 is complete and the reporting entity undergoes a full SBR audit. Appropriations Received is a key element of the SBR, and for the Military Departments, it has been validated as audit ready by an IPA firm.