

U.S. Department of Defense



Financial Improvement and Audit Readiness Plan

FIAR Plan

March 30, 2009

Office of The Under Secretary of Defense (Comptroller) in Collaboration with the Financial Improvement and Audit Readiness Committee

Table of Contents

| | |
|---|----|
| Message from the Under Secretary of Defense (Comptroller)..... | 7 |
| Executive Summary | 9 |
| I. Financial Improvement and Audit Readiness Goals and Strategy | 11 |
| Goals | 11 |
| Strategy | 11 |
| II. Achieving Financial Improvement and Audit Readiness..... | 15 |
| Audit Readiness Accomplishments | 15 |
| Financial Improvement Accomplishments | 16 |
| Efficiencies in Financial Operations | 16 |
| Department of the Navy | 17 |
| III. Meeting Near-Term Goals..... | 19 |
| Medicare-Eligible Retiree Health Care Fund..... | 22 |
| U.S. Marine Corps..... | 25 |
| TRICARE Management Activity Contract Resource Management | 27 |
| IV. Meeting Long-Term Goals | 29 |
| Priority Segments | 29 |
| Key Control Objectives..... | 29 |
| Military Equipment..... | 32 |
| Real Property | 40 |
| Inventory and Related Property..... | 50 |
| Environmental Liabilities..... | 67 |
| Fund Balance with Treasury..... | 73 |
| V. Material Weaknesses..... | 83 |

| | |
|---------------------------------------|----|
| Financial Management Systems | 83 |
| Financial Reporting Compilation | 85 |
| Intragovernmental Eliminations | 85 |
| Accounts Receivable..... | 86 |
| Accounts Payable..... | 90 |
| VI. Conclusion | 95 |

Appendices

| | |
|--|------|
| Appendix 1 – Approach | A-1 |
| Appendix 2 – Business Processes | A-9 |
| Appendix 3 – Audit Readiness and ERP Deployment Timelines..... | A-11 |
| Appendix 4 – Federal Requirements | A-13 |
| Appendix 5 – Managing the FIAR Plan..... | A-15 |
| Appendix 6 – Systems Acronyms | A-17 |
| Appendix 7 – Commonly Used Acronyms | A-19 |
| Appendix 8 – Key Milestone Plans 2006 - 2010 | A-25 |
| Medicare-Eligible Retiree Health Care Fund | |
| U.S. Marine Corps | |
| Military Equipment | |
| Real Property | |
| Inventory | |
| Operating Material & Supplies | |
| Environmental Liabilities | |
| Fund Balance with Treasury | |

List of Figures

| | |
|---|----|
| Figure 1. Progress Toward Unqualified Audit Opinions | 9 |
| Figure 2. DoD Reporting Entity Improvements | 9 |
| Figure 3. Three-Pronged Strategy | 11 |
| Figure 4. Achieving Audit Opinions | 13 |
| Figure 5. DoD Reporting Entity Improvements | 15 |
| Figure 6. Financial Statement Line Items Receiving Favorable Audit Reviews | 15 |
| Figure 7. Sustaining Audit Readiness | 15 |
| Figure 8. Segment Audit Readiness Status | 16 |
| Figure 9. Near-Term Goals | 19 |
| Figure 10. Near-Term Milestones | 20 |
| Figure 10. Near-Term Milestones <i>continued</i> | 21 |
| Figure 11. Long-Term Goals | 29 |
| Figure 12. Long-Term Audit Readiness by Priority Segment..... | 31 |
| Figure 13. Military Equipment Audit Readiness Summary by Component | 32 |
| Figure 14. Proper Financial Accounting Treatment for Military Equipment Compliance..... | 33 |
| Figure 15. IUID Registry Compliance | 33 |
| Figure 16. Real Property Audit Readiness Summary by Component | 40 |
| Figure 17. Real Property Inventory by Military Department | 41 |
| Figure 18. Inventory Audit Readiness Summary | 50 |
| Figure 19. Operating Material and Supplies Audit Readiness Summary | 50 |
| Figure 20. Inventory and Related Property Valued at Moving Average Cost | 52 |
| Figure 21. Environmental Liabilities Audit Readiness Summary by Component | 67 |
| Figure 22. Fund Balance with Treasury Audit Readiness Summary by Component | 73 |

Figure 23. Material Weaknesses83
Figure 24. ERP Implementations84
Figure 25. FIAR Road Map97

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Improving financial information and business processes is the first and most important step to achieving the Department's financial management goals. Through the Financial Improvement and Audit Readiness (FIAR) Plan, and through the tremendous efforts of the entities that contribute to the FIAR Plan, we have made progress.

Achieving unqualified audit opinions is the law. Unqualified audit opinions verify improvements in information and processes, and provide independent reassurance to the public that DoD is a good steward of their tax dollars. Other accomplishments ensure that financial information is more useful and reliable for managers.

While we are making progress on the road to financial improvement and auditability, I recognize we have a long way to go. I believe we need a strategy that ensures we focus first on the tasks that will provide the greatest improvements in the Department's ability to manage its finances. We are currently formulating such a strategy. The new strategy is not complete, and so it is not reflected in this version of the FIAR Plan, but I expect that the changes will be detailed in the next FIAR Plan.

A handwritten signature in cursive script that reads "Robert F. Hale".

Robert F. Hale

Under Secretary of Defense (Comptroller)

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Executive Summary

The Department of Defense (DoD) is arguably the largest and most complex organization in the world. The Services alone are larger than most American companies. Managing financial information across the Department presents many challenges.

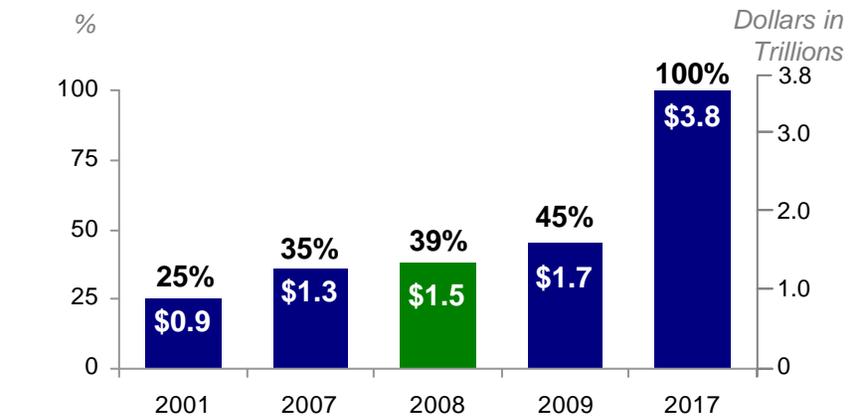
Since 1995, when the Government Accountability Office first identified financial management as a high-risk area, the Department has been continually working to correct deficiencies and improve financial management. The Financial Improvement and Audit Readiness (FIAR) Plan defines a strategy for improving financial management, prioritizing needs, and identifying dependencies impeding auditability. The FIAR Plan has three goals: 1) provide timely, reliable, accurate, and relevant financial information to decision makers; 2) sustain improvements through an effective internal control program; and 3) produce auditable financial statements.

The FIAR approach has evolved and matured and now better recognizes the breadth of process, control, and system improvements required and more fully addresses testing and remediation efforts. The Office of Management and Budget Circular A-123, Appendix A, is being applied to ensure improvements are sustained.

Today, more than one-third of DoD's assets and liabilities have received an unqualified audit opinion (Figure 1). An additional 7 percent have been validated as audit ready, including the TRICARE Management Activity Contract Resource Management's \$247 billion in assets and liabilities (Figure 2), which is expected to earn an unqualified opinion in FY 2009.

As with past plans, the March 2009 FIAR Plan reports accomplishments in achieving audit readiness, improving financial management, and increasing efficiency in financial operations. Section III describes the Department's near-term goals and progress made. Section IV, which addresses long-term goals, now includes tables listing Key Control Objectives.

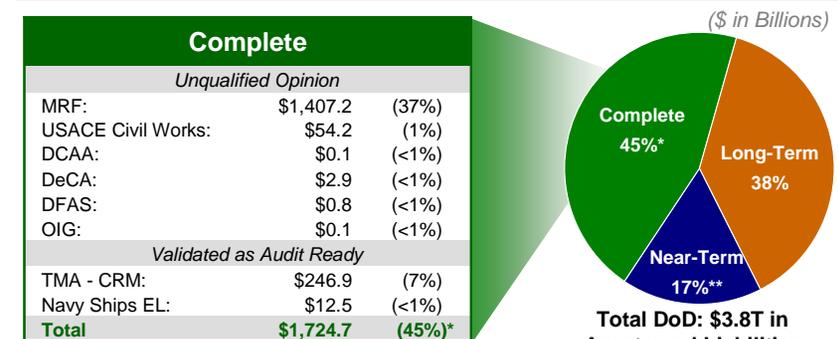
Figure 1. Progress Toward Unqualified Audit Opinions



Source: DoD Financial Management Metrics. Numbers do not add due to rounding 109-121

Key Control Objectives capture the outcomes needed to achieve proper financial reporting and serve as a point against which the effectiveness of financial controls can be evaluated. Additional information on the FIAR approach, Key Milestone Plans, priority segments, and other areas are included as Appendices.

Figure 2. DoD Reporting Entity Improvements



Note: Asset and Liability amounts as of September 30, 2008.

*Does not include MERHCF qualified opinion

**Does not include TMA-CRM becoming unqualified

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I. Financial Improvement and Audit Readiness Goals and Strategy

The Department of Defense (DoD) faces many vast and complex challenges in improving its financial management. With over \$3.8 trillion in combined assets and liabilities, producing auditable financial statements requires a strategic, long-term plan that addresses issues in a prioritized, incremental fashion.

GOALS

The Defense Financial Improvement and Audit Readiness Plan (FIAR), first issued in 2005, has evolved as lessons were learned and progress made, however, the goals of the FIAR Plan remain the same:

- Provide timely, reliable, accurate, and relevant financial information to decision makers.
- Sustain improvements through an effective internal control program.
- Produce auditable financial statements.

STRATEGY

A three-pronged strategy (Figure 3) employing a Program Management approach unites financial management improvement with business transformation efforts by integrating:

- The FIAR Plan
- The Enterprise Transition Plan
- Best Business Practices

A Program Management foundation is critical given the complexity of the Department and the extensive DoD-wide improvement and modernization projects happening simultaneously. Applying a Program Management approach helps the Department set and achieve goals, measure progress,

Figure 3. Three-Pronged Strategy



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and hold people and organizations accountable. A Program Management approach ensures that individual projects focusing on process, controls, and systems modernization are integrated into an organized, incremental, and prioritized plan.

The FIAR Plan organizes and prioritizes the financial improvement efforts of the Components, which under the FIAR Plan is defined as the Military Departments, the Defense Logistics Agency, the Defense Finance and Accounting Service, the Defense Information Systems Agency (DISA), and TRICARE Management Activity. The FIAR Plan provides a consistent, structured approach for measuring auditability progress, allows transparency into the challenges facing DoD, and highlights progress.

The Enterprise Transition Plan (ETP) organizes and prioritizes efforts to modernize DoD business and financial systems. For most of the Department, success in financial management

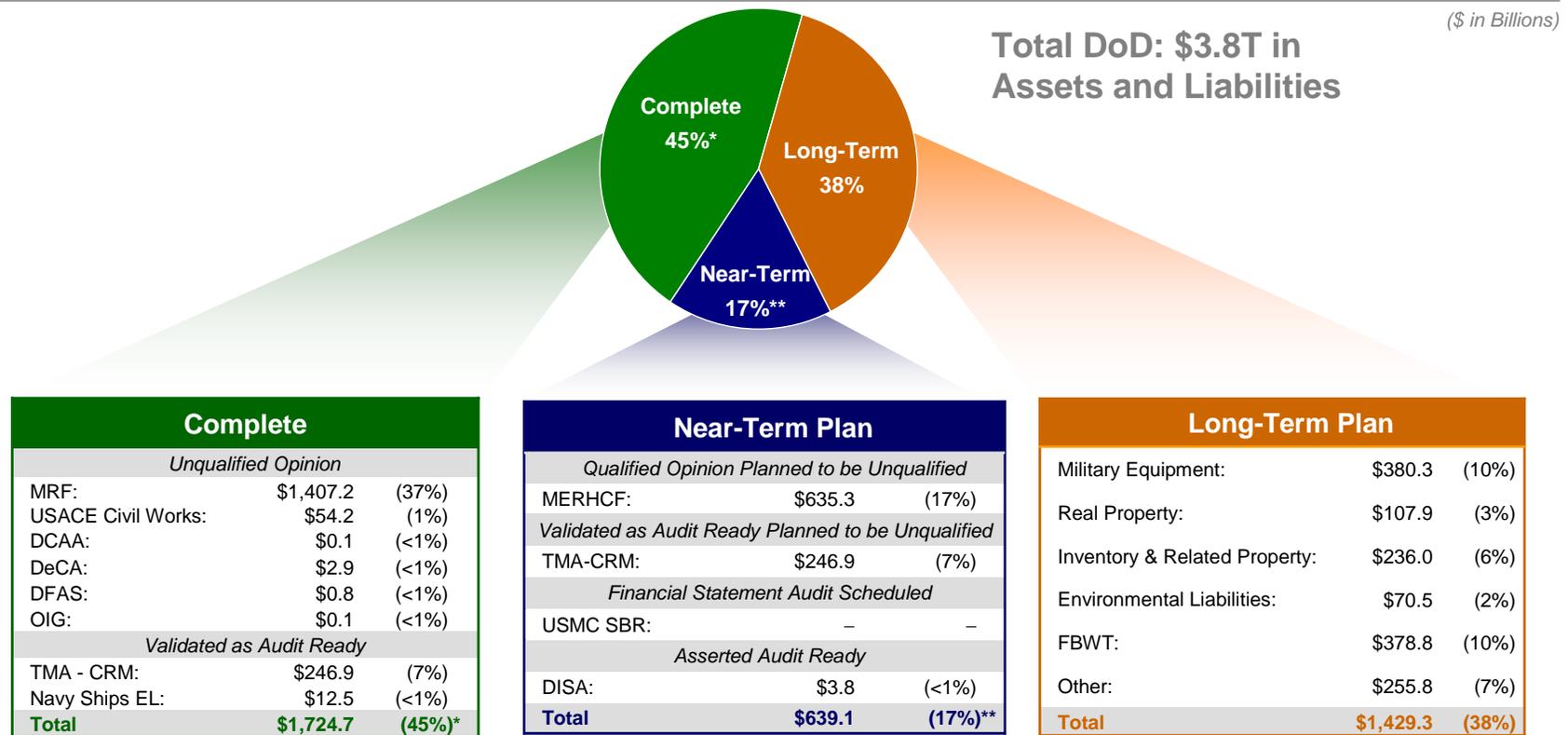
improvement is dependent on system modernization initiatives. The FIAR Plan and the ETP are closely monitored and linked to ensure that parallel but dependent efforts are aligned.

Best Business Practices shape the Department's business and financial improvement efforts. As best practices are identified or developed, they are incorporated in the FIAR Plan and, if appropriate, the ETP. This strategy, over time, will result in efficiencies and cost savings, and will better meet the long-term needs of the Department.

The strategy is delivering results (Figure 4). By the end of FY 2008, 39 percent of the Department's assets and liabilities – roughly \$1.5 trillion – have received an unqualified opinion, and the TRICARE Management Activity Contract Resource Management \$247 billion (7 percent) in assets and liabilities has been validated as audit ready and is expected to be unqualified in FY 2009, bringing the total amount of unqualified assets and liabilities to 45 percent.

The Department continues to make progress toward achieving auditability. Part of that progress is gaining a better understanding of the issues preventing auditability and the scope of the solutions needed to resolve impediments. Since the September 2008 FIAR Plan, the MERHCF, DISA, and the Army FBWT segments have improved their plans for auditability resulting in new completion dates beyond the timeframes reported in September. See Sections III and IV for more information on the Department's near- and long-term goals. See Appendix 1 for a more detailed explanation of the FIAR Approach.

Figure 4. Achieving Audit Opinions



Note: Asset and Liability amounts as of September 30, 2008.

*Does not include MERHCF qualified opinion

**Does not include TMA-CRM becoming unqualified

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II. Achieving Financial Improvement and Audit Readiness

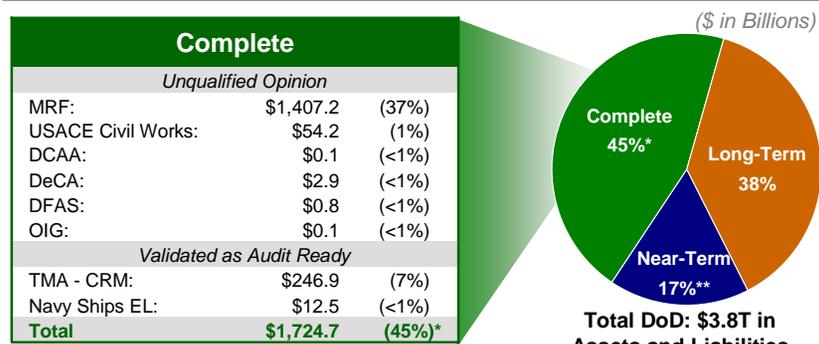
The FIAR Plan details the long-term financial improvement plans and progress of the Components.

The cumulative amount of assets and liabilities of entities receiving an unqualified opinion equates to \$1.5 trillion, or 39 percent. An additional 7 percent or \$247 billion from TRICARE’s Management Activity Contract Resource Management organization has been validated as audit ready.

Six reporting entities received an unqualified audit opinion on their FY 2008 financial statements (Figure 5). For the fourth consecutive year, the Department has received favorable audit reviews on three DoD-wide financial statement line items (Figure 6).

Improved systems have led to greater efficiencies and reduced costs. Consistent plans have helped keep tasks in focus and progress on track. Revised policies that capture lessons learned and tightened internal controls ensure continued compliance and

Figure 5. DoD Reporting Entity Improvements



Note: Asset and Liability amounts as of September 30, 2008.

*Does not include MERHCF qualified opinion

**Does not include TMA-CRM becoming unqualified

Numbers may not add due to rounding
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Figure 6. Financial Statement Line Items Receiving Favorable Audit Reviews

| DoD-Wide Financial Statement Line Items | Audit Reviews |
|---|---------------|
| Investments | Favorable |
| Federal Employees’ Compensation Act Liabilities | Favorable |
| Appropriations Received | Favorable |

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keep improvements from slipping back. Accomplishments can be tracked in a number of ways, including progress by Business Rules (Figures 7 and 8) and by financial management improvements, efficiencies, or system deployments.

AUDIT READINESS ACCOMPLISHMENTS

The Department is making substantial progress in achieving audit readiness. The Navy has asserted audit readiness on its remaining Environmental Liabilities of \$5.8 billion, their Nuclear and Conventional Ships Environmental liabilities of \$12.5 billion has already been validated as audit ready.

Figure 7. Sustaining Audit Readiness

| Business Rule | Segment | Values |
|-----------------------------|---|--|
| Audit Readiness Sustainment | DLA Contingent Legal Liabilities | less than \$1 million |
| | Air Force Appropriations Received | \$156.8 billion |
| | Air Force Nonexpenditure Transfers | \$2,750.4 billion |
| | TMA Contract Resource Management Segment Balance Sheet | \$841.0 million in assets and \$246.1 billion in liabilities |
| | Navy Nuclear and Conventional Ships Environmental Liability | \$12.5 billion |

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Figure 8. Segment Audit Readiness Status

| Business Rule | Segment | Values |
|------------------------------------|--|--|
| Financial Statement Audit Underway | TMA Contract Resource Management | \$841.0 million in assets and \$246.1 billion in liabilities SNC \$22.0 billion SCNP 245.3 billion SBR \$12.6 billion |
| Audit Readiness Validation | TMA Uniformed Services University of the Health Sciences Segment Balance Sheet | \$225.5 million in assets and \$14.0 million in liabilities |
| | TMA Uniformed Services University of the Health Sciences Segment SNC and SCNP | SNC \$209.0 million SCNP \$211.5 billion |
| Segment Asserted | Navy Environmental Liabilities | \$5.8 billion |
| | Navy Contingent Legal Liabilities | \$3.5 billion |
| | TMA Uniformed Services University of the Health Sciences Segment SBR | \$282.6 million |

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FINANCIAL IMPROVEMENT ACCOMPLISHMENTS

Since 2001, DoD has avoided \$340 million in interest penalties by paying invoices on time, while experiencing a more than two-fold increase in the dollar amount of payments made. This results in more dollars being available for operational needs. In addition, the Department has helped other federal agencies collect over \$169 million in delinquent debts.

The Army implemented Release 1.2 of General Fund Enterprise Business System (GFEBS) at Ft. Jackson Garrison. This release expanded upon the Real Property Inventory capabilities, integrates general ledger management, payment management, receivables management, funds management, cost management and reporting in one system in support of all installation management functions.

EFFICIENCIES IN FINANCIAL OPERATIONS

The Defense Finance and Accounting Service (DFAS) is the world's largest finance and accounting operation and serves the needs of the entire Department of Defense. From FY 2001 through FY 2008 DFAS reduced personnel work years 30 percent and annual cost of operations by 15 percent. Since 2006, DFAS has closed 17 sites and realigned 1 site. Three additional sites are scheduled to be closed. By FY 2011, the closure and realignment of these 21 sites will have resulted in \$468 million in net savings.

Other improvements include:

- Increased electronic invoicing from 84 percent to 86 percent and electronic receiving reports from 71 percent to 73 percent resulting in Department-wide avoidance of \$2 million in DFAS manual processing charges for the quarter.
- Implemented Wide Area Work Flow (WAWF) in Kuwait, Qatar, and Afghanistan, which takes the payment processing workload out of theater and improves payment timeliness for participating US vendors.
- Began using the Defense Departmental Reporting System-Budgetary for budgetary reporting for the Department of the Army General Funds. This improves financial visibility through implementation of a standardized reporting process and facilitates the application of the Standard Financial Information Structure for legacy reports.
- Reduced over-aged suspense account balances by \$1.67 billion or 97 percent, since 2001, resulting in timelier posting of customer's collections, more accurate reporting of receivables, and less risk of losing funds due to the requirement to transfer items older than 60 days to Treasury.
- Saved about \$2 million by sending the W-2s for deployed military members electronically rather than paper delivery.

- Deployed the Corporate Electronic Document Management System (CEDMS), a corporate solution to eliminate movement of millions of paper documents across DFAS.
- Reduced \$1.2 billion in DoD Material Differences reported between DoD and other Federal agencies.
- Implemented a monthly Overseas Contingency Operations Cost of War report. The report contains additional information, such as funding and subsidiary reports, that provides detail for the Military Personnel and Operation and Maintenance appropriations. The report fulfills requirements for increased accuracy, credibility, transparency, and timeliness, as identified by Congressional staff members, the Government Accountability Office, and the Office of Management and Budget (OMB).
- Implemented the Navy Enterprise Resource Plan (ERP) to support business operations at Naval Supply Systems Command, the second command to come online.
- Completed process and risk analysis documentation for all material business processes affecting the Working Capital Fund (WCF) portion of Naval Facilities Engineering Command's (NAVFAC) financial statements.
- Completed process and risk analysis for civilian personnel and reimbursable work orders (performer) business process segments and developed a tool kit and testing strategy for validating the effectiveness of control objectives and control activities.
- Implemented DDRS-B for the Navy General Fund for budgetary reporting. DDRS-B standardizes field-level reporting and enables visibility into lower-level financial statement data. Previously, data were only available at the Department of the Navy level. The improved capabilities assist in data analysis and financial improvement efforts.

DEPARTMENT OF THE NAVY

- Held "Test for Success," a Department of the Navy (DON) Financial Improvement Program conference emphasizing two key messages for FY 2009: 1) internal controls implementation and testing is the core measure of progress for the program; and 2) the responsibility and accountability for achieving near-term success falls to everyone. The two-day conference was attended by all major Commands, and keynote speakers included the Vice Chief of Naval Operations and the Acting Under Secretary of Defense (Comptroller).
- Hosted a DON Financial Improvement Program training day, providing hands-on instruction that built upon the concepts discussed at the Test for Success conference. Classes included internal controls test strategy, testing, lessons learned, developing performance work statements, change management best practices, understanding the United States Standard General Ledger (USSGL), and financial statement analysis.

Next Steps

- Work with Major Commands to implement and validate the effectiveness of the control activities associated with civilian personnel and reimbursable work orders (performers).
- Complete corrective actions to address weaknesses identified during testing for Military Sealift Command.

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III. Meeting Near-Term Goals

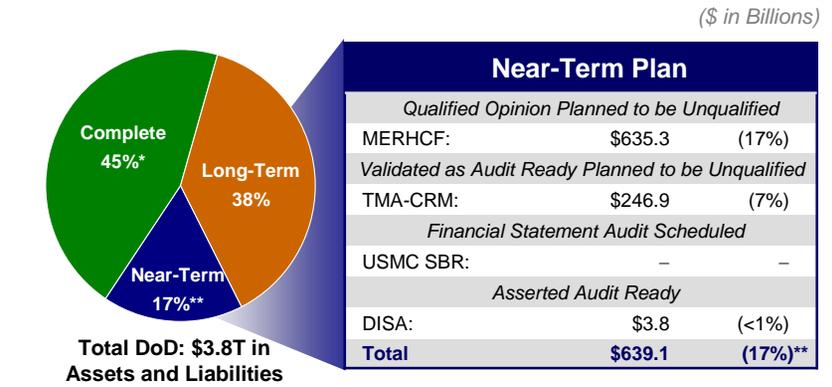
The Department is focusing on achieving unqualified audit opinions on another 17 percent or \$639 billion in assets and liabilities (Figure 9). This near-term goal includes achieving unqualified audit opinions for the Medicare-Eligible Retiree Health Care Fund and the TRICARE Management Activity Contract Resource Management, and on the Marine Corps' Statement of Budgetary Resources. While the completion dates on some of these segments have changed, these segments remain a focus for completion in the near-term.

The September 2008 FIAR Plan included the Army FBWT segment as a near-term goal. As the Army progressed in preparation for audit, Army leadership realized a broader scope of work related to supporting documentation of balances is needed to achieve auditability. As a result, the Army FBWT segment has moved to the long-term section of the FIAR Plan with the other Components.

The Defense Information Systems Agency went through an out of cycle financial statement audit on its FY 2007 balance sheet last year. The Department of Defense Inspector General (DoDIG) issued a disclaimer. The FIAR Directorate is working with DISA, the DoDIG, and the Government Accountability Office (GAO) to define a path forward for DISA's in-cycle audit, which will include timelines for the remediation efforts that were highlighted by the DoDIG.

This section provides detailed information on the near-term goals, as well as other goals that contribute to the auditability of the balance sheet. Appendix 8 contains detailed information on key milestone progress for near- and long-term priority segments. Figure 10 provides a snapshot of milestones in this section.

Figure 9. Near-Term Goals



Note: Asset and Liability amounts as of September 30, 2008.

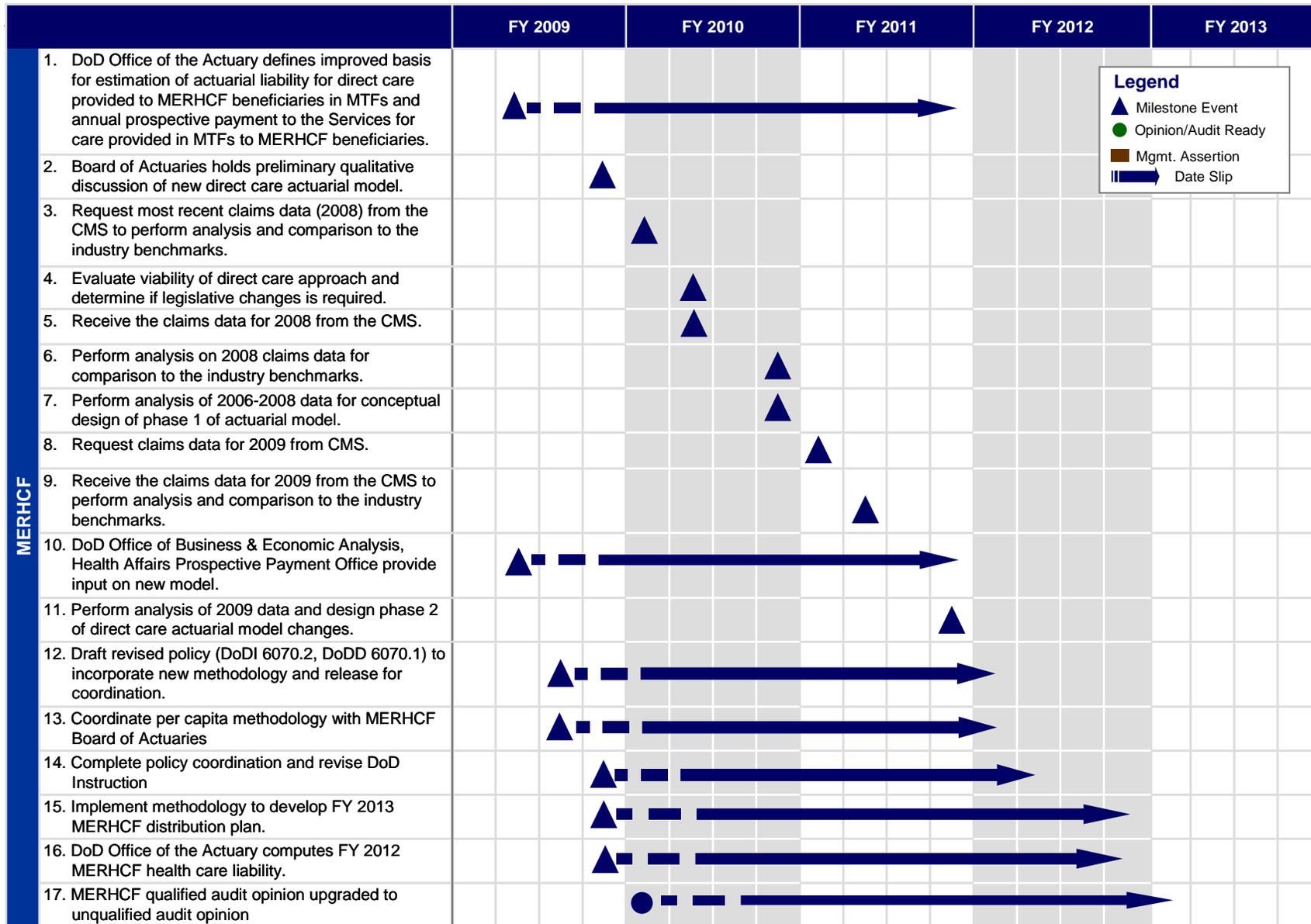
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*Does not include MERHCF qualified opinion

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**Does not include TMA-CRM becoming unqualified

Figure 10. Near-Term Milestones



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Figure 10. Near-Term Milestones *continued*

| | | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------|---|---------|---------|---------|---------|---------|
| USMC SBR | 1. Complete remediation and documentation of weaknesses identified in discovery process of SBR. | ▲ → | | | | |
| | 2. DoDIG and OUSD(C) complete review of Marine Corps final testing and remediation efforts for SBR audit readiness. | ▲ → | | | | |
| | 3. DoDIG releases RFP for IPA. | ▲ | | | | |
| | 4. DoDIG awards FY 2010 SBR financial statement audit contract to IPA. | | ▲ | | | |
| | 5. DoDIG issue an opinion on SBR. | | | ● → | | |
| TMA | 1. DoDIG released RFP for IPA. | ▲ | | | | |
| | 2. DODIG award financial statement audit contract to IPA. | ▲ | | | | |
| | 3. IPA initiates audit engagement for TMA-CRM financial statements. | ▲ | | | | |
| | 4. DoDIG issues TMA-CRM financial statements audit opinion. | | ● | | | |

09-105

MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND

The Medicare-Eligible Retiree Health Care Fund (MERHCF) is a fund established by Congress in 2001 to accumulate funds in order to finance, on an actuarially sound basis, liabilities of health care programs for DoD Military Services and other Uniformed Services (U.S. Coast Guard, Public Health Service); and National Oceanographic and Atmospheric Administration retirees, retiree family members, dependents, and survivors. Health care costs covered by MERHCF include Operations, Maintenance and Military Personnel costs in Military Treatment Facilities (MTF), purchase care not covered by Medicare, and pharmacy services. MERHCF also accrues the Department's liability for future health care costs of MERHCF beneficiaries. The inability to accurately report health care costs on DoD financial statements is one of the Department's material weaknesses. MERHCF's near-term goal is to receive an unqualified opinion on its full financial statements.

MERHCF represents 17 percent of DoD assets and liabilities or \$635.3 billion.

Accomplishments to Date

- Received qualified audit opinions each year since FY 2003.
- Resolved auditor-identified material weakness concerning backlog of purchased care claims.

Impediments to Auditability

To obtain an unqualified opinion, MERHCF must improve its ability to measure Direct Care (DC) claim cost of liabilities for future care provided to beneficiaries. The Department's understanding of the requirements and impediments to address DC has improved.

Currently, DC costs are based on abstracts (measures) that incorporate annual appropriations – many of which are unrelated to military retirees. Changes to the method for developing Direct Care claim cost assumptions for use in MERHCF will be based on a full-cost model derived from a combination of TRICARE claims, Medicare claims, and normative data from Thomson Reuters' MarketScan database.

Creating a new model is very complex and time consuming. The model must comply with actuarial laws and requirements as well as satisfy GAO and Congressional requirements. The data on which the new model will be developed must be collected over time. The initial data collected by the DoD Office of the Actuary contained 2.2 million records on Medicare-eligible retirees and dependents. Additional time will be needed to collect additional industry benchmark data, analyze the data, and develop and test the model. After testing, some modifications to the model may also be required, therefore, the time table for Key Milestones shown below has moved.

DC costs developed under the proposed method will still retain the current plan design wherein Medicare does not reimburse DoD for care received in Military Treatment Facilities.

Next Steps

MERHCF is building the new model and seeking consensus on the new methodology from appropriate stakeholders including the TRICARE Management Activity, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), the DoDIG, GAO; the Office of the Actuary; and advice from the DoD General Counsel.

Medicare-Eligible Retiree Health Care Fund: *Key Milestones to Achieving Auditability*

| Key Milestone | Completion Date | Projected Outcome |
|--|------------------------|---|
| | Status or Revised Date | Justification for Change |
| 1. DoD Office of the Actuary defines improved basis for estimation of actuarial liability for direct care provided to MERHCF beneficiaries in MTFs and annual prospective payment to the Services for care provided in MTFs to MERHCF beneficiaries. | Feb 2009 | Current method is based on un-auditable data for care provided in MTFs. Proposed methodology will be supportable and auditable. |
| | Revised to Sep 2011 | Difficulty in obtaining 2.2 million claims data records from Centers for Medicare and Medicaid Services (CMS). Due to the massive size and other complexities in the data, additional time to process is necessary. |
| 2. Board of Actuaries holds preliminary qualitative discussion of new direct care actuarial model. | New Sep 2009 | Obtain consensus on new direct care actuarial model, to ensure compliance with laws, regulation, and policy. |
| 3. Request most recent claims data (2008) from the CMS to perform analysis and comparison to the industry benchmarks. | New Dec 2009 | Request submitted for most recent claims data. |
| 4. Evaluate viability of direct care approach and determine if legislative change is required. | New Jan 2010 | Progress check on viability of new model. |
| 5. Receive the claims data for 2008 from the CMS. | New Mar 2010 | Update direct care actuarial model with an additional year of data. |
| 6. Perform analysis on 2008 claims data for comparison to the industry benchmarks. | New Jun 2010 | Develop a viable model based on substantiated data acceptable to IPAs. |
| 7. Perform analysis of 2006-2008 data for conceptual design of phase 1 of actuarial model. | New Sep 2010 | Present conceptual design of the direct care actuarial model to Board of Actuaries. |
| 8. Request claims data for 2009 from CMS. | New Dec 2010 | Request submitted for most recent claims data. |
| 9. Receive the claims data for 2009 from the CMS to perform analysis and comparison to the industry benchmarks. | New Mar 2011 | Update direct care actuarial model with an additional year of data. |
| 10. DoD Office of Business & Economic Analysis, Health Affairs Prospective Payment Office provide input on new model. | Mar 2009 | Obtain consensus on developed direct care actuarial model, which will ensure compliance with laws, regulation, and policy. |
| | Revised to Sep 2011 | Dependency on milestone 1. |
| 11. Perform analysis of 2009 data and design phase 2 of direct care actuarial model changes. | New Sep 2011 | Present conceptual design of the direct care actuarial model to Board of Actuaries. |

Medicare-Eligible Retiree Health Care Fund: *Key Milestones to Achieving Auditability*

| Key Milestone | Completion Date | Projected Outcome |
|--|------------------------|---|
| | Status or Revised Date | Justification for Change |
| 12. Draft revised policy (DoDI 6070.2, DoDD 6070.1) to incorporate new methodology and release for coordination. | Jun 2009 | Issue and disseminate instructions and directives for proper implementation of methodology. |
| | Revised to Dec 2011 | Dependency on milestone 1. |
| 13. Coordinate new model with MERHCF Board of Actuaries. | Jun 2009 | Reach consensus on developed methodology. Make changes if necessary. |
| | Revised to Dec 2011 | Dependency on milestone 1. |
| 14. Complete policy coordination and revise DoD Instruction. | Aug 2009 | Issue and disseminate instructions and directives for proper implementation of methodology. |
| | Revised to Feb 2012 | Dependency on milestone 1. |
| 15. Implement methodology to develop FY 2013 MERHCF distribution plan. | Sep 2009 | Calculate, reimburse, and report direct care costs in accordance with GAAP. |
| | Revised to Aug 2012 | Dependency on milestone 1. |
| 16. DoD Office of the Actuary computes FY 2012 MERHCF health care liability. | Sep 2009 | Calculate and report direct care liability IAW GAAP. |
| | Revised to Sep 2012 | Dependency on milestone 1. |
| 17. MERHCF qualified audit opinion upgraded to unqualified audit opinion. | Nov 2009 | Enables the Department to rely on accurate, reliable, and timely information to effectively manage the health care program and costs for the Uniformed Services Medicare-eligible retiree, family members, and survivors. |
| | Revised to Nov 2012 | Dependency on milestone 1. |

U.S. MARINE CORPS

The Marine Corps, an operating service under the Department of the Navy, is improving financial management practices, identifying material weaknesses, documenting policies, processes and procedures, and remediating deficiencies. The Marine Corps' near-term goal is to achieve a favorable audit opinion on its FY 2010 Statement of Budgetary Resources (SBR).

Accomplishments to Date

- Reduced the number of financial processes performed at the field level from 700 to 59, thus improving timeliness and reliability of financial information.
- Identified third party service provider dependencies, including transaction counts and amounts.
- Implemented transactional system interface between the personal property accounting system (DPAS) and the Marine Corps primary general ledger accounting system (SABRS) for accuracy, transparency, and ease of asset valuation.
- Expanded and standardized key internal control testing from 41 individual testing actions in FY 2007 to 909 individual testing actions in FY 2008 across the Marine Corps, thus improving the accuracy of financial information and reporting.
- Completed independent internal control and source documentation assessments for key internal controls over financial business processes and for transaction-level source documentation testing through to the SBR. The results of both initiatives provided the Marine Corps with independent confirmation of the reliability of its key internal controls and identified controls requiring additional remedial action.
- Completed mapping budget and execution data to financial and business processes to validate use, expenditure, and recording of annual appropriations. This initiative is critical to the verification of accurate and reliable transactional data and financial information, as well as compliance with appropriation law and regulation and consistent with OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.
- Defined business process flows and conducted associated risk and control analysis to jointly comply with OMB Circular A-123, Appendix A, and to link Marine Corps internal control policies, procedures, and environment to the financial environment.
- Reviewed transactional data accuracy and trading partner information of the prime Marine Corps financial system, SABRS, to standardize recording and reconciling trading partner transactions.
- Increased use of Web-based interactive applications including transaction validation and vendor payment activity using Wide Area Work Flow (WAWF) for vendor invoicing and payment systems.
- Created audit queries to extract transaction-level data from SABRS to meet audit required supporting documentation. The transaction-level data is intended to link through the feeder systems to the source documentation.
- Standardized formal tri-annual review processes and procedures to support clear and transparent data for decision making.

Marine Corps SBR: Key Milestones to Achieving Auditability

| Key Milestone | Completion Date | Projected Outcome |
|---|------------------------|--|
| | Status or Revised Date | Justification for Change |
| 1. Complete remediation and documentation of weaknesses identified in discovery process of SBR. | Nov 2008 | Marine Corps identified several impediments to achieve audit readiness. Marine Corps implemented process, control, and system changes to address these issues and achieve SBR audit readiness beyond original completion date. |
| | Completed Mar 2009 | Milestones 1 and 2 completed concurrently. |
| 2. DoDIG and OUSD(C) complete review of Marine Corps final testing and remediation efforts for SBR audit readiness. | Dec 2008 | DoDIG and OUSD(C) joint concurrence with Marine Corps assertion of SBR audit readiness. |
| | Completed Mar 2009 | DoDIG and OUSD(C) used a revised sample attribute testing methodology to evaluate the assertion package. Extensive attribute testing led to a more comprehensive and lengthy evaluation process. Delay impacted subsequent milestones. |
| 3. DoDIG releases RFP for IPA. | New June 2009 | DoDIG releases RPA for IPAs. |
| 4. DoDIG awards FY 2010 SBR financial statement audit contract to IPA. | New Nov 2009 | Contract is awarded to IPA and work can begin. |
| 5. DoDIG issue an opinion on SBR. | Dec 2009 | Upon completion of the fieldwork and other analysis, the DoDIG will issue an opinion on the USMC SBR FY 2010. |
| | Revised to Nov 2010 | The SBR audit will be performed on FY 2010 vice FY 2009 Statement this adjusts the completion date. |

Impediments to Auditability for Balance Sheet

- Historical cost to support capital asset acquisition costs is not consistently available due to mixed financial systems limitations and insufficient source documentation. The Marine Corps is working to mitigate deficiencies by standardizing valuation policies and procedures.
- Procedures for deployed military equipment accounting preclude asset existence. This increases the risk that the value is materially misstated.. In conjunction with strengthening procedures for deployed asset accountability, the Marine Corps is linked to Federal Accounting Standards

Advisory Board initiatives to modify the valuation and validation accounting and accountability standards.

- The Marine Corps relies on service providers to provide information critical to remediating deficiencies and achieving auditability. The Marine Corps is working with these service providers to achieve reasonable audit confidence in service provider automated systems and services.
- The Marine Corps uses outside-the-system procedures to address service provider systems reliability issues. The Marine Corps is working to increase reliance on its automated systems environment.

TRICARE MANAGEMENT ACTIVITY CONTRACT RESOURCE MANAGEMENT

The Defense Health Program Appropriation consists of the TRICARE Management Activity (TMA), which includes Contract Resource Management (CRM) and the Services Medical Activity. CRM is a segment under TMA and is responsible for the accounting, financial support, and financial reporting for TRICARE’s centrally funded, private-sector health care programs. CRM uses Defense Health Program funds to reimburse private-sector health care providers for services rendered to TRICARE beneficiaries. In addition, CRM draws funds from MERHCF to pay the “TRICARE for LIFE” and “TRICARE Senior Pharmacy” programs. On a reimbursable basis, CRM also funds private-sector health care services to other non-DoD Agencies, the National Guard, and Reserve Forces. TRICARE’s near-term goal is to obtain an unqualified audit opinion on its FY 2009 financial statements.

Accomplishments to Date

- Achieved audit readiness on the TMA-CRM Balance Sheet and Other Statements, which represents \$247 billion or 7 percent in assets and liabilities.

Next Steps

The Office of the DoDIG has released a request for proposal for the audit engagement of the CRM financial statements for FY 2009 and will contract with an IPA to perform the audit.

- Support TMA-CRM with upcoming audit of financial statements.
- Support an IPA examination of TMA-Uniformed Services University of Health Sciences’ proprietary statements to validate audit readiness on the Statement of Budgetary Resources.

TRICARE Management Activity Contract Resource Management: Key Milestones to Achieving Auditability

| Key Milestone | Completion Date | Projected Outcome |
|---|------------------------|---|
| | Status or Revised Date | Justification for Change |
| 1. DoDIG released RFP for IPA. | Apr 2009 | DoDIG releases RPA for IPAs. |
| | Completed | |
| 2. DODIG award financial statement audit contract to IPA. | May 2009 | Contract is awarded to IPA. |
| 3. IPA initiates audit engagement for TMA-CRM financial statements. | Jun 2009 | IPA can begin work. |
| 4. DoDIG issues TMA-CRM financial statements audit opinion. | Nov 2009 | Enables the Department to rely on accurate, reliable, and timely information to effectively manage the TMA-CRM program. |

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IV. Meeting Long-Term Goals

The Department continues to work diligently to resolve impediments to auditability and to reach its long-term objective of achieving auditability on the final one-third of DoD assets and liabilities and the DoD Consolidated Financial Statements.

PRIORITY SEGMENTS

Achieving long-term goals requires identifying audit impediments within five priority segments that are material areas of the Balance Sheet. The five priority segments are:

- Military Equipment
- Real Property
- Inventory and Related Property
- Environmental Liabilities
- Fund Balance with Treasury

The strategy for resolving audit impediments, improving financial

information, and achieving auditability of the final one-third of the balance sheet, as well as for maintaining or sustaining auditability is described in this section.

Figure 11 demonstrates the Department’s progress to date and the projected results of near-term and long-term efforts.

KEY CONTROL OBJECTIVES

Since issuing the September 2008 update to the FIAR Plan, the Department has modified the Components’ Financial Improvement Plans (FIP) to ensure discovery and correction efforts fully integrate with OMB Circular A-123, Appendix A, implementation and integrates key control objectives for each of the five priority segments. Key Control Objectives capture the outcomes needed to achieve proper financial reporting and serve as a point against which the effectiveness of financial controls can be evaluated. Effective financial controls mitigate risks and provide assurance that financial information is properly and accurately recorded and reported, and are critical to successful financial statement audits.

The Department is using Key Control Objectives as a framework within the Components’ Financial Improvement Plans. Key Control Objectives:

- Ensure internal controls for each priority segment are assessed during improvement efforts.

Figure 11. Long-Term Goals



Note: Asset and Liability amounts as of September 30, 2008. Numbers may not add due to rounding
 *Does not include MERHCF qualified opinion
 **Does not include TMA-CRM becoming unqualified

Key Control Objectives

A Key Control Objective for internal control over financial reporting:

- Relates to a relevant financial statement assertion (e.g., completeness, existence, valuation)
- States a criterion for evaluating control procedures in a specific area to provide reasonable assurance that a misstatement or omission in that relevant assertion is prevented or detected by controls on a timely basis.

09-116

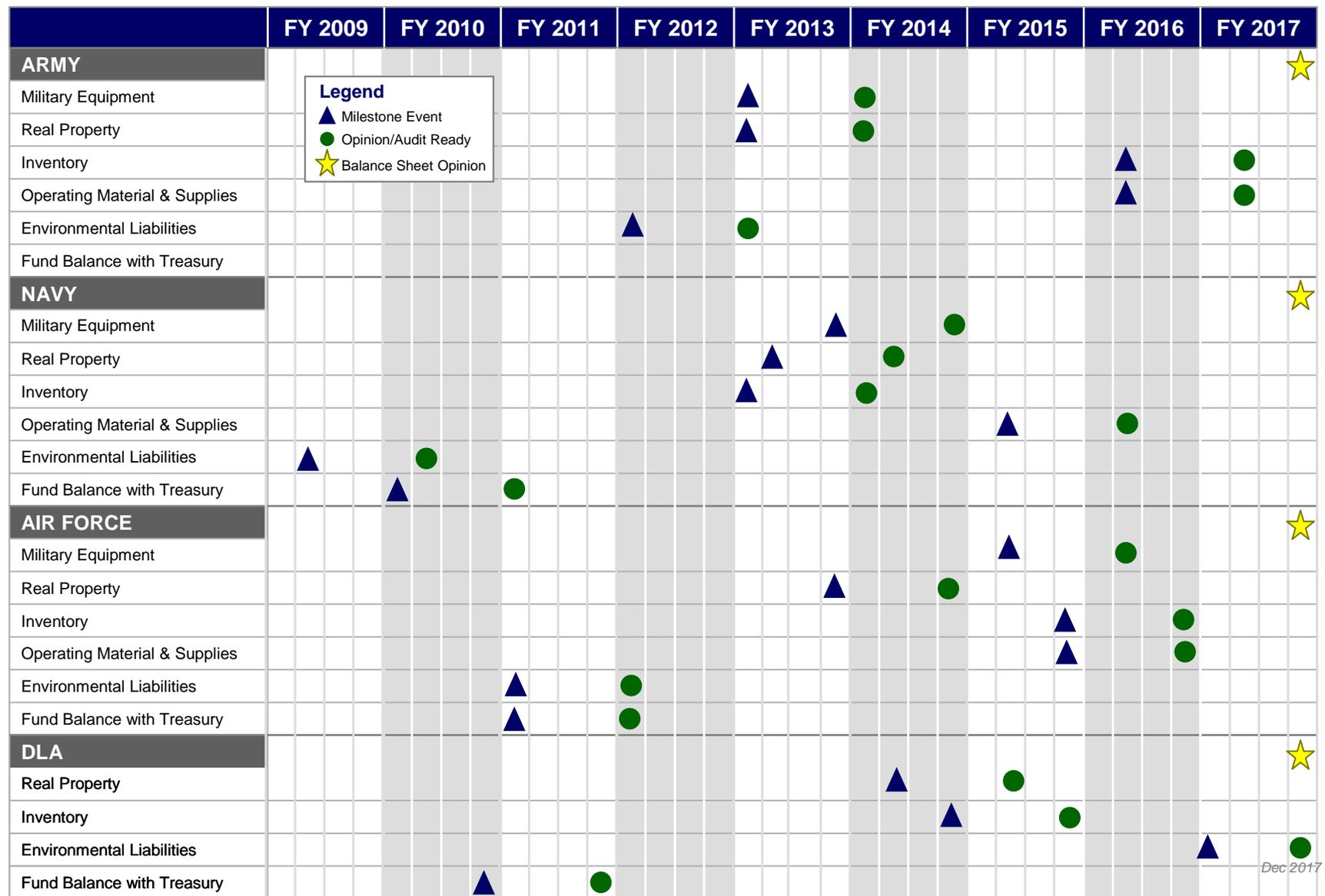
- Validate management's financial statement assertions.
- Monitor progress in achieving auditability.

During Discovery and Correction, assessing internal controls is a prerequisite step in the examination of operational business processes. Such assessments include identifying inherent risks and testing the controls to identify weaknesses. Control weaknesses are then remediated and retested to ensure the control objectives are achieved.

To identify the appropriate Key Control Objectives for each priority segment, the Department relied on the GAO Financial Audit Manual. Key Capabilities, capabilities necessary for effective controls, were also identified for each priority segment. After vetting Key Control Objectives and Key Capabilities with the Components and DoDIG, both were embedded in the Components' Financial Improvement Plans and linked to tasks under Discovery and Correction. By embedding them in the FIPs and linking corrective actions to them, the Department is better assured that financial reporting deficiencies will be identified and resolved. Additionally, progress toward auditability can be better monitored and managed.

This section contains descriptions of relevant ERPs, Progress Metrics, accomplishments to date, milestones leading to audit readiness, and impediments to auditability for each priority segment. Tables that identify and describe applicable Key Control Objectives and Key Capabilities are also included. See Appendix 6 for a definition of system acronyms. See Appendix 8 for detailed information on key milestone progress for near- and long-term priority segments. Figure 12 provides a snapshot of projected audit readiness dates by Component priority area.

Figure 12. Long-Term Audit Readiness by Priority Segment



09-118

MILITARY EQUIPMENT

The Department reported \$380 billion (net book value) in Military Equipment on its FY 2008 financial statements (23 percent of DoD assets). The Services hold 99 percent of Military Equipment Assets. Military Equipment is 74 percent of the General Property, Plant, and Equipment line on the balance sheet and is part of the General Property, Plant, and Equipment and property in the possession of contractors material weaknesses.

The Department’s long-term goals are to report Military Equipment on DoD financial statements accurately, timely, and reliably and to provide decision makers with better information about Military Equipment.

Enterprise Resource Planning Systems

The key to eliminating the Military Equipment portion of the General Property, Plant and Equipment material weakness, properly valuing, maintaining property accountability, and establishing enterprise visibility for Military Equipment is the deployment of Enterprise Resource Planning systems. Each of the Components is deploying one or more ERPs, and each Component is in a different state of achieving ERP full operational capability due to different start dates, organizational and operational complexities, and deployment strategies and schedules.

The ERPs being deployed by the Components are as follows:

Army: GFEBS and GCSS

Navy: Navy ERP and GCSS-MC

Air Force: DEAMS and ECSS

Marine Corps: GCSS-MC

The Department forecasts achieving audit readiness for Military Equipment by FY 2014 for the Army and Navy, and by FY 2016 for the Air Force (Figure 13).

Progress Metrics

In 2006, the Department deployed CAMS-ME (Capital Asset Management System – Military Equipment), an interim system solution, to value Military Equipment until the Military Departments can deploy their target systems. The Air Force has migrated to REMIS (Reliability and Maintainability Information System) in preparation for the move to their ERP solutions.

The Department continues to improve the processes it uses to value Military Equipment. For asset deliveries funded with FY 2009 appropriations and beyond, the Department is moving to contract-based valuations, which ensure that deliverables are distinguishable by accounting treatment. Figure 14 shows Financial Accounting Treatment compliance.

Figure 13. Military Equipment Audit Readiness Summary by Component

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Legend |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------------------|
| Army | | | | | ▲ | ● | | | | ▲ Assertion ● Audit Ready |
| Navy | | | | | | ▲ | ● | | | |
| Air Force | | | | | | | ▲ | ● | | |

09-117a

Figure 14. Proper Financial Accounting Treatment for Military Equipment Compliance

| Component | Time Period for Contracts Accessed | # Contracts Reviewed | | | Contracts in Compliance | |
|---------------|------------------------------------|----------------------|-----------|-----------|-------------------------|------------|
| | | FY 2007 | FY 2008 | Total | # | % |
| Army | 2/22/2007 - 8/26/2008 | 3 | 8 | 11 | 8 | 73% |
| Navy | 4/02/2007 - 5/02/2008 | 2 | 2 | 4 | 3 | 75% |
| USMC | 11/09/2006 - 5/30/2008 | 5 | 1 | 6 | 6 | 100% |
| Air Force | 2/22/2007 - 4/02/2008 | 1 | 2 | 3 | 1 | 33% |
| Totals | | 11 | 13 | 24 | 18 | 75% |

Note: Based on New Contracts in FY 2007 and FY 2008 (Mods to Existing Contracts Not Included)

09-111

In addition to structuring contracts correctly, all new military equipment assets must be assigned an Item Unique Identification (IUID) and the contract invoice processed through WAWF to enable asset values to be pulled from the IUID registry into CAMS-ME. This ensures completeness of records as well as accurate valuation. Figure 15 shows IUID Registry compliance.

Accomplishments to Date

OUSD(AT&L)

- Developed 10 principle-based business rules that convert military equipment from being expensed annually to being capitalized under GAAP.
- Standardized the valuation methodology and reviewed over 1,100 acquisition programs to assess capitalization.
- Established an estimate of the historical cost of military equipment in service using budget documents.

Figure 15. IUID Registry Compliance

| Component | # Programs in CAMS-ME | % Programs in Compliance | % Programs Reconciled to IUID Registry in CAMS-ME | % Programs Including Acquisition Value |
|-----------|-----------------------|--------------------------|---|--|
| Army | 144 | *(TBD) | 0% | 0% |
| Navy | 117 | 87% | 100% | 5% |
| USMC | 66 | *(TBD) | 0% | 0% |
| USSOCOM | 62 | *(TBD) | 0% | 0% |
| MDA | 2 | 0% | 0% | 0% |

Note: % not available because data within the IUID Registry can not be tracked back to any programs.

09-110

- Developed CAMS-ME, a fixed asset accounting system for capturing asset acquisition costs and depreciating those costs over the asset's useful life.
- Developed a process for program managers to attest to the accuracy of the information used in CAMS-ME as an internal control.
- Established policy for structuring contract line-items to support financial reporting, and developed two Business/Financial Management Analyst tools to facilitate application of the policy to military equipment.
- Developed new software to enable Components to transition from using the CAMS-ME Portal for asset status updates to a more efficient automated process using the IUID Registry. Department of Navy is using this process to update assets for ships and airplanes.
- Developed an Environmental Liabilities Quick Reference Tool to determine the presence of and properly account for environmental liabilities in DoD equipment.

- Developed online training classes and completed over 5,000 training events for physical inventories, foundations of government property, proper financial accounting treatment for military equipment, and fiscal and physical accountability and management of DoD equipment.

Army

- Developed a compliance program to meet OMB Circular A-123, Appendix A, requirements to document processes, identify risks and controls, and incorporate Military Equipment into the Army's annual statement of assurance.
- Created the Asset Accountability Improvement Plan to guide and support proper valuation and visibility over Military Equipment end items.

Navy

- Identified 34 Military Equipment programs not managed in an Accountable Property System of Record. Twenty of these programs have been added to the Defense Property Accountability System as an interim solution before migration to Navy ERP. The remaining 14 have been resolved, moved, or are pending.
- Commenced discovery efforts to define current Military Equipment end-to-end processes in the Navy ERP environment at NAVAIR (Naval Air Systems Command) to define, implement, and validate "to be" processes and system changes to enable Navy-wide audit readiness for valuation and accountability.

Air Force

- Implemented system process changes for two primary accountability systems of record for military equipment: REMIS and RAMPOD (Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods). These system changes closed Air Force Audit Agency audit findings.

- Completed an initial load of asset accountability and valuation records in REMIS and reconciled it with CAMS-ME. This has prepared the Air Force for a migration to full use of REMIS and RAMPOD as its systems of record.
- Established a training program and delivered training for maintaining accountability and valuation records and processes within REMIS and RAMPOD.

The following sections include Military Equipment Key Control Objectives and key milestones that lead to auditability and impediments to auditability.

Military Equipment Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|--------------------------------|--|--|
| 1 | Presentation and Disclosure | Ensure Military Equipment balances and related footnote disclosures contain all information needed for fair presentation in accordance with GAAP (FAM 395B: 15, 16, and 17). | <ul style="list-style-type: none"> Properly classify general property, plant, and equipment into proper categories as required by Note 10 (i.e., Military Equipment, General Equipment, Internal Use software, etc). |
| 2 | Existence/Occurrence | Ensure recorded Military Equipment transactions represent economic events that actually occurred and are properly classified (FAM 395B: 1c and 2). | <ul style="list-style-type: none"> Contracts ensure that deliverables are distinguishable by accounting treatment (e.g., operating materials and supplies; inventory; military equipment; internal-use software; other general property, plan, and equipment; expenses; etc). Record and report work in progress by military equipment asset. Liquidate work in progress and place asset into service in the accounting system and accountable system of record in the same reporting period. Distinguish and properly capitalize or expense modification and maintenance costs. |
| 3 | Existence/Occurrence | Ensure recorded Military Equipment exists at a given date (FAM 395B: 4a). | <ul style="list-style-type: none"> Perform physical inventory in accordance with GAGAS from general ledger to individually identified physical assets. |
| 4 | Existence/Occurrence Valuation | Ensure recorded Military Equipment at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance (FAM 395B: 4b). | <ul style="list-style-type: none"> Accurately record, support, and report baseline/opening balances with supporting documents or alternative method to establish historical cost. |
| 5 | Rights and Obligations | Ensure recorded Military Equipment assets are owned by the entity. The entity has rights to the recorded asset at a given date (FAM 395B: 12). | |
| 6 | Completeness | Ensure all existing Military Equipment assets, as of the reporting date, including property in the custody of third parties, are included in the general ledger (FAM 395B: 8). | <ul style="list-style-type: none"> Perform physical inventory in accordance with GAGAS from individually identified physical assets to general ledger. Record and report imputed costs or revenue for military equipment. Recognize Military Equipment when title passes or when equipment is delivered to the entity or to an agent of the entity. |

Military Equipment Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|--|
| 7 | Valuation or Allocation | Ensure all Military Equipment assets are recorded at full cost in the general ledger (FAM 395B: 9 and 10). | <ul style="list-style-type: none"> Record indirect costs of assets. Record Government Furnished Material and Equipment included in capitalized assets. |
| 8 | Valuation or Allocation | Ensure the net book value of Military Equipment assets is accurate and depreciation, depletion and amortization is accumulated, based on the capitalized cost, useful life, date of service, and salvage value, if applicable (FAM 395B: 5, 6, and 15). | <ul style="list-style-type: none"> Recognize depreciation expense through a systematic and rational allocation over the estimated useful life of the asset. |
| 9 | Valuation or Allocation | Ensure transferred out, sold, excess, unusable, or idle Military Equipment assets are timely and properly recorded (FAM 395B: 2, 9, and 10). | <ul style="list-style-type: none"> Remove Military Equipment that is disposed, retired, or removed from service from the asset account. |

Military Equipment: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-------------------|---------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 1. Complete IUID Registry interface to CAMS-ME to automate asset updates for Navy small craft. | OUSD(AT&L) & Navy | 6, 7 | Dec 2008 | Interface automates the quarterly asset update to CAMS-ME and eliminates manual updates by program managers. |
| | | | Completed | |
| 2. Complete CAMS-ME Spiral 2.2B. | OUSD(AT&L) | 7, 8, 9 | Feb 2009 | Provides capability to perform activity based depreciation, perform contract based valuations, obtain data from the DPAS, and enhances the interface with the IUID Registry. |
| | | | Completed | |
| 3. Begin using Contract-Based Valuations (CBV). | OUSD(AT&L) | 7 | Jun 2009 | CBV begins the transition from average cost estimates (methodology used to establish baseline) to full cost per end item. |
| 4. Complete cut-over to activity-based depreciation for Navy and Marine Corps aircraft. | OUSD(AT&L) | 8 | Dec 2009 | Activity-based depreciation takes into account in use for operations and training and provides more accurate depreciated values. |
| 5. Complete IUID Registry interface to CAMS-ME for USMC to automate asset updates. | OUSD(AT&L) & USMC | 6, 7 | Jun 2010 | Interface automates quarterly updates to CAMS-ME and eliminates manual updates by program managers. |

Military Equipment: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-----------|------------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 6. Analyze requirements to properly report Military Equipment and begin implementation. | Army | All | Dec 2010 | Completes identification of requirements to plan and facilitate implementation. |
| 7. Complete OMB Circular A-123, Appendix A, related activities, including process documentation, risk analyses, testing, and developing and implementing corrective action plans. | Army | | Dec 2010 | Implements an effective control environment and program to report auditable Military Equipment values. |
| 8. Implement sustainable processes to properly report Military Equipment. | Army | All | Sep 2011 | Completes implementation of processes essential to capturing full cost, depreciation and reporting of Military Equipment. |
| 9. Obtain full operational capability of GFEBS. | Army | All | Sep 2011 | Completes implementation of GFEBS to report auditable Military Equipment values. |
| 10. Submit segment management assertion. | Army | | Dec 2012 | Enables management to assert that data is timely, reliable and accurate. |
| 11. Validated as audit ready by IPA or DoDIG. | DoDIG | | Dec 2013 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 12. Initiate discovery efforts at NAVAIR. | Navy | 1, 2, 7, 8 | Dec 2008 | Discovery efforts at two pilot program management activities have begun. The goal of the pilots is the development of a “to be” military equipment acquire to retire business process in the Navy ERP environment. |
| | | | Completed | |
| 13. Complete Military Equipment valuation gap analysis. | Navy | 1, 2, 7, 8 | New Jun 2009 | Understanding the gap between “as is” process and “to be” capabilities. |
| 14. Complete Military Equipment valuation pilot. | Navy | 1, 2, 7, 8 | New Dec 2010 | Implement remediation activities at pilot program office to enable audit readiness requirements. |
| 15. Develop “to be” environment. | Navy | 1, 2, 4, 7 | Dec 2009 | Strategy, functional requirements, and guidance to implement and test auditable Military Equipment processes in Navy ERP environment are defined and documented. |
| | | | Revised to Dec 2011 | Scope of discovery efforts is better defined and taking longer to complete, but no impact on assertion date. |
| 16. Configure and test “to be” environment. | Navy | 1, 2, 4, 7 | Mar 2012 | Military Equipment processes in Navy ERP environment are implemented, tested, and validated in the pilot program office. |

Military Equipment: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|------------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 17. Roll-out new military equipment process in Navy ERP. | Navy | 1, 2, 4, 7 | Jun 2013 | Military Equipment processes in the Navy ERP environment are implemented, tested, and validated at appropriate Navy commands. |
| 18. Submit segment management assertion. | Navy | | Sep 2013 | Enables management to assert that data is timely, reliable and accurate. |
| 19. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2014 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 20. Achieve DEAMS Initial Operational Capability. | Air Force | | Mar 2010 | When fully operationally and interfaced with ECSS and applicable legacy systems, DEAMS will provide a key component necessary to properly report Military Equipment values. |
| 21. Complete AFAA audit of initial values in REMIS. | Air Force | 4 | Jun 2010 | Allows confirmation of accurately valued and recorded Military Equipment. |
| 22. Complete AFAA audit of REMIS valuation process. | Air Force | 7 | Jun 2010 | Review completion validates whether REMIS has adopted standard operating procedures to properly value and report Military Equipment values. |
| 23. Achieve ECSS Full Operational Capability. | Air Force | | Sep 2013 | When fully operational, ECSS will provide consistent real-time information for standardized reporting, as well as total asset visibility. |
| 24. Submit segment management assertion. | Air Force | | Mar 2015 | Management asserts data is timely, reliable and accurate. |
| 25. Validated as audit ready by IPA or DoDIG. | DoDIG | | Mar 2016 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |

Impediments to Auditability

Historical Costs. Until 2003, military equipment was expensed at time of placement in service, and the Department's accounting systems were not designed to accumulate costs at the level of detail needed to capture the full cost of equipment. The systems, designed to support the appropriations process, tracked expenditures to the associated Congressional appropriation and acquisition program. Since implementation of

the Statement of Federal Financial Accounting Standards (SFFAS) No. 23, Eliminating the Category National Defense Property, Plant, and Equipment, the Department has been required to track costs and provide supporting detail at a much lower level in order to support the valuation of individual capitalized assets. DoD will be unable to provide this level of detail until Component ERP systems have been fully implemented. The Department is working with the Federal

Accounting Standards Advisory Board (FASAB) to gain support for estimating the cost of capitalized assets until ERP systems are available.

Full Cost. The accounting standards specify that the full cost (direct and indirect) of an asset includes all costs required to bring an asset to a form and location suitable for its intended use. Most DoD accounting systems do not capture indirect costs (systems engineering, training, and program management) and apply them to projects and programs. The Department is working with the Accounting and Auditing Policy Committee (AAPC) to develop indirect-cost guidance. Generally, indirect costs are immaterial to the overall acquisition program and do not impact investment decisions. Based on this, the Department believes that indirect costs should be expensed.

Modifications. Accounting standards specify that modifications are capitalized. The Department has difficulty distinguishing between maintenance and modification costs, determining how to treat a series of modifications incorporated into an end item at the same time, and estimating the useful life of a group of modifications. For example, service on a tank may involve cleaning rust and adding new electronic systems. If considered separately, some of this effort might be classified as maintenance or might be expensed as being below the capitalization threshold. The Department is working with the AAPC to develop guidance relating to the treatment of modification costs. The guidance in the accounting standards is limited, and determining whether something should be expensed as maintenance or capitalized as modifications is subjective. The Department believes that management classification decisions should be accepted.

Spare Parts. The Department believes that spare parts should be treated as Operating Material and Supplies (OM&S). The accounting standards currently indicate that assets that have a useful life in excess of two years, that are not acquired for sale, that are acquired for use by the entity, and that exceed the

capitalization threshold, are to be reported as equipment. The Department currently classifies aircraft engines as OM&S. Some believe that the definition in the accounting standards would require that engines be reported as equipment. The Department is working with the AAPC to develop guidance relating to the treatment of spare parts.

Deployed Assets. The Department is unable to readily verify the location and continued existence of assets (primarily ground vehicles) deployed to high-threat areas. For example, High Mobility Multi-Wheeled Vehicles (HMMWV) deployed to war zones are moved based on day-to-day requirements. At a particular time, it is impossible to track a single HMMWV to verify its existence. The Department is working with the AAPC to develop guidance relating to the treatment of deployed assets.

Group/Composite. There are several issues relating to Group and Composite (G&C) valuation, including whether items below the capitalization threshold may be capitalized, how to verify asset existence when capitalization is based on dollars, and how to establish useful life. Currently, assets such as field hospitals are valued using a G&C methodology. Some of the embedded equipment has a value in excess of the capitalization threshold and some of the items would be expensed if they could be separately identified in the accounting system. The Department is working with the AAPC to develop guidance relating to the use of Group and Composite depreciation.

Property in the Possession of Contractors. Contractors develop equipment, such as special test and special tooling, for the Government on Cost type contracts and then estimate the cost of this equipment using internal systems. Because these internal systems are not audited, questions have been raised as to whether the resulting estimates are valid. Contractors use various methods, including parametric estimating, to develop costs for items delivered to the Government. The Department is working with the AAPC to develop guidance relating to the valuation of Property in the Possession of Contractors.

REAL PROPERTY

The Department owns over \$108 billion (net book value) in Real Property, which is 7 percent of DoD balance sheet assets. Army, Navy, Air Force, and DLA report \$101 billion, 94 percent of DoD Real Property assets. DoD Real Property includes more than 539,000 buildings, structures, and linear structures with approximately 28 million acres of land on over 5,500 worldwide sites.

The inability to report auditable real property values on DoD financial statements is one of the Department’s material weaknesses. The effect of this weakness is a lack of reliable and accurate property information, which wastes resources and adversely affects readiness, replacement and maintenance plans, and property control and management.

Resolving this weakness is a DoD priority. The Department forecasts achieving audit readiness for Real Property by FY 2014 for the Army, Navy, Air Force, and by FY 2015 for DLA (Figure 16).

Enterprise Resource Planning Systems

As part of eliminating the Real Property material weakness and the DoD Systems material weakness of outdated and manually interfaced systems environment, the Components and OUSD(AT&L) are replacing or modernizing real property management systems and financial systems. System

modernizations require extensive changes to processes, procedures, and internal controls. Data must also be cleansed and migrated. System modernization efforts take substantial time and affect when audit readiness will be achieved.

The financial and functional communities are also working to improve the reliability and availability of information needed to more effectively manage real property assets. Significant progress has been made, but much remains to be done. Examples of key systems being modernized or deployed for Real Property are as follows:

- Army: GFEBS
- Navy: Navy ERP and iNFADS
- Air Force: ACES-RP and DEAMS
- DLA: EBS

The OUSD(AT&L) Real Property Assets Database (RPAD) is being developed to be the Real Property Inventory Requirements (RPIR) compliant central repository of all DoD real property inventory data. RPAD will interface with each of the Component’s Real Property systems. RPAD’s net-centric capabilities will provide near real-time accessibility to data and will become the single authoritative source for all real property inventory information.

Figure 16. Real Property Audit Readiness Summary by Component

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Legend |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---|
| Army | | | | | ▲ | ● | | | | ▲ Assertion ● Audit Ready 09-117b |
| Navy | | | | | ▲ | ● | | | | |
| Air Force | | | | | ▲ | ● | | | | |
| DLA | | | | | | ▲ | ● | | | |

**DoD Best Practices in Real Property Management
Real Property Inventory Requirements (RPIR)**

The Department reengineered its real property inventory business processes. The resulting requirements aim to achieve real property efficiencies by standardizing data, systems and processes. Components are required to implement RPIR’s sustainable business processes and rules, update relevant policies, and modify and populate their Information Technology systems with RPIR’s standard data elements in FY 2009 (Figure 17). When complete, DoD will have an authoritative source for location and near real-time access to an accurate inventory of worldwide assets.

Benefits of RPIR include:

- Provides accurate, timely, and reliable real property information for management decision making.
- Increases visibility and accountability of DoD real property assets through the use of consistent business process and information standards.
- Helps link core real property information to other critical warfighter and business mission data, including personnel, personal property, and environmental information.
- Improves accuracy and auditability of financial statements.

Real Property Construction in Progress Requirements

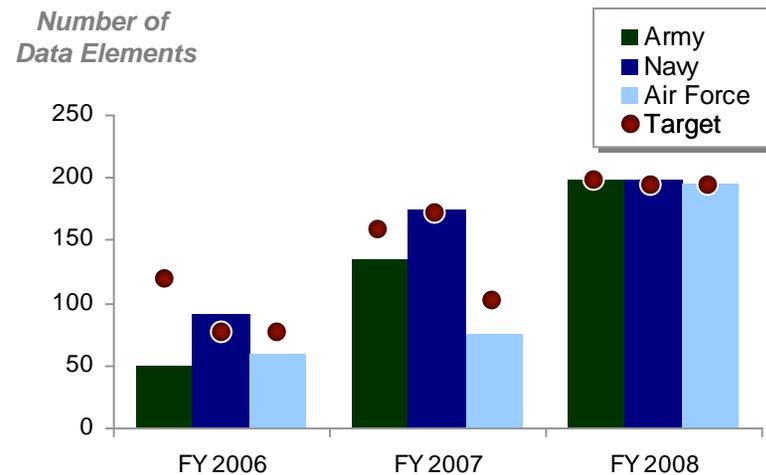
The Department’s current processes for managing and reporting Construction In Progress (CIP) costs do not provide sufficient accountability of construction costs and do not fully comply with federal financial management requirements. Various audit reports have highlighted inadequate internal controls and deficiencies in financial reporting, accountability, and documenting of CIP project and cost information. Real Property Construction In Progress Requirements (RPCIPR) provides a

standard process to calculate, record, and report the value of CIP. A standard process will improve visibility and access to CIP information, ensure that sufficient documentation is available at the transaction level to support CIP values, and enable reliable and consistent reporting of construction progress to Congress, and project and financial managers. Efforts under RPCIPR are now focused on integrating these requirements into the Department’s policies, real property inventories, and associated financial information systems.

Benefits of RPCIPR include:

- Assures consistency in managing processes and associated information for the CIP phase of the real property lifecycle.
- Enables visibility and accountability of DoD real property assets under construction.
- Improves accuracy and auditability of financial statements.
- Provides accurate, timely, and reliable real property

Figure 17. Real Property Inventory by Military Department



Source: March ETP

09-113

information for financial management and decision-making.

Accomplishments to Date

OUSD(AT&L)

- Issued policy standardizing data requirements for real property systems to improve financial reporting and management of real property assets.
- Issued requirements for standard business processes and management controls to improve the accuracy of construction-in-progress cost information.
- Assigned unique site identifiers to all DoD-owned real property sites and automated the process for updating and maintaining the identifiers to reduce ambiguity and ensure consistent reporting.
- Assigned a unique identifier to each DoD real property asset that links financial transactions to assets using SFIS (Standard Financial Information Structure). This ensures more accurate and complete financial data for real property and facilitates reconciliation between record systems.
- Improved the process for transferring and accepting real property by instituting consistent management controls that create a valid audit trail for asset accountability and acquisition value, consistently establish the depreciation start and stop dates for financial reporting, and automate real property acceptance transactions; and revised the Unified Facilities Criteria for Transfer and Acceptance of Real Property regulation.

Army

- Issued a real property audit readiness handbook, which serves as a comprehensive “how to guide” for installation personnel.

- Conducted 22 inventory validations and completed 12 of 155 installation visits to conduct physical inventories and assist with preparing documentation folders for audits.

Navy

- Standardized processes to more accurately and timely record the acceptance and placement in service of real property assets.
- Implemented new processes to enable more accurate reporting of acquisition, capital improvements, depreciation, capital leases, construction-in-progress, disposal, and heritage assets and stewardship land.
- Improved reporting accuracy by completing systems changes to the iNFADS.

Air Force

- Completed and issued a property accountability directive prescribing requirements for Real Property accountability and reporting that will improve the reliability and auditability of real property information.
- Implemented the remaining data elements of the RPIR for ACES-RP.

DLA

- Began development of EBS module to hold DLA real property data and manage facilities projects. Real property data will be RPIR compliant and integrated with financial data.
- Completed site visits to the Marine Corps Logistics Base and the Anniston Army Depot to baseline real property used by DLA at military installations, verify real property inventory data, and collect required documentation.

The following sections include Real Property Key Control Objectives and key milestones that lead to auditability and accomplishments to date.

Real Property Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|--|---|
| 1 | Presentation and Disclosure | Ensure Real Property balances and related footnote disclosures contain all information needed for fair presentation in accordance with GAAP (FAM 395B: 15, 16, and 17). | <ul style="list-style-type: none"> Classify real property as land, buildings, etc. as required for Note 10. Accurate real property data. |
| 2 | Existence or Occurrence | Ensure recorded Real Property transactions represent economic events that actually occurred and are properly classified and recorded in the correct period (FAM 395B: 1c and 2). | <ul style="list-style-type: none"> Record and report construction in progress by real property asset. Liquidate in progress and place asset into service in the accounting system and accountable system of record in the same reporting period the asset is placed in service. Distinguish and properly capitalize or expense modifications or other improvements and maintenance costs. Record the disposal related transactions and properly remove the asset's acquisition cost and accumulated depreciation in the period of disposal. |
| 3 | Existence or Occurrence | Ensure recorded Real Property exists at a given date (FAM 395B: 4a). | <ul style="list-style-type: none"> Perform physical inventory in accordance with GAGAS from general ledger to individually identified physical assets. Accurate real property data (includes conducting physical inventory). |
| 4 | Existence or Occurrence | Ensure recorded Real Property, at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance (FAM 395B: 4b). | <ul style="list-style-type: none"> Accurately record, support, and report baseline or opening balances with supporting documents or alternative method to establish historical cost. Acquisition value baseline. Accurate real property data. Fully net-centric environment. |
| 5 | Rights and Obligations | Ensure recorded Real Property assets are owned by the entity. The entity has rights to the recorded asset at a given date (FAM 395B: 12). | <ul style="list-style-type: none"> Record Real Property transactions approved by appropriate individuals in accordance with management's general or specific criteria. Accurate real property data. DoD-wide asset reconciliation. |

Real Property Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|--|
| 6 | Completeness | Ensure all existing Real Property assets, as of the reporting date, including property in the custody of third parties, are included in the general ledger (FAM 395B: 8). | <ul style="list-style-type: none"> • Imputed costs and revenue related to Real Property assets are properly valued and included in the financial statements (AT&L capability for reporting imputed costs for real property assets). • Perform physical inventory in accordance with GAGAS from individually identified physical assets to general ledger. • DoD-wide asset reconciliation. • Accurate real property data (includes conducting physical inventory). |
| 7 | Valuation or Allocation | Ensure all Real Property assets are recorded at full cost in the general ledger (FAM 395B: 9 and 10). | <ul style="list-style-type: none"> • Record all direct and indirect costs of assets. • Accurate real property data • Acquisition value baseline. • Report imputed costs for real property assets. |
| 8 | Valuation or Allocation | Ensure the net book value of Real Property assets is accurate, and depreciation, depletion, and amortization is accumulated, based on capitalized cost, useful life, date of service, and salvage value, if applicable FAM 395B: 5, 6, and 15). | <ul style="list-style-type: none"> • Accurate real property data. |
| 9 | Valuation or Allocation | Ensure transferred, sold, excess, unusable, or idle Real Property, assets are timely and properly recorded (FAM 395B: 2, 9, and 10). | <ul style="list-style-type: none"> • Accurate real property data. |

Real Property: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|------------|------------------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 1. Assist the Military Services with implementation of the RPIR. | OUSD(AT&L) | | New Sep 2009 | DoD achieves standardized real property data for systems. |
| 2. RPAD achieves FOC. | OUSD(AT&L) | | New Sep 2009 | RPAD net-centric data store will provide visibility to real property information, affecting the improvement of data quality and record reconciliation. |
| 3. Assist the Components with an interim solution for implementation of imputed cost. | OUSD(AT&L) | | New Dec 2010 | Compliance with FASAB accounting standards. |
| 4. Implement a fully net-centric environment. | Army | 4 | Sep 2009 | Achieve Web services interface between the Army's Real Property Inventory system and RPAD. |
| 5. Complete DoD-wide asset reconciliation. | Army | 3, 6 | Sep 2010 | Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy. |
| 6. Complete evaluation, testing, strengthening, and documenting internal controls to include OMB A-123, Appendix A requirements and procedures for regular, periodic testing. | Army | All | Sep 2010 | Effective internal controls provide management with assurance that processes and systems are working as required and real property information is reliable. |
| 7. Account and report imputed costs for Real Property assets. | Army | 6 | Dec 2010 | Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs. |
| 8. Complete deployment of accountable system of record for real property (asset management). Test system functionality and determine whether the system is FFMI compliant. | Army | 3 | Sep 2011 | Deployment of an accountable system of record improves the reliability and timeliness of real property information and makes such information more readily available to management. An accountable system of record eliminates manual processes, reducing manpower costs, and replaces a legacy system that is more costly to operate and maintain. |
| 9. Establish Real Property acquisition value baseline. | Army | 4, 7 | Sep 2011 | Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy. |
| 10. Provide accurate Real Property data. | Army | 1, 3, 4, 5, 7, 8 | Sep 2012 | Fully implement RPIR and RPCIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory. |

Real Property: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|------------------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 11. Submit segment management assertion. | Army | | Dec 2012 | Enables management to assert that data is timely, reliable and accurate. |
| 12. Validated as audit ready by IPA or DoDIG. | DoDIG | | Dec 2013 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 13. Implement a fully net-centric environment. | Navy | 4 | Sep 2009 | Achieve Web services interface between the Navy's Real Property Inventory system and RPAD. |
| 14. Complete DoD-wide asset reconciliation. | Navy | 3, 6 | Sep 2010 | Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy. |
| 15. Account and report imputed costs for Real Property assets. | Navy | 6 | Dec 2010 | Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs. |
| 16. Provide accurate Real Property data. | Navy | 1, 3, 4, 5, 7, 8 | Sep 2012 | Fully implement RPIR and RPCIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory. |
| 17. Establish Real Property acquisition value baseline. | Navy | 4, 7 | Sep 2012 | Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy. |
| 18. Submit segment management assertion. | Navy | | Mar 2013 | Enables management to assert that data is timely, reliable and accurate. |
| 19. Validated as audit ready by IPA or DoDIG. | DoDIG | | Mar 2014 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 20. Implement a fully net-centric environment. | Air Force | 4 | Sep 2009 | Achieve Web services interface between the Air Force's Real Property Inventory system and RPAD. |
| 21. Complete DoD-wide asset reconciliation. | Air Force | 3, 6 | Sep 2010 | Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy. |
| 22. Account and report imputed costs for Real Property assets. | Air Force | 6 | Dec 2010 | Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs. |

Real Property: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|------------------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 23. Establish Real Property acquisition value baseline. | Air Force | 4, 7 | Sep 2011 | Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy. |
| 24. Provide accurate Real Property data. | Air Force | 1, 3, 4, 5, 7, 8 | Sep 2012 | Fully implement RPIR and RPCIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory. |
| 25. Submit segment management assertion. | Air Force | | Sep 2013 | Enables management to assert that data is timely, reliable and accurate. |
| 26. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2014 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 27. Implement a fully net-centric environment. | DLA | 4 | Sep 2009 | Achieve Web services interface between DLA's Real Property Inventory system and RPAD. |
| | | | Revised to Sep 2010 | Unable to establish interactive interface between EBS and RPAD until Sep 2010, but will provide EBS extract beginning Sep 2009. |
| 28. Account and report imputed costs for Real Property assets. | DLA | 6 | Dec 2010 | Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs. |
| 29. Participate in DoD-wide asset reconciliation. | DLA | 3, 6 | Sep 2010 | Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy. |
| | | | Revised to Dec 2011 | Shift from preponderant use to imputed cost greatly increased the number of facilities requiring reconciliation. |
| 30. Provide accurate Real Property data. | DLA | 1, 3, 4, 5, 7, 8 | Sep 2012 | Fully implement RPIR and RPCIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory. |
| | | | Revised to Dec 2013 | Dependency on milestone 29. |

Real Property: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-----------|------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 31. Establish Real Property acquisition value baseline. | DLA | 4, 7 | Sep 2012 | Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy. |
| | | | Revised to Dec 2013 | Dependency on milestone 29. |
| 32. Submit segment management assertion. | DLA | | Sep 2013 | Enables management to assert that data is timely, reliable and accurate. |
| | | | Revised to Mar 2014 | Dependency on milestone 29. |
| 33. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2014 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| | | | Revised to Mar 2015 | Dependency on milestone 29. |

Impediments to Auditability

The Department’s financial community is working closely with the Office of the Deputy Under Secretary of Defense for Installations and Environment and Real Property/Installation Commands to eliminate Real Property audit impediments.

Capturing Asset Level Costs. The Department needs to agree on and implement a management cost strategy for implementation of SFIS managerial cost elements across the department to enable visibility to actual life-cycle costs of individual real property assets. This capability is specifically needed to enable reporting the imputed cost and revenue amounts using the actual cost. The management cost method must provide standard methodologies to allocate costs in order to obtain meaningful cost information for management enabling informed cost management decisions for the real property

programs within DoD. The methodology must be compliant with FASAB cost management requirements. Through working group efforts of the DoD functional and financial Real Property communities a strategy is being developed and with leadership approval a plan for implementation will be put in place.

Opening Balances/Historical Costs. The Department owns Real Property assets that were acquired in colonial times (e.g., Fort Monroe, Virginia), during the Army campaigns into Indian Territory (e.g., Fort Sill, Oklahoma), as well as overseas such as in Germany and South Korea. Most of the original facilities are fully depreciated or have been demolished, but many remain in use today through capital improvements and modernization projects. Placing a value on the land and over 539,000 facilities (old or recently constructed) with acceptable supporting documentation is a significant challenge. The Department is

working with OMB and FASAB to identify an acceptable solution that avoids incurring millions of dollars to search hundreds of installations for historical records or to develop alternative methods to resolve this audit impediment.

Imputed Revenue and Costs. The Department recently changed its Real Property reporting policy (i.e., Preponderance of Use policy) requiring revenue and cost recognition to be imputed, recorded, and reported in financial statements. This change in policy eliminates an audit impediment, since the preponderant use policy was not in compliance with GAAP. Implementing the new imputed revenue and cost requirements is a significant challenge because real property records within and between DoD Components must be reconciled and adjusted, and an acceptable method for determining the amounts to be imputed must be developed and implemented. To facilitate this change in policy, a senior working group has been established to ensure the new policy is expeditiously and properly implemented. An interim solution will be implemented by FY 2011; a final solution is dependent on implementation of cost accounting systems and SFIS across the Department.

Real Property Systems Modernization. The Army, Air Force, and DLA are replacing or modernizing their real property management systems, which also serve as their subsidiary ledgers for real property financial management and reporting.

System modernizations require extensive changes to processes, procedures, and internal controls. Data must also be cleansed and migrated. System efforts in DoD are always a challenge due to its size and complexity; therefore, the Components' system modernization plans impact when audit readiness will be achieved.

The financial and functional communities are also working to improve the reliability and availability of information needed to more effectively manage real property assets. Significant progress has been made, but much remains to be done.

Valuation Methodology for Unsupported Assets. The Department needs to define and implement an alternate methodology for assets without supporting documentation. The methodology should include standards for assets that cannot be deflated from the plant replacement guide due to the absence of a supportable in-service date.

DoD-Wide Asset Reconciliation. The Department needs to establish procedures and methodology for reconciling real property records. Reconciliations must be supportable and verifiable. There are mutual dependencies between the Army, Navy, Air Force, and Defense Agencies.

INVENTORY AND RELATED PROPERTY

The Department reported \$236 billion in Inventory and Related Property (I&RP) on its FY 2008 financial statements (14 percent of DoD assets). The Military Services and DLA hold 99 percent of these assets. I&RP is managed by the DoD Logistics Community and consists of approximately 5 million consumable (e.g., rations, ammunition, spare parts) and reparable (e.g., aircraft engines) items that are procured from more than 100,000 suppliers and distributed to more than 30,000 customers. There are over one million military and civilian personnel working in the Logistics Community.

Accurately reporting the value of I&RP is a DoD-wide material weakness, and one of the Department’s long-term goals is to eliminate this material weakness. To accomplish this goal, the Department must maintain accurate I&RP accountability records, correctly value I&RP items, and properly report I&RP in DoD financial statements. The Department is also concurrently

working to ensure that correct inventory levels are maintained and supplied to the warfighter when and where needed.

I&RP predominantly comprises inventory items held for sale by Working Capital Fund (WCF) activities, such as Army Materiel Command (AMC), and OM&S, which are items held for issuance by General Fund activities.

Each Military Department annually produces two sets of financial statements, one for GF activities and one for WCF activities. The Balance Sheet amount for Inventory is reported on the WCF financial statements, and OM&S is reported on the GF statements. Because the Military Department’s Inventory and OM&S functional communities, financial reporting deficiencies, and systems vary, the Military Department’s have separate financial improvement plans for Inventory and for OM&S. Therefore, the FIAR Plan and this section contain key control objectives and milestones for Inventory and for OM&S.

Figure 18. Inventory Audit Readiness Summary

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Legend |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
| Army | | | | | | | | ▲ | ● | ▲ Assertion |
| Navy | | | | | ▲ | ● | | | | ● Audit Ready |
| Air Force | | | | | | | ▲ | ● | | |
| DLA | | | | | | ▲ | ● | | | |

09-117d

Figure 19. Operating Material and Supplies Audit Readiness Summary

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Legend |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
| Army | | | | | | | | ▲ | ● | ▲ Assertion |
| Navy | | | | | | | ▲ | ● | | ● Audit Ready |
| Air Force | | | | | | | ▲ | ● | | |

09-117e

The September 2008 FIAR Plan contained one set of key milestones for I&RP written to cover both Inventory and OM&S. Because of their generic wording, those key milestones did not adequately reflect the uniqueness of the discovery and correction actions to be performed and the timeframes for completing them. The March 2009 FIAR Plan resolves that problem by providing separate key milestones for Inventory and for OM&S, which is consistent with the Components' Financial Improvement Plans. In most instances, the Inventory and OM&S key milestones contained in this section are different than the September 2008 key milestones.

Resolving these weaknesses is a DoD priority. The Department forecasts achieving audit readiness for Inventory by FY 2013 for Navy, by FY 2015 for DLA, FY 2016 for the Air Force, and FY 2017 for the Army (Figure 18). For Operating Material and Supplies, the Department forecasts achieving audit readiness by FY 2014 for the Navy; FY 2016 for the Air Force; and FY 2017 for the Army (Figure 19).

Enterprise Resource Planning Systems

The key to eliminating the I&RP material weakness, properly valuing I&RP items, maintaining accurate inventory records, and providing reliable I&RP visibility to logisticians is the deployment of ERP systems. Each of the Components is deploying one or more ERPs, and each Component is in a different state of achieving ERP full operational capability due to different start dates, organizational and operational complexities, and deployment strategies and schedules.

The deployment schedules of the ERPs set the critical path and timeline for resolving the material weakness, achieving auditability, and I&RP visibility. The I&RP ERPs being deployed by the Components are as follows:

- Army: LMP and GCSS-Army

- Navy: Navy ERP
- Air Force: ECSS
- DLA: EBS

Best Business Practices

The Logistics Community, led by OUSD(AT&L) and supported by the Business Transformation Agency, is employing many best business practices that significantly improve the Department's ability to manage I&RP items and modernize the DoD supply chain. Best business practices include:

- IUID Marking and Serialization
- Automatic Identification Technology (e.g., Barcoding, Radio Frequency Identification (RFID), Contact Memory Buttons)
- Satellite-Based Movement Tracking and Communications System
- "Just in Time" Delivery Inventory Strategy
- Weapon System Life Cycle Management.

The above best business practices, and many others, improve the Department's ability to effectively and efficiently support the warfighter and help the Department achieve auditability.

Progress Metrics

The Department is exploring different metrics to monitor Component I&RP progress in achieving FIAR goals. Several metrics are being considered. A Moving Average Cost (MAC) Valuation metric has been implemented and is described below. Other metrics being considered include Physical Inventory Process, Physical Inventory Variances, and Warehouse Refusal/Denial Rate.

Figure 20. Inventory and Related Property Valued at Moving Average Cost

| DoD Component | Inventory | OM&S |
|--------------------------|-----------|------|
| Army | 17% | TBD |
| Navy | TBD | TBD |
| Air Force | TBD | TBD |
| Defense Logistics Agency | 100% | NA |

One of the significant challenges in achieving auditability is valuing I&RP in accordance with the accounting standards and DoD regulations, which require the use of MAC. Implementing this requirement is difficult because most legacy logistics systems value I&RP using latest acquisition cost or standard cost, and the use of MAC requires either changes to legacy I&RP systems or migration to a new system with the MAC capability.

The metric goal of 100 percent will be achieved when all applicable I&RP items are valued at MAC. Figure 20 shows the Components' status in achieving this goal. Achieving this goal does not mean that auditability has also been achieved. In most cases, additional work is required to prepare for audit, such as developing auditable opening balances with acceptable supporting documentation.

Accomplishments to Date

OUSD(C)

- Updated and issued DoD Financial Management Regulations consistent with accounting standards for valuing I&RP at the moving average cost.
- Completed a draft revision to the Net Realizable Value (NRV) policy for excess, obsolete, and unserviceable I&RP items.

- Reenergized a working group co-chaired by the OUSD(C) and OUSD(AT&L) with representatives from the Component's Financial and Logistics Communities that meets monthly to maintain emphasis and progress on financial and logistics improvement efforts and share lessons learned.

Army

- Implemented LMP at the Communications and Electronics Command. LMP provides the capability to properly value inventory items at MAC for Army Working Capital Fund activities.
- Began deployment of GCSS-Army.

Navy

- Implemented ordnance valuation process at the MAC.
- Established desktop procedures and supervisory reviews for Ordnance Information System (OIS) financial data reported through the Data Collection Instrument
- Implemented segregation of duties within the OIS to provide an appropriate level of checks and balances upon the activities of individuals.

Air Force

- Implemented compliant valuation principles for OM&S through upgrades to inventory and stock management systems.
- Implemented the MAC valuation methodology for consumable supply items.
- Began developing ECSS.

DLA

- Implemented EBS for Inventory Control Points with the exception of fuels. EBS values the inventory in accordance with policy and the accounting standard.

- Developed a NRV valuation methodology for excess, obsolete, and unserviceable I&RP items.

The following sections include I&RP Key Control Objectives and key milestones that lead to auditability and accomplishments to date.

Inventory Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|--|
| 1 | Presentation and Disclosure | Ensure Inventory balances and related footnote disclosures contain all information needed for fair presentation in accordance with GAAP. (FAM 395B: 15, 16, and 17) | <ul style="list-style-type: none"> • Classify Inventory assets as Available and Purchased for Resale; Held for Repair; Excess, Obsolete and Unserviceable; Raw Materiel; and WIP, as required by GAAP for Note 9. |
| 2 | Existence or Occurrence | Ensure recorded Inventory transactions represent economic events that actually occurred and are properly classified and recorded in the proper period. (FAM 395B:1c, and 2) | <ul style="list-style-type: none"> • Record dispositions of Inventory assets in logistics systems and general ledgers to include dispositions such as sales. • Record WIP for Inventory assets. • Liquidate WIP when Inventory assets are completed. • Recognize when title passes or when Inventory assets are produced or delivered to the purchasing entity (SFFAS 3, par. 19 and par. 38). |
| 3 | Existence or Occurrence | Ensure recorded Inventory exists at a given date. (FAM 395B: 4a) | <ul style="list-style-type: none"> • Perform physical inventories in accordance with GAGAS and a formal Physical Inventory Strategy and Plan from general ledger to individually identified physical assets. |
| 4 | Existence or Occurrence | Ensure recorded Inventory at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. (FAM 395B: 4b) | <ul style="list-style-type: none"> • Support baseline/opening balances with acceptable documents or alternative methods when supporting documents are not available. |
| 5 | Rights and Obligations | Ensure recorded Inventory are owned by the entity. The entity has rights to the recorded asset at a given date. (FAM 395B: 12) | <ul style="list-style-type: none"> • Identify and distinguish separately Inventory assets held by one entity but owned by another. |
| 6 | Completeness | Ensure all existing Inventory, as of the reporting date, including property in the custody of third parties, are included in the general ledger. (FAM 395B: 8) | <ul style="list-style-type: none"> • Capture the existence and value of Inventory assets held by third parties, such as GFM in the possession of contractors. • Perform physical inventory in accordance with GAGAS and a formal Physical Inventory Strategy and Plan from individually identified physical assets to general ledger (Floor to Record). |

Inventory Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|--|--|
| 7 | Valuation or Allocation | Ensure all Inventory are recorded at full cost in the general ledger. (FAM 395B: 9 and 10) | <ul style="list-style-type: none"> • Value Inventory assets at historical cost using moving average cost flow assumption (DoD FMR, Volume 4, Chapter 4), or when required by the DoD FMR, at latest acquisition cost or net realizable value (SFFAS 3, par. 20 & 26). • Capture the full cost of Inventory assets valued at historical cost to include all other costs, such as transportation and production costs, incurred to bring the items into its current condition and location (SFFAS 3, par. 21). • Charge to operations for the period any abnormal costs, such as excessive handling or rework costs (SFFAS 3, par. 21). • Ability of logistics systems to value Inventory assets using MAC or other acceptable method (DoD FMR Volume 4, Chapter 4). |
| 8 | Valuation or Allocation | Ensure transferred, excess, unusable, or idle Inventory are timely and properly recorded. (FAM 395B: 2, 9, 10) | <ul style="list-style-type: none"> • Capture the existence and value of Inventory assets in-transit between organizations and/or systems. • Value excess, obsolete, and unserviceable Inventory assets at their estimated NRV, and to recognize as a gain or loss the difference between MAC and NRV (SFFAS 3, par. 30 and 48). |

Operating Material and Supplies Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|----------------------------------|--|--|
| 1 | Presentation and Disclosure | Ensure OM&S balances and related footnote disclosures contain all information needed for fair presentation in accordance with GAAP. (FAM 395B: 15, 16, and 17) | <ul style="list-style-type: none"> Classify OM&S assets as Held for Use; Held for Repair; and Excess, Obsolete and Unserviceable, as required by GAAP for Note 9. |
| 2 | Existence/ Occurrence | Ensure recorded OM&S transactions represent economic events that actually occurred and are properly classified and recorded in the proper period. (FAM 395B: 1c and 2) | <ul style="list-style-type: none"> Record dispositions of OM&S assets in logistics systems and General Ledgers to include dispositions such as sales. Recognize when title passes or when OM&S assets are produced or delivered to the purchasing entity (SFFAS 3, par. 19 and par. 38). |
| 3 | Existence/ Occurrence | Ensure recorded OM&S exists at a given date. (FAM 395B: 4c) | <ul style="list-style-type: none"> Perform physical inventories in accordance with GAGAS and a formal Physical Inventory Strategy and Plan from General Ledger to individually identified physical assets. |
| 4 | Existence/ Occurrence Valuation | Ensure recorded OM&S at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. (FAM 395B: 4b) | <ul style="list-style-type: none"> Support baseline/opening balances with acceptable documents or alternative methods when supporting documents are not available. |
| 5 | Rights and Obligations | Ensure recorded OM&S are owned by the entity. The entity has rights to the recorded asset at a given date. (FAM 395B: 12) | <ul style="list-style-type: none"> Identify and distinguish separately OM&S assets held by one entity but owned by another. |
| 6 | Completeness/ Accuracy Valuation | Ensure all existing OM&S, as of the reporting date, including property in the custody of third parties, are included in the general ledger. (FAM 395B: 8) | <ul style="list-style-type: none"> Capture the existence and value of OM&S assets held by third parties, such as GFM in the possession of contractors. Perform physical inventory in accordance with GAGAS and a formal Physical Inventory Strategy and Plan from individually identified physical assets to general ledger (Floor to Record). |

Operating Material and Supplies Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|--|
| 7 | Valuation or Allocation | Ensure all OM&S are recorded at full cost in the general ledger. (FAM 395B: 9 and 10) | <ul style="list-style-type: none"> • Value OM&S assets at historical cost using the moving average cost flow assumption (DoD FMR, Volume 4, Chapter 4), or when required by the DoD FMR, at latest acquisition cost, or net realizable value (SFFAS 3, par. 20 & 26). • Capture the full cost of OM&S assets valued at historical cost to include all other costs, such as transportation and production costs, incurred to bring the items into its current condition and location (SFFAS par. 1). • Charge to operations for the period any abnormal costs, such as excessive handling or rework costs (SFFAS par. 21). • Ability of logistics systems to value OM&S assets using Moving Average Cost (MAC) or other acceptable method such as FIFO (DoD FMR Volume 4, Chapter 4). |
| 8 | Valuation or Allocation | Ensure transferred, excess, unusable, or idle OM&S are timely and properly recorded. (FAM 395B: 2, 9, and 10) | <ul style="list-style-type: none"> • Capture the existence and value of OM&S assets in-transit between organizations and/or systems. • Value excess, obsolete, and unserviceable OM&S assets at their estimated net realizable value (NRV), and to recognize as a gain or loss the difference between MAC and NRV (SFFAS 3, par. 30 and 48). |

Inventory: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|----------------------|------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 1. Issue revised NRV Policy in DoD Financial Management Regulation. | OUSD(C)/FR&A, A&FP | 8 | Sep 2009 | Aligns the DoD FMR with the FASAB accounting standard. |
| 2. FIAR Directorate coordinates and monitor the DoDIG review of the DLA NRV calculation methodology. | OUSD(C)/FIAR & DODIG | 8 | Sep 2009 | Ensures the DLA NRV calculation methodology will be acceptable for future financial statement audits. |
| 3. Develop NRV implementation guidance. | OADUSD/SCI | 8 | Sep 2009 | Ensures the NRV policy and methodology are properly implemented. |
| 4. Resolve reporting/disclosure issue pertaining to "Inventory Held for Future Sale." | OUSD(C)/FR&A, A&FP | 1 | Sep 2010 | Aligns DoD reporting requirements with the FASAB accounting standard. |
| 5. Complete review, correction or modification, and documentation of business and financial processes. | Army | All | Sep 2010 | Provides assurance to management that processes are working effectively and that actions impacting inventory, such as acquisition and disposal, are being timely and accurately recorded. |
| 6. Complete evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A, requirements and procedures for regular, periodic testing. | Army | All | Sep 2010 | Provides management with assurance that processes and systems are working as required and that inventory information is reliable. |
| 7. Re-validate that installations are correctly performing physical inventory counts in accordance with AR 740-26 and other applicable guidance. | Army | 3 | Sep 2010 | Verifies that Army installations accurately account for inventory. |
| 8. Value inventory at MAC for Supply Management Activity. | Army | 7, 4 | Sep 2010 | Ensures that Army is reporting inventory in accordance with FASAB accounting standards and DoD FMR. |
| 9. Value inventory at MAC for Depot Maintenance. | Army | 7, 4 | Sep 2010 | Ensures that Army is reporting inventory in accordance with FASAB accounting standards and DoD FMR. |
| 10. Develop auditable opening balances (historical baseline) with appropriate supporting documentation that is readily available for auditors. | Army | 4 | Sep 2010 | Allows Army to report and support historical inventory balances with auditable information and sufficient documentation. |

Inventory: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|---------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 11. Fully implement LMP. | Army | All | Sep 2010 | Provides Army with enterprise-wide inventory management system. |
| 12. Fully implement GCSS-A. | Army | All | Jan 2014 | Provides Army with enterprise-wide logistics system. |
| 13. Report Inventory and Related Property in accordance with a sustainable business process. | Army | 1 | Jan 2014 | Ensures Army inventory balances reported on financial statements originate and flow through sustainable and auditable business processes. |
| 14. Validate auditability of Inventory and related property. | Army | All | Jan 2015 | Confirms that Army inventory balances are accurate, supportable, and reported through sustainable business processes. |
| 15. Submit segment management assertion. | Army | | Mar 2016 | Enables management to assert that data is timely, reliable and accurate. |
| 16. Validated as audit ready by IPA or DoDIG. | DoDIG | | Mar 2017 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 17. Issue clarifying guidance for definition of Inventory, procedures for special operational situations, and WIP. | Navy | 1 | Mar 2010 | Provides policy to identify appropriate treatment of inventory in the to-be environment. |
| 18. Deploy phase 1 of Navy ERP release 1.1., which includes functionality to manage and account for Inventory. | Navy | 2, 4, 7 | Mar 2010 | Deploys a fully integrated business system (Navy ERP) to select Navy Supply Activities that enables capabilities supporting enterprise-wide total asset visibility and producing auditable financial information. |
| 19. Deploy phase 2 of Navy ERP release 1.1., which includes functionality to manage and account for Inventory. | Navy | 2, 4, 7 | Sep 2010 | Deploys a fully integrated business system (Navy ERP) to select Navy Supply Activities that enables capabilities supporting enterprise-wide total asset visibility and producing auditable financial information. |
| 20. Deploy phase 3 of Navy ERP release 1.1., which includes functionality to manage and account for Inventory. | Navy | 2, 4, 7 | Mar 2011 | Deploys a fully integrated business system (Navy ERP) to select Navy Supply Activities that enables capabilities supporting enterprise-wide total asset visibility and producing auditable financial information. |
| 21. Cleanse and migrate inventory data to Navy ERP. | Navy | 1 | Sep 2011 | Legacy information in an audit ready capable environment. |

Inventory: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|------------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 22. Identify and implement inventory sampling methodology to sustain data quality. | Navy | 3, 5, 6, 8 | Mar 2012 | Provides and implements a methodology that mitigates risk associated with existence and completeness of supply inventories. |
| 23. Submit segment management assertion. | Navy | | Dec 2012 | Enables management to assert that data is timely, reliable and accurate. |
| 24. Validated as audit ready by IPA or DoDIG. | DoDIG | | Dec 2013 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 25. Implement change to the Wholesale and Retail Receiving/Shipping system to correct a processing error that has resulted in an overstatement of the Inventory In Transit account 1521. | Air Force | 8 | Apr 2009 | Corrects system logic issues with Inventory in-transit by repairing contractor locations and eliminating double reporting of assets. |
| 26. Test accuracy of system programming change to the Wholesale and Retail Receiving/Shipping system In-transit process. | Air Force | 8 | Sep 2009 | Validates system changes have correctly eliminated double reporting of Inventory assets. |
| 27. Complete prior period adjustment package for Inventory In-Transit account 1521 to reverse transactions for inventory assets returned from repair and incorrectly coded as a gain to inventory. | Air Force | 8 | Sep 2009 | Results in a more reliable balance for the In-Transit Inventory account 1521. The package will provide background information, supporting schedules and suggested journal entries to correct accounting errors concerning inventory shipped to and from repair contractors. Documentation will support correction of over 23 thousand erroneous transactions totaling over \$1.6 billion for the period FY 2001-2008. |
| 28. Complete prior period adjustment package for Inventory In Transit account 1521 to reverse system logic errors related to removing individual items from kits and returning them to Inventory. | Air Force | 8 | Sep 2009 | Results in a more reliable balance for the In-Transit Inventory account 1521. The package will provide background information, supporting schedules and suggested journal entries to correct accounting errors concerning inventory transferred between Peace Time Operating Stock and War Readiness Material. Documentation will support correction of \$1.7 billion in accounting errors between FY 2004-2007. |

Inventory: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-----------|-----|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 29. Update MOA between Air Force and DLA to complete CFO physical inventory in FY 2009 of Air Force owned Inventory items stored in DLA warehouses. | Air Force | 3 | Sep 2009 | Enables the FY 2009 CFO physical count of Air Force owned assets stored in DLA facilities. The MOA will serve as the basis for a permanent sustainable agreement between Air Force and DLA to complete this inventory on an annual basis. |
| 30. Conduct a FY 2009 CFO physical inventory of Air Force owned Inventory items stored in DLA warehouses related to the reliability (existence and completeness) of Inventory records at DLA locations. | Air Force | 3 | Sep 2009 | Provides assurance of the reliability and accuracy of data received from DLA. It also will validate the physical Inventory methodology to create a documented standard operating procedure. |
| 31. Eliminate WIP postings to the Air Force Working Capital Fund for the Contract Depot Maintenance Activity Group by moving all contract repairs to direct customer funding. | Air Force | 2 | Sep 2010 | Resolves the WIP weakness and improves the reliability (existence and valuation) of Inventory. |
| 32. Implement a sustainable physical inventory process that includes regular reconciliations supported by documentation and internal controls. | Air Force | 3 | Sep 2011 | Provides management with reliable data on asset availability and supply chain management while ensuring positive control of property through the global logistics network. |
| 33. Implement MAC in accordance with the DoDFMR Volume 4, Chapter 4, for accounting for the latest repair cost in the inventory valuation for inventory. | Air Force | 7 | Sep 2012 | Provides a consistent valuation method across the Air Force and DoD providing management with enterprise-wide visibility of asset values. |
| 34. Properly record post-award acquisition data to ensure valid acquisition cost used to value Inventory. | Air Force | 7 | Sep 2013 | Provides management an accurate and auditable Inventory valuation by completing baseline valuation to include accurate acquisition data that represents the cost of bringing each asset into serviceable inventory held for sale. |
| 35. Implement a sustainable, auditable process to track and document in-transit inventory moving between systems, service organizations, or third party inventory control points. | Air Force | 8 | Sep 2014 | Eliminates unreconcilable balances between inventory shipments and receipts providing management with visibility of the value of assets between locations and entities. |
| 36. Submit segment management assertion. | Air Force | | Sep 2015 | Enables management to assert that data is timely, reliable and accurate. |

Inventory: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-----------|---------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 37. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2016 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 38. Complete Net Realizable Value Methodology for Excess, Obsolete and Unserviceable inventory. | DLA | 7, 8 | Completed | Ensures Excess, Obsolete and Unserviceable inventory is accurately valued on the financial statements. |
| 39. Complete and document baseline valuation process with values based upon available historical acquisition data and other supporting documentation. | DLA | 7 | May 2009 | Ensures accurate valuation of inventory for financial statement management assertions. |
| 40. Complete the Plan to Stock (P2S) business process Discovery Phase to include documenting key controls and necessary corrective actions. | DLA | 3 | Sep 2009 | Provides a documented sustainable, auditable process to achieve assurance that internal and external inventory management controls are in place. |
| 41. Complete review, correction or modification, and documentation of business and financial processes. | DLA | 1, 7, 8 | Sep 2013 | Provides assurance that processes are working effectively and that actions impacting inventory, such as acquisition and disposal, are being timely and accurately recorded. |
| 42. Complete evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A, requirements and procedures for regular, periodic testing (annually). Also includes DLA CFO Sampling for the Military Services. | DLA | 3 | Sep 2013 | Provides management with assurance that processes and systems are working as required and that inventory information is reliable. |
| 43. Complete deployment of EBS for P2S. Test EBS functionality and verify if the system is FFMI compliant. | DLA | 2 | Sep 2013 | Improves the reliability and timeliness of inventory information and makes such information more readily available to management. |
| 44. Cleanse and migrate P2S related data to EBS. Data cleansing and migration is fully documented. Documentation for current year transactions is readily available and acceptable to auditors. | DLA | 2 | Sep 2013 | Provides management with assurance that inventory information is accurate and reliable and prepares for successful audits. |

Inventory: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|---------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 45. Develop auditable P2S opening balances (historical baseline) with appropriate supporting documentation that is readily available for auditors. | DLA | 4, 5, 7 | Sep 2014 | Achieves existence, completeness, and valuation for financial statement management assertions and ensures management has a complete record of inventory thereby improving inventory related decisions. |
| 46. Submit segment management assertion. | DLA | | Sep 2014 | Enables management to assert that data is timely, reliable and accurate. |
| 47. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2015 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |

Operating Material and Supplies: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|--------------------|-----|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 1. Issue revised NRV Policy in DoD Financial Management Regulation. | OUSD(C)/FR&A, A&FP | 8 | Sep 2009 | Aligns the DoD FMR with the FASAB accounting standard. |
| 2. Resolve reporting/disclosure issue pertaining to "Inventory Held for Future Sale." | OUSD(C)/FR&A, A&FP | 1 | Sep 2010 | Aligns DoD reporting requirements with the FASAB accounting standard. |
| 3. Complete review, correction or modification, and documentation of business and financial processes. | Army | All | Sep 2010 | Provides assurance to management that processes are working effectively and that actions impacting OM&S, such as acquisition and disposal, are timely and accurately recorded. |
| 4. Complete evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A, requirements and procedures for regular, periodic testing. | Army | All | Sep 2010 | Provides management with assurance that processes and systems are working as required and that OM&S information is reliable. |
| 5. Perform physical inventory counts in accordance with AR 740-26 and other applicable guidance. | Army | 3 | Sep 2010 | Verifies that Army installations accurately account for OM&S. |

Operating Material and Supplies: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|------------|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 6. Ensure adherence to governance requirements for field level physical inventory process. | Army | 3 | Sep 2010 | Verifies that Army installations accurately account for OM&S. |
| 7. Develop auditable opening balances (historical baseline) with appropriate supporting documentation that is readily available for auditors. | Army | 4 | Sep 2010 | Allows Army to report and support historical OM&S balances with auditable information and sufficient documentation. |
| 8. Fully implement the Logistics Modernization Program (LMP). | Army | All | Sep 2010 | Provides Army with enterprise-wide inventory management system. |
| 9. Fully implement the General Fund Enterprise Business System (GFEBS). | Army | All | Dec 2011 | Provides Army with enterprise-wide transaction-level general ledger system. |
| 10. Fully implement the Global Combat Support System – Army (GCSS-A). | Army | All | Jan 2014 | Provides Army with enterprise-wide logistics system. |
| 11. Report OM&S in accordance with a sustainable business process. | Army | 1 | Jan 2014 | Ensures OM&S balances reported on financial statements originate and flow through sustainable and auditable business processes. |
| 12. Verify and validate auditability of OM&S. | Army | All | Jan 2015 | Confirms that OM&S balances are accurate, supportable, and reported through sustainable business processes. |
| 13. Submit segment management assertion. | Army | | Mar 2016 | Enables management to assert that data is timely, reliable and accurate. |
| 14. Validated as audit ready by IPA or DoDIG. | DoDIG | | Mar 2017 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 15. Analyze and confirm which OM&S systems will be replaced by ERP. | Navy | 1, 2, 6, 7 | Sep 2009 | Identifies systems of record for audit readiness capabilities. |
| 16. Complete deficiency correction actions identified in 2007 Naval Audit Service report on legacy DON OM&S systems. | Navy | 1, 2, 6, 7 | Sep 2009 | Enables legacy system OIS, which is not planned to migrate to Navy ERP, to be auditable. |
| 17. Determine ERP strategy and solution to address SOM, Appropriation Purchase Account material, Property in the Possession of Contractors, and residual material. | Navy | 1, 2, 6, 7 | Mar 2010 | Develops a detailed strategy for SOM, Appropriation Purchase Account material, Property in the Possession of Contractors, and residual material for implementation in the Navy ERP environment. |

Operating Material and Supplies: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|------------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 18. Issue clarifying guidance for definition of OM&S, procedures for special operational situations (i.e., shipboard inventory and OM&S), and WIP. | Navy | 1, 2, 6, 7 | Mar 2010 | Provides clear written guidance to permit and facilitate functional and financial personnel to properly record and report OM&S in all categories and situations including OM&S under construction or production. |
| 19. Cleanse, convert and document on-hand balances in retiring systems at NAVAIR to ERP. | Navy | 1, 2, 6, 7 | Dec 2010 | Migrates reliable data into the Navy ERP environment. |
| 20. Identify and implement a sampling methodology to sustain data quality. | Navy | 3, 4, 5, 8 | Dec 2012 | Ensures that the sampling methodology is appropriate and coordinated DoD-wide. |
| 21. Complete inventory of OM&S across Navy Commands. | Navy | 3, 4, 5, 8 | Sep 2013 | Ensures that OM&S records are reconciled and accurate by detective control validation, through book to floor and floor to book inventories at all Navy Commands. |
| 22. Submit segment management assertion. | Navy | | Mar 2015 | Enables management to assert that data is timely, reliable and accurate. |
| 23. Validated as audit ready by IPA or DoDIG. | DoDIG | | Mar 2016 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 24. Complete changes necessary to eliminate duplicative reporting of munitions assets. | Air Force | 1 | Jun 2009 | Ensures greater accuracy in financial statements by eliminating the reporting of identical assets by multiple accountability systems. |
| 25. Complete MOA between Air Force and DLA to complete a CFO physical inventory of Air Force owned OM&S items stored in DLA warehouses. | Air Force | 6 | Sep 2009 | Provides a critical procedural step to performing the CFO physical inventories by updating the MOA with the DLA to include GF assets. |
| 26. Conduct a CFO physical inventory of Air Force owned OM&S stored in DLA warehouses and analyze the results related to the reliability (existence and completeness) of OM&S. | Air Force | 6 | Sep 2009 | Provide evidence of the accuracy of financial statement balances for DLA-warehoused GF assets. |
| 27. Publish policy for the collection of cost data for REMIS to properly value drones and cruise missiles. | Air Force | 7 | Sep 2009 | Ensures OM&S assets are valued appropriately. |

Operating Material and Supplies: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|---------|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 28. Start electronic reporting of contractor-managed OM&S. | Air Force | 2, 6, 7 | Mar 2010 | Provides greater visibility of contractor-managed asset activity, mitigate risk associated with manual data manipulation, and improves asset valuation and the timeliness of financial reporting, all of which are critical to auditability. |
| 29. Implement a sustainable physical inventory process that includes regular reconciliations supported by documentation and internal controls. | Air Force | 3 | Sep 2011 | Provides management with reliable data on asset availability and supply chain management, while ensuring positive control of property through the global logistics network. |
| 30. Implement MAC in accordance with the DoDFMR Volume 4, Chapter 4, for accounting for the latest repair cost in the inventory valuation for OM&S. | Air Force | 7 | Sep 2012 | Provides a consistent valuation method across the Air Force and DoD providing management with enterprise-wide visibility of asset values. |
| 31. Properly record post-award acquisition data to ensure valid acquisition cost used to value Inventory. | Air Force | 7 | Sep 2013 | Provides management an accurate and auditable OM&S valuation by completing a baseline valuation that will include accurate acquisition data that represents the cost of bringing each asset into serviceable inventory held for use. |
| 32. Achieve Full Operational Capability for ECSS. | Air Force | All | Sep 2013 | Provides a compliant enterprise logistics system that will produce reliable and auditable financial reports and provide visibility of all asset data and costs. |
| 33. Implement a sustainable, auditable process to track and document in-transit OM&S moving between systems, service organizations, or third party inventory control points. | Air Force | 8 | Sep 2014 | Provides management with visibility of the value of assets between locations and entities. |
| 34. Submit segment management assertion. | Air Force | | Sep 2015 | Enables management to assert that data is timely, reliable and accurate. |
| 35. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2016 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |

Impediments to Auditability

Opening Balances. The Department stocks over 4 million different types of I&RP items. Many of the supply items have a very low turnover rate (years), creating a significant challenge in properly valuing opening balances and having acceptable supporting documentation for verifying acquisition costs. The Department is working with OMB and FASAB to develop alternative methods for resolving this audit impediment or identify an acceptable solution that avoids incurring millions of dollars to research and find acquisition records.

Inventory Transfers. Significant quantities of I&RP are being transferred from BRAC (Base Realignment and Closure) activities to the other DoD installations. Properly valuing the items included in these transfers is a considerable challenge because the actual acquisition costs were not recorded in I&RP legacy systems. Rather, most I&RP legacy systems use latest acquisition cost without an allowance for gains or losses to approximate historical cost to value items, which is not in accordance with accounting standards. Furthermore, when the inventories are transferred to the enduring sites, they are not accompanied by sufficient supporting acquisition documentation to determine the actual acquisition costs. Therefore, alternative methods will have to be used to value much of the transferred I&RP items.

Systems Modernization. The Components are replacing the I&RP systems with ERPs. Properly and successfully implementing ERPs is a significant challenge due to the size, complexity, and global footprint of the Components. In addition, ERP deployments require extensive changes to processes, procedures, and internal controls. Data must also be cleansed and migrated.

ENVIRONMENTAL LIABILITIES

The Department reported \$71 billion in Environmental Liabilities on its FY 2008 financial statements (2 percent of DoD liabilities). The Military Services and DLA hold nearly 100 percent of the Department’s Environmental Liabilities. With an incomplete universe of sites and underestimated cleanup costs due to documentation, process, and internal control problems, environmental liabilities is a material weakness area for DoD. The Department has invested significant effort in addressing its material weakness in Environmental Liabilities by improving policy and guidance, business processes, and cleanup cost estimate procedures. The long-term goal is to capture all environmental site information, reliably calculate environmental liability estimates and report environmental liabilities on DoD financial statements accurately, timely, and reliably. A complete and accurate accounting of environmental liabilities will assist in establishing and managing cleanup priorities, developing and defending budget estimates, and forecasting environmental cleanup costs and liabilities.

The Department forecasts achieving audit readiness for Environmental Liabilities by FY 2010 for the Navy, FY 2012 for the Air Force, FY 2013 for the Army, and FY 2017 for DLA (Figure 21).

Enterprise Resource Planning Systems

The Components’ environmental liability target environment will utilize their implemented and modernized ERP Systems, estimating systems, and other supporting databases to identify, manage, and report all sites and assets with environmental liabilities. Some examples of the key systems for each of the components in this environment are listed below.

Army: AEDB-R, AEDB-CC, FUDSMIS, HQIIS, and GFEBs.

Air Force: EESOH-MIS, ACES, AFRIMS, AFRPA-IIT, RACER, ELS, and DEAMS

Navy: iNFADS, NORM, and Navy ERP

DLA: RACER and EBS

DoD Best Practices in Environmental Liability Management

Environmental Liabilities Recognition, Valuation and Reporting requirements have been identified. Joint cross-functional teams composed of engineers, financial managers and facility managers developed and documented core data, business rules and process requirements for accurately reporting environmental liabilities. In tandem with appropriate functional program and financial guidance, the reengineered environmental liabilities business process requirements provide the framework for end-to-end environmental liabilities business process that supports accurate and auditable reporting. The end-to-end Environmental

Figure 21. Environmental Liabilities Audit Readiness Summary by Component

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Legend |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
| Army | | | | ▲ | ● | | | | | ▲ Assertion |
| Navy | ▲ | ● | | | | | | | | ● Audit Ready |
| Air Force | | | ▲ | ● | | | | | | |
| DLA | | | | | | | | ▲ | ● | |

Dec 2017 09-117c

Liabilities business process encompasses all business functions necessary to identify environmental cleanup, closure, or disposal liabilities. The process also develops cost estimates and tracks expenditures.

Benefits of Environmental Liability Management include:

- Documented, complete, and accurate inventories of environmental liabilities reconciled with DoD asset records.
- Increased awareness of asset condition, resulting in improved management and business operations.
- Effective and comprehensive financial data management, including enterprise standards, high integrity, transparency and interoperability.

Accomplishments to Date

OSD

- Published an Environmental Liabilities Best Practices Guide that provides best practices for approaching an audit, and properly accounting for and supporting environmental liabilities in financial statements.
- Published the Environmental Liabilities Recognition, Valuation, and Reporting Requirements document that includes the necessary data, process model, and business rules to be implemented in Component business operations and systems to provide complete and auditable environmental liabilities for financial statement reporting.
- Published Environmental Liabilities Training Standards, which standardize disseminated information and help ensure staff involved in environmental liability recognition, valuation, and reporting have baseline knowledge.
- Updated chapters of the Defense Environmental Restoration Program Manual that address estimating program costs and environmental liabilities. The updated guidance provides for consistent implementation with respect to completeness of

cost estimates, documentation, estimator and reviewer qualifications, segregation of duties, and other relevant areas.

Army

- Obtained FFMIA compliance certification on two Environmental Liability tracking systems, AEDB-CC and AEDB-R from Army Audit Agency.
- Developed a plan to recognize, value, and report environmental closure liabilities associated with real property assets.

Navy

- Completed documentation and correction of processes and procedures for identifying, estimating, and reporting Defense Environmental Restoration Program (DERP), Non-DERP, and BRAC environmental liability estimates.
- Completed a fence-to-fence survey at all Navy installations and estimated environmental disposal liabilities for ships and submarines, both conventional and nuclear, and for Non-DERP environmental liabilities developed preliminary cost estimates.

Air Force and DLA

- Completed initial documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating DERP, Non-DERP, and BRAC environmental liability estimates.

Army, Navy, Air Force and DLA

- DERP established and documented a process to accomplish supervisory review and approval of liability estimates.

DLA

- Completed a validation of the Environmental Liability Training Program and confirmed that adequate internal

controls exist and comply with the current OSD Training Guidance.

The following sections include, a summary chart showing a table of key control objectives and key milestones that lead to auditability, and accomplishments to date.

Environmental Liabilities Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|--|--|
| 1 | Presentation and Disclosure | Ensure Environmental Liabilities balances and related footnote disclosures contain all information needed for fair presentation in accordance with US GAAP (FAM 395B: 15, 16, and 17). | <ul style="list-style-type: none"> Classify environmental liabilities as required by GAAP in Note 14. Reported environmental liabilities are accurate, timely and reliable. |
| 2 | Existence or Occurrence | Ensure recorded Environmental Liabilities correspond to estimated costs associated with projected environmental cleanup, closure or disposal sites or assets, activities, and/or efforts (FAM 395B: 1c). | <ul style="list-style-type: none"> Full estimated costs by site or asset for performing environmental cleanup, closure or disposal actions are accurately managed and reported. |
| 3 | Rights and Obligations | Ensure legal obligation to pay for cleanup, closure or disposal costs related to recorded Environmental Liabilities (FAM 395B: 14). | <ul style="list-style-type: none"> Full costs by site or asset for performing environmental cleanup, closure or disposal actions are accurately managed and reported. |
| 4 | Completeness | Ensure all assets with potential Environmental Liabilities, including assets in the custody of third parties, as of the reporting date, are included in the general ledger (FAM 395B: 5 and 6). | <ul style="list-style-type: none"> Physical inventory of all property to ensure evaluation of potential environmental liabilities. All sites and assets with environmental liabilities are identified and recorded. |
| 5 | Valuation or Allocation | Ensure all potential Environmental Liabilities are recorded at full estimated cost in the general ledger (FAM 395B: 9 and 10). | <ul style="list-style-type: none"> Full costs by site for performing environmental cleanup, closure or disposal actions are accurately managed and reported. Accurate and timely matching of expenditures to corresponding liability. |
| 6 | Valuation or Allocation | Ensure consistent use of appropriate methodologies for valuing Environmental Liabilities (FAM 395B: 16). | <ul style="list-style-type: none"> Environmental liability cost estimates are accurate, documented, and verifiable. Proper qualifications, approvals and segregation of duties used in developing cost estimates. Documentation of methods used for cost estimates. |

Environmental Liabilities Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|--|
| 7 | Valuation or Allocation | Ensure Environmental Liabilities are properly allocated across appropriate reporting periods (FAM 395B: 6). | <ul style="list-style-type: none"> Reported environmental liabilities are accurate, timely and reliable. Ability to provide reasons and amounts for any material changes to cost estimates from the previous reporting period. |

Environmental Liabilities: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-----------|-----|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 1. Non-DERP: Document and correct processes and procedures for creating, updating, reviewing, approving, and liquidating EL estimates. | Army | | Sep 2009 | The process for developing cost estimates will be documented, controls will be working effectively, and Non-DERP amounts will be audit ready. |
| 2. Non-DERP: Document that PP&E records have been reviewed for EL and properly record the liability. | Army | | Sep 2009 | The process to identify and classify property, plant and equipment with EL will be documented and support achieving audit readiness. |
| | | | Revised to Dec 2011 | Dependency on GFEBs deployment and general equipment data valuation. |
| 3. Non-DERP & CAMD: Complete and document initial estimates for EL sites. | Army | | Sep 2009 | Non-DERP and CAMD EL initial estimates will be completed, documented, and audit ready. |
| 4. Non-DERP & CAMD: Populate data gathering tool with inventory of EL sites, estimates, anticipated closure dates, and cumulative costs incurred. | Army | | Sep 2009 | The data gathering tool, when fully populated, supports achieving audit readiness. |
| | | | Revised to Dec 2011 | Dependency on general equipment data valuation and validation. |
| 5. Non-DERP: Establish and document process to accomplish supervisory review and approval of the EL estimates. | Army | | Sep 2010 | The supervisory review and approval process assists in becoming and sustaining audit readiness. |
| 6. Submit segment management assertion. | Army | | Dec 2011 | Enables management to assert that data is timely, reliable and accurate. |

Environmental Liabilities: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|-----------|-----|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 7. Validated as audit ready by IPA or DoDIG. | DoDIG | | Dec 2012 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 8. Submit segment management assertion. | Navy | | Dec 2008 | Enables management to assert that data is timely, reliable and accurate. |
| | | | Completed Mar 2009 | Finalization of assertion package took longer than anticipated. |
| 9. Validated as audit ready by IPA or DoDIG. | DoDIG | | Dec 2009 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| | | | Revised to Mar 2010 | Dependency on milestone 8. |
| 10. Complete corrective actions for facility closure, asbestos, and non-military equipment EL. | Air Force | | Dec 2009 | Processes and controls for facility closure, asbestos and non-military equipment liability will be documented and available for audit assertion. |
| 11. Complete implementation of Environmental Liability Service. | Air Force | | Sep 2010 | Environmental Liability Service provides lower-risk functionality and eliminates most manual processes for DERP programs. |
| 12. Submit segment management assertion. | Air Force | | Dec 2010 | Enables management to assert that data is timely, reliable and accurate. |
| 13. Validated as audit ready by IPA or DoDIG. | DoDIG | | Dec 2011 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 14. DERP: Identify universe of EL candidate units, facilities, property and/or operations. | DLA | | Sep 2009 | Documented complete list of all environmental liability areas with associated linkages to the real property asset record supports achieving and sustaining audit readiness. |
| | | | Revised to Mar 2015 | Dependency on Real Property data being complete. |
| 15. DERP: Document that all PP&E records have been reviewed for existing EL and properly reported. | DLA | | Sep 2009 | Completed analysis of the DERP process identifying and classifying PP&E with EL will be annotated on the financial statement and maintained until linkages to dependencies are ready for audit validation. |
| | | | Revised to Jun 2015 | Dependency on developing methodology for Real Property acquisition value baseline. |

Environmental Liabilities: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-----------|-----|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 16. DERP: Complete and document initial estimates for EL sites. | DLA | | Sep 2009 | Completed and documented environmental liability estimates for DERP sites supports achieving audit readiness. |
| | | | Revised to Sep 2015 | Dependency on developing methodology for Real Property acquisition value baseline. |
| 17. Submit segment management assertion. | DLA | | Sep 2014 | Enables management to assert that data is timely, reliable and accurate. |
| | | | Revised to Dec 2016 | Dependency on milestone 16. |
| 18. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2015 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| | | | Revised to Dec 2017 | Dependency on milestone 16 |

Impediments to Auditability

OSD

Federal financial standards require that environmental liabilities associated with General Property, Plant, and Equipment be recognized on DoD’s financial statements. In July 2006, and in consultation with Installations and Environment (I&E) Component representatives, ODUSD(I&E) undertook and completed a business process reengineering for EL recognition, valuation, and reporting. Progress has been made in establishing a standard business process reengineering implementation strategy for environmental liabilities associated with real property assets. DoD has not defined a standard implementation strategy for recognition and valuation of environmental liabilities associated with equipment items.

Army

The chief impediment to audit readiness for Army Environmental Liabilities is resource constraints. For functional areas with assets that have environmental liabilities, progress is impeded by only having a limited number of people with the environmental expertise to recognize, value, and report environmental liabilities. Although resources are limited, Army is committed to completing the audit readiness tasks on time.

Environmental liabilities reported on the Army financial statement include a number of DoD programs for which the Army is the executive agent, some of which have measured more progress in reporting than others. A goal in FY 2009 will be to properly segment the FIAR Plan programs to reflect recent changes in the DoD Financial Management Regulation, and to show more accurate progress in recognizing, valuing, and reporting environmental liabilities.

Air Force

Process changes for environmental liabilities must be implemented as a result of consolidating management of DERP under the Air Force Center for Engineering and Environment. Installation-level workforce reductions add risk for assuring quality of cost estimates. The FY 2010 implementation of the Environmental Liability Service will provide lower-risk functionality and reduce manual processes for DERP programs.

The Air Force must also develop and document processes to estimate liabilities for aspects of Non-DERP not previously reported: 1) cleanup at non-US overseas locations, 2) facility closures other than landfills, 3) military equipment, 4) non-military equipment, and 5) asbestos. The Air Force will complete documentation and corrective actions for these areas by mid FY 2009. Potential changes to requirements as a result of ongoing interagency and inter-DoD discussions on Non-DERP closure and disposal liability add uncertainty.

DLA

The identification of a complete Environmental Liability universe is dependent on a complete and accurate inventory of all Real Property asset records where DLA Environmental Liability may have an associated presence. The Real Property assessment is scheduled on a 5-year (20 percent) cycle. DLA is working to develop an updated plan based on this dependency.

FUND BALANCE WITH TREASURY

The Department reported \$468 billion in Fund Balance with Treasury (FBWT) on its FY 2008 financial statements (28 percent of DoD assets). The Military Services and DLA hold 84 percent of FBWT. FBWT is an intragovernmental asset created by budget authority. FBWT is increased when the Component receives appropriations, reimbursements, or transfers from other entities. FBWT is reduced by amounts disbursed to pay liabilities and expenditures, appropriations that are cancelled or rescinded, and transfers to other agencies or to the Treasury.

All Federal Agencies are required to reconcile their accounting records with Treasury records monthly. Where there are differences, transactions supporting the difference must be identified. Many of these differences result from disbursements made and reported to Treasury that have not been properly matched to obligations and recorded in DoD accounting records. In addition to these unreconciled amounts, DoD has significant payment recording errors. These include disbursements that DoD has specifically identified as containing erroneous or missing supporting information and that cannot be properly recorded and charged against the correct account. DoD records many of these payment problems in suspense accounts.

DoD's inability to reconcile FBWT account balances to Treasury FBWT account balances is a DoD-wide material weakness;

Figure 22. Fund Balance with Treasury Audit Readiness Summary by Component

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | Legend |
|-----------|---------|---|---|---------|---|---------|---------|---------|---------|---|
| Army | | | | | | | | | |  Assertion  Audit Ready 09-117f |
| Navy | |  |  | | | | | | | |
| Air Force | | |  | |  | | | | | |
| DLA | | |  | |  | | | | | |

eliminating this weakness is a long-term goal. To accomplish this goal, the Department will apply best business practices to better integrate disbursing and accounting systems and ensure that both disbursement and collection activities are supported with easily identifiable supporting documentation. A working group has been analyzing the Department's reconciliation processes and systems, and evaluating software that can more easily reconcile FBWT. Such software must be able to:

- Import Treasury reports, disbursing reports, and general ledger data sent by DoD to the U.S. Treasury.
- Support reconciliation of the data sets.
- Facilitate researching data discrepancies and produce management reports.

In early 2009, the Army and the FIAR Directorate created a tiger team to review the Army's progress in preparing FBWT for audit assertion. The tiger team determined that the scope of FBWT work needed to expand. As a result of this change in scope, the Army FBWT assertion has moved from the near-term section of the FIAR Plan to the long-term section, and aligns with other Components. The tiger team is analyzing Army processes and supporting documentation to determine the actions and resources needed to support FBWT audit readiness. Upon completing the analysis, the Army will forecast a new audit readiness date.

The Department forecasts achieving audit readiness for FBWT by FY 2010 for the Navy, FY 2011 for DLA, and FY 2012 for Air Force (Figure 22).

Accomplishments to Date

OUSD(C)

- Drafted a Financial Management Regulation that defines FBWT and the requirements for reconciliation.

- Implemented a "Tiger Team" to review the Army's FBWT audit documentation and to make recommendations to ensure that complete evidential matter critical to management's assertion of audit readiness (e.g., underlying accounting data and corroborating information) is obtained and analyzed.

Army

- Completed management and quality reviews of process narratives, flowcharts, and systems documentation.
- DFAS compiled FBWT transaction detail in an accessible data warehouse to support Army's FBWT assertion.
 - The Operational Data Store contains the detail transactions in support of "for self" disbursements and collections.
 - Completed development of source systems queries for detail transaction data retrieval.
 - The FBWT database contains transactions in support of "cross disbursement" and "by others" disbursements and collections.
- Identified all federal and DoD requirements to accurately report FBWT.
- Completed Federal Financial Management Improvement Act and OMB Circular A-123, Appendix A, documentation for the FBWT process.
- Created a tiger team to review progress in preparing for audit assertion and analyze additional needs.

Navy

- Completed testing of key internal controls associated with the following core FBWT processes: Funds Receipt and Distribution, Collections, Disbursements
- Identified 3 weaknesses associated with the Disbursements process.

- Developed corrective action plans (in partnership with DFAS) to remediate weaknesses.

Air Force

- Developed a plan, Standard Operating Procedures (SOP), and a reconciliation template.
- Tested the reconciliation template for larger fund symbols, and identified and obtained all summary and voucher-level files to perform the reconciliations. Reconciliation templates are being populated and some differences have been identified and are being actively worked.
- Established CCAS-AF (Columbus Cash Accountability System-Air Force) database, determined initial raw file requirements, and are in the process of populating those files to perform initial testing.

- The CCAS-AF end-state system will streamline the process, tie problem disbursement metrics to the FBWT reconciliation, provide an audit tool for auditors, serve as a system for identifying and tracking errors, and provide a dashboard for management.

DLA

- In accordance with the Joint DLA-DFAS FBWT Business Plan, DFAS hired 26 staff and assigned them to review both accounts receivable and accounts payable.
- Completed a comprehensive Financial Improvement Plan for FBWT.

The following sections include FBWT Key Control Objectives and key milestones that lead to auditability.

Fund Balance with Treasury Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|--|
| 1 | Existence or Occurrence | Financial events recorded in the general ledger FBWT accounts and reported to Treasury at a given date are supported by detailed records that are accurately summarized and reconciled to the account balance; and are recorded in the proper period (FAM 921C: 1a and 1b). | <ul style="list-style-type: none"> • Disbursements, collections, appropriations, allotments, apportionments, transfers, rescissions, etc. can be traced back to supporting ledgers and source documents of actual financial events. • Accounting adjustments are valid (i.e., complete and accurate) and supported by source documentation. • FBWT reconciliations to Treasury reports including the Statement of Differences (FMS-6652) are performed appropriately and in a timely manner. • Reconciliation items recorded in budget clearing accounts are researched and resolved in a timely manner. |
| 2 | Existence or Occurrence | Access to FBWT, critical forms, records, and processing and storage areas is in accordance with laws, regulations, and management policy (FAM 921C: 1c). | <ul style="list-style-type: none"> • Persons do not have uncontrolled access to both assets and records; they are not assigned duties to put them in a position that would allow them to both commit and conceal errors or fraud (i.e., segregation of duties). |

Fund Balance with Treasury Key Control Objectives

| KCO | Financial Statement Assertion | Control Objectives | Key Capabilities |
|-----|-------------------------------|---|---|
| 3 | Completeness | All FBWT balance amounts are included in the financial statements (FAM 921C: 2a). | <ul style="list-style-type: none"> FBWT activity/balances reported on the General Ledger Crosswalk Year-End Closing Statement (FMS 2108) accurately reflect general ledger activity/balances, which agree to activity/balances in monthly Treasury reports for the reporting period. |
| 4 | Completeness | FBWT financial events are included in the general ledger and reported to Treasury (i.e., disbursements, collections, allotments, apportionments, transfers, rescissions, etc.) and can be traced from source documentation and supporting ledgers to financial statements (FAM 921C: 2a). | <ul style="list-style-type: none"> FBWT amounts, including monthly collections and disbursement activities for all funds and disbursing locations, are reported accurately and timely to Treasury via Year-End Closing Statement (SF 1219/1220) or Statement of Accountability (SF 1218/1221) (if applicable). |
| 5 | Valuation or Allocation | FBWT transactions are recorded accurately (FAM 921C: 3a). | |
| 6 | Rights and Obligations | The entity owns recorded FBWT (FAM 921C: 4a). | <ul style="list-style-type: none"> FBWT amounts represent legislative spending limits granted to the agency available for use during the current period. |
| 7 | Rights and Obligations | The entity has the rights to recorded FBWT at a given date (FAM 921C: 5a). | <ul style="list-style-type: none"> FBWT balance reflects entities' budget authority at a given date. |
| 8 | Presentation and Disclosure | FBWT is properly classified and described in the financial statements (FAM 921C: 6a). | |
| 9 | Presentation and Disclosure | FBWT is based on accounting principles that are applied consistently from period to period (FAM 921C: 7a). | |
| 10 | Presentation and Disclosure | The financial statements and footnotes contain all required information in accordance with OMB and FASAB (FAM 921C: 8a). | |

Fund Balance with Treasury: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|-------------|-----|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 1. Compile data warehouse of transaction detail. | Army & DFAS | | Jan 2009 | Provides detail support for balances, audits and ensures compliance with laws, regulations, policies. |
| | | | Completed | |
| 2. Complete Army management and quality review of assertion | Army & DFAS | | Jan 2009 | Provides proper internal controls and ensures consensus in the organization. |
| | | | Completed Mar 2009 | |
| 3. Analyze assertion package and identify remediation actions and associated resources needed to resolve gaps and deficiencies identified during quality review of assertion package. | Army & DFAS | | New Jun 2009 | Identify steps and resources needed to remediate gaps and deficiencies. |
| 4. Develop corrective actions to resolve gaps and deficiencies identified during quality review of assertion package. | Army & DFAS | | New TBD | Outline corrective actions needed to ensure gaps and deficiencies are resolved resulting in a comprehensive assertion package. |
| 5. Finalize assertion package documentation and presentation. | Army & DFAS | | Feb 2009 | Ensure assertion package meets revised OUSD(C) criteria. |
| | | | Revised to TBD | Milestone is dependent on completion of milestone 3. |
| 6. Submit segment management assertion. | Army | | Mar 2009 | Enables management to assert that data is timely, reliable and accurate. |
| | | | Revised to TBD | Milestone is dependent on completion of milestone 3. |
| 7. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2009 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| | | | Revised to TBD | Milestone is dependent on completion of milestone 3. |
| 8. Implement Business Activity Monitoring (BAM) reconciliation functionality. | Navy & DFAS | | Dec 2008 | The Navy will use the BAM tool to analyze problem transactions and reconcile FBWT for GF. Success has been achieved on the WCF for FBWT through the use of the Cash Reconciliation Tool. |

Fund Balance with Treasury: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|------------------|-----|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| | | | Revised to Apr 2009 | BAM achieved Initial Operating Capability on January 31, 2009, and is scheduled to achieve Full Operational Capability in April 2009. Senior leadership at DFAS Cleveland are part of the BAM implementation effort to ensure the current plan is met. |
| 9. Verify implementation of FBWT reconciliation remediation processes and procedures for collections and disbursements. | Navy & DFAS | | Mar 2009 | The Navy has capitalized on OMB Circular A-123, Appendix A, internal controls efforts to rapidly advance capability to verify and correct weaknesses, disbursements, and collections. |
| | | | Revised to Sep 2009 | Milestone is dependent on BAM achieving Full Operational Capability. The Navy has leveraged OMB Circular A-123, Appendix, A internal control efforts to advance its capability to verify and correct weaknesses for disbursements and collections. Testing identified four key controls were not functioning as designed. Corrective actions have been identified and are being addressed. |
| 10. Submit segment management assertion. | Navy | | Sep 2009 | Enables management to assert that data is timely, reliable and accurate. |
| | | | Revised to Dec 2009 | Dependency on milestone 8. |
| 11. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2010 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| | | | Revised to Dec 2010 | Dependency on milestone 8. |
| 12. Develop a plan to implement the proposed FBWT SOP and Reconciliation Template. | Air Force & DFAS | | Dec 2008 | The SOP and template will provide a framework for reconciling and documenting the FBWT process and achieving auditability. |
| | | | Completed | |
| 13. Evaluate the impact of the reconciliation SOP and template on auditability of largest portions of AF FBWT. | Air Force & DFAS | | Mar 2009 | The SOP, template, and update reconciliation procedures will be tested to ensure that they support reconciliation. |
| | | | Revised to Jun 2009 | Underestimated the extent of this major process improvement. |

Fund Balance with Treasury: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|--|------------------|-----|------------------------|--|
| | | | Status or Revised Date | Justification for Change |
| 14. Assess the capabilities of available systems to facilitate the reconciliation process. | Air Force & DFAS | | Mar 2009 | An automated strategy is critical to reducing the level of manual workload during the completion of monthly reconciliations. |
| | | | Completed | |
| 15. Assess and determine required resource and skill sets. | Air Force & DFAS | | Jun 2009 | The Air Force will be able to properly resource the reconciliation and system development efforts. |
| 16. Document a monthly process for FBWT reconciliation for Air Force Account Symbols. | Air Force & DFAS | | Dec 2009 | Establishes the requirements for ongoing reconciliation of Air Force FBWT accounts. |
| 17. Implement systemic solution and create management reports. | Air Force & DFAS | | Mar 2010 | Ability to monitor timely resolution of cash backlog items and communicate non-compliance to senior management. |
| 18. Research and reconcile current and past unreconciled balances to the extent that detailed information is available. | Air Force & DFAS | | Jun 2010 | Reconciliation enables old unreconciled balances to be stabilized and isolated. At this point, the disposition of the unreconciled balances can be separately addressed and resolved. |
| 19. Complete testing of the FBWT reconciliation process to validate corrective actions and develop a management assertion package. | Air Force & DFAS | | Sep 2010 | Use audit procedures to test Air Force ability to assert that Air Force FBWT is reconciled with Treasury's balance. |
| 20. Submit segment management assertion. | Air Force | | Dec 2010 | Enables management to assert that data is timely, reliable and accurate. |
| 21. Validated as audit ready by IPA or IG. | DoDIG | | Dec 2011 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |
| 22. Correct Statement of Differences for deposits, payments and collections, and check issue discrepancies. | DLA & DFAS | 1 | Mar 2009 | Corrections ensure differences are being managed and are at an immaterial amount. |
| | | | Revised to Sep 2009 | DFAS has completed the Statement of Differences cycle memo narratives and flowcharts. Action took longer than anticipated due to delays in hiring additional personnel. DFAS has forward package to DLA for validation. |
| 23. DFAS to provide DLA with recommendations toward an accounting alternative to correct the unsupported undistributed disbursement amounts. | DLA & DFAS | 1 | New Sep 2009 | Conversion to the Columbus Cash Accountability has reduced the amount of new unsupported undistributed disbursements. This milestone will write-off transactions prior to the conversion and reduce the unsupported undistributed disbursements going forward. |

Fund Balance with Treasury: Key Milestones to Achieving Auditability

| Key Milestone | Component | KCO | Completion Date | Projected Outcome |
|---|------------|-----|------------------------|---|
| | | | Status or Revised Date | Justification for Change |
| 24. Correct unsupported disbursements and in-transit deficiencies. | DLA & DFAS | 4 | Sep 2009 | Disbursements comprise the vast majority of transactions related to FBWT. Correcting the issues preventing accurate supported accounting records for disbursements is critical to success. |
| 25. Document processes and controls for reconciling, tracking, and reporting clearing accounts (suspense) and resolve deficiencies for unprocessed IPAC transactions. | DLA & DFAS | 4 | New Sep 2009 | Documentation of process and controls for IPAC transactions will enable timely processing and a correct FBWT. |
| 26. Correct unmatched disbursements and collections deficiencies. | DLA & DFAS | 4 | Mar 2010 | Matching collections and disbursements with budgetary accounting records is a crucial aspect of management control over funds. Correcting weaknesses in this area is critical to executing the Department's responsibility to safeguard public funds. |
| 27. Perform discovery and correction on systems and implement compensating controls to mitigate and assist with the tracking, reporting, and correction of undistributed disbursements and collections. | DLA & DFAS | 1 | Sep 2010 | Identifies system deficiencies and corrects them, and ensures controls are working effectively to achieve audit readiness. |
| 28. Submit segment management assertion. | DLA | 1 | Sep 2010 | Enables management to assert that data is timely, reliable and accurate. |
| 29. Validated as audit ready by IPA or DoDIG. | DoDIG | | Sep 2011 | Provides independent confirmation that assertion is fairly stated and in compliance with GAAP and is audit ready. |

Impediments to Auditability

- The Department's operations span the world and are designed to be deployable, flexible, and responsive to supporting contingencies. Maintaining detailed records for accounting events in this environment is a great challenge. The Department is working to complete system interfaces and data warehouses that will support the collection and maintenance of accounting records from the hundreds of systems involved in disbursing funds for the Department around the globe.
- A lack of data standards makes sharing of detailed disbursement information across the Department difficult. The Department is implementing the Standard Financial Information Structure to address this issue.
- Legacy accounting systems do not support transaction-driven standard general ledger postings.

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V. Material Weaknesses

The preceding sections describe the work underway to address the financial management and audit readiness issues of the largest material segments of DoD’s financial statements. This section describes DoD’s efforts to address auditor identified weaknesses and management identified weaknesses not covered by FIAR priority segments (Figure 23).

FINANCIAL MANAGEMENT SYSTEMS

According to the Department’s Enterprise Transition Plan, the role of financial management systems is to support the financial management function in providing accurate and reliable financial information in support of the Planning, Programming, Budgeting, and Execution. The ETP goes on to state that these systems

should also provide financial visibility over all aspects of the financial process. This includes having immediate access to accurate and reliable financial data in support of financial accountability, and efficient and effective decision making. Today, the Department’s financial management system and business process deficiencies prevent meeting these objectives.

The Department has long-standing financial management problems, as chronicled in numerous Government GAO and DoDIG audit reports. In analyzing these audit reports and researching problems with the Department’s financial management systems, several root causes surface repeatedly:

- Financial management systems were not designed to meet current financial reporting requirements and do not provide adequate evidence for supporting material amounts on the financial statements.
- Financial management systems are unable to meet accrual accounting requirements. Many of the Department’s financial and nonfinancial feeder systems and processes were designed and implemented prior to the Chief Financial Officers Act, which requires audited financial statements, and were not designed to collect and record financial information using the accrual method of accounting. Instead, most of the Department’s financial systems were designed to record information on a budgetary basis.
- Numerous financial management systems are being used, and they are not fully integrated with other systems within the Components, much less Department-wide. As a result, reconciliation issues occur frequently, and often reconciliations are completed manually, which can lead to further data discrepancies.
- The breadth and complexity of DoD financial management systems make them difficult to transform to standard processes.

Figure 23. Material Weaknesses

| Weakness | Auditor Identified | Mgmt. Identified | FIAR/ FIPs | Enterprise Solution |
|---|--------------------|------------------|------------|---------------------|
| Fund Balance with Treasury | X | X | X | |
| Accounts Receivable | X | X | X | X |
| Inventory | X | X | X | |
| Operating Material and Supplies | X | X | X | |
| General Property, Plant & Equipment | X | | | |
| Military Equipment | | X | X | |
| Real Property | | X | X | |
| Government Property in Possession of Contractors | X | X | X | |
| Accounts Payable | X | X | X | X |
| Health Care | | X | X | |
| Environmental Liabilities | X | X | X | |
| Reconciliation of Net Costs of Operations to Budget | X | | | X |
| Statement of Net Cost | X | | | X |
| Accounting Entries | X | | | X |
| Financial Reporting Compilation | | X | | X |
| Financial Management Systems | X | | | X |
| Intragovernmental Elimination | X | X | | X |

09-115

- Because of the number of system interfaces and subsidiary and feeder systems, and the unique terminology employed by each DoD organization, cross-walking data between systems and sharing data is difficult.
- Processes that rely on financial management systems are also complex and often not fully supported by the systems. For example, complex payment processes, combined with non-integrated business systems and weak internal controls, impair DoD’s ability to maintain proper funds control. This leaves the Department at risk of over-obligating or overspending its appropriations, which violates the Anti-Deficiency Act.

In order to address these issues and move to a more standardized and responsive financial management process, the Department has embarked on various efforts to implement new financial management systems and their associated processes.

Commercial-off-the-shelf (COTS), FFMI-compliant systems are being implemented. These systems, also referred to as ERP systems because of their capability to handle financial transactions from “cradle to grave,” help the Department maintain visibility over business and financial transactions throughout the event’s lifecycle.

The Components are implementing ERP systems to address specific operational needs and requirements (Figure 24). These systems will be used across the Service or Agency to minimize system interface problems and provide greater visibility across the Department. The ERPs currently being implemented include:

Army: GFEBs will be the system of record for the General Fund and LMP for the Working Capital Fund.

Navy: Navy ERP will transform and standardize Navy business processes for key acquisition, financial, and logistics operations.

Figure 24. ERP Implementations

| ERP | Component | Sites Implemented | Total Sites | % of Sites Implemented |
|----------|------------------------|-------------------|---------------|------------------------|
| GFEBs | Army | 1 | 84 | 1.2% |
| Navy ERP | Navy | 2 (15K users) | ? (88K users) | 17% |
| DEAMS | Air Force | 1 | 71 | 1.4% |
| EBS | DLA | | | 50% |
| DAI | Other Defense Agencies | 1 | 28 | 3.5% |

Air Force: DEAMS and ECSS provide data control and accountability by deploying CFO-compliant financial systems that consolidate and replace numerous legacy systems.

DLA: EBS is changing and modernizing the DLA Business Enterprise including culture, processes, information management, and IT infrastructure.

Defense Agencies: Defense Agencies Initiative (DAI) provides integrated financial management capabilities, reduces material weaknesses, and improves internal controls to achieve financial statement auditability for approximately 28 Defense Agencies and Field Activities.

In addition to implementing ERPs, two other key initiatives by the Department are the Business Enterprise Information Services (BEIS) and SFIS:

- BEIS delivers enterprise business services that include SFIS Library Service, Corporate General Ledger Service, and Financial Reporting Services; and Enterprise Business Intelligence Service.
- SFIS is a comprehensive "common business language" that supports information and data requirements for budgeting, financial accounting, cost and performance management, and external reporting across DoD. SFIS is critical to the

success of all legacy and ERP systems as it standardizes financial reporting, thereby reducing the cost of auditability.

FINANCIAL REPORTING COMPILATION

The Department has a material weakness with unauditable financial statements, which includes the Statement of Net Cost, Statement of Budgetary Resources, Statement of Changes in Net Position, and Reconciliation of Net Cost of Operations to Budget footnote. The material weakness has affected DoD's compliance with the requirements of the Chief Financial Officers Act of 1990, which requires federal agencies to prepare auditable financial statements.

Unsupported accounting entries are adjustments made to out-of-balance general ledgers using the best information available. The adjustments do not have supporting documentation and cannot be verified in an audit. In many instances, current accounting systems do not have the capability to collect information necessary for preparing complete financial reports and statements. Differences between similar types of information cannot always be identified. Out-of-balance general ledgers result from inadequate or incorrect information in processes and systems. To fill these gaps, adjustments to the records are made using the best available information.

The Department continues to emphasize the importance of fully documenting adjustments, and progress has been made. Resolving this weakness relies on the new core accounting systems in the Financial Management Systems material weakness. Unsupported accounting entries occur because many of DoD's legacy financial systems do not maintain details at the transaction level and are unable to support both budgetary and proprietary accounting requirements. Unsupported accounting entries are focused in two categories: 1) eliminations entries required because of lack of trading partner detail at the transaction level that is needed to properly report and reconcile intragovernmental and intergovernmental balances, and 2)

entries to reconcile reports internally due to the budgetary and proprietary differences. As more and more compliant systems are put in place, the dollar value of unsupported entries will decline.

INTRAGOVERNMENTAL ELIMINATIONS

The inability to reconcile most intragovernmental transactions results in adjustments that cannot be fully supported. The Department cannot reconcile transactions involving the exchange of goods and services within DoD and with other federal agencies. These transactions are referred to as intragovernmental transactions. For DoD and the Federal Consolidated Financial Statements, the transactions for the buying and selling of goods and services must be identified for off-setting entries. DoD systems do not have information needed to identify trading partners resulting in unsupported estimates and adjustments made during the financial statements preparation process.

Two solutions will resolve this material weakness. At the Component-level, core financial systems identified in the Financial Management Systems material weakness are being deployed. These systems collect information on sales and purchases occurring among entities using the core system (i.e., a specific ERP). The Business Transformation Agency is also leading the IVAN (Intragovernmental Value Added Network) initiative to develop a system for exchanging information on sales and purchases among DoD organizations.

IGT/IVAN addresses a material weakness through standardized and integrated processes and system components. It also provides enhanced visibility into the buying and selling elements of Intragovernmental transactions both within DoD and between DoD and other Federal Agencies. IVAN is an automated tool designed to implement the IGT requirements of the DoD Business Enterprise Architecture (BEA) and meets DoD business needs by:

- Serving as a database of order and acceptance information.
- Providing detailed transaction data.
- Aiding in reconciliation of financial eliminations.
- Enforcing DoD business rules to reduce the risk of Anti-Deficiency Act violations.

Accomplishments

The OUSD(C) is making progress in addressing the intragovernment transactions eliminations material weakness:

- Completed IVAN Proof of Concept for Level 1 (DoD to Non-DoD) transactions. By the end of the 4th quarter FY 2008, DoD processed 37 MIPRs for \$31 million with other Federal agencies including Department of Interior, Health and Human Services, and General Services Administration.
- Deployed IVAN in limited production mode (maximum 250 users) with elements of Marine Corps, Army, TRICARE, and DISA.

Through the OMB established Financial Management Line of Business (FMLoB) Task Force and specifically the Financial Systems Integration Office (FSIO) Transformation Team, OUSD(C) is collaborating with the other Federal Agencies to develop and implement common solutions based on standard business processes, data elements and systems. During FY 2008, FSIO established a working group to document the IGT process and define the requirements for a future Treasury Portal for IGT. OUSD(C) provided the working group with DoD Business Enterprise Architecture documents related to IGT to use as a model for mapping a standard process across the government. We also provided the FSIO with a demonstration of the IVAN system as an example of a potential Treasury Portal that incorporates the IGT business process and internal controls.

ACCOUNTS RECEIVABLE

The Department has a material weakness involving the recording, reporting, collecting, and reconciling of both Intragovernmental accounts receivable (due from other federal agencies and DoD entities) and accounts receivable due from the public. The Department cannot reconcile between sources of accounts receivable and accounting systems, age accounts receivable, or match accounts receivable transactions to buyer-side accounts payable for intragovernmental events. Additionally, the accounts receivable amounts reported are not adequately supported.

To address this material weakness, DFAS developed an Accounts Receivable (AR) plan focusing on three main areas: enhancing management capabilities, improving collections, and establishing an auditable environment.

Near-term milestones (within 18 months) focus on critical evaluation of the processes and systems employed for Intragovernmental and Public receivables. Deliverables include identifying specific disconnects between the sources of accounts receivable transactions and the related financial reports. Once disconnects are documented, corrective action plans for establishing a direct relationship between the detailed transactions and summary amounts in the financial statements will be put in place.

Long-term milestones (beyond 18 months) focus on consolidating all accounts receivable detailed transactions into the Accounts Receivable Tool. Though not confirmed as a final solution, DFAS is testing the AR Tool as an interim solution. The AR Tool would be a means of systematically consolidating information and improving AR processes. The AR Tool will proceed through the necessary governance reviews before being implemented.

Phase I of the AR Tool consolidated accounts receivable data into status categories (i.e., age, type, customer, etc.) for

analytical purposes. Phase II of the AR Tool added functionality necessary to facilitate the management and reporting of accounts receivable data into the Treasury Report of Receivables and the OUSD(C) Metrics.

The AR Tool's next phase will link and reconcile financial statements with detailed transactions. A subsequent reconciliation process will be established between the accounting systems and DDRS (Defense Departmental Reporting System), DoD's financial statement reporting system, to capture any adjusting entries occurring between the source system and the financial reports, ensuring adjustments are valid and supportable.

The AR Tool will also allow management to assess existence, rights and obligations, valuation and allocation, and presentation and disclosure of Accounts Receivables. Other management capabilities developed include a standard aging process, debt status monitoring for those debts transferred to other collection offices, and trend analyses.

As Components deploy target systems that can satisfy auditor requirements for supporting financial statement balances and provide visibility of detailed transactions reconcilable to

entitlement records and aging of receivables, the AR Tool and its functionalities may be modified.

A major area of concern for all Federal Agencies is Intragovernmental Eliminations. The AR Tool uses data elements that will help identify seller transactions and discrepancies between DoD buyers and sellers. The plan for addressing Accounts Payable employs the same concept so buyer-side processes will correlate to seller-side processes. This supports the elimination process in financial reporting.

The Accounts Receivable plan sets objectives that improve collections, enhance management reports, address longstanding deficiencies, and ensure that accounts receivable transactions are timely and accurately recorded and are supportable.

Accounts Receivable: Key Milestones

| Key Milestone | Component | Completion Date | Projected Outcome |
|--|-----------|------------------------|--|
| | | Status or Revised Date | Justification for Change |
| Enhance Management Capabilities | | | |
| 1. Establish sampling technique to periodically test integrity and supportability of debts. | DFAS | Jun 2009 | Periodic sampling ensures receivables amounts on the financial statements remain valid, supportable and audit ready. |
| 2. Validate all enduring DFAS sites have implemented the standard guidance found in the DoD FMR VOL 4, CH 3 "Receivables." | DFAS | Dec 2009 | Ensure compliance with current DoD Financial Management Regulation guidance for receivables and develop corrective action plans where necessary to address areas of noncompliance. |

Accounts Receivable: Key Milestones

| Key Milestone | Component | Completion Date | Projected Outcome |
|---|-----------|------------------------|--|
| | | Status or Revised Date | Justification for Change |
| 3. Establish a standard training and certification program for all accounts receivable operations personnel. | DFAS | Mar 2010 | Increased knowledge and skill set of receivable personnel with emphasis placed on managing and accounting for receivables in accordance with DoD policies and procedures. |
| 4. Develop standard aging processes and procedures. | DFAS | Oct 2010 | Improvement in the management of receivables by providing a standard methodology for evaluating the aging of receivables and ensuring the appropriate actions are implemented. |
| 5. Develop additional standard management reports to monitor debt status. | DFAS | Jul 2012 | Ensures reports provide information vital to decision makers. |
| Improve Collections | | | |
| 6. Evaluate and improve the "Unsolicited Checks" process. | DFAS | Sep 2009 | Ensures unsolicited funds received are recognized and reported according to federal accounting standards. |
| 7. Review, document, and assess the effectiveness of the collection process for each component. | DFAS | Nov 2009 | Ensures Component's collection process deficiencies are identified. |
| 8. Establish a corrective action plan for deficiencies within collection process. | DFAS | Dec 2009 | Ensures a plan to address the component's collection deficiencies is established to achieve compliance with federal accounting standards. |
| Establish Auditable Environment | | | |
| 9. Review and assess the integrity of sources of Balance Sheet data for accounts receivables (Top Down) for the majority of DoD's amount. | DFAS | Nov 2008 | Ensures that sources of receivables and receivables reported on the financial statements are supported. |
| | | Completed | |
| 10. Obtain audit criteria for an accounts receivable audit to establish target environment. | DFAS | Nov 2008 | Identification of potential audit techniques and procedures used to validate receivables in a financial statement audit. |
| | | Completed | |
| 11. Coordinate accounts receivable plan with stakeholders and establish expectations. | DFAS | Apr 2009 | Agreement among Components to ensure that DFAS has developed a solution that fits their needs for Accounts Receivable, and ensure a comprehensive plan is established for DoD. |
| 12. Ensures contract/vendor debts are captured, recorded, and managed properly ("Accounts Payable/Accounts Receivable Handoff"). | DFAS | Sep 2009 | Ensures overpayments are identified, recorded, reported, and managed on a timely basis and the appropriate collective actions are implemented. |

Accounts Receivable: Key Milestones

| Key Milestone | Component | Completion Date | Projected Outcome |
|---|-----------|------------------------|---|
| | | Status or Revised Date | Justification for Change |
| 13. Based on debt characteristics, develop a standard process for calculating and recording the "Allowance for Doubtful Accounts." | DFAS | Sep 2009 | Establishes a standard method for recording the allowance for doubtful accounts to appropriately report net receivables in the financial statements. |
| 14. Finalize requirements, obtain approvals and establish implementation schedule for the AR Tool enhancements (Phase III). | DFAS | Aug 2010 | Completion of system specifications for developing a single source transaction-based repository to support audit readiness for receivables. |
| 15. Evaluate accounts receivable sources, existing source detail data, and potential for consolidation to support financial reports (Bottom-Up Analysis). | DFAS | Sep 2010 | Ensures that sources of receivables and receivables reported on the financial statements are supported. |
| 16. Clean up accounting systems legacy environment by evaluating the integrity and support of debts. | DFAS | Dec 2010 | Ensures receivables reported on the financial statements are valid, supportable and audit ready. |
| 17. Based on upfront analyses, establish corrective action plans to resolve deficiencies (disconnects). | DFAS | Dec 2010 | Ensures a plan to address receivable-related deficiencies is established to achieve compliance with federal accounting standards. |
| 18. Identify additional AR Tool enhancements to obtain visibility of individual debts; provide better debt management and implement reconciliations. | DFAS | Feb 2011 | Identifies additional capabilities to aid components and DFAS in managing receivables for DoD. |
| 19. Develop reconciliation procedures for supporting the summary level data with detailed transactions. | DFAS | Mar 2011 | Ensures receivables reported on the financial statements are valid, supportable with detailed transactions and audit ready. |
| 20. Clean up entitlement systems legacy environment by evaluating the integrity and support of debts. | DFAS | Mar 2011 | Ensures receivables reported on the financial statements are valid, supportable and audit ready. |
| 21. Complete programming of the AR Tool Phase III. | DFAS | Mar 2012 | Development of a single source transaction-based repository to support audit readiness for receivables. |
| 22. Deliver full operating capability of the AR Tool Phase III | DFAS | Aug 2012 | Completion of a single source transaction-based repository to support audit readiness and management of receivables. |
| 23. Convert to 'To Be' processes using the AR Tool Phase III. | DFAS | Mar 2013 | Conversion from the current, primarily manual process to an automated feed of detailed transactions facilitating the management of receivables for DoD. |

ACCOUNTS PAYABLE

The Department weakness for public accounts payable results from its inability to support the accounts payable balance reported on the DoD financial statements from a lack of procedures for recording, reporting, and reconciling the amounts recorded for unpaid goods or services in the entitlement systems to the amounts recorded for accounts payable in the accounting systems.

To address the accounts payable material weakness, ensure reliable internal controls, and provide for sustained performance improvements, DFAS has focused on process improvements, maximization of electronic technologies and standardization of treatment of accounts payables. By examining and documenting top-down and bottom-up views of the Department's Accounts Payable universe from entitlement to accounting to audited financial statements, DFAS has identified business process flows, key internal controls and target areas for process and/or

operational improvements. DFAS is conducting detailed analyses of legacy entitlement accounts payable transactions to determine legitimacy of over-aged and high dollar transactions. The effort will ensure only valid accounts payable transactions are used in the reconciliation between legacy entitlement and accounting systems. DFAS is also examining potential internal control deficiencies and providing recommendations for corrective actions. The outcome of this effort will also provide for reliable transfer of outstanding balances into the future DoD ERP systems.

DFAS actions to resolve this weakness are reflected in the DFAS Accounts Payable FIAR Plan Key Milestones. The short/intermediate and long-term milestones complement each other by correcting existing flaws, cleaning up existing balances and transferring reliable balances into the ERP systems. The FIAR and ERP initiatives will provide the Department with timely, accurate, and reliable accounts payable information.

Public Accounts Payable: Key Milestones

| Key Milestone | Component | Completion Date | Projected Outcome |
|--|-----------|------------------------|--|
| | | Status or Revised Date | Justification for Change |
| 1. Develop program management plan. | DFAS | Jul 2007 | Completed the development of a public accounts payable plan to address material deficiencies. The plan covers DoD Components and the Accounts Payable lifecycle. |
| | | Completed | |
| 2. Identify and flowchart processes for the major entitlement systems producing payments to public vendors to include their related sources and output to financial statements - bottom up approach. | DFAS | Oct 2007 | Documented the existing entitlement processes of the Department's major entitlement systems evaluated the data relationship between those entitlement systems and their related accounting systems. Documents will be used for both analytical and audit purposes. |
| | | Completed | |
| 3. Identify and flowchart the processes for all financial statement activities reporting public | DFAS | Jun 2008 | Reviewed and evaluated the Departmental Accounting processes and procedures that contributed to the Public |

Public Accounts Payable: Key Milestones

| Key Milestone | Component | Completion Date | Projected Outcome |
|--|-----------|------------------------|--|
| | | Status or Revised Date | Justification for Change |
| payables to include the related sources - top down approach. (The flow will start with the accounts payable - public line on the financial statements.) | | Completed | Payable line item on the Balance Sheet to document those related processes and identify disconnects with sources of payables. These documents will serve to ensure that the content of Accounts Payable accrual procedures is accurate and complete. |
| 4. Identify and flowchart processes for the remaining existing entitlement systems producing payments to public vendors to include their related sources and output - bottom up approach. | DFAS | Jun 2008 | Documented the existing entitlement processes of the Department's other entitlement systems and evaluated the data relationship between those entitlement systems and their related accounting systems. Documents will be used for both analytical and audit purposes. |
| | | Completed | |
| 5. Identify process flow disconnects between the top down and bottom up processes. | DFAS | Jun 2008 | From the two analyses, ensures both documents accurately reflect the entitlement payable reporting process to the financial statement and from the financial statement to the entitlement source. |
| | | Complete | |
| 6. Reconcile accounts payable in entitlement to accounting systems at the transaction level to reduce material reconciliation differences. | DFAS | May 2012 | Ensures balances of public accounts payable are valid and supportable prior to the financial statements being generated. This helps meet the management assertions of existence, completeness, valuation, rights/obligations. |
| 7. Develop test scenarios to ensure accounts payable DFAS functional requirements are properly implemented for ERPs, identifying the functionality required in the ERPs to meet the end to end business processes. | DFAS | Mar 2009 | Ensures the ERP Systems properly address the current Accounts Payable weaknesses that exist in the legacy environment. |
| | | Completed | |
| 8. Validate all DFAS locations have implemented the standard guidance provided in the department of Defense Financial Management Regulation (DoD FMR) Volume 4, Chapter 9. | DFAS | Sep 2009 | Ensures compliance with current DoD Financial Management Regulation guidance for Public Payables - one of the tenets of an accounts payable audit. |
| 9. Evaluate submitted OMB Circular A-123, Appendix A, documents annually for compliance, ensuring documentation supports components assertions. | DFAS | Dec 2012 | Ensures the accounts payable internal controls are operating efficiently and effectively from transaction inception through liquidation and recording in the accounting system. Ensures proper reporting of liabilities and execution of funds. |

Public Accounts Payable: *Key Milestones*

| Key Milestone | Component | Completion Date | Projected Outcome |
|--|-----------|------------------------|--|
| | | Status or Revised Date | Justification for Change |
| 10. Ensure all public accounts payable initiated by the other entitlement systems are recorded and reported to the appropriate accounting systems. | DFAS | Jul 2012 | Ensures accounts payable from remaining entitlement systems having impact to the DoD financial reporting process are reconciled to the accounting system. This allows for a complete reconciliation of the amounts recorded in the accounting systems to those on the financial statement. |
| 11. Document procedures and reconcile electronic commerce detail transactions by entitlement system. | DFAS | Feb 2011 | Ensures the Components capture the liability at point of inception. It provides the Components documentation of WAWF receipt flow and reconciliation process necessary for management assertion to audit readiness. |
| 12. Review and reconcile aging accounts payable detail transactions (aged beyond 90 days) by entitlement system (D-2007 091 report). | DFAS | Oct 2012 | Ensures accounts payable liabilities are processed timely and receive due process. |
| 13. Complete monthly summary level reporting of accounts payable in entitlement and accounting systems. | DFAS | Jun 2012 | Ensures at end of reporting period, public accounts payable in the entitlement and accounting systems are in sync. This maintains supportable payable balances reflected on the financial reports. |
| 14. Review all audit recommendations and ensure material ones are addressed. | DFAS | Dec 2012 | Ensures all material audit findings are addressed prior to audit assertion for accounts payable. |
| 15. Complete reconciliation from audited financial statements to entitlement systems. | DFAS | May 2010 | Ensures balances of public Accounts Payable are valid and supportable on the financial statements. Provides an end-to-end process view of public payables and minimizes journal vouchers. |
| 16. Review and validate the implementation of the standard DFAS reconciliation process. | DFAS | Dec 2012 | Ensure that the DFAS reconciliation process is supportable and can be implemented across the DoD universe of accounts payable systems. Components will be able to maintain supportability of the balances reflected on the DoD audited financial statements. |
| 17. Conduct periodic tests to determine supportability of accounts payable transactions. | DFAS | Apr 2013 | Ensures process and systemic fixes to accounts payable are sustained. Successful execution of the Tri-Annual Review will be one measure of liability control. |
| 18. Establish and monitor key measures for accounts payable. | DFAS | Aug 2013 | Ensures accounts payable processes and management are operating effectively. |

Public Accounts Payable: *Key Milestones*

| Key Milestone | Component | Completion Date | Projected Outcome |
|--|-----------|------------------------|--|
| | | Status or Revised Date | Justification for Change |
| 19. Validate ERP compliance with authoritative sources by ensuring DFAS test scenarios and identified functional gaps have been accepted and incorporated by components and systems integrators. | DFAS | Dec 2013 | Ensure that ERP Functional Requirements appropriately reflect the requirements dictated by authoritative sources and that any functional gaps are identified and corrected by the Components and/or System Integrators. This will ensure that the ERPs provide the intended goals required to meet the end-to-end business process areas for Accounts Payable. |

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VI. Conclusion

The road to auditability has been marked by steady and steadfast progress. Progress in one area has often revealed challenges in another, and the FIAR Plan approach has had to change and adapt to meet continually emerging needs. Because of the flexibility of the FIAR Plan's approach, many accomplishments have been achieved.

To continue delivering successful results, the Department must focus on three fundamentals:

- Incorporating a program management approach
- Prioritizing focus to maximize limited resources
- Standardizing Financial Improvement Plans and creating a DoD-wide critical path plan
- Maintaining agility to make required course corrections

A Program Management Approach

Today's FIAR Plan more fully incorporates a program management approach, which enables the Department to better set and achieve goals, measure progress, and hold people and organizations accountable. The program management approach also ensures that individual readiness projects focusing on process, controls, and systems modernization are integrated into an organized, incremental, and prioritized FIAR Plan.

This approach not only applies to the readiness stage but must also be embraced by Components undergoing audit when audit evidence, supporting documentation, and strong and effective internal controls are required to support opening balances, current activity, and ending balances. A program management approach also gives construct to devising solutions for problems arising from first-year audits but which will cut across other Department audit efforts.

Integrating solutions earlier in the program management cycle increases the effectiveness of audit readiness efforts, accelerates the audit readiness timeline, and reduces costs. The Department is taking a similar approach to implementing solutions to audit impediments early in the project cycle to reduce risk.

Prioritizing focus

The Department has a responsibility to use its limited resources wisely. Improving efficiencies, capturing and sharing lessons learned, and increasing productivity are ways in which the Department preserves resources. Prioritizing needs along relative amount of the balance sheet and impact on other areas is also a key strategy of the FIAR Plan.

In this FIAR Plan, goals are organized in near-term and long-term categories, and within those categories, priority segments have been identified. The prioritization of efforts will continue to be fundamental to the success of the Department's improvement efforts.

Creating a DoD-wide Critical Path Plan

Each Component maintains a Financial Improvement Plan that delineates, at a deeper level, the steps required to achieve auditability. As the FIAR Plan has evolved, so have the Component-level FIPs. As a result, the FIPs do not all align horizontally across the Department, and comparisons and synergies can be hard to make.

Standardizing the FIPs will achieve two things. First, the Department will be better able to verify audit assertions and address needs from an auditor's perspective. Second, the Department will be able to create a DoD-wide critical path plan that will facilitate cross-Component cooperation and ease decision-making.

Make Course Corrections

Every day, lessons are learned and new challenges uncovered. When milestones have slipped, it is often because new impediments have been identified or opportunities for more beneficial and wide-spread achievements revealed.

While the Department must remain focused on its goals, it must also be willing to adjust its course when needs and resources change. Department leadership, in collaboration with the GAO, OMB, and the DoDIG, will continue to maximize the FIAR Plan's flexible approach to audit readiness and make refinements when necessary.

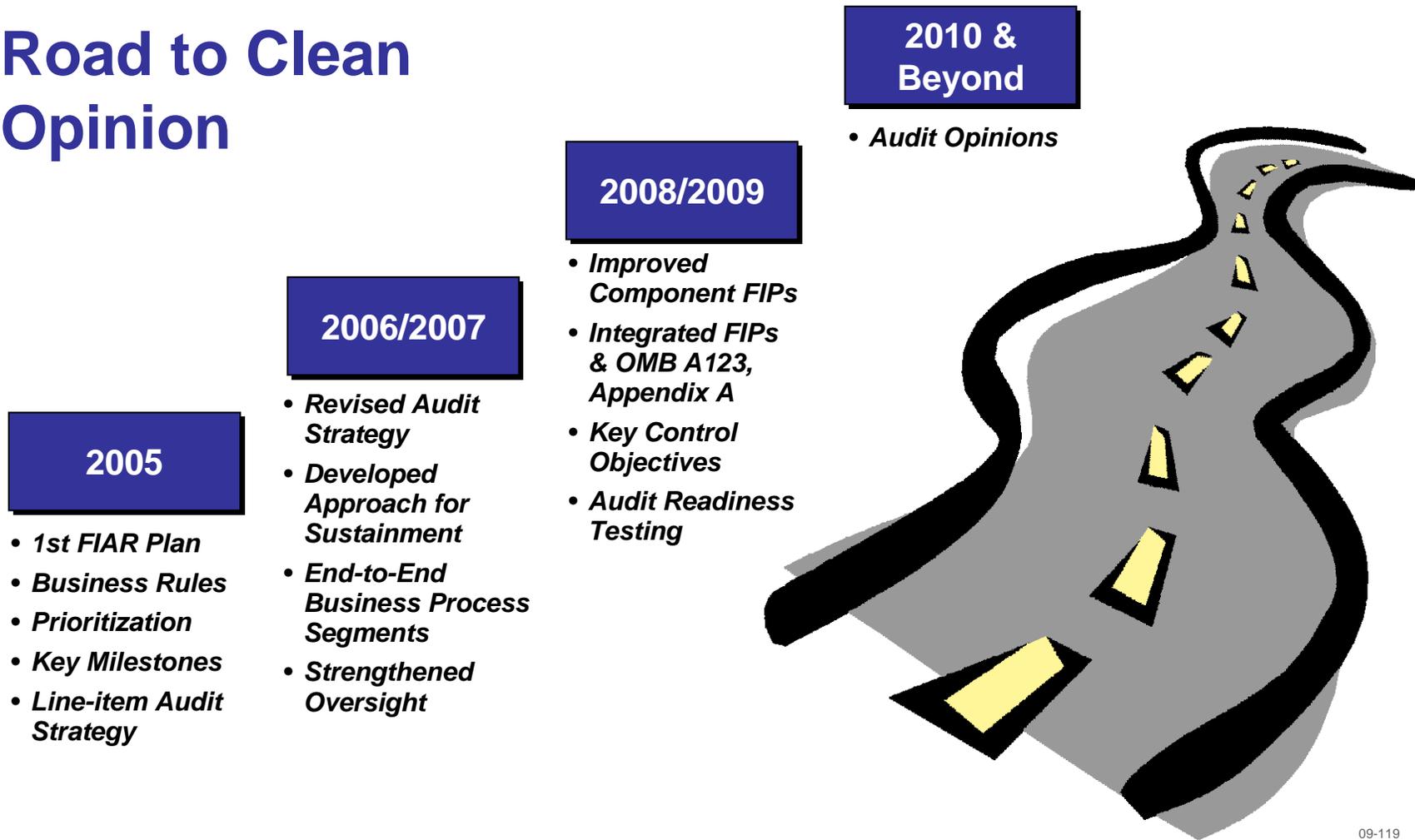
Moving Forward

From the first issuance of the FIAR Plan in 2005, to the revised audit strategy in 2007, to the introduction of Key Control

Objectives in this FIAR Plan, progress has been made toward improving financial information and achieving clean audits (Figure 25). Still, many of the hardest problems remain to be solved. The largest organizations in DoD, including all three military departments, have yet to achieve improvements sufficient to warrant asking for an audit. In the coming months, DoD will continue to reassess its audit strategy and will focus improvement efforts on those categories of financial information most often used to manage the Department activities. Continually improving financial information will ensure that the Department's need to prioritize, standardize, and make corrections will be supported the best information available at all times.

Figure 25. FIAR Road Map

Road to Clean Opinion



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Appendix 1 – Approach

When the FIAR Plan was launched, the Department had to first establish the goal of achieving auditability, and second, develop within its workforce an understanding of audit requirements.

Over time, the Department has expanded the FIAR Plan to be more comprehensive, however, the FIAR approach and goals remain standardized across the enterprise. The FIAR approach:

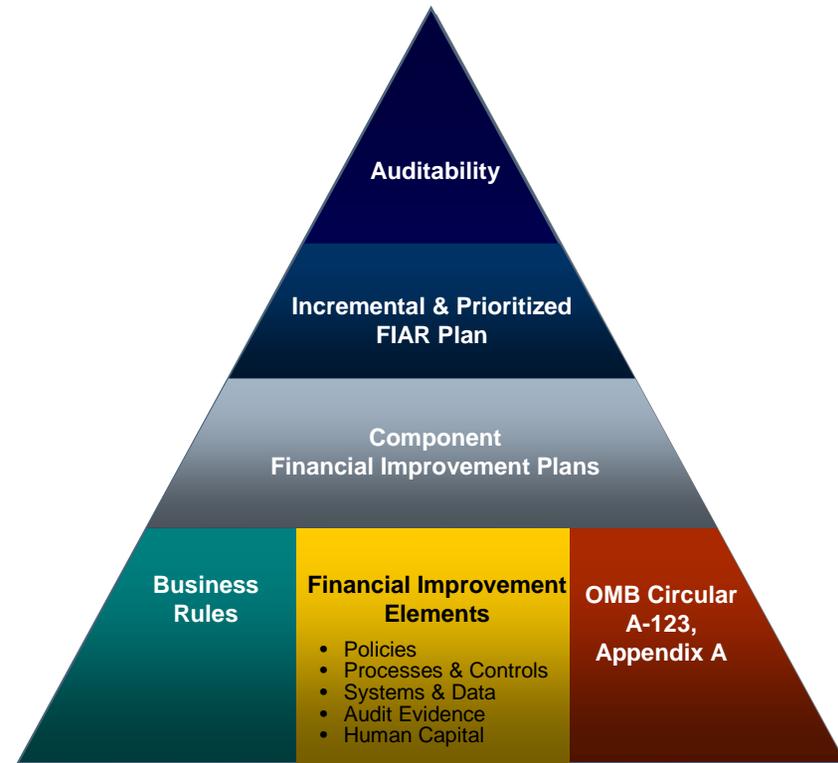
- Drives progress through incremental and prioritized improvement objectives and segments.
- Requires Component Financial Improvement Plans that focus on business process improvements.
- Structures improvement efforts and ensures consistency through the mandatory use of Business Rules.
- Focuses improvement work on five essential elements of financial improvement (Policies, Processes & Controls, Systems & Data, Audit Evidence, and Human Capital).
- Applies OMB Circular A-123, Appendix A, to confirm continued audit readiness and provide assurance that controls are effective.

Figure 1.1 shows how the parts of the approach support auditability.

INCREMENTAL AND PRIORITIZED

Because the Department’s extensive global business and financial operations cannot be assessed and made audit ready simultaneously, the FIAR Plan’s approach is incremental and prioritized. The approach breaks down the Department’s business and financial environment into segments. A segment is a financial statement line item or an entire financial statement. A segment may also be the operations of a significant organization or command within a financial statement reporting entity. Segment examples are:

Figure 1.1 Approach to Achieving Auditability



401-51

- Fund Balance with Treasury (Balance Sheet line).
 - Military Equipment (General Property, Plant and Equipment Balance Sheet line) and its related Acquire to Retire business process.
 - U.S. Marine Corps.
- Segments are prioritized based on a number of factors, including:
- Material impact.

- Complexity of deficiencies or corrective actions.
- Dependency on and timing of systems modernization.
- Business Transformation initiatives (e.g., Standard Financial Information Structure (SFIS)).
- Availability of resources.

The FIAR Subcommittee identifies and recommends segment priorities to the FIAR Committee. The FIAR Committee considers the recommendations of the Subcommittee, and based on its deliberations, recommends segment priorities to the USD(C) for approval.

Auditor-identified and self-identified material weaknesses also affect how the Department prioritizes segments. Military Equipment and Real Property, for example, are two segments that are material, and have had long-standing weaknesses. Therefore, Military Equipment and Real Property are priority segments in the FIAR Plan.

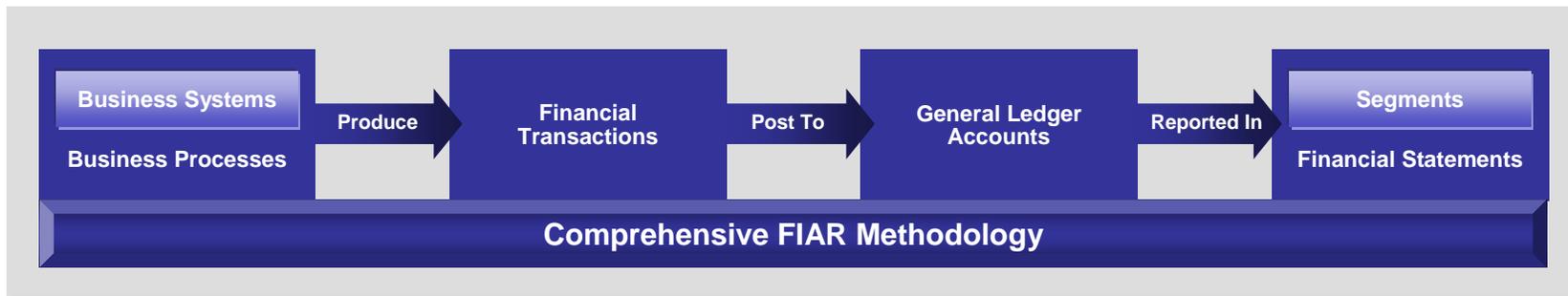
COMPONENT FINANCIAL IMPROVEMENT PLANS

At the Component-level, improvement activities focus on business processes. A business process produces numerous business events. Acquire to Retire, for example, includes entering into contracts, receiving assets, and placing them into service. Each business event triggers financial transactions that must be accurately and timely recorded in the general ledger and documented. The general ledger and supporting documentation are used to prepare financial statements. Figure 1.2 shows how segments of the financial environment link to business processes.

Each Component maintains a complex, detailed Financial Improvement Plan (FIP) for managing tasks, and timelines for conducting discovery activities, evaluating and modernizing business and financial processes and systems, testing and strengthening internal controls, correcting deficiencies and weaknesses, preparing for audit, and validating audit readiness.

Organizing FIP activities within a business process structure provides a systematic approach for identifying and conducting thorough evaluations and assessments of the business events that generate financial transactions. It also provides a consistent format across the Components' Financial Improvement Plans.

Figure 1.2 Segment to Process Relationship



This consistency allows better oversight and comparability for monitoring progress and identifying shared dependencies.

There are seven business processes that produce the preponderance of financial transactions in the Department of Defense, and that are addressed in the FIAR Plan and Component FIPs.

- Acquire to Retire
- Hire to Retire
- Procure to Pay
- Order to Cash
- Plan to Stock
- Environmental Liabilities
- Budget to Report

(See Appendix 2 for a definition of each business process.)

Figure 1.3 illustrates Procure to Pay, the business process the Department uses to purchase goods and services. Procure to Pay includes seven process steps.

The Procure to Pay business process begins with preparing requisitions, determining the best sources (vendors), preparing and awarding purchase agreements or contracts, receiving goods or services, processing vendor invoices, and paying vendors for the goods and services that were delivered or performed. Many of the process steps trigger financial

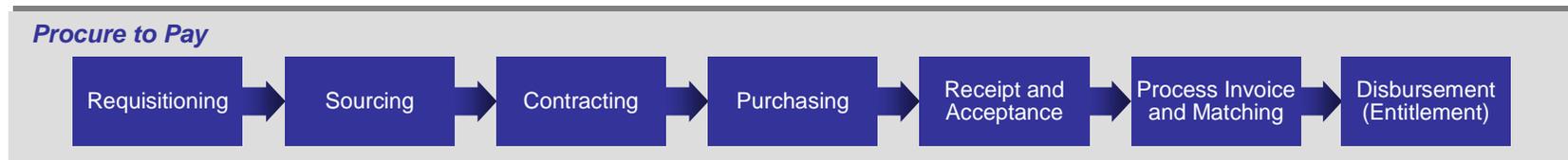
transactions that must be both timely and accurately recorded in Component financial systems. Understanding the business process and using it to organize improvement actions ensures more complete and comprehensive financial improvement and audit readiness.

Each Military Department is implementing one or more Enterprise Resource Planning (ERP) systems. Coordination of the remediation efforts defined in the FIPs with the ERP efforts is critical since many of the process improvements will be accomplished within the new systems. The ERP schedules are an integral part of the FIAR Plan and the FIPs. The timeline and relationship to achieving incremental financial improvement and auditability is depicted in Appendix 3. More information on the ERPs may be found in the Enterprise Transition Plan.

BUSINESS RULES

The Department's efforts to achieve and sustain financial improvement and audit readiness are governed by Business Rules that are uniformly applied. The Business Rules guide the process for examining operations; diagnosing and correcting problems; achieving audit readiness; validating audit readiness; and sustaining audit readiness through annual internal control testing and assessments.

Figure 1.3 Procure to Pay



The first two Business Rules are the key steps in preparing for audit. The Business Rules are as follows:

1. **Discovery and Correction:** Management evaluates individual financial segments, identifies weaknesses and deficiencies, and performs corrective actions.
2. **Segment Assertion:** Management asserts Audit Readiness to the Office of the Inspector General (OIG) and OUSD(C) for concurrence.
3. **Audit Readiness Validation:** Management asserts compliance with applicable GAAP, laws and regulations, and internal control reliability. OIG or an Independent Public Accounting (IPA) firm validates management’s assertion using an examination engagement.
4. **Audit Readiness Sustainment:** Verification of segments is conducted using OMB Circular A-123, Appendix A, as guidance.
5. **Financial Statement Assertion:** Management asserts financial statement audit readiness to the OIG and OUSD(C) for concurrence.
6. **Financial Statement Audit:** OIG or IPA firm audits the organization’s financial statements.

Monitoring progress by Business Rules is one way that the Department tracks audit readiness. By reviewing where a segment is in the Business Rules cycle, DoD can project auditability. Appendix 7 contains detailed information on key milestone progress for near- and long-term priority segments.

FINANCIAL MANAGEMENT IMPROVEMENT ELEMENTS

During the Discovery and Correction phase of the Business Rules, each Component reviews, tests, and evaluates account balances and business processes within a segment. The evaluation identifies gaps and deficiencies in complying with

laws, regulations, and policies. A segment’s policies, processes, controls, systems, data, and audit evidence are also evaluated and assessed. Therefore, five elements of financial improvement affect the accuracy, reliability, and auditability of financial statement information:

- Policies
- Processes & Controls
- Systems & Data
- Audit Evidence
- Human Capital

A description of the activity and requirements for each element is provided below.

Policies

A review of policies determines that Component regulations, procedures, and other guidance are consistent with Generally Accepted Accounting Principles (GAAP), applicable federal and DoD business and financial management laws, regulations, and policies (LRPs). Reviews are not limited to financial LRPs. Often, functional LRPs affect the financial community’s ability to properly record transactions. For example, the Defense Federal Acquisition Regulation was recently modified to prescribe requirements for capturing the cost of Military Equipment in

Example: Policies

OUSD(C) recently issued revised policy requiring the recognition of imputed revenue and costs for real property owned by one entity and used in the operations of another. This policy has a significant impact on the reporting of real property assets on Component balance sheets. Components now must update their regulations and procedural documents to incorporate this important policy change.

401-60

accordance with federal accounting standards. Guidance to the acquisition community must be changed, and the new guidance evaluated in the audit readiness process to ensure compliance. Additionally, reviews of Component guidance must consider whether changes to processes and systems necessitate modification of procedural guidance and other documents.

Processes & Controls

A review and evaluation of processes determines if business and financial processes produce accurate and timely financial information. Processes may be manual, automated, or both.

Actions to achieve this objective must be coordinated with business transformation initiatives, system deployments, and other process improvements. For example, a review of processes may require the Component to determine whether a legacy system should be replaced.

A review and evaluation of processes coincides with a review and evaluation of controls. OMB Circular A-123, Appendix A, which is applied to document, test, and strengthen internal controls, begins with documenting and flow-charting processes.

A review and evaluation of controls determines if proper controls are in place to achieve:

- Effectiveness of operations
- Reliability of financial reporting

- Compliance with applicable laws and regulations

Internal management controls promote efficiency, reduce the risk of asset loss, improve the reliability of financial information reported on financial statements, and facilitate compliance with laws, regulations, and policies. During Discovery and Correction, Components perform a risk assessment of business processes, document existing controls, design missing controls, test controls, and implement corrective action plans for control gaps or failures. Efforts under the controls element meet OMB Circular A-123, Appendix A requirements.

Systems & Data

A review and evaluation of systems and data determines if system capabilities and functionalities reliably produce the financial data needed to record and report financial transactions. Activities also include testing and evaluating controls, and confirming that system documentation is up-to-date, properly maintained, and readily available for auditors. Evaluation and assessment is limited to material systems within or supporting a segment at the time of a management assertion. Systems include:

- Financial or Accounting Systems
- Mixed Systems (Business and Financial systems)
- Business Systems (e.g., Time and Attendance Systems)

Example: Processes & Controls

DoD recently reengineered the processes and controls for managing, recording, and reporting Construction-in Progress (CIP), but they have yet to be fully implemented by the Components. Implementing the new processes and controls is essential to properly valuing real property assets and reporting them on DoD financial statements.

401-60a

Example: Systems & Data

DoD is presently deploying an ERP, referred to as the Defense Agencies Initiative (DAI), for the Defense Agencies and Field Activities that will replace numerous legacy accounting and other systems (e.g., time and attendance, contract management, and accountability systems). DAI modernizes financial management capabilities, eliminates material weaknesses, and achieves financial statement auditability.

401-60b

Additionally, systems should be compliant with the Federal Financial Management Improvement Act (FFMIA). Specific policy and guidance on FFMIA is contained in Volume 1, Chapter 3 of the DoD Financial Management Regulation.

When applicable, a review and evaluation is conducted of how data was cleansed and migrated into new or modified systems. Beginning and ending balances are also reviewed and evaluated to ensure that the underlying data meets required management assertions (valuation, allocation, completeness, and cutoff). In addition, the review ensures that supporting documentation for the beginning balances is readily available to auditors, which is particularly important when alternative methods have been used to value assets.

Audit Evidence

In an audit, the auditor looks for evidential matter to determine if management has prepared financial statements in material compliance with GAAP and to support management’s assertions related to the financial statements. Audit assertions can be either explicit or implicit and can be classified according to the following broad categories:

- Existence or Occurrence
- Completeness
- Rights and Obligations

Example: Audit Evidence

Essential to successful audits is maintaining acceptable and readily available audit evidence. Through the FIAR Plan, DoD is ensuring the Components properly prepare for future audits by having the right audit evidence readily available. This means saving and maintaining source documents such as leases to support capital leases and invoices and receiving reports to support inventory.

401-60c

- Valuation or Allocation
- Presentation and Disclosure

Evidential matter consists of the underlying accounting data and all corroborating information and is critical to management’s assertion of audit readiness. Auditors obtain sufficient competent evidential matter through inspection, observation, inquiries, and confirmations, and the evidential matter forms a reasonable basis for an opinion regarding the financial statements under audit. It is the responsibility of the entity preparing the financial statements to maintain and make readily available supporting documentation.

Evidence in support of the financial statements includes the books of original entry, the general and subsidiary ledgers, related accounting manuals, and records such as worksheets and spreadsheets supporting cost allocations, computations, and reconciliations. This evidence, often in electronic form, is considered accounting data and is critical to the performance of a financial statement audit.

Though accounting data alone is not considered sufficient support for financial statements, it forms the beginning of the “audit trail.” An auditor starts with the accounting data and traces it back to corroborating evidential matter at the source.

Corroborating evidential matter includes both written and electronic information, such as checks; records of electronic fund transfers; invoices; contracts; meeting minutes; confirmations and other written representations by knowledgeable people; information obtained by the auditor from inquiry, observation, inspection, and physical examination; and information developed by, or available to, the auditor that helps reach conclusions through valid reasoning.

To successfully support the financial statement assertions, audit evidence must be valid, relevant, and sufficient. The Department must, therefore, improve its ability to maintain and provide competent, relevant audit evidence.

Human Capital

A review and evaluation of human capital ensures that Components have the right number of people with the right skills, knowledge, and experience to accomplish financial management improvement goals. Successful financial management requires hiring and maintaining a sufficient mix of people with functional knowledge, subject matter expertise, and general analytical skills vital to performing each process step. Carrying out the business and financial objectives of most process steps requires a multidisciplinary staff.

Efforts related to human capital include establishing staffing requirements, recruiting and retaining staff with needed technical expertise, defining roles and responsibilities, preparing current position descriptions, issuing performance objectives, and training employees to perform associated tasks.

OMB CIRCULAR A-123, APPENDIX A

The FIAR Approach incorporates control and balance testing in the Discovery and Correction phase. Audit testing ensures audit impediments are identified and corrective actions are focused on the issues that directly impede auditability.

The Office of Management and Budget’s (OMB) Circular A-123, “Management’s Responsibility for Internal Control,” Appendix A,

“Internal Control over Financial Reporting,” prescribes a process for assessing internal control over financial reporting and requires an annual management assurance statement that addresses the effectiveness of the process. Implementing Appendix A helps the Department identify control weaknesses that must be addressed prior to audit readiness and evaluate effectiveness of controls over time.

CONTINUAL IMPROVEMENT

The Components have integrated their efforts to implement OMB Circular A-123, Appendix A, requirements with financial improvement work. Improved internal controls and regularly scheduled control testing ensure business and financial operations are performing as expected and improvements are sustained over time.

The Department’s financial improvement progress is closely monitored by the Deputy Secretary of Defense, and Department and Component senior leadership.

To further help the Components prepare for audit, the OUSD(C) is updating the audit assertion package criteria based on lessons learned from recent auditability work. The key changes are:

- **Discovery and Correction:** An audit methodology is used to test segment controls, balances, and supporting documentation to determine if sufficient and appropriate audit evidence exists to support the financial statement assertions. These tests identify specific business process weaknesses and enable management to prioritize and apply resources to correcting the weaknesses. As correction efforts proceed, Components continue to apply audit procedures to segment account balances in a process of continuous assessment and improvement.
- **Segment Assertion:** Management applies audit procedures using personnel with sufficient objectivity (e.g., Service Audit

Example: Human Capital

As the Department changes policies, improves processes, strengthens controls, and deploys new systems, DoD employees must be trained on changing environments to remain effective and efficient. The Department has created and delivered Military Equipment training modules to DoD-wide personnel responsible for new business and financial processes, and has published best practices guides for Environmental Liabilities and Real Property that serve as ready-reference documents.

401-60d

Agency personnel) to assess the readiness of the segment for audit. Upon determination by management that all audit impediments for a segment have been corrected and the segment is ready for audit, the Component prepares and delivers an Assertion Package to the DoDIG and OUSD(C) for evaluation.

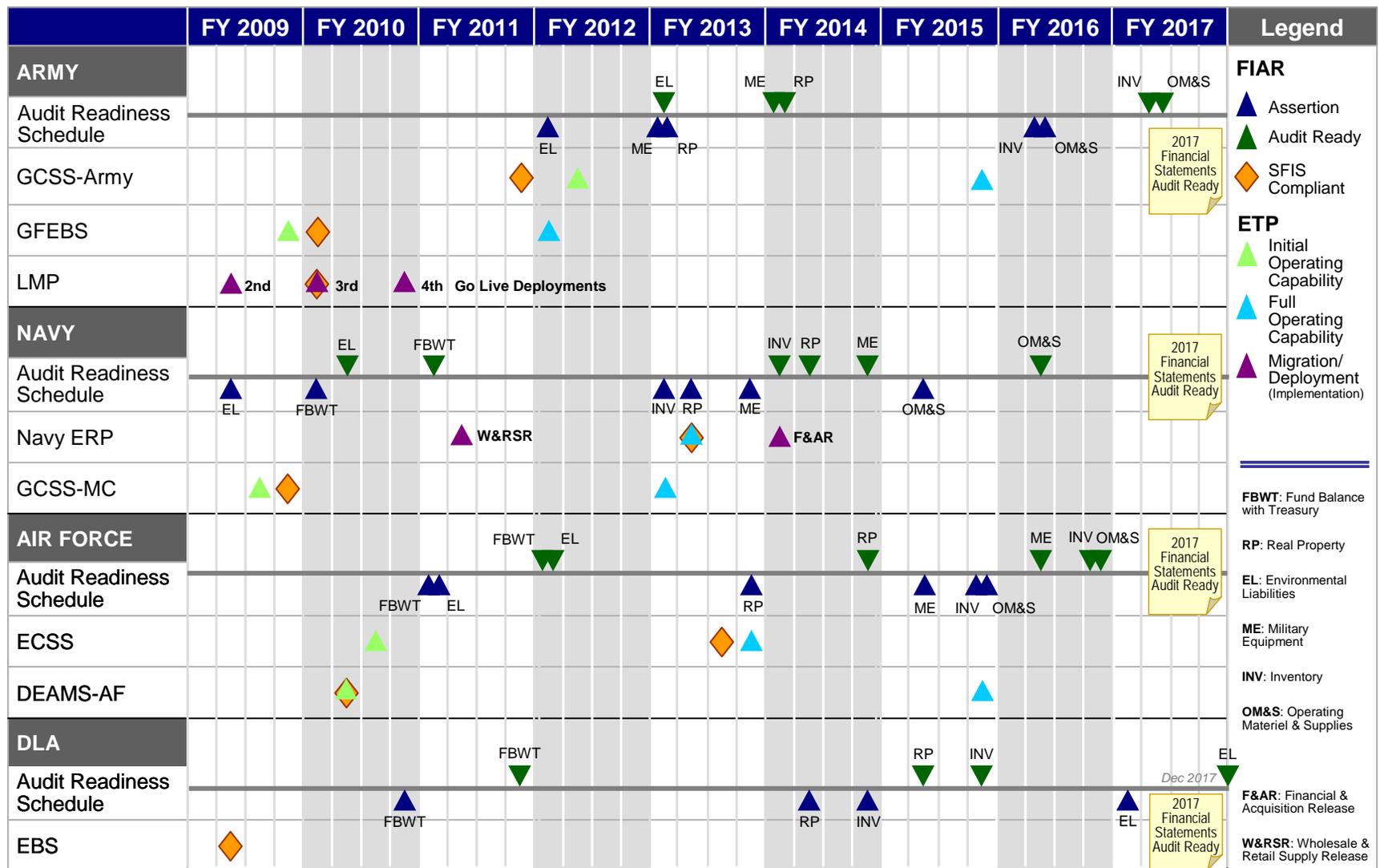
The FIAR Plan is solidly focused to achieve the three FIAR goals and compliance with GAAP by a proven approach that employs audit testing, systematic and thorough improvement efforts coordinated with the modernization of business processes and systems, and a strong and comprehensive internal control program.

Appendix 2 – Business Processes

| Business Process | Business Process Definition |
|------------------------------------|---|
| Acquire to Retire | Acquire to Retire encompasses all business functions necessary to obtain, manage, and dispose accountable and reportable property (capitalized and non-capitalized assets) through their entire life-cycle. This includes such functions as requirements identification, sourcing, contract management, purchasing, payment management, general property, plant & equipment management and retirement. |
| Hire to Retire | Hire to Retire encompasses all business functions necessary to plan for, hire, develop, assign, sustain and separate personnel resources in the Department of Defense. |
| Procure to Pay | Procure to Pay encompasses all business functions necessary to obtain goods and services. This includes such functions as requirements identification, sourcing, contract management, purchasing, payment management, and receipt/debt management. |
| Order to Cash | Order to Cash encompasses all business functions necessary to accept and process customer orders for services and/or inventory held for sale. This includes such functions as managing customers, accepting orders, prioritization of orders, fulfilling orders, performing distribution, managing receivables, and managing cash collections. |
| Plan to Stock-Inventory Management | Plan to Stock encompasses all business functions necessary to plan, procure, produce, inventory, and stock materials used both in operations and maintenance (O&M) as well as for sale. |
| Environmental Liabilities | Environmental Liabilities encompasses all business functions necessary to identify environmental cleanup, closure, or disposal issues that represent an environmental liability of the Department, to develop cost estimates and track expenditures related to the actions required to eliminate identified environmental liabilities, and to report appropriate financial information about the environmental liability. |
| Budget to Report | Budget to Report encompasses all business functions necessary to plan, formulate, create, execute against and report on the budget and business activities of the entity. This includes updates to the general ledger. |

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Appendix 3 – Audit Readiness and ERP Deployment Timelines



401-61

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Appendix 4 – Federal Requirements

For many years, the Executive and Legislative branches have worked together to realize an accountable, results-oriented government that strives every day to better serve the American people. Many initiatives and laws shape the Department of Defense's strategy for improving financial management and achieving audit readiness. Brief descriptions of the most predominant follow:

The Chief Financial Officers Act of 1990 (PL 101-576) (CFO Act) was the first of a series of management reform legislation designed to improve the general and financial management of the Federal government. It laid the foundation for other key legislative reforms that followed a common thread of increased accountability and better management practices. The CFO Act requires that each Federal agency improve its systems of accounting, financial management, and internal controls so that issued financial information is reliable and fraud, waste, and abuse are deterred. Further, each agency must prepare timely, complete, consistent, and reliable financial statements for Congress and the Administration to use in financing, managing, and evaluating Federal programs.

The Federal Managers Financial Integrity Act of 1982 (PL 97-255) (FMFIA) requires all functions within DoD to assess the effectiveness of management controls. The CFO Act built on the FMFIA by establishing internal controls for financial management and systems. Under the FMFIA, if material deficiencies are discovered, DoD must report those deficiencies with scheduled milestones leading to the resolution of the deficiency. The ongoing evaluation and testing of controls ensures that obligations and costs comply with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for on financial and statistical reports.

The Federal Financial Management Improvement Act of 1996 (PL 104-208) (FFMIA) addresses the need for agencies to have systems that can generate reliable, useful, and timely information with which to make informed decisions and ensure accountability on an ongoing basis. FFMIA requires DoD to develop a corrective action plan when its financial management systems do not comply with Federal financial management system requirements. FFMIA does three things:

- Establishes in statute certain financial management system requirements that are already Executive Branch policies. Specifically, Section 803(a) requires each agency to implement and maintain systems that comply substantially with:
 - Federal financial management system requirements,
 - applicable Federal accounting standards, and
 - the Standard General Ledger at the transaction level;
- Requires auditors to report on agency compliance with Section 803(a) as part of financial statement audit reports.
- Requires agency heads to determine, based on the audit report and other information, whether financial management systems comply with FFMIA. If systems do not comply with FFMIA, agencies must develop remediation plans and file them with OMB.

The Clinger-Cohen Act of 1996 (PL 104-106) (also known as the Information Technology Management Reform Act of 1996) sets forth a variety of initiatives to support better decision making for capital investments in information technology. The need for better decision making has led to the development of the Federal Enterprise Architecture and better-informed capital investment and control processes.

The Government Management Reform Act of 1994 (PL 103-356) requires changes in four main areas: limitation on pay, human resource management, streamlining management control, and financial management.

The National Defense Authorization Act for FY 2002 (PL 107-107), Section 1008, “Reliability of Department of Defense Financial Statements” describes the requirements for the Annual Report on Reliability, limits the use of resources for preparing unreliable financial statements, requires information submitted to auditors, and limits the Inspector General’s audits to procedures required by Generally Accepted Government Auditing Standards. For Components that cannot rely on their financial statements, the section concentrates on redirecting resources from preparing financial statements to improving the systems underlying financial management and improving financial management policies, procedures, and internal controls within the Department of Defense.

The Anti-Deficiency Act (ADA) (31 U.S.C. Chapters 13 and 15) prevents departments and agencies from making or authorizing obligations or expenditures in advance or in excess of an appropriation. Government agencies establish administrative control systems for keeping obligations within the amount of apportionment and for detecting violations. Violations of the ADA are subject to administrative and penal sanctions and must be reported through the Executive Branch to Congress.

The Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” Appendix A, “Internal Control Over Financial Reporting” prescribes a strengthened management process for assessing internal control over financial reporting. Appendix A also requires an annual management assurance statement that specifically addresses the effectiveness of internal control over financial reporting based on the results of management’s assessment.

Creating an annual Statement of Assurance includes flowcharting key business processes that impact financial report balances; identifying and assessing risks within the processes and related internal controls; testing controls believed to be effective and correcting or establishing controls found to be deficient; and reporting on the results of the assessments and tests.

The Office of Management and Budget Circular A-127, “Financial Management Systems,” serves as a reference document for government-wide financial management systems. It prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

Agency financial management systems must comply with the following requirements:

- **Agency-wide Financial Information Classification Structure.** The design of the financial management systems must reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger.
- **Federal Accounting Standards.** Agency financial management systems must maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB).
- **Agency financial management systems must conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems.** Functional requirements are defined in the Federal Financial Management Systems Requirements publication series issued by the Financial Systems Integration Office.

Appendix 5 – Managing the FIAR Plan

To manage the FIAR Plan and ensure that DoD-wide financial improvement efforts continue to mature and are integrated with transformation activities across the Department, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) established the FIAR Directorate, a program management office. The Department also looks to the Financial Management Leadership Council to oversee the management of the FIAR Plan.

The Financial Management Leadership Council

The Financial Management Leadership Council (FMLC) is chaired by the Under Secretary of Defense Comptroller (USD(C)) and meets monthly. The FMLC comprises financial management senior executives from the Military Services, Defense Logistics Agency, Defense Information Systems Agency, Business Transformation Agency, Defense Finance and Accounting Service, and OUSD(C). The Deputy Inspector General for Auditing acts as an adviser, and senior representatives from the Office of Management and Budget and the Government Accountability Office also attend. The FMLC monitors FIAR Plan progress and challenges, and makes recommendations to the USD(C), who establishes FIAR Plan priorities.

The FIAR Committee

The FIAR Committee, a chartered organization, leads the process for establishing and monitoring FIAR Plan priorities. Chaired by the Assistant Deputy Under Secretary of Defense (Comptroller) Financial Management, the Committee comprises executive-level representatives of the Military Departments, Defense Logistics Agency, Business Transformation Agency, and Defense Finance and Accounting Service. The Deputy Inspector General for Auditing acts as an adviser to the FIAR Committee. An active subcommittee of senior accountants,

financial managers, management analysts, and auditors support the FIAR Committee. This collaborative management structure reinforces business integration.

The FIAR Directorate

The FIAR Directorate organizes and convenes cross-Component financial improvement planning workshops, manages the audit readiness process, and semiannually publishes the FIAR Plan. The Directorate also maintains the FIAR Planning Tool.

The FIAR Planning Tool

The FIAR Planning Tool (FIAR-PT) is an Internet-based resource designed to assist in managing the Department of Defense's financial improvement process.

The FIAR-PT:

- Enables Components to organize and report on the FIAR Plan
- Provides a standard tool from which Components manage their Financial Improvement Plans
- 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.

concerns are always welcome. Comments and questions should be submitted via e-mail to <FIARSupport@osd.mil>.

Continuous improvements keep the FIAR-PT easy to use. To assist new users, the FIAR Directorate has made a number of resources available. The FIAR Planning Tool is an ongoing project and under continual construction. Suggestions and

FIAR Planning Tool - Web-Accessible Enables Easy Visibility to View and Analyze Current Data

The screenshot shows the DoD FIAR Portal interface. At the top, there is a header with the DoD logo and the text "DoD FIAR Portal". Below the header is a navigation bar with tabs: "FIAR Portal Entry", "FIAR Project Web Access", "ETP Project Web Access", and "Military Pay Project Web Access". The left sidebar contains several sections: "View All Site Content", "Sites" (with links to FIAR Key Milestone Monthly Reporting, A-123 Repository, 2009 FIAR Guidance Workgroup, Public FIAR Site, and Report Links), "Quick Links" (with links to FIAR Library and Training), "Documents" (with link to FIAR Guidance Documents), and "Lists" (with link to Points of Contact). The main content area features an "Announcements" section with a "New" dropdown and "Actions" dropdown. A recent announcement is titled "STATUS: September 2008 Update to FIAR Plan" with a "NEW" indicator, dated 11/4/2008 11:48 AM, by CLARK, CHARLES (CONTRACTOR). The announcement text includes: "Coordination comments received by FIAR Directorate", "Comments being reviewed/adjudicated", "Revised draft Sep 2008 FIAR to BIO Director on Nov 13", and "Final version to USD(C) and DEPSECDEF Nov 17". Below the announcement is a green headline: "ISSUANCE TO CONGRESS AND OMB REMAINS ON SCHEDULE". Underneath is a "Calendar" section with a "New" dropdown and "Actions" dropdown. The calendar table has columns for "Title", "Location", "Start Date", and "End Time". The entries are: "FIAR Subcommittee Meeting" (11/13/2008 12:30 PM to 2:00 PM), "DEPSECDEF Issues September FIAR Plan to Congress & OMB" (12/8/2008 12:00 AM to 11:59 PM), and "FIAR Committee Meeting" (12/11/2008 1:00 PM to 3:00 PM). On the right side of the page, there are several utility icons and links: "When will my p expire?", "Change your", "Quick Star", "Need h Write to FIAR", and "My Links" (with a note that there are currently no favor display and a link to "Add new link").

401-62

Appendix 6 – System Acronyms

| Acronym | Definition |
|-----------|--|
| ACES | Automated Civil Engineering System |
| ACES-RP | Automated Civil Engineering System – Real Property |
| AEDB-CC | Army Environmental Database – Compliance Clean-up |
| AEDB-R | Army Environmental Database – Restoration |
| AFRIMS | Air Force Restoration Information Management System |
| AFRPA-IIT | Air Force Real Property Agency – Integrated Information Management |
| BEIS | Business Enterprise Information Services |
| CAMS-ME | Capital Asset Management System – Military Equipment |
| CCAS | Columbus Cash Accountability System |
| CCAS-AF | Columbus Cash Accountability System-Air Force |
| CDS | Contracting Debt System |
| CECOM | Communications and Electronics Command |
| CEDMS | Corporate Electronic Document Management System |
| CEFMS | Corps of Engineers Financial Management System |
| COTS | Commercial Off-the-Shelf |
| DAI | Defense Agencies Initiative |
| DCPS | Defense Civilian Pay System |
| DDMS | Defense Debt Management System |
| DDRS | Defense Departmental Reporting System |
| DEAMS | Defense Enterprise Accounting Management System |
| DIMHRS | Defense Integrated Military Human Resources System |
| DITPR | Department of Defense Information Technology Portfolio Repository |
| DPAS | Defense Property Accountability System |

| Acronym | Definition |
|-----------|--|
| EBS | Enterprise Business System |
| ECSS | Expeditionary Combat Support System |
| EESOH-MIS | Enterprise Environmental Safety and Occupational Health - Management Information System |
| EFD | Enterprise Funds Distribution |
| ELS | Environmental Liability Services |
| ERP | Enterprise Resource Planning |
| FCS | Future Combat Systems |
| FMS | Facility Management System |
| FSM | Facilities Sustainment Model |
| FUDSMIS | Formerly Used Defense Sites Management Information System |
| GCSS | Global Combat Support System |
| GFEBs | General Fund Enterprise Business System |
| HQIIS | Headquarters Installation Information System |
| IFS | Integrated Facilities System |
| iNFADS | Internet Navy Facility Assets Data Store |
| IVAN | Intragovernmental Value Added Network |
| LMP | Logistics Modernization Program |
| MHS | Military Health System |
| Navy ERP | Navy Enterprise Resource Planning |
| NORM | Normalization of Data System |
| PBUSE | Property Book Unit Supply Enhanced |
| RACER | Remedial Action Cost Estimation Requirements |
| RAMPOD | Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods |
| REMIS | Reliability and Maintainability Information System |

| Acronym | Definition |
|----------|---|
| RPAD | Real Property Asset Database |
| SABRS | Standard Accounting, Budget, and Reporting System |
| SAFE | Single Army Financial Enterprise |
| SALE | Single Army Logistics Enterprise |
| SDS | Standard Depot System |
| SFIS | Standard Financial Information Structure |
| SOMARDS | Standard Operation and Maintenance Army Research and Development System |
| STANFINS | Standard Finance System |
| TSEAS | Telecommunications Services and Enterprise Acquisition Services |
| USSGL | United States Standard General Ledger |
| WAWF | Wide Area Work Flow |

Appendix 7 – Commonly Used Acronyms

| Acronym | Definition |
|-----------|--|
| AAIP | Army Asset Improvement Plan |
| AAPC | Accounting and Auditing Policy Committee |
| ACES | Automated Civil Engineering System |
| ACES-RP | Automated Civil Engineering System – Real Property |
| ACWA | Assembled Chemical Weapons Assessment |
| ADA | Anti-Deficiency Act |
| AEDB-CC | Army Environmental Database – Compliance Clean-up |
| AEDB-R | Army Environmental Database – Restoration |
| AFB | Air Force Base |
| AFFSC | Air Force Financial Services Center |
| AFI | Air Force Instruction |
| AFRIMS | Air Force Restoration Information Management System |
| AFRPA-IIT | Air Force Real Property Agency – Integrated Information Management |
| AIM | Agile Inventory Management |
| AMC | Army Materiel Command |
| AP | Accounts Payable |
| APSR | Accountable Property System of Record |
| AR | Accounts Receivable |
| ASD | Assistant Secretary of Defense |
| AT&L | Acquisition, Technology, and Logistics |
| ATO | Authority to Operate |
| BAM | Business Activity Monitoring |
| BEA | Business Enterprise Architecture |
| BEIS | Business Enterprise Information Services |

| Acronym | Definition |
|---------|--|
| BEP | Business Enterprise Priority |
| BRAC | Base Realignment and Closure |
| BTA | Business Transformation Agency |
| BUMED | Bureau of Medicine and Surgery |
| CAMD | Chemical Agents Munitions Destruction |
| CAMS-ME | Capital Asset Management System – Military Equipment |
| CBM | Core Business Mission |
| CBV | Contract-Based Valuations |
| CCAS-AF | Columbus Cash Accountability System – Air Force |
| CCE | Coding Compliance Editor |
| CCSS | Commodity Command Standard System |
| CDMAG | Contract Depot Maintenance Activity Group |
| CDS | Contracting Debt System |
| CECOM | Communications and Electronics Command |
| CEDMS | Corporate Electronic Document Management System |
| CEFMS | Corps of Engineers Financial Management System |
| CFO | Chief Financial Officer |
| CFO Act | Chief Financial Officers Act of 1990 |
| CGAC | Common Government-wide Accounting Classification |
| CIP | Construction-in-Progress |
| CONUS | Continental United States |
| COTS | Commercial Off-the-Shelf |
| CRM | Customer Relationship Management |
| DAE | Defense Acquisition Executive |
| DAI | Defense Agencies Initiative |

| Acronym | Definition |
|-----------|---|
| DARPA | Defense Advanced Research Projects Agency |
| DBSMC | Defense Business Systems Management Committee |
| DC | Direct Care |
| DCAA | Defense Contract Audit Agency |
| DCAS | Defense Cash Accountability System |
| DCFO | Deputy Chief Financial Officer |
| DCMA | Defense Contract Management Agency |
| DCPS | Defense Civilian Pay System |
| DDMS | Defense Debt Management System |
| DDRS | Defense Departmental Reporting System |
| DEAMS | Defense Enterprise Accounting Management System |
| DeCA | Defense Commissary Agency |
| DepSecDef | Deputy Secretary of Defense |
| DERP | Defense Environmental Restoration Program |
| DFAR | Defense Federal Acquisition Regulation |
| DFAS | Defense Finance and Accounting Service |
| DHS | Defense Health Program |
| DIA | Defense Intelligence Agency |
| DIMHRS | Defense Integrated Military Human Resources System |
| DISA | Defense Information Systems Agency |
| DITPR | Department of Defense Information Technology Portfolio Repository |
| DLA | Defense Logistics Agency |
| DoD | Department of Defense |
| DODD | DoD Directive |
| DODI | DoD Instruction |

| Acronym | Definition |
|-----------|---|
| DoDIG | Department of Defense Inspector General |
| DON | Department of the Navy |
| DPAS | Defense Property Accountability System |
| DSS | Defense Security Service |
| DUSD(FM) | Deputy Under Secretary of Defense (Financial Management) |
| EBC | End-to-End Business Cycle |
| EBS | Enterprise Business System |
| ECSS | Expeditionary Combat Support System |
| EESOH-MIS | Enterprise Environmental Safety and Occupational Health - Management Information System |
| EFD | Enterprise Funds Distribution |
| ELS | Environmental Liability Services |
| ERP | Enterprise Resource Planning |
| ETP | Enterprise Transition Plan |
| FACA | Federal Advisory Committee Act |
| FAD | Funding Authorization Document |
| FAM | Financial Audit Manual |
| FASAB | Federal Accounting Standards Advisory Board |
| FBWT | Fund Balance with Treasury |
| FCS | Future Combat Systems |
| FECA | Federal Employees Compensation Act |
| FEMA | Federal Emergency Management Agency |
| FFMIA | Federal Financial Management Improvement Act |
| FIAR | Financial Improvement and Audit Readiness |
| FIAR-PT | Financial Improvement and Audit Readiness Planning Tool |
| FIP | Financial Improvement Plan |

| Acronym | Definition |
|---------|---|
| FISMA | Federal Information Security Management Act |
| FM&C | Financial Management and Comptroller |
| FMFIA | Federal Managers' Financial Integrity Act |
| FMLC | Financial Management Leadership Council |
| FMLOB | Financial Management Line of Business |
| FMS | Facility Management System |
| FMS | Foreign Military Sales |
| FMTT | Financial Management Transformation Team |
| FOC | Full Operational Capability |
| FUDSMIS | Formerly Used Defense Sites Management Information System |
| FSIO | Financial Systems Integration Office |
| FSM | Facilities Sustainment Model |
| FV BEP | Financial Visibility Business Enterprise Priority |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | Government Accountability Office |
| G&C | Group and Composite |
| GCSS | Global Combat Support System |
| GF | General Fund |
| GFEBBS | General Fund Enterprise Business System |
| GL | General Ledger |
| GPP&E | General Property, Plant and Equipment |
| GPRA | Government Performance and Results Act |
| GWA | Governmentwide Accounting |
| HMMVV | High Mobility Multipurpose Wheeled Vehicle |

| Acronym | Definition |
|---------|--|
| HPO | High-Performing Organization |
| HQIIS | Headquarters Installation Information System |
| IAW | In Accordance With |
| IFS | Integrated Facilities System |
| I&E | Installations and Environment |
| IGT | Intragovernmental Transactions |
| iNFADS | Internet Navy Facility Assets Data Store |
| IPA | Independent Public Accountant or Independent Public Accounting |
| IPAC | Intra-Governmental Payment and Collection |
| I&RP | Inventory and Related Property |
| IT | Information Technology |
| ITS | International Treasury Service |
| IUID | Item Unique Identification |
| IUS | Internal Use Software |
| IVAN | Intragovernmental Value Added Network |
| KMP | Key Milestone Plan |
| LMP | Logistics Modernization Program |
| LRP | Laws, Regulations, and Policies |
| MAC | Moving Average Cost |
| MDA | Missile Defense Agency |
| MERHCF | Medicare-Eligible Retiree Health Care Fund |
| MEV | Military Equipment Valuation |
| MHS | Military Health System |
| MILCON | Military Construction |
| MOA | Memorandum of Understanding |
| MOCAS | Mechanization of Contract Administration Services |

| Acronym | Definition |
|------------|---|
| MPIAP | Military Pay Improvement Action Plan |
| MRF | Military Retirement Fund |
| MTF | Medical Treatment Facilities |
| MV BEP | Materiel Visibility Business Enterprise Priority |
| NAVAIR | Naval Air Systems Command |
| NAVFAC | Naval Facilities Engineering Command |
| NISP | National Industrial Security Program |
| NOAA | National Oceanographic and Atmospheric Administration |
| NORM | Normalization of Data System |
| NRV | Net Realizable Value |
| NSN | National Stock Number |
| OASA | Office of the Assistant Secretary of the Army |
| OCONUS | Outside the Continental United States |
| ODO | Other Defense Organization |
| ODUSD | Office of the Deputy Under Secretary of Defense |
| OFFM | Office of Federal Financial Management |
| OIG | Office of the Inspector General |
| OIS | Ordnance Information System |
| OM&S | Operating Material and Supplies |
| OMB | Office of Management and Budget |
| OPTEMPO | Operations Tempo |
| OSD | Office of the Secretary of Defense |
| OID | Organization Unique Identifier |
| OUSD(AT&L) | Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) |
| OUSD(C) | Office of the Under Secretary of Defense (Comptroller) |
| P2S | Plan to Stock |

| Acronym | Definition |
|---------|--|
| PAR | Performance and Accountability Report |
| PBUSE | Property Book Unit Supply Enhanced |
| PDTS | Pharmacy Data Transaction Service |
| PL | Public Law |
| PMA | President's Management Agenda |
| PP&E | Property, Plant, and Equipment |
| PSA | Principal Staff Assistant |
| PSI | Personnel Security Investigation |
| RACER | Remedial Action Cost Estimation Requirements |
| RAMPOD | Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods |
| RCRA | Resource Conservation and Recovery Act |
| REMIS | Reliability and Maintainability Information System |
| RFP | Request for Proposals |
| RPAD | Real Property Asset Database |
| RPAM | Real Property Asset Management |
| RPAO | Real Property Accountability Officer |
| RPAR | Real Property Acceptance Requirements |
| RP&ILM | Real Property and Installations Lifecycle Management |
| RPCIPR | Real Property Construction-In-Progress Requirements |
| RPIR | Real Property Inventory Requirements |
| SABRS | Standard Accounting, Budget, and Reporting System |
| SAFE | Single Army Financial Enterprise |
| SALE | Single Army Logistics Enterprise |
| SARA | Superfund Amendment and Reauthorization Act |
| SBR | Statement of Budgetary Resources |

| Acronym | Definition |
|-----------|---|
| SDS | Standard Depot System |
| SecDef | Secretary of Defense |
| SES | Senior Executive Service |
| SF | Standard Form |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SFIS | Standard Financial Information Structure |
| SMA | Service Medical Activities |
| SOM | |
| SOMARDS | Standard Operation and Maintenance Army Research and Development System |
| SOP | Standard Operating Procedure |
| SPAWAR | Space and Naval Warfare Systems Command |
| SRM | Sustainment, Restoration and Modernization |
| STANFINS | Standard Finance System |
| TMA | TRICARE Management Activity |
| TMA-CRM | TRICARE Management Activity Contract Resource Management |
| TMOP | TRICARE Mail Order Pharmacy |
| TROR | Treasury Report on Receivables |
| TSEAS | Telecommunications Services and Enterprise Acquisition Services |
| USAAA | United States Army Audit Agency |
| USACE | United States Army Corps of Engineers |
| USAF | United States Air Force |
| USD | Under Secretary of Defense |
| USD(AT&L) | Under Secretary of Defense (Acquisition, Technology, and Logistics) |
| USD(C) | Under Secretary of Defense (Comptroller) |
| USD(P&R) | Under Secretary of Defense (Personnel and Readiness) |

| Acronym | Definition |
|---------|--|
| USMC | United States Marine Corps |
| USN | United States Navy |
| USSGL | United States Standard General Ledger |
| USSOCOM | United States Special Operations Command |
| WAWF | Wide Area Work Flow |
| WCF | Working Capital Fund |
| WHS | Washington Headquarters Services |
| WIA | Wounded in Action |
| WIP | Work-in-Progress |

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Appendix 8– Key Milestone Plans 2006 – 2010

As described in Section I, the FIAR Plan structures improvement efforts and ensures consistency through the mandatory use and uniform application of Business Rules. The Business Rules guide the process for examining operations; diagnosing and correcting problems; achieving audit readiness; validating audit readiness; and sustaining audit readiness through annual internal control testing and assessments. The Business Rules are as follows:

1. **Discovery and Correction:** Management evaluates individual financial segments, identifies weaknesses and deficiencies, and performs corrective actions.
2. **Segment Assertion:** Management asserts Audit Readiness to the Office of the Inspector General (OIG) and Office of the OUSD(C) for concurrence.
3. **Audit Readiness Validation:** Management asserts compliance with applicable GAAP, laws and regulations, and internal control reliability. OIG or an Independent Public Accounting (IPA) firm validates management's assertion using an examination engagement.
4. **Audit Readiness Sustainment:** Verification of segments is conducted using OMB Circular A-123, Appendix A, as guidance.
5. **Financial Statement Assertion:** Management asserts financial statement audit readiness to the OIG and OUSD(C) for concurrence.
6. **Financial Statement Audit:** OIG or IPA firm audits the organization's financial statements.

Each Component maintains a Financial Improvement Plan (FIP) that details the milestones within each Business Rule for achieving audit readiness and estimates completion dates. The FIAR Plan extracts the key milestones from the FIPs so the

Department can monitor progress. Key Milestone Plans have been included in each FIAR Plan.

Appendix 8 presents a cumulative view of Key Milestone Plans from the first quarter of FY 2006 through the second quarter of FY 2010 (18 months forward) for near- and long-term priority segments. Priority segments are:

- Medicare-Eligible Retiree Health Care Fund
- U.S. Marine Corps Under Development – intentionally left blank
- Defense Information Systems Agency – Under Development – intentionally left blank
- Military Equipment
- Real Property
- Inventory
- Operating Material & Supplies
- Environmental Liabilities
- Fund Balance with Treasury

For each priority segment, the following Key Milestone Plans detail the:

- Key milestones by Business Rule, as applicable
- Percent complete from 0 percent, meaning not yet started, to 100 percent, meaning successfully completed
- Financial Improvement Element or Elements related to the milestone
- Completion date for the milestone

A Gantt chart view illustrating the start and end time of each milestone is also provided. The ♦ indicates the expected completion date.

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Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Action by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
|---|------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | | | | | |
| MERHCF (Near-Term) | 0% | | 11/15/09 | | | | | | | | | | | | | | | | | | | |
| OUSD(P&R)/Health Affairs | 0% | | 11/15/09 | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction (To get an unqualified audit opinion) | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Assessed and isolated medical care record coding accuracy | 100% | Processes, Controls | 9/30/06 | | | | | | | | | | | | | | | | | | | |
| Hired independent contractor to perform monthly audits of medical care record coding to identify accuracy | 100% | Processes, Controls | 9/30/06 | | | | | | | | | | | | | | | | | | | |
| Assessed materiality of the Pharmacy Data Transaction Service cost allocation | 100% | Policies | 9/30/06 | | | | | | | | | | | | | | | | | | | |
| Deployed Coding Compliance Editor (CCE) to improve coding accuracy | 100% | Systems | 9/30/06 | | | | | | | | | | | | | | | | | | | |
| DoD Office of the Actuary defines improved basis for estimation of actuarial liability for care provided to MERHCF beneficiaries in MTFs and annual prospective payment to the Services for care provided in MTFs to MERHCF beneficiaries | 0% | Policies | 2/28/09 | 9/30/11 | | | | | | | | | | | | | | | | | | |
| Board of Actuaries holds preliminary qualitative discussion of new direct care actuarial model | 0% | | 9/30/09 | NEW | | | | | | | | | | | | | | | | | | |
| Request most recent claims data (2008) from the CMS to perform analysis and comparison to the industry benchmarks | 0% | | 12/31/09 | NEW | | | | | | | | | | | | | | | | | | |
| Evaluate viability of new model and determine if legislative change is required | 0% | | 1/31/10 | NEW | | | | | | | | | | | | | | | | | | |
| Receive the claims data for 2008 from the CMS | 0% | | 3/31/10 | NEW | | | | | | | | | | | | | | | | | | |
| DoD Office of Business and Economic Analysis, Health Affairs Prospective Payment Office provide input on new model | 0% | Policies | 3/31/09 | 9/30/11 | | | | | | | | | | | | | | | | | | |
| Draft revised policy (DoDI 6070.2, DoDD 6070.1) to incorporate new methodology and release for coordination | 0% | Policies | 6/30/09 | 12/31/11 | | | | | | | | | | | | | | | | | | |
| Coordinate new model with MERHCF Board of Actuaries | 0% | Policies | 6/30/09 | 12/31/11 | | | | | | | | | | | | | | | | | | |
| Complete policy coordination and revise DoD Instruction | 0% | Policies | 8/31/09 | 2/28/12 | | | | | | | | | | | | | | | | | | |
| Implement methodology to develop FY 2013 MERHCF distribution plan | 0% | Processes | 9/30/09 | 8/31/12 | | | | | | | | | | | | | | | | | | |
| DoD Office of the Actuary computes FY 2012 MERHCF health care liability | 0% | Processes | 9/30/09 | 9/30/12 | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Action by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
|--|------------|-------------------------------|-------------------------|-------------------------|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|--|--|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Financial Statement Management Assertion (Not Applicable) | 0% | | | | | | | | | | | | | | | | | | | | | | | |
| Financial Statement Audit | 0% | | 11/15/09 | | | | | | | | | | | | | | | | | | | | | |
| FY 2006 Qualified Audit Opinion | 100% | All | 11/15/06 | | | | | | | | | | | | | | | | | | | | | |
| FY 2007 Qualified Audit Opinion | 100% | All | 11/15/07 | | | | | | | | | | | | | | | | | | | | | |
| FY 2008 Qualified Audit Opinion | 100% | | 11/15/08 | | | | | | | | | | | | | | | | | | | | | |
| FY 2009 Unqualified Audit Opinion | 0% | | 11/15/09 | 11/30/12 | | | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | | | |
|---|-------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|--|--|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| USMC (Near-Term) | 40% | | 11/15/09 | | | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 100% | | 11/30/08 | | | | | | | | | | | | | | | | | | | | | |
| Prepared first standalone financial statements | 100% | All | 1/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Identified Marine Corps and third party financial system interdependencies to better support financial recording and reporting requirements, as well as audit readiness initiatives | 100% | Systems | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Established a full financial statement approach to achieving audit readiness | 100% | All | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Implemented an interface between the personal property accounting system and the general fund accounting system | 100% | Systems | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Developed and provided training related to financial management improvement, including accounting for Real Property | 100% | Processes | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Received a favorable report on an Naval Audit Service validation of Personal Property business processes and internal controls | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Completed FSIO (Financial System Integration Office) testing of the CAPS-W (Computerized Accounts Payable for Windows) entitlement system with favorable results | 100% | Systems | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Implemented an approval process to eliminate unsupported Journal Voucher accounting entries | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Established a source document repository to provide auditors with a central location for Marine Corps controlled business processes | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Evaluated the balance sheet compilation process, at the underlying transactional data level, to ensure general ledger integrity | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Implemented MOCAS accounts payable estimation procedures for accruing accounts payable | 100% | Systems, Processes | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Analyzed transactional postings to ensure compliance with U.S. Standard General Ledger posting standards | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Mapped financial statement compilation procedures in coordination with DFAS | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Start Statement of Budgetary Resources (SBR) remediation/retest | 100% | All | 10/31/08 | | | | | | | | | | | | | | | | | | | | | |
| Complete remediation and documentation of weaknesses identified in discovery process of SBR | 100% | All | 11/30/08 | 3/31/09 | | | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion (Not Applicable) | 0% | | | | | | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
|---|-------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation (Not Applicable) | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment (Not Applicable) | 0% | | | | | | | | | | | | | | | | | | | | | |
| Financial Statement Management Assertion | 100% | | 12/31/08 | | | | | | | | | | | | | | | | | | | |
| DoDIG and OUSD(C) complete review of Marine Corps final testing and remediation efforts for SBR audit readiness | 100% | All | 12/31/08 | 3/31/09 | | | | | | | | | | | | | | | | | | |
| Financial Statement Audit | 0% | | 11/15/09 | | | | | | | | | | | | | | | | | | | |
| DoDIG releases RFP for IPA | 0% | All | 6/30/09 | NEW | | | | | | | | | | | | | | | | | | |
| DoDIG awards FY 2010 SBR financial statement audit contract to IPA | 0% | All | 11/30/09 | NEW | | | | | | | | | | | | | | | | | | |
| DoDIG issues an opinion on SBR | 0% | All | 12/31/09 | 11/30/10 | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | | | |
|---|------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|--|--|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Military Equipment (Long-Term) | 10% | | 3/31/10 | | | | | | | | | | | | | | | | | | | | | |
| OUSD(AT&L) | 97% | | 12/31/09 | | | | | | | | | | | | | | | | | | | | | |
| Standardized valuation methodology for over 1,100 acquisition programs to assess capitalization | 100% | Processes | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Developed a process for program managers to attest to the accuracy of the information used in CAMS-ME as an internal control | 100% | Policies, Processes | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Established policy for structuring contract line items to support financial reporting | 100% | Policies | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Deployed initial Management Assertion training | 100% | Processes | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Achieved Initial Operational Capability (IOC) for Capital Asset Management System - Military Equipment (CAMS-ME) Increment 1, -- initial operating testing, and data load | 100% | Systems, Data | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Achieve Full Operational Capability (FOC) for the Capital Asset Management System-Military Equipment | 100% | Systems | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Developed 10 principle-based business rules that convert military equipment from being expensed annually to being capitalized under GAAP | 100% | Policies, Processes | 12/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Established an estimate of historical cost of military equipment in service using budget authority documents | 100% | Data | 12/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Deployed "Physical Inventories and Foundations of Government Property" online training | 100% | Processes | 9/30/07 | | | | | | | | | | | | | | | | | | | | | |
| Deployed "Business/Financial Management Analyst" tools to facilitate application of the structuring contract line items policy for military equipment | 100% | Policies, Processes | 12/31/07 | | | | | | | | | | | | | | | | | | | | | |
| Deployed "Business/Financial Management Analyst" quick reference tool for modification scenarios | 100% | Policies, Processes | 12/31/07 | | | | | | | | | | | | | | | | | | | | | |
| Developed capability to transition from using the CAMS-ME Portal for asset status updates to a more efficient automated process using the Item Unique Identification (IUID) Registry. Department of Navy is using this capability to update | 100% | Systems | 12/31/07 | | | | | | | | | | | | | | | | | | | | | |

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Financial Improvement and Audit Readiness Plans

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | | | |
|--|-------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|--|--|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Real Property (Long-Term) | 3% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| OUSD(AT&L) | 33% | | 9/30/07 | | | | | | | | | | | | | | | | | | | | | |
| Published updated DoD Instruction (DoDI) 4165.14 Real Property Inventory Reporting and Forecasting | 100% | Policies | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Full Operational Capability (FOC) for Site Unique Identifier Registry and populate with owned and capital leased Real Property | 100% | Systems, Data | 6/30/07 | | | | | | | | | | | | | | | | | | | | | |
| Established sustainable business processes and management controls to improve the accuracy of Real Property Construction-In-Progress cost information | 100% | Policies, Controls | 9/30/07 | | | | | | | | | | | | | | | | | | | | | |
| Assist the Military Services with implementation of the RPIR | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Real Property Assets Database (RPAD) achieves FOC | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| OUSD(C) | 100% | | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Published revised capitalization threshold and implementation timeline | 100% | Policies | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Prepared a best practices guide for internal controls and documentation | 100% | Policies | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Updated Volume 4, Chapter 6 of the Financial Management Regulation (FMR) | 100% | Policies | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Army | 20% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 50% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Ensured that required systems reviews have been completed or scheduled | 100% | Systems | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Implement a fully net-centric environment | 0% | Systems, Data | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | | | |
| Navy | 33% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 67% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Aligned the Department of the Navy's acceptance of assets with the "Military Real Property Transfer and Acceptance" process for all assets placed in service | 100% | Policies, Processes | 6/30/06 | | | | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plans

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | |
|---|------------|-------------------------------|-------------------------|-------------------------|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | | | | | |
| Implement a fully net-centric environment | 0% | Systems, Data | 9/30/09 | 9/30/10 | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | |

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Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Action by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | 2008 | | | 2009 | | | | 2010 | |
|---|------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|------|----|----|------|----|----|----|------|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | |
| Inventory (Long-Term) | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| OUSD(C)/FR&A, A&FP | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| Issue revised NRV Policy in DoD Financial Management Regulation | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| OUSD(C)/FIAR & DODIG | 0% | | | | | | | | | | | | | | | | | |
| FIAR Directorate coordinates and monitors the DoDIG review of the DLA NRV calculation methodology | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| OADUSD/SCI | 0% | | | | | | | | | | | | | | | | | |
| Develop NRV implementation guidance | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| Army | 0% | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | |
| Navy | 0% | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | 3/31/10 | | | | | | | | | | | | | | | |
| Issue clarifying guidance for definition of Inventory, procedures for special operational situations, and WIP | 0% | | 3/31/10 | | | | | | | | | | | | | | | |
| Deploy phase 1 of Navy ERP release 1.1 which includes functionality to manage and account for Inventory | 0% | | 3/31/10 | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | |
| Air Force | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | 9/30/09 | | | | | | | | | | | | | | | |
| Implement change to the Wholesale and Retail Receiving/Shipping system to correct a processing error that has resulted in an overstatement of the Inventory In-Transit account 1521 | 0% | | 4/30/09 | | | | | | | | | | | | | | | |
| Test accuracy of system programming change to the Wholesale and Retail Receiving/Shipping system In-transit process | 0% | | 9/30/09 | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Action by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | |
|---|------------|-------------------------------|-------------------------|-------------------------|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | | | | | |
| Operating Materiel and Supplies (Long-Term) | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| OUUSD(C)/FR&A,A&FP | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Issue revised NRV policy in DoD Financial Management Regulation | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Army | 0% | | | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | |
| Navy | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Analyze and confirm which OM&S systems will be replaced by ERP | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Complete deficiency correction actions identified in 2007 Naval Audit Service report on legacy DON OM&S systems | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Determine ERP strategy and solution to address SOM, Appropriation Purchase Account material, Property in the Possession of Contractors, and residual material | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Issue clarifying guidance for definition of OM&S, procedures for special operational situations (i.e., shipboard inventory and OM&S), and WIP | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | |
| Air Force | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Complete changes necessary to eliminate duplicative reporting of munitions assets | 0% | | 6/30/09 | | | | | | | | | | | | | | | | | | | |
| Complete a MOA between Air Force and DLA to complete a CFO physical inventory of Air Force owned OM&S items stored in DLA warehouses | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Conduct a CFO physical inventory of Air Force owned OM&S stored in DLA warehouses and analyze the results related to the reliability (existence and completeness) of OM&S | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions By DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | | | | | | | | | | | | | | | | | | | | |
|--|-------------|-------------------------------|-------------------------|-------------------------|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|--|--|
| | | | | | 2006 | | | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| Environmental Liabilities (Long-Term) | 2% | | 12/31/09 | | | | | | | | | | | | | | | | | | | | | |
| OUSD(C) | 100% | | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Resolved policy issues regarding the recognizing, measuring, and reporting of environmental liabilities | 100% | Policies | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Published updated DoD Financial Management Regulation (FMR) Guidance | 100% | Policies | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| OUSD(AT&L)/I&E | 100% | | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Published Non-Defense Environmental Restoration Program (Non-DERP) Environmental Liabilities | 100% | Policies | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Finalized development of enterprise architecture data model (OV6C) linking sites and other sources of environmental liabilities to Property, Plant & Equipment assets records | 100% | Processes | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| Army | 4% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 4% | | 9/30/09 | | | | | | | | | | | | | | | | | | | | | |
| DERP: Completed and documented initial estimate for all sites | 100% | Controls, Data | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| Chemical Agents Munitions Destruction (CAMD): Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred | 100% | Data | 3/31/06 | | | | | | | | | | | | | | | | | | | | | |
| DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites | 100% | Processes | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| DERP: Established and documented process to accomplish supervisory review and approval of the liability estimates | 100% | Processes, Controls | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| DERP: Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred | 100% | Data | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| DERP: Confirmed the universe of all (DERP) sites | 100% | Controls | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |
| CAMD: Improved controls and established process that results in an accurately reported liability | 100% | Processes, Controls | 9/30/06 | | | | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions By DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
|---|------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | | | | | |
| DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites | 100% | Processes, Controls | 12/31/07 | | | | | | | | | ◆ | | | | | | | | | | |
| Non-DERP: Documented that all Property, Plan and Equipment PP&E records have been reviewed and liability properly recorded | 100% | Controls | 12/31/07 | | | | | | | | | ◆ | | | | | | | | | | |
| BRAC and Non-DERP: Established and documented process to accomplish supervisory review and approval of the liability estimates | 100% | Controls | 12/31/07 | | | | | | | | | ◆ | | | | | | | | | | |
| BRAC and Non-DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites | 100% | Processes, Controls | 12/31/07 | | | | | | | | | ◆ | | | | | | | | | | |
| BRAC and Non-DERP: Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred | 100% | Data | 12/31/07 | | | | | | | | | ◆ | | | | | | | | | | |
| BRAC and Non-DERP: Identified the universe of Environmental Liabilities candidate units, facilities, property and/or operations | 100% | Processes, Data | 12/31/07 | | | | | | | | | ◆ | | | | | | | | | | |
| DERP: Corrected compliance areas and resolved issues and advised Air Force Audit Agency (AFAA) of audit readiness for internal validation | 100% | All | 3/31/08 | | | | | | | | | | ◆ | | | | | | | | | |
| DERP: Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred | 100% | Data | 3/31/08 | | | | | | | | | | ◆ | | | | | | | | | |
| Environmental Liabilities policies completed | 100% | Policies | 3/31/08 | | | | | | | | | | ◆ | | | | | | | | | |
| Complete corrective actions for facility closures, asbestos, and non-military equipment EL | 77% | Controls | 12/31/09 | | | | | | | | | | | | | | | | | ◆ | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | |
| DLA | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |

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Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | Timeline | | | | | | | | | | | | | | | | | | | |
|---|------------|-------------------------------|-------------------------|-------------------------|--|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|--|--|
| | | | | | 2006 | | | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| Fund Balance With Treasury (Near- and Long-Term) | 10% | | 3/31/10 | | [Gantt bar spanning from Q1 2006 to Q2 2010] | | | | | | | | | | | | | | | | | | | |
| Army (Near-Term) | 95% | | 9/30/09 | | [Gantt bar spanning from Q1 2006 to Q3 2009] | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 99% | | 2/28/09 | | [Gantt bar spanning from Q1 2006 to Q4 2008] | | | | | | | | | | | | | | | | | | | |
| Identified requirements to accurately report FBWT for Working Capital Fund | 100% | Processes | 12/31/07 | | [Milestone diamond at end of Q4 2007] | | | | | | | | | | | | | | | | | | | |
| Compile data warehouse of transaction detail | 100% | Data | 1/31/09 | | [Milestone diamond at end of Q1 2009] | | | | | | | | | | | | | | | | | | | |
| Complete Army management and quality review of assertion | 100% | Controls | 1/31/09 | 3/31/09 | [Milestone diamond at end of Q1 2009] | | | | | | | | | | | | | | | | | | | |
| Analyze assertion package and identify remediation actions and associated resources needed to resolve gaps and deficiencies identified during quality review of assertion package | 0% | | 6/30/09 | NEW | [Milestone diamond at end of Q2 2009] | | | | | | | | | | | | | | | | | | | |
| Develop corrective actions to resolve gaps and deficiencies identified during quality review of assertion package | 0% | | TBD | NEW | [Milestone diamond at end of Q2 2009] | | | | | | | | | | | | | | | | | | | |
| Finalize assertion package documentation and presentation | 0% | Processes | 2/28/09 | TBD | [Milestone diamond at end of Q4 2008] | | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | 3/31/09 | | [Gantt bar spanning from Q1 2006 to Q4 2008] | | | | | | | | | | | | | | | | | | | |
| Submit segment management assertion | 0% | All | 3/31/09 | TBD | [Milestone diamond at end of Q4 2008] | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | 9/30/09 | | [Gantt bar spanning from Q1 2006 to Q3 2009] | | | | | | | | | | | | | | | | | | | |
| Validated as audit ready by IPA or DoDIG | 0% | All | 9/30/09 | TBD | [Milestone diamond at end of Q3 2009] | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | [Gantt bar spanning from Q1 2006 to Q2 2010] | | | | | | | | | | | | | | | | | | | |
| Navy (Long-Term) | 1% | | 9/30/09 | | [Gantt bar spanning from Q1 2006 to Q3 2009] | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 1% | | 3/31/09 | | [Gantt bar spanning from Q1 2006 to Q4 2008] | | | | | | | | | | | | | | | | | | | |
| Documented processes and controls for reconciling, tracking, and reporting unmatched disbursements and collections and resolving deficiencies for the Working Capital Fund | 100% | Processes, Controls | 6/30/06 | | [Milestone diamond at end of Q2 2006] | | | | | | | | | | | | | | | | | | | |
| Divided FBWT into three segments (Fund Receipt and Distribution, Collections, and Disbursements) and completed discovery and documentation of process flows; identified key controls; developed testing strategy; and to test the operational effectiveness | 100% | Processes, Controls | 9/30/08 | | [Milestone diamond at end of Q3 2008] | | | | | | | | | | | | | | | | | | | |

Financial Improvement and Audit Readiness Plan

March 2009

| Corrective Actions by DoD Entity | % Complete | Financial Improvement Element | Planned Completion Date | Revised Completion Date | 2006 | | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | |
|--|-------------|-------------------------------|-------------------------|-------------------------|------|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | | | | | | | |
| Submit Management Assertion for FBWT General Fund | 100% | All | 1/2/06 | | ◆ | | | | | | | | | | | | | | | | | |
| Submit Management Assertion for FBWT Working Capital Fund | 100% | All | 3/30/07 | | | | | | ◆ | | | | | | | | | | | | | |
| Segment Validation | 100% | | 6/30/08 | | | | | | | | | | | | | | | | | | | |
| Validated as audit ready by DoDIG or IPA | 100% | All | 6/30/08 | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | |
| DLA (Long-Term) | 1% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Discovery & Correction | 1% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Performed Discovery and Correction to document and analyze the end-to-end business process and associated internal controls at DFAS | 100% | Processes | 12/31/06 | | | | | | | | | | | | | | | | | | | |
| Documented business processes, assessed internal controls, and completed findings template at the command level | 100% | Processes, Controls | 3/31/08 | | | | | | | | | | | | | | | | | | | |
| Correct Statement of Differences for deposits, payments and collections, and check issue discrepancies | 0% | Processes | 3/31/09 | 9/30/09 | | | | | | | | | | | | | | | | | | |
| Correct unsupported disbursements and disbursements in-transit deficiencies | 0% | Processes | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| DFAS to provide DLA with recommendations towards an accounting alternative to correct the unsupported undistributed disbursement amounts | 0% | | 9/30/09 | | | | | | | | | | | | | | | | | | | |
| Document processes and controls for reconciling, tracking, and reporting clearing accounts (suspense) and resolve deficiencies for unprocessed IPAC transactions | 0% | | 9/30/09 | NEW | | | | | | | | | | | | | | | | | | |
| Correct unmatched disbursements and collections deficiencies | 0% | | 3/31/10 | | | | | | | | | | | | | | | | | | | |
| Segment Management Assertion | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Validation | 0% | | | | | | | | | | | | | | | | | | | | | |
| Segment Sustainment | 0% | | | | | | | | | | | | | | | | | | | | | |