

# Defense Financial Improvement and Audit Readiness Plan



**SUPPORTING THE WARFIGHTER THROUGH TRUST AND CONFIDENCE IN FINANCIAL DATA**

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PRODUCED BY: OFFICE OF UNDER SECRETARY OF DEFENSE COMPTROLLER IN COLLABORATION WITH  
THE FINANCIAL IMPROVEMENT AND AUDIT READINESS COMMITTEE



**June 2006 Update**

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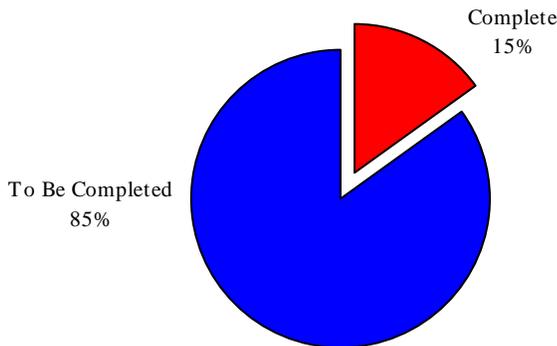
## Executive Summary

The Defense Financial Improvement and Audit Readiness (FIAR) Plan is a dynamic plan for improving the overall financial management health of the Department of Defense (DoD). First published in December 2005, the June 2006 Update of the FIAR Plan offers a snapshot of the Department's continual efforts.

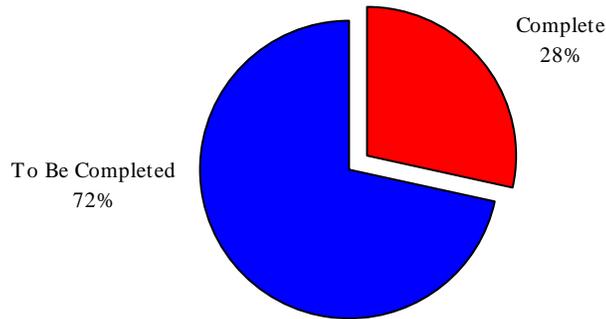
The FIAR Plan applies an incremental methodology and charts Department-wide efforts to address weaknesses, make strategic improvements, promote efficiencies, and prepare for audits of DoD financial statements. Four Balance Sheet focus areas were targeted for immediate financial management improvement – Military Equipment, Real Property, Medicare-Eligible Retiree Health Care Fund, and Environmental Liabilities. Fund Balance with Treasury is also a priority area. These areas represent a significant portion of DoD's assets and liabilities.

The FIAR Plan is comprised of numerous project plans containing key milestones for resolving financial problems and achieving success. The FIAR Plan includes 954 key milestones that plot Component efforts (not including the Marine Corps). As the FIAR Plan evolves, the number of key milestones will change. The following charts illustrate the ratio of key milestones completed to date and the projected percent of key milestones to be completed by June 2007:

**FIAR Key Milestones as of June 30, 2006**



**FIAR Key Milestones as of June 30, 2007**



Generally, financial management improvement efforts and key milestones proceed along two tracks: those that aim to improve the Department's overall financial health, such as streamlining procedures, improving documentation, or capturing more information; and those that prepare the Components for financial statement audits, such as testing internal controls. The following tables represent accomplishments along the two tracks for the period January to June 2006:

### **PROGRESS IN IMPROVING FINANCIAL INFORMATION**

- ✓ Recorded and made readily available the acquisition cost, accumulated depreciation, and useful life of military equipment assets.
- ✓ Improved the accuracy of the Defense Logistics Agency's real property records by completing a worldwide inventory of fuel facilities and storage tanks.

## PROGRESS IN IMPROVING FINANCIAL INFORMATION

-  Completed the initial inventory and estimates for 97% of the environmental liabilities for:
  - Navy Nuclear Powered Vessels
  - Defense Environmental Restoration Program
  - Base Realignment and Closure
  - Chemical Weapons Program
-  Improved the accuracy of medical record coding by implementing new reporting and monitoring programs.

As the FIAR Plan is executed and key milestones reached, other focus areas will be added and related key milestones will be incorporated into the Plan. In this way, the FIAR Plan is continually evolving to capitalize on improvements made and capture any needed course adjustments for achieving success. The September 2006 submission of the FIAR Plan will include four new focus areas: Accounts Payable, Accounts Receivable, Inventory, and Operating Material and Supplies.

## PROGRESS IN ACHIEVING AUDITABILITY

-  Corps of Engineers corrected financial reporting deficiencies, and the FY 2006 financial statements are being audited. An opinion is expected November 15, 2006.
-  Air Force corrected financial deficiencies for Fund Balance with Treasury (General Fund) and has been approved for audit.
-  Air Force resolved financial deficiencies for Cash and Other Monetary Assets and has been approved for audit.
-  Defense Logistics Agency has been approved for audit of its Contingent Legal Liabilities after correcting financial reporting deficiencies.

The FIAR Plan June 2006 Update lists significant achievements and changes since December 2005. Additional detail is provided on three Balance Sheet focus areas and Fund Balance with Treasury. The June 2006 Update coincides with the Department's June report on the President's Management Agenda, and the preparation of the initial management assurance statement for internal control over financial reporting. By providing a summary of significant accomplishments and changes in key focus areas, DoD hopes to provide a more thorough picture of its overall improvement efforts.

**Defense Financial Improvement and Audit Readiness Plan  
June 2006 Update**

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# **1. The Financial Improvement and Audit Readiness Plan**

## **Overview**

The Department of Defense (DoD) is the largest agency in the federal government. With \$1.27 trillion in total assets and an annual operating budget that exceeds \$400 billion, sound financial management is essential to both wise stewardship of the resources entrusted to us by the American people, and to the success of our primary mission: supporting the warfighters who defend the Nation at home and abroad.

While the Department's critical missions add urgency, its sheer size calls for an incremental approach to resolving its financial management problems and setting a successful financial course. The Financial Improvement and Audit Readiness (FIAR) Plan does both, organizing financial reform into a single, comprehensive, and integrated plan to efficiently manage improvements throughout the Department's many internal agencies and departments.

The FIAR Plan prioritizes DoD's financial management and internal control improvement efforts in areas that will have the most impact. The FIAR Plan targets problems arising from weak or nonexistent internal controls, incomplete and inaccurate information, and systems that cannot properly process data and information. Four high-impact, focus areas have been identified: Military Equipment, Real Property, Medicare-Eligible Retiree Health Care Fund, and Environmental Liabilities. Fund Balance with Treasury is also a priority. These areas represent a significant portion of DoD's assets and liabilities.

Milestones for resolving financial problems and achieving success are established by each Component and monitored by management. Measurable outcomes include achieving audit readiness and improving the accuracy, reliability, and timeliness of financial information available to decision makers.

## ***Integration with Business Transformation***

The FIAR Plan integrates with the Business Transformation Agency Enterprise Transition Plan (ETP) and leverages systems solutions to advance financial management. The FIAR Plan is integrated both horizontally and vertically at the key milestone level with the ETP.

## **Horizontal Integration**

Key milestones related to new systems acquisition in the ETP are, in some cases, the same as key milestones in the FIAR Plan. For example, the ETP includes milestones to manage the deployment of the Capital Asset Management System-Military Equipment (CAMS-ME), which maintains and updates military equipment valuation data. Some of the key milestones related to CAMS-ME deployment, and specific to financial improvement activities are also captured in the FIAR Plan.

## **Vertical Integration**

The ETP sets key milestones for solutions on which the FIAR Plan also relies. For example, the Standard Financial Information Structure (SFIS) aims to resolve many financial management

deficiencies across the Department. The FIAR Plan relies on SFIS implementation in the ETP. Such ETP dependencies are reflected throughout the FIAR Plan.

### ***Managing the FIAR Plan***

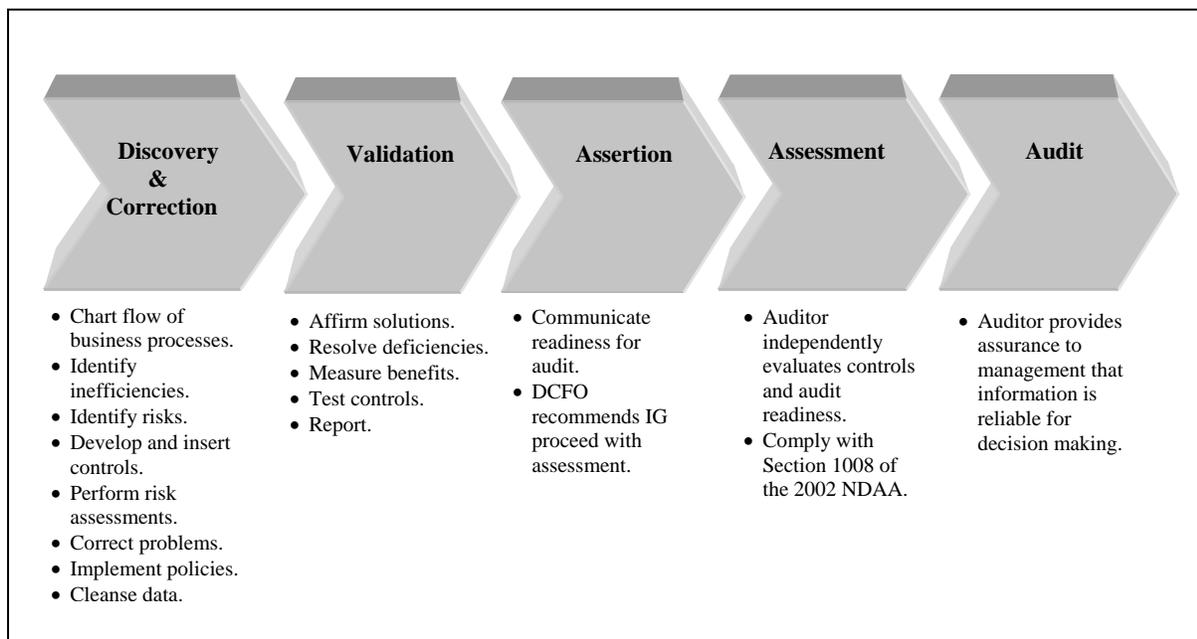
To manage the FIAR Plan and ensure that DoD-wide financial improvement efforts are integrated with transformation activities across the Department, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) established the FIAR Committee and the FIAR Directorate, a program management office.

The FIAR Committee leads the process for establishing and monitoring FIAR Plan priorities. Chaired by the Deputy Chief Financial Officer (DCFO), the Committee comprises executive-level representatives of the Military Departments, Defense Logistics Agency (DLA), Business Transformation Agency (BTA), and Defense Finance and Accounting Service. The Inspector General, DoD acts as an adviser to the FIAR Committee. This collaborative management structure reinforces business integration.

The FIAR Directorate maintains the FIAR Planning Tool (a web-based application containing the FIAR Plan, ETP, and Component-level Financial Improvement Plans), organizes cross-Component financial improvement planning workshops, manages the audit readiness process, and semi-annually publishes the FIAR Plan.

### ***Measuring Improvements***

Audits are one way the Department shows successful financial management improvement to leadership, the financial community, and the public. Prior to the FIAR Plan, the Department used “business rules” to organize the process for examining its operations, diagnosing problems, planning corrective actions, and preparing for audit. The “business rules” represent sequential phases for reaching an audit. Though the FIAR Plan addresses comprehensive financial improvement, it also uses the “business rules” framework to establish and track sequential audit-related milestones. The phases are:



The FIAR Plan phases purposefully align with the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control Over Financial Reporting" requirements. Charting the flow of business processes, performing risk assessments, and evaluating internal controls align with the "Discovery and Correction" phase. Testing controls and issuing a Statement of Assurance aligns with the "Validation" and "Assertion" phases, respectively. Compliance with these internal control policies and processes is integrated within the FIAR Plan.

The first four phases ensure that when a Component reaches the "Audit" phase, the completeness, accuracy, and reliability of its financial records, and the effectiveness of its internal controls have been confirmed by both management and the auditor. This process helps the Department minimize money spent on audits by waiting until improvements are in place before auditing begins.

### ***Continual Improvement and Next Steps***

Though the FIAR Plan is an important achievement, it is only a snapshot, taken in-time, of continuing efforts to improve the financial management of the Department of Defense.

In December 2005, the FIAR Plan captured key milestones in the Components' individual Financial Improvement Plans (project plans). Since then, the FIAR Directorate and the Components have been improving and consolidating the FIAR Plan's key milestones into critical paths that better depict significant financial improvement outcomes and support ETP integration.

The September 2006 submission of the FIAR Plan will report progress against these critical paths, and include new focus areas: Accounts Payable, Accounts Receivable, Inventory, and Operating Material and Supplies. The September 2006 FIAR Plan will address these new focus areas in more detail than provided in the December 2005 report.

The September 2006 submission of the FIAR Plan will also include:

- An initial DoD-wide audit strategy that addresses the use of auditor reviews and examinations; line item and full statement audits; and financial and feeder system audits.
- A consolidated, single Real Property transformation plan for both financial and business improvement and modernization.
- A U.S. Marine Corps (USMC) financial improvement and audit plan.

### ***Conclusion***

The June 2006 update of the FIAR Plan coincides with the Department's June report on the President's Management Agenda, and the preparation of the initial management assurance statement for internal control over financial reporting. By providing a summary of significant accomplishments and changes in key focus areas, DoD provides a more complete picture of its overall improvement efforts.

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## 2. Significant Accomplishments and Changes

The Deputy Secretary of Defense has designated financial improvement to be a Department-wide priority, and the financial and functional communities are making significant progress. A variety of indicators are used to monitor and measure progress.

The Components report monthly financial improvement activities and progress on approximately 100 FIAR Plan key milestones. A web-based reporting process embedded in the FIAR Planning Tool aids the reporting and monitoring progress. Monthly and quarterly accomplishments and impediments to progress are reported to Component managers and key leaders in the Office of the Secretary of Defense (OSD), including the Deputy Secretary of Defense.

### ***Accomplishments***

Since the FIAR Plan was first submitted in December 2005, the Department has improved various aspects of the Plan and its management. The concentrated efforts under the FIAR Plan and the Components' Financial Improvement Plans are producing results. Many accomplishments have been realized, the most significant of which are highlighted below:

<b>ACCOMPLISHMENTS JANUARY TO JUNE 2006</b>	
	Army Corps of Engineers – Financial Statements are being audited. An opinion is expected by November 15, 2006.
	Air Force – Ready to audit Fund Balance with Treasury (General Fund).
	Air Force – Ready to audit Cash and Other Monetary Assets.
	USMC – Produced first stand-alone financial statements.
	DLA – Ready to audit Contingent Legal Liabilities.
	OUSD(C) – Issued guides for improving audit readiness in Environmental Liabilities and Real Property.
	OUSD(C) – Revised the DoD Financial Management Regulation on General Property, Plant, and Equipment to more accurately report values on the Balance Sheet.
	OUSD(AT&L) – Issued revised policy standardizing core real property inventory data to improve financial reporting.
	OUSD(C) – Revised the capitalization threshold resulting in capitalizing 99 percent of real property assets.

## ACCOMPLISHMENTS JANUARY TO JUNE 2006

-  The Components disclosed material weaknesses and have submitted plans and schedules that comply with OMB Circular A-123, Appendix A to correct the weaknesses.
-  The Department recorded and made readily available the acquisition costs, accumulated depreciation, and useful life of military equipment assets.
-  The FIAR Planning Tool was expanded for use by the BTA and now contains the project plans for 106 Enterprise and Component transformation initiatives and system solutions. This eases Department-wide integration of the BTA, the FIAR Plan, and the Component-level FIPs.

### **Changes**

The FIAR Plan is continually evolving to reflect the improvement and transformational activities of the Components. A significant infrastructure of financial and functional personnel and managers has been established to support and execute the FIAR Plan, and to modify it as accomplishments are achieved, progress is made, and new requirements and deficiencies are identified.

## CHANGES JANUARY TO JUNE 2006

-  Refined the Key Milestone Plans (KMPs) and identified critical paths for Military Equipment, Fund Balance with Treasury, Medicare-Eligible Retiree Health Care Fund, and Environmental Liabilities. Improvements included:
  - Expanding integration with BTA initiatives and systems,
  - Clarifying key milestones and ensuring that they are outcome-driven,
  - Adjusting dates based on a better understanding of deficiencies and dependencies; and
  - Eliminating task-level milestones.
-  Designated Accounts Payable, Accounts Receivable, Inventory, and Operating Material and Supplies, as new focus areas.

The new focus areas will be addressed in the September 2006 FIAR Plan. The December 2005 FIAR Plan included a preliminary KMP for each of these areas. Some of the preliminary KMPs identified corrective activities, but included only limited integration with BTA initiatives and solutions. Other preliminary KMPs did not fully recognize or describe other ongoing corrective actions.

## **CHANGES JANUARY TO JUNE 2006**

- ◆ Adjusted DLA's Other Assets key milestone date to expand the process for validating and reconciling progress payment balances. This adjustment moved the DLA Other Assets assertion date from June 30, 2006, to December 31, 2007.
- ◆ Added new internal control key milestones for the Navy's Other Assets and adjusted the dates to better reflect the effort needed for Discovery and Correction key milestones. This action moved the Navy Other Assets assertion date from December 31, 2006, to June 30, 2007.
- ◆ Removed the Stockpile key milestones for DLA's Other Liabilities and adjusted the dates of other key milestones to more accurately reflect the effort required to be ready for assertion. This adjustment moved the DLA Other Liabilities assertion date from September 30, 2006, to September 30, 2008.
- ◆ Consolidated the Intragovernmental and Public Other Liabilities KMPs into one plan to eliminate duplicate key milestones in these areas.

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### **3. Key Milestones Plans**

The FIAR Plan focuses on five priority areas, including Real Property. Real Property accountability is also a Business Transformation Agency (BTA) priority. The BTA has accomplished much toward reengineering Real Property processes and procedures and incorporating them into the Business Enterprise Architecture. Since March 2006, the Department has been working to develop a single, integrated financial and business transformation plan with the goal of developing a new Real Property Key Milestone Plan (KMP). Much progress has been made, including defining new key milestones and critical paths. The Department still needs to adjust the milestone dates by Component to coincide with their ability to execute the key milestones and implement system changes or, as in the case of the Army, deploy a new system. The revised KMP will be completed and included in the September 2006 FIAR Plan.

Following are KMPs for the remaining four priority areas – Military Equipment, Fund Balance with Treasury, Medicare-Eligible Retiree Health Care Fund, and Environmental Liabilities. An overview of each KMP describes the background, value to management, accomplishments, and changes. The detailed Key Milestone Plans for each area are included as an appendix.

#### ***Military Equipment***

##### **Background**

Military equipment (ships, aircraft, combat vehicles, satellites, ballistic missiles, communications systems, etc.) is reported on the DoD Balance Sheet and the depreciation of these assets included on the Statement of Net Cost. In FY 2005, the Department reported a net book value of \$341 billion in military equipment, which represented 27 percent of DoD assets and 74 percent of the Department's General Property, Plant, and Equipment.

To improve the accuracy of amounts reported, the Department must identify and value military equipment in use today, as well as modify the processes and controls of military equipment acquisition programs. The Military Equipment KMP captures these valuation activities and acquisition program modifications and addresses related financial management systems changes.

##### **Value to Management**

Accountability, acquisition, and financial management improvements enable the Department to more accurately capture the cost and age of existing military equipment. This ability improves military equipment acquisition and disposal decisions by enhancing the usefulness and reliability of the data. For example, accurate military equipment costs and the depreciation of these assets help managers determine the full cost of operations, programs, and activities. With accurate data, comparisons between various acquisition programs and programs in different fiscal years can be made. For example, as part of its decision process on Future Combat Systems (FCS), DoD compared the FCS development schedule to the remaining useful lives of the replaced equipment to ensure continuing capability. The KMP for military equipment addresses the majority of the "General Property, Plant, and Equipment" material weakness and the majority of the "Government Property and Material in the Possession of Contractors" material weakness.

## ACCOMPLISHMENTS JANUARY TO JUNE 2006

✓	Reported the military equipment baseline (\$326 billion) on third quarter financial statements.
✓	Completed the initial operating capability of the Capital Asset Management System – Military Equipment (CAMS-ME) and interface between CAMS-ME and Business Enterprise Information Services.
✓	Tested accounting systems and internal controls related to military equipment acquisition costs.
✓	Completed an internal Independent Verification and Validation effort requested by OMB to test the valuation methodology, completeness, and existence of assets.
✓	Updated the military equipment asset status for baseline valuations and for new acquisitions and disposals.
✓	Trained 473 personnel on updating the military equipment asset status and preparing management assertions for the baseline.

## CHANGES JANUARY TO JUNE 2006

✦	Identified all critical path milestones.
✦	Added KMPs for the U.S. Special Operations Command, Joint Program Executive Office Chemical Biological Defense Program, and Missile Defense Agency (identified as Defense Agencies in the KMP), and the Business Transformation Agency.
✦	Adjusted dates in the OUSD(AT&L) section to clarify the intent of the “deliver training” milestones. (The original key milestone had shown training <i>development</i> completion dates; the new dates reflect completing <i>delivery</i> of the training.)
✦	Adjusted the date for completing each Component’s Validation effort to show that it would start in the fourth quarter FY 2006 and continue through the end of the first quarter FY 2007 to support the assertion process.
✦	Added a key milestone for attestations to support the Property and Equipment Policy Office valuation assertion in each Component’s section.

The following chart shows the Department’s projection for achieving favorable audit results for the baseline. The black bar indicates the December 2005 projection. A grey bar indicates a revised projection or a new reporting entity.

DoD Reporting Entity	2006		2007				2008			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Army										
Navy										
Air Force										
Defense Agencies										

**Military Equipment Baseline Projected Favorable Audit Results**

Projected timeframes for achieving favorable audit results in reporting military equipment values are charted below. The Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) Number 23 grants specific rules for creating a baseline valuation for existing military equipment inventories. The FASAB accounting standard for Property, Plant, and Equipment (SFFAS Number 6) requires transaction-level accounting for the values of military equipment. The chart projects dates for achieving favorable audit results once compliance has been achieved. The black bar indicates the December 2005 projection. A grey bar indicates a revised projection or a new reporting entity.

DoD Reporting Entity	2006		2007				2008				2009				2010				2011			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Army <sup>1</sup>																						
Navy																						
Air Force																						
Defense Agencies																						

**Military Equipment FASAB Compliant Projected Favorable Audit Results**

**Fund Balance with Treasury**

**Background**

The Department’s Fund Balance with Treasury (FBWT) is the total amount of funds on deposit with the Treasury Department, not including seized cash. The FBWT is increased when DoD receives funds. New funds come to DoD from appropriations, transfers, and reimbursements from other agencies, and funds borrowed from the Treasury, the Federal Financing Bank, or other entities. The fund balance is decreased when funds are spent on assets, goods, and services; invested in U.S. securities; and transferred to other federal agencies or the

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<sup>1</sup> Revised projection date to be determined.

U.S. Treasury. Funding to fight the War on Terror increased the FBWT to \$289 billion<sup>2</sup>. For FY 2005, FBWT represented 23 percent of DoD's total assets.

### **Value to Management**

The Department's ability to accurately record and report funds (received, disbursed, and collected) improves accountability. Full visibility – the ability to fully see the fund's current balance and all supporting transactions and documentation – facilitates reconciling accounts with Treasury. Reconciling accounts helps the Department comply with the Antideficiency Act.

Additionally, common business processes, regardless of customer, government entity, agency, program or banking partners, will be established. Improved information allows management to make better financial decisions and maximize mission resources. This KMP targets the resolution of the FBWT material weakness.

<b>ACCOMPLISHMENTS JANUARY TO JUNE 2006</b>	
	Documented Navy processes and controls for reconciling, tracking, and reporting unmatched disbursements and collections and resolving deficiencies for the Working Capital Fund.
	Air Force corrected its financial deficiencies for Fund Balance with Treasury (General Fund) and has been approved for audit.
	Documented Air Force processes, mapped data flow, and received validation from the Air Force Audit Agency for the Working Capital Fund.

<b>CHANGES JANUARY TO JUNE 2006</b>	
	Changed the Navy Working Capital Fund and Navy General Fund assertion dates to June 30, 2008, and December 31, 2008, respectively.
	Changed the DLA assertion date to June 30, 2008.

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<sup>2</sup> The DoD Balance Sheet shows \$290.66 billion for FBWT. Excluding seized Iraqi cash used in support of the Iraqi people, the total FBWT is \$288.97 billion.

The following chart shows the Department’s projection for achieving favorable audit results. The black bar indicates the December 2005 projection. A grey bar indicates a revised projection or a new reporting entity.

DoD Reporting Entity	2006		2007				2008				2009				2010				2011			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Army GF <sup>3</sup>	[Black bar from Q3 2006 to Q4 2008]																					
Army WCF	[Black bar from Q3 2006 to Q4 2010]																					
Navy GF & WCF	[Black bar from Q3 2006 to Q4 2010, Grey bar from Q1 2011 to Q4 2011]																					
Air Force GF	[Black bar from Q3 2006 to Q4 2007]																					
Air Force WCF	[Black bar from Q3 2006 to Q4 2009]																					
DLA GF & WCF	[Black bar from Q3 2006 to Q4 2009, Grey bar from Q1 2010 to Q4 2011]																					

**FBWT Projected Favorable Audit Results**

## ***Medicare-Eligible Retiree Health Care Fund***

### **Background**

The Department makes available health care for all Medicare-eligible Uniformed Services retirees, family members, and survivors. “Uniformed Services” refers to the Military Services of the Army, Navy, Air Force, Marines, Coast Guard, National Oceanic and Atmospheric Administration, and Public Health Service. Today, the Medicare-Eligible Retiree Health Care Fund (MERHCF) pays the health care costs of 1.8 million beneficiaries. In FY 2005, the cost of health care totaled \$6.5 billion. The future cost of providing Medicare-eligible health care – the actuarial liability – is \$537 billion, which is 29 percent of the Department’s liabilities.

### **Value to Management**

With improvements, management can better allocate health care dollars and measure efficiency. Better medical coding and data reconciliations, for example, improve the accuracy of direct care costs and the estimate of the actuarial liability of MERHCF. Improving the system implementation process will reduce claim backlogs and improve the accuracy of purchased care costs.

<b>ACCOMPLISHMENTS JANUARY TO JUNE 2006</b>	
	Launched reporting and monitoring programs to address weaknesses in medical record coding.
	Enhanced its medical records coding by including an audit requirement to assess the financial impact of incorrectly coded medical records.

<sup>3</sup> Revised projection date to be determined.

**ACCOMPLISHMENTS  
JANUARY TO JUNE 2006**

✓ Identified and implemented new processes for payments and pharmacy costs to address weaknesses in data flows between systems.

**CHANGES  
JANUARY TO JUNE 2006**

- ◆ Identified all critical path milestones.
- ◆ Changed the date for completing the Coding Compliance Editor system deployment from June 30, 2006, to September 30, 2007. The system monitors medical coding and alerts coders to areas needing further attention.
- ◆ Added a corrective action key milestone for pharmacy costs to address the pharmacy costs data flow weaknesses.

The following chart shows the Department’s projection for achieving favorable audit results. The black bar indicates the December 2005 projection.

DoD Reporting Entity	2006		2007				2008				2009				2010			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OUSD(P&R) Health Affairs																		

**MERHCF Projected Favorable Audit Results**

***Environmental Liabilities***

**Background**

The Environmental Liabilities Balance Sheet line item estimates probable and measurable future environmental cleanup, closure, and disposal costs from past and current DoD activities. To ensure all environmental liabilities are identified, the Department issued guidance requiring the Components to reconcile all environmental liabilities with real property asset records. Failure to accurately record all environmental liabilities has caused an understatement of the Department’s financial position. Each Component tracks and reports environmental cleanup, closure, and disposal costs for Defense Environmental Restoration Projects (DERP) sites as DERP sites are identified. However, the Components have not consistently reported these costs for non-DERP sites. In FY 2005, Environmental Liabilities amounted to \$65 billion, or 3 percent of the Department’s liabilities.

## Value to Management

A complete and accurate account of environmental liabilities makes future resource estimates more reliable and helps the Department more accurately forecast environmental costs and liabilities. When making decisions, management will be assured that reported environmental liabilities are reliable.

<b>ACCOMPLISHMENTS JANUARY TO JUNE 2006</b>	
	Published functional guidance for DERP and addressing cleanup at the remaining 9,000 of 31,000 DERP sites.
	Issued guidance that addresses liabilities not included under DERP.
	Developed and issued a guide for preparing for an audit on environmental liabilities. The guide assists financial managers, accountants, and technical professionals responsible for managing and accounting for environmental liabilities.
	Identified the universe of DERP sites for Army, Navy, and Air Force.
	Implemented a revised methodology for the Navy that more accurately forecasts expected environmental cleanup and disposal costs and reduces the liability by as much as 50 percent.
	Completed a fence-to-fence survey at all Navy installations for non-DERP environmental liabilities.
	Developed a plan for financial improvement and audit readiness for the Air Force's non-DERP Program.

<b>CHANGES JANUARY TO JUNE 2006</b>	
	Identified all critical path milestones.
	Developed Air Force non-DERP milestones.

**Financial Improvement and Audit Readiness Plan  
June 2006 Update**

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The following chart shows the Department's projection for achieving favorable audit results. The black bar indicates the December 2005 projection. A grey bar indicates the revised projection or a new reporting entity.

DoD Reporting Entity	2006		2007				2008				2009				2010				2011				2012				2013					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Army: DERP	[Black bar from Q3 2006 to Q4 2009]																															
Army: Non-DERP	[Black bar from Q3 2006 to Q4 2010]																															
Army: Chemical Materials Agency / Chemical Agents Munitions Disposal (CAMD)	[Black bar from Q3 2006 to Q4 2012]																															
Army: CAMD Assembled Chemical Weapons Assessment (ACWA)	[Black bar from Q3 2006 to Q4 2011]																															
Navy: DERP	[Black bar from Q3 2006 to Q4 2009]																															
Navy: Non-DERP	[Black bar from Q3 2006 to Q4 2010]																															
Navy: BRAC PMO DERP	[Black bar from Q3 2006 to Q4 2009]																															
Navy: BRAC PMO Non-DERP	[Black bar from Q3 2006 to Q4 2010]																															
Navy: Nuclear and Conventional Ships and Submarines	[Black bar from Q3 2006 to Q4 2008]																															
Air Force: DERP	[Black bar from Q3 2006 to Q4 2010]																															
Air Force: Non-DERP	[Grey bar from Q3 2006 to Q4 2010]																															
DLA: DERP, Non-DERP and BRAC	[Black bar from Q3 2006 to Q4 2009]																															

**Environmental Liabilities Projected Favorable Audit Results**

## **Appendices**

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## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011						
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Develop and deliver initial management assertion training. (6/2/06)			◆	6/30/06																						
Test accounting systems data (sampling) and internal controls (focus reviews). (4/30/06)			◆	6/30/06																						
Collaboratively re-engineer process to collect information at the contract level. Publish Policy to support the re-engineered processes and policies. (8/1/06)					◆	9/30/06																				
<b>Soft close for Military Equipment (ME) for financial reporting.</b>																										
Capital Asset Management System–Military Equipment (CAMS-ME) Increment 1, (Release 1.1) Initial Operational Capability (IOC) -- initial operating testing, and data load (8/1/06)						◆	9/30/06																			
Soft Close Complete - 3rd QTR FY06 Military Equipment Valuation (7/15/06)						◆	9/30/06																			
Develop and deliver continuous learning module for process changes of contract-based valuations. (9/30/06)						◆	9/30/06																			
CAMS-ME Increment 2 Milestone B. (8/31/06)						◆	9/30/06																			
CAMS-ME Increment 1, Full Operational Capability (FOC)						◆	9/30/06																			
Fiscal 06 year-end close using baseline valuation methodologies. (Quarterly reporting of baseline valuation using baseline methodology until Increment 2 deployed.) (10/15/06)																										
<b>Submit Baseline Methodology Assertion Packages to Services. -- Valuations and all tabs (Yearly until automated transaction level data is available). (12/1/2006)</b>																										
Submit report on programs to Services for assets. (10/16/06)																										

## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Submit completed OUSD(C) developed check list for management assertion (all tabs) to Services. (10/31/06)				◆	12/31/06																			
Receive Attestation package from Program Managers (11/10/06)				◆	12/31/06																			
Submit Assertions on program valuations to Services. (12/1/06)				◆	12/31/06																			
Develop and deliver "Train the Trainer" to address baseline valuation methodology, the assertion process, and contract based valuations. (9/30/07)								◆	9/30/07															
CAMS-ME Increment 2 Milestone C and Initial Operational Capability (IOC). (9/30/07)								◆	9/30/07															
Quarterly reporting of baseline valuation, total responsibility shifts to each Service and Defense Agencies. (12/31/07)										◆	12/31/07													
CAMS-ME Fully Operational Capability (FOC) Increment 2. (12/31/07)										◆	12/31/07													
<b>Army</b>																								
Quarterly update of asset accountability data for initial valuation, as applicable. (This is a quarterly reoccurring process until Unique Identification (UID) registry is operational) (6/30/06)				◆	6/30/06																			
Independent limited scope validation by Army Audit Agency (AAA) of Baseline (12/31/06)										◆	12/31/06													
Submit Attestation package from Program Managers to OUSD(AT&L) Property & Equipment (P&E) Policy (11/10/06)										◆	12/31/06													
<b>Submit the ME modified Assertion Package for Baseline -- completeness, rights, existence, presentation, and valuations. (Yearly until automated transaction level data is available) (12/31/06)</b>																								

## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Receive report on programs from OUSD(AT&L) P&E Policy for assets. (10/16/06)				◆	12/31/06																			
Receive assertions on program valuations from OUSD(AT&L) P&E Policy. (12/1/06)				◆	12/31/06																			
Receive completed OUSD(C) developed check list for management assertion (all tabs) from OUSD(AT&L) P&E Policy. (10/31/06)				◆	12/31/06																			
Submit the ME modified Assertion Package for Baseline (Financial and Quantity Data)				◆	12/31/06																			
Issue Service-level directive to support the re-engineered process (12/31/06)				◆	12/31/06																			
Deliver Increment 2 methodology valuations training (CAMS-ME)								◆	12/31/07															
Services responsible for contract level valuation - contingent on the OUSD(AT&L) deployment of CAMS-ME Increment 2. (12/31/07)								◆	12/31/07															
Internal validation of Increment 2 completed by AAA -- Fully FASAB Compliant (6/30/09)														◆	6/30/09									
Submit the Assertion Package -- Fully FASAB Compliant - To Be Determined																								
Contract for Independent Public Accountant (IPA) - To Be Determined																								
Assess - To Be Determined																								
Audit - To Be Determined																								









## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011							
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Services responsible for contract level valuation - contingent on the OUSD(AT&L) deployment of CAMS-ME Increment 2. (12/31/07)								◆	12/31/07																		
Internal validation of Increment 2 completed by audit agency -- Fully FASAB Compliant (6/30/09)														◆	6/30/09												
Submit the Assertion Package -- Fully FASAB Compliant (12/31/09)																		◆	12/31/09								
Contract for IPA																							◆	6/30/10			
Assess																								◆	9/30/10		
Audit																								◆	12/31/10		
<b>IG, DoD</b>		▶																									
Contract for IPA for Army, Navy, Air Force, and DA -- Contract for all Services (3/31/07)																									◆	3/31/07	
Assessment of Army Baseline for Fiscal Year 2006 (6/30/07)																										◆	6/30/07
Audit of Army Baseline for Fiscal Year 2006 (Yearly until automated transaction level data is available) (9/30/07)																										◆	9/30/07
Assessment of Navy Baseline for Fiscal Year 2006 (6/30/07)																										◆	6/30/07
Audit of Navy Baseline for Fiscal Year 2006 (Yearly until automated transaction level data is available) (9/30/07)																										◆	9/30/07

## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Assessment of Air Force Baseline for Fiscal Year 2006 (6/30/07)							◆ 6/30/07																	
Audit of Air Force Baseline for Fiscal Year 2006 (Yearly until automated transaction level data is available) (9/30/07)							◆ 9/30/07																	
Assessment of DA Baseline for Fiscal Year 2006 (6/30/07)							◆ 6/30/07																	
Audit of DA Baseline for Fiscal Year 2006 (Yearly until automated transaction level data is available) (9/30/07)							◆ 9/30/07																	
Contract for IPA for Army - To Be Determined																								
Assessment of Army -- Fully FASAB Compliant - To Be Determined																								
Audit of Army -- Fully FASAB Compliant - To Be Determined																								
Contract for IPA for Navy (6/30/09)														◆ 6/30/09										
Assessment of Navy Q3 for Fiscal Year 2009 -- Fully FASAB Compliant (9/30/09)														◆ 9/30/09										
Audit of Navy Q4 for Fiscal Year 2009 -- Fully FASAB Compliant (12/31/09)																		◆ 12/31/09						
Contract for IPA for Air Force (9/30/09)														◆ 9/30/09										
Assessment of Air Force Q3 for Fiscal Year 2010 -- Fully FASAB Compliant (6/30/10)																							◆ 6/30/10	

## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Audit of Air Force Q4 for Fiscal Year 2010 -- Fully FASAB Compliant (12/31/10)																							◆ 12/31/10
Contract for IPA for DA (6/30/10)																							◆ 6/30/10
Assessment of DA Q3 for Fiscal Year 2010 -- Fully FASAB Compliant (9/30/10)																							◆ 9/30/10
Audit of DA Q4 for Fiscal Year 2010 -- Fully FASAB Compliant (12/31/10)																							◆ 12/31/10
<b>Business Transformation Agency (BTA)</b>				▶																			
Interface to Business Enterprise Information Services (BEIS) for expenditure data complete. (6/30/06)				◆ 6/30/06																			
Deploy Acquisition Program Unique Identifier (APUID) registry (3/31/07)						◆ 3/31/07																	
APUID registry capable of identifying programs to support CAMS-ME Increment 2. (3/31/07)						◆ 3/31/07																	
Deploy Demand Unique Identifier (DUID) registry (3/31/07)						◆ 3/31/07																	
DUID registry capable of associating expenditures with asset/expense type in accordance with CLIN/SLIN policy to support CAMS-ME Increment 2. (3/31/07)						◆ 3/31/07																	
Deploy contract writing systems capable of managing DUID (3/31/07)						◆ 3/31/07																	
Deploy Item Unique Identification(IUID) registry (3/31/07)						◆ 3/31/07																	

## Military Equipment Valuation June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IUID Registry capable of identifying embedded GFM with associated costs to support CAMS-ME Increment 2. (3/31/07)					◆	3/31/07																	
Accountability systems integrated with IUID registry (3/31/07)					◆	3/31/07																	
Wide Area Workflow (WAWF) to capture other costs (e.g., non-material) and support CAMS-ME and the registries becomes fully operational. (3/31/07)					◆	3/31/07																	

## Fund Balance with Treasury June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06	2007				2008				2009				2010				2011				
		Q3	Q4	Q1	Q2	Q3	Q4																
<b>Fund Balance With Treasury (FBWT) Key Milestones</b>																							
<b>OUIS (C)</b>																							
Review Assertion Package for Army General Fund (GF) - To Be Determined																							
Review Assertion Package for Army Working Capital Fund (WCF)																							
Review Assertion Package for Navy GF																							
Review Assertion Package for Navy WCF																							
Review Assertion Package for Air Force WCF																							
Review Assertion Package for DLA GF & WCF																							
<b>Army GF</b>																							
Submit the Assertion Package - To Be Determined																							
Contract for Independent Public Accountant (IPA) - To Be Determined																							
Assess - To Be Determined																							

## Fund Balance with Treasury June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06	2007				2008				2009				2010				2011					
		Q3	Q4	Q1	Q2	Q3	Q4																	
Audit - To Be Determined																								
<b>Army WCF</b>																								
Resolve outstanding issues identified in the Army Audit Agency (AAA) validation of Logistics Modernization Program (LMP) data																								
Determine if WCF FBWT can be asserted																								
Validation by AAA of WCF																								
Validation by AAA of LMP data																								
Submit the Assertion Package																								
Contract for IPA																								
Assess																								
Audit																								
<b>Navy GF</b>																								
Perform Discovery and Correction effort in documenting and analyzing the end-to-end business process and associated internal controls at DFAS																								







## Fund Balance with Treasury June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<b>DLA GF &amp; WCF</b>				▶																				
Perform Discovery and Correction effort in documenting and analyzing the end-to-end business process and associated internal controls at DFAS					◆	9/30/06																		
Document processes and controls for reconciling, tracking, & reporting intransit disbursements & collections & resolve deficiencies identified as part of this Discovery & Correction process at DFAS					◆	9/30/06																		
Document processes & controls for reconciling, tracking, & reporting unsupported undistributed disbursements & collections & resolve deficiencies identified as part of this Discovery & Correction process at DFAS					◆	9/30/06																		
Document processes & controls for reconciling, tracking, & reporting clearing accounts (suspense) & resolve deficiencies identified as part of this Discovery & Correction process at DFAS					◆	9/30/06																		
Document processes & controls for reconciling, tracking, & reporting unmatched disbursements & collections & resolve deficiencies identified as part of this Discovery & Correction process at DFAS							◆	3/31/07																
Perform Discovery & Correction effort on critical systems & implement compensating controls to mitigate & assist with the tracking, reporting, & correction of undistributed disbursement & collection balances at DFAS													◆	6/30/08										
Document processes & controls for reconciling, tracking, & reporting Deposits Statement of Differences, IPAC Statement of Differences, Check Issue Differences, & resolve deficiencies identified as part of this Discovery & Correction process at DFAS													◆	6/30/08										
Prepare & submit the (DFAS) FBWT Validation package in accordance with the OUSD(C) business rules													◆	6/30/08										
Document Business Processes, Assess Internal Controls, and Complete Findings Template at the Command Level													◆	6/30/08										
Validate													◆	6/30/08										
Submit the Assertion Package													◆	6/30/08										

## Fund Balance with Treasury June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Contract for IPA														◆ 12/31/08											
Assess														◆ 6/30/09											
Audit																							◆ 12/31/10		
<b>IG, DoD</b>																									
Contract for IPA for Army GF - To Be Determined																									
Assessment of Army GF - To Be Determined																									
Audit of Army GF - To Be Determined																									
Contract for IPA for Army WCF														◆ 3/31/09											
Assessment of Army WCF																			◆ 9/30/09						
Audit of Army WCF Q4 for Fiscal Year 2010																							◆ 12/31/10		
Contract for IPA for Navy GF																			◆ 6/30/09						
Assessment of Navy GF																							◆ 12/31/09		

## Fund Balance with Treasury June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Audit of Navy GF Q4 for Fiscal Year 2010																							◆ 12/31/10
Contract for IPA for Navy WCF														◆ 12/31/08									
Assessment of Navy WCF																							◆ 6/30/09
Audit of Navy WCF Q4 for Fiscal Year 2010																							◆ 12/31/10
Assessment of Air Force GF				◆ 9/30/06																			
Audit of Air Force GF Q4 for Fiscal Year 2007														◆ 12/31/07									
Contract for IPA for Air Force WCF														◆ 9/30/07									
Assessment of Air Force WCF																							◆ 3/31/08
Audit of Air Force WCF Q4 for Fiscal Year 2008																							◆ 12/31/08
Contract for IPA for DLA GF & WCF																							◆ 12/31/08
Assessment of DLA GF & WCF																							◆ 6/30/09
Audit of DLA GF & WCF Q4 for Fiscal Year 2010																							◆ 12/31/10



**Medicare-Eligible Retiree Health Care Fund  
June 2006 Update**

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4												
IG, DoD overview of audit																			◆ 12/31/09				



















## Environmental Liabilities June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011				2012				2013																													
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4																										
Document that all property plant and equipment (PP&E) records have been reviewed for EL and liability properly recorded				◆	9/30/06																																																				
Complete and document initial estimates for all sites in the EL universe				◆	9/30/06																																																				
Complete documentation and correction of processes & procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates						◆	12/31/06																																																		
Establish and document process to accomplish supervisory review and approval of the liability estimates						◆	12/31/06																																																		
Populate data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and cumulative costs incurred						◆	12/31/06																																																		
Develop implementation plan to aid in transition to the enterprise architecture process and data model										◆	12/31/07																																														
Validation																																																									
Submit the Assertion Package																																																									
Contract for IPA																																																									
Assess																																																									
Audit																																																									
<b>Air Force: Non-DERP</b>				◆																																																					

## Environmental Liabilities June 2006 Update

Corrective Actions By DoD Entity	Critical Path	06		2007				2008				2009				2010				2011				2012				2013				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Identify universe of EL candidate units, facilities, property and/or operations where environmental issues have been identified				◆	9/30/06																											
Document that all property plant and equipment (PP&E) records have been reviewed for EL and liability properly recorded				◆	9/30/06																											
Complete and document initial estimates for all sites in the EL universe				◆	12/31/06																											
Complete documentation and correction of processes & procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates				◆	12/31/06																											
Establish and document process to accomplish supervisory review and approval of the liability estimates				◆	12/31/06																											
Populate data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and cumulative costs incurred				◆	12/31/06																											
Develop implementation plan to aid in transition to the enterprise architecture process and data model										◆	12/31/07																					
Validation																																
Submit the Assertion Package																																
Contract for IPA																																
Assess																																
Audit																																











