Financial Improvement and Audit Readiness Methodology
Assertion Work Product Example
Financial Improvement Plans

Detailed Activity 2.2.1 – Develop Plan and Update FIP (Reporting Entities)
Detailed Activity 2.4 – Execute (Reporting Entities)
Detailed Activity 3.4 – Address Deficiencies (Reporting Entities)
Detailed Activity 2.2.1 – Develop Plan and Update FIP (Service Providers)
Detailed Activity 2.4 – Execute (Service Providers)
Detailed Activity 3.4 – Address Deficiencies (Service Providers)

NOTE: The Tool/Template/Work Product below includes instructions for preparing a Financial Improvement Plan (FIP). There are FIP templates for both Reporting Entities and Service Providers included in a separate Microsoft Excel workbook.

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FIP Preparation and Submission Instructions

FIP Preparation Instructions

OUSD(C), in collaboration with the DoD Components, developed a standard framework/template for Reporting Entity Financial Improvement Plans (FIPs) and for Service Provider FIPs (when preparing for SSAE No. 16 examinations). It is mandatory that Components use the standard FIP framework (WBS levels 1, 2, & 3), regardless of their audit ready status (e.g., "under audit," "preparing for audit," etc.). FIPs are living documents and must be maintained and updated as Components progress through the phases/tasks/activities of the FIAR Methodology. Once a Reporting Entity or Service Provider has achieved audit readiness and is under audit, the Reporting Entity or Service Provider is only expected to complete the tasks shown in gray in FIAR Guidance Figure 4-1 (for Reporting Entities) or Figure 4-23 (for Service Providers) on a continuous basis.

The standard FIP template provides required data fields that align to the FIAR Methodology. This document provides general guidance for the framework. It also provides definitions/explanations of required data field definitions for each Discovery Phase action task, as well as other sections of the standard framework for FIPs.

General Guidance

1. FIP Framework/Template Section Descriptions

<u>Key Control Objectives (KCOs) and Key Supporting Documents (KSDs)</u>

This section is designed to identify standardized outcome-oriented control objectives that were derived from the GAO Financial Audit Manual (FAM). This section also identifies the minimum KSDs applicable to each assessable unit. These objectives are the key items that are required to achieve accurate financial reporting and auditability. Standard sets of KCOs and KSDs exist for each assessable unit and are included within Appendix C of the Guidance. These standard KCOs and KSDs are also being used as support for the FIAR Milestones. Components may add additional items to this section that will not be identified as support for FIAR Milestones. All KCOs and KSDs [identified as having a KCO status of deficiency or material weakness] should be supported by corrective actions designed to achieve the objectives.

<u>Discovery Phase</u>

This section is designed to identify essential discovery tasks and provide a means to monitor progress.

<u>Corrective Actions Phase</u>

This section identifies the corrective actions designed to achieve the KCOs and KSDs and other objectives described in the previous section. This section also provides the status of the actions by the percent complete. The corrective action

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plans included here also serve as the basis for the Component's Summary Corrective Action Plan required to be submitted in support of the annual Internal Control Over Financial Reporting (ICOFR) Statement of Assurance (SOA).

Evaluation Phase

This section identifies the testing activities to be performed to validate that corrective actions have resulted in effective KCOs, and effective KSDs for the assessable unit. If results of update testing indicate that corrective actions did not result in effective KCOs and KSDs, Components will be required to return to the Corrective Action phase to design and implement new corrective actions to remediate identified deficiencies.

Assertion Phase

This section identifies the tasks and status of management's efforts to assert audit readiness.

Validation Phase

This section identifies the tasks that management will perform to validate the audit readiness of an assessable unit after audit readiness has been asserted.

Audit Phase

This section identifies tasks that management will perform to engage and support an audit.

2. The KCOs and KSDs section must include the OUSD(C)/FIAR standard KCOs and KSDs from the applicable sections of the FIAR Guidance. Reporting Entities may add additional improvement objectives, if desired. The additional objectives might either be related to existing KCOs/KSDs or added at the end of the KCOs/KSDs section. An example of an additional item is an auditor-identified weakness, or a previously reported weakness for ICOFR. This weakness will likely be related to one of the standard enterprise KCOs and should be added as an additional objective. If it is not related to a standard KCO, then it should be added at the end of the KCO list. The corrective action tasks designed to remediate the weakness will be listed in the Corrective Action section and will be listed as predecessors (using the predecessor field) for predecessors to the weakness listed in the KCOs section. Predecessors may be defined as finish-to-start or finish-to-finish.

3. Corrective Actions and Testing tasks that are associated with systems must identify the system.

4. Tasks that describe audit work on a system should identify the type of audit and the organization that is performing the audit (e.g., FISCAM by the DoD OIG).

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5. Testing tasks to be performed at the conclusion of an assessable unit's corrective actions should identify the organization responsible for performing the task (e.g., Service Audit Agency).

FIP Field Definitions

Start Date

For tasks that have not started, this **required** field is an estimated date when the task will begin. For tasks that have already started, this will be the date that work began. This is the current start date. For the KCO/KSD section, this is the earliest start date for the tasks that support the KCO/KSD.

Finish Date

For tasks that have not finished, this **required** field is an estimated date when the task will be completed. This is the current finish date. For tasks that have already been finished, this is the date that work was completed (percent completed should be shown as 100%). For the KCO/KSD section, this is the estimated completion date for the tasks that support the achievement of the KCO/KSD.

Baseline Start

This **required** field is the start date for a task as of the publication of the most recent FIAR Plan Status Report and is the date the task was estimated to start. This is the original start date. For the KCO/KSD section, this is the earliest start date for the tasks that support the achievement of the KCO/KSD. Baseline dates may only be re-baselined with the coordinated approval of the Reporting Entity Financial Management/Comptroller or Agency Comptroller, or their designated senior representative, and the FIAR Director.

Baseline Finish

This **required** field is the finish date for a task as of the publication of the most recent FIAR Plan Status Report and is the date the task was estimated to be completed. This is the original finish date. For the KCO/KSD section, this is the latest completion date for the tasks that support achieving the KCO/KSD. Baseline dates may only be re-baselined with the coordinated approval of the Component's Financial Management/Comptroller or Agency Comptroller, or their designated senior representative, and the FIAR Director.

Percent Complete

This **required** field is an estimate of the percentage of completion of a task. The percentage should be based on an estimation of the total labor or effort required to complete a task and the total labor or effort completed, and should be updated on a regular basis, but no less than quarterly.

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Predecessor

This field is used to identify instances when a task cannot be completed until a different task is completed first. Many tasks may be contingent upon the completion of other tasks; therefore, this field should be used to identify/link a specific task to the task upon which it is dependent. The field should contain the task identification numbers from Microsoft Project.

Key Control Objective (KCO) Weakness

This field is only applicable to the Corrective Action sections of the plan and is used to directly link Corrective Action tasks to the KCOs they relate to or impact. This field will accept single or multiple entries and will consist of the task number of the applicable KCO/KSD(s) delimited by commas, as required.

Control Objective Test Status (formerly Control Objective Status)

This **required** field is only applicable to the KCO/KSD section and is used to identify the status of the KCO/KSD requirement.

Acceptable values are: “Unassessed,” “Weakness,” or “Effective.”

Primary Financial Statement Assertion

This **required** field is only applicable to the KCOs/KSDs section and is used to identify the primary financial statement assertion supported by each KCOs/KSDs.

Acceptable values are: “Existence or Occurrence,” “Completeness,” “Rights and Obligations,” “Valuation or Allocation,” and “Presentation and Disclosure.” Only one value may be entered.

Secondary Financial Statement Assertion

This **required** field is only applicable to the KCO/KSD section and is used to identify the additional Financial Statement Assertions supported by each KCO/KSD.

Acceptable values are: “Existence or Occurrence,” “Completeness,” “Rights and Obligations,” “Valuation or Allocation,” and “Presentation and Disclosure.” More than one value may be entered.

FIAR Milestone

This field is used to identify tasks that will be reported in the FIAR Plan Status Report. The intent is to identify the significant tasks that will result in the incremental achievement of objectives. This is important because the intent of the FIP is to address

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not only the KCOs/KSDs needed for auditability, but also the objectives and plans for other related purposes, such as those associated with compliance audits and management initiatives. As shown in **Figure 1**, acceptable values are “Yes” or Blank.

Task Section	FIAR Milestone
Section 0 – Standard KCOs/KSDs	Yes
Section 0 – Reporting Entity-added KCOs/KSDs	
Section 1 –Discovery	
Section 2 – Corrective Action Tasks	Yes, if major activity or published in past or future FIAR Plan Status Report. No, if a subtask
Section 3 – Evaluation	Yes, if major activity or published in past/future FIAR Plan Status Report. No, if a subtask
Section 4 – Management Assertion	Yes
Section 5 – Validation	
Section 6 – Audit	Yes

Figure 1. Task Sections and FIAR Milestone

Responsible Person

This field is only applicable to the KCOs/KSDs section and is used to identify the individual responsible for the effectiveness of the key control or supporting documentation. This field should include the last name, first name, and the person’s commercial telephone number with area code (e.g., Smith, John, 202-555-1212). The person identified should be a management official responsible for ensuring that the control objective is effective and should not be at the action officer level. Example:

- Army – Director, Audit Readiness, Office of the Assistant Secretary of the Army Financial Management and Comptroller.
- Navy – Program Manager, Department of the Navy.
- Air Force – Associate Deputy Assistant Secretary for Financial Operations, Office of the Assistant Secretary for Financial Management and Comptroller, Headquarters.

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Financial Improvement Element (FIE)

This field is only applicable to tasks contained in the Corrective Action sections. Tasks that rely on or involve a software system must be identified as system tasks. It is optional for non-system tasks to be identified as relating to one of the other FIEs.

Acceptable values are: “Policy,” “Process,” “System,” “Control,” “Audit Evidence,” and “Human Capital.” More than one value may be entered in the field.

Process Level 0

This field is only applicable to tasks in the Corrective Action and Testing sections of the FIP. The summary tasks that define Assessable Units must identify the BEA End-to-End Processes that are contained within the Assessable Unit. Identifying the BEA Process Steps (Levels 1, 2, etc.) for lower level tasks is optional.

Acceptable values are the BEA end-to-end business processes presented in the April 2015 FIAR Guidance in Figure 3-11.

Process Level 1

This field is only applicable to tasks in the Corrective Action and Testing sections of the FIP. The summary tasks that define Assessable Units must identify the BEA Level 1 Process Steps that are contained within the Assessable Unit. Identifying the BEA Process Steps for lower level tasks is optional.

Acceptable values are the BEA end-to-end business processes presented in the April 2015 FIAR Guidance in Figure 3-11.

Lead Organization

This required field is only applicable to tasks contained in the Discovery, Corrective Action, and Evaluation sections of the FIP. This field contains the Organization Code or other organizational nomenclature for the organization responsible for accomplishing the task.

Support Organization

This required field is only applicable to tasks contained in the Corrective Action and Testing sections of the FIP. This field contains the Organization Code or other organizational identification nomenclature for the organization responsible for supporting the Lead Organization in accomplishing the task.

Resource Names

This field is only applicable to tasks contained in the Corrective Action and Testing

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sections of the FIP. This field contains the FIAR Tool User Name(s) for the person(s) responsible for accomplishing/managing each task.

Level of Effort to Complete

This field is only applicable to tasks contained in the Corrective Action and Testing sections. Within these sections, the field is only mandatory for the second level of tasks contained in the work breakdown structure. This field contains the estimation of the total effort required to complete the unfinished work related to the task and supporting detailed tasks. The units for the amounts are Full-Time Equivalent (FTE) years and may be either government or contractor personnel, where a FTE is defined as a person working approximately 40 hours a week for 48 weeks in a year. Therefore, a value of 8 would be 8 people working full-time for a full year, 16 people working full-time for 6 months, 16 people working 50% of their time for one year, or 4 people working full-time for 2 years.

Level of Effort Committed

This field is only applicable to tasks contained in the Corrective Action and Testing sections. Within these sections, the field is only mandatory for the second level of tasks contained in the work breakdown structure. This field contains the estimation of the resources committed in the budget and FYDP to each task. The units for the amounts are FTE years and may be either government or contractor personnel, where a FTE is defined as a person working approximately 40 hours a week for 48 weeks in a year. Therefore, a value of 8 could be 8 people working full-time for a full year, 16 people working full-time for 6 months, 16 people working 50% of their time for one year, or 4 people working full-time for 2 years.

Notes

This field should be used to record the rationale for changes to the FIP that the organization would like to communicate. This field can also be used to indicate and track the type of weakness i.e. control deficiency, significant deficiency, or material weakness (only those identified through prior ICOFR efforts) for the KCOs/KSDs.

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FIP Submission Instructions

Updating FIPs

Reporting Entities must update their FIPs continually in order for OUSD(C)/FIAR to monitor and report progress to DoD senior leadership and non-DoD organizations and stakeholders, such as Congress, OMB, and GAO. OUSD(C), in collaboration with the DoD Components, developed a standard framework/template for Reporting Entity Financial Improvement Plans (FIPs) and for Service Provider FIPs (when preparing for SSAE No. 16 examinations). The standard FIP template aligns to the FIAR Methodology and allows reporting metrics to be gathered consistently across the Department.

All FIP data fields must be kept up to date and reflect changes from month to month. For instance, if a task or improvement activity is reassigned to a different organization and/or individual, the appropriate FIP data fields should be updated at the time the changes are made.

Ideally, Components should be using the FIAR PT, described in the following section, to maintain their FIPs. In such instances, when changes are made to the FIPs, such as adding or modifying tasks, adjusting completion dates, and/or updating the percent of completion, the changes will be automatically available to OUSD(C)/FIAR.

The FIAR-PT is an Internet-based resource designed to assist in managing the Department of Defense's financial improvement methodology. The FIAR-PT:

1. Enables Reporting Entities to organize and report their progress in the FIAR Plan Status Report,

2. Provides a standard tool from which Reporting Entities manage their FIPs, and

3. 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.

When a Component is not using the FIAR PT to maintain its FIPs, an updated file for each active FIP must be submitted to OUSD(C)/FIAR no later than the last calendar day

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of each month. If no changes were made to a FIP during a month, then OUSD(C)/FIAR must be notified as such in the accompanying delivery method (e.g., email) with the FIPs that did change. Active FIPs include, at a minimum, all FIPs for the Wave 2 (SBR) and Wave 3 (E&C) priority areas. Active FIPs also include other non-priority FIPs where improvement work and activity is taking place. Updated FIPs provided by email should be sent in a Zip file to the following email address: osd.pentagon.ousd-c.mbx.audit-readiness@mail.mil.

Performance Metrics

The Department is presently implementing results-oriented metrics to better monitor and measure progress. Three types of metrics are being implemented to allow the Department to:

1. Track progress in achieving the end-state outcome of auditability by monitoring the Reporting Entities' progress in achieving a strong internal control program that ensures financial transactions are timely and accurately recorded and reported. This metric tracks the assessment, testing, and remediation of KCOs until they have been determined to be effective.

2. Track Reporting Entity progress through the standard methodology for audit readiness. See FIAR Guidance for a discussion of the FIAR Methodology.

3. Track progress in accomplishing important objectives impacted by financial improvement activity. This type of metric is also results-oriented, but varies by segment or assessable unit.

OUSD(C) is working with the OUSD(AT&L) and Reporting Entities to identify and implement additional results-oriented metrics that can be used to measure progress.

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Standard FIP Template

OUSD(C), in collaboration with the DoD Components, developed a standard framework/template for Reporting Entity Financial Improvement Plans (FIPs) and for Service Provider FIPs (when preparing for SSAE No. 16 examinations). Please see the accompanying standard FIP templates for Reporting Entities and Services Providers for the required data lines that align to the FIAR Methodology.

For Reporting Entities, the Standard FIP Structure should be used for a FIP that will result in a single assertion. This structure is not only useful for Assessable Units within the SBR but is also suited for use on the Balance Sheet, Statement of Net Costs, and other financial statement Assessable Units where all phases, including the *Discovery Phase* and *Corrective Action Phase*, will be performed separately.

Because Waves 3 (E&C) and 4 (Valuation) split financial statement assertions for critical assets, Reporting Entities have two options (depicted in **Figure 2** below) when preparing FIPs that will support multiple assertions (e.g., Military Equipment FIP that will contain common *Discovery* and *Corrective Action Phases* but will have separate *Assertion/Examination, Validation,* and *Audit Phases* for E&C and valuation).

- **Option 1:** Maintain separate FIPs if E&C and valuation audit readiness initiatives are developed/executed separately. Structure should be used for a FIP that will result in a single assertion.

- **Option 2:** Maintain one FIP but create separate sections for E&C vs. Valuation beginning with the *Assertion/Examination Phase*, if E&C and Valuation initiatives are combined, but may be distinct timelines.

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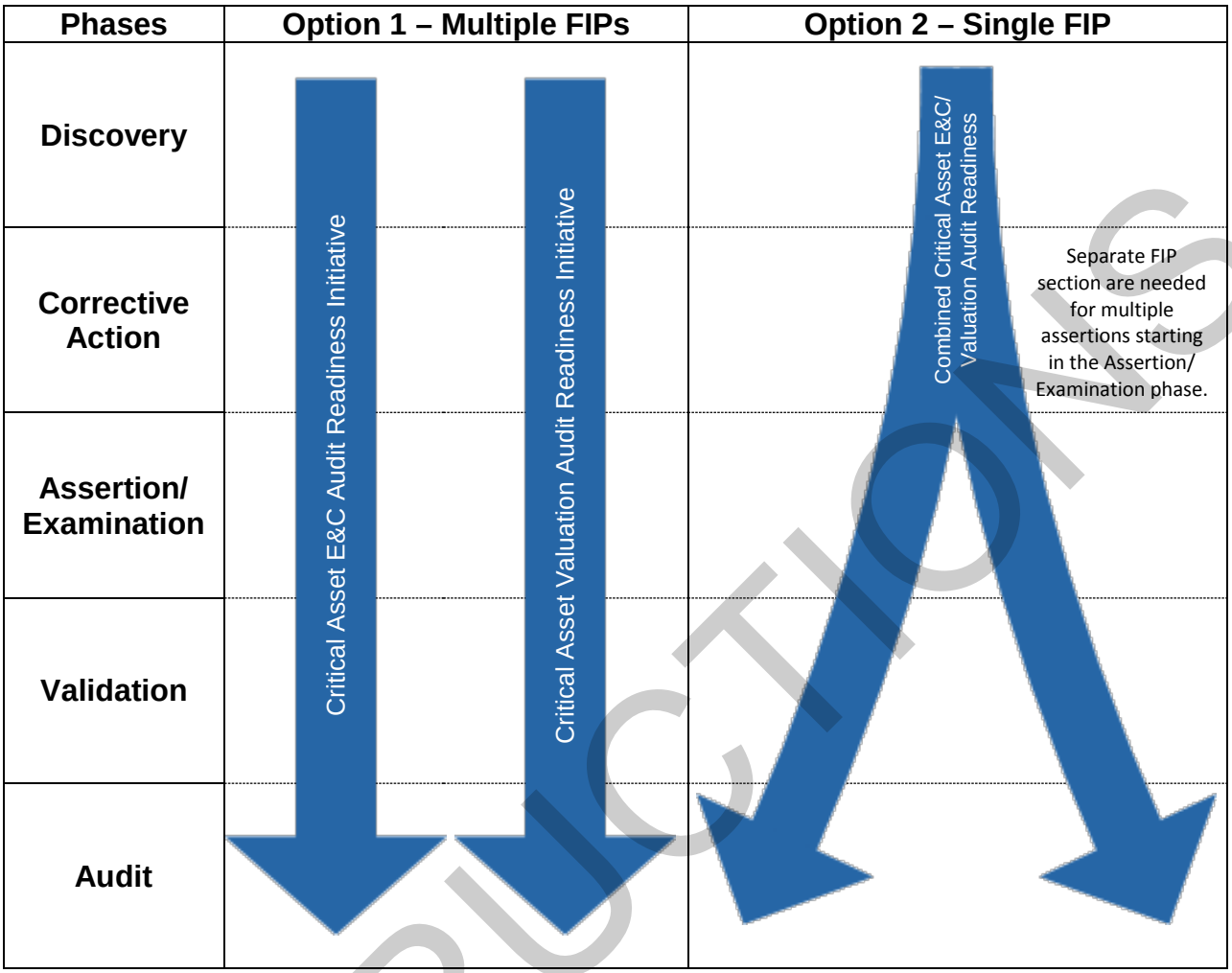

Figure 2. Options for Preparing FIPs Supporting Multiple Assertions

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