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**UNITED STATES DEPARTMENT OF DEFENSE**

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**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CFO**

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# **Financial Improvement and Audit Readiness (FIAR) Plan Status Report**

**November 2010**





## Message from the Under Secretary of Defense (Comptroller)

*The Department of Defense (DoD) continues to focus its financial improvement and audit readiness (FIAR) efforts on information used for decision making, and I am pleased to report that progress has been made since the submission of the May 2010 FIAR Plan Status Report. For example, the Navy and Air Force have asserted audit readiness on Appropriations Received, and the Army will soon do the same. Upcoming validations of Appropriations Received by independent auditors will verify that effective controls are in place to accurately record and report information on the first key step in the process to utilize funds made available by Congress. Also, the Marine Corps is continuing the audit of its Statement of Budgetary Resources (SBR). We are learning a great deal from this audit that will help us in preparing for other efforts. This report documents additional progress, including successes in readying other portions of the SBR for audit and progress toward auditability of mission critical assets.*

*Our overall approach remains unchanged: establish long-term and interim goals for auditability of the information DoD uses to manage, and pursue those goals aggressively. We also have begun efforts to recommend a cost-effective approach to achieving auditability for all of the Department's financial statements and will report that approach to the Congress in the May 2011 FIAR Plan Status Report.*

*The Department's progress is attributable to the hard work of its business and financial leaders, and their commitment to support our men and women in uniform by providing useful and reliable financial information. I am personally working to support this commitment.*



**Robert F. Hale**  
Under Secretary of Defense (Comptroller)/  
Chief Financial Officer

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## Executive Summary

The Financial Improvement and Audit Readiness (FIAR) Plan Status Report (“Report”) was prepared in accordance with Section 1003 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010. The Report also serves as the Department’s annual Financial Management Improvement Plan, required by Section 1008(a) of the NDAA for FY 2002, to address the issues preventing reliability of DoD financial statements.

The Report issued in May 2010 identified and explained the FIAR priorities that were established by the Under Secretary of Defense (Comptroller) (USD(C)) in August 2009 to focus the Department’s improvement efforts on information most often used for decision making and provided the Department’s plans for achieving these priorities. This Report documents the Department’s progress in achieving the priorities and the changes to those plans.

The May 2010 Report also provided information on the changes to the FIAR Strategy, Methodology and Governance. Much of the information on the FIAR Strategy, Methodology and Governance from the May 2010 Report has been consolidated and is provided in Appendix 1 of this Report.

### FIAR GOALS

The FIAR goals remain the same and support the priority objective of the Office of the USD(C) (OUSD(C)) to:

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*Improve business and financial processes, controls, systems and data to achieve accurate, reliable and timely financial and managerial information for decision makers and citizens.*

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The DoD FIAR goals in support of this priority objective are to:

- Achieve and sustain audit readiness,

- Achieve and sustain unqualified assurance on effectiveness of internal controls, and
- Attain Federal Financial Management Improvement Act (FFMIA) compliance (i.e., financial management systems that support effective financial management).

### FIAR PRIORITIES

The FIAR priorities, established in August 2009, require the Components to focus on improving processes, controls and systems supporting information that is most often used to manage the Department, while continuing to work toward financial improvements that permit receiving unqualified audit opinions on their financial statements. To achieve that objective, the FIAR priorities are:

- Budgetary information, and
- Mission critical asset information.

The FIAR priorities are explained in Section I of this Report.

### ACHIEVING FULL AUDIT READINESS

The FY 2010 NDAA requires the Department’s financial statements to be validated as ready for audit not later than September 30, 2017. Under the current accounting and audit standards, meeting that date would require the expenditure of a significant amount of DoD funds to obtain and maintain information – especially valuation information – that is rarely used by DoD managers. Non-Defense financial managers also are expressing similar concerns about the costs of maintaining such information in an audit ready status even though the information is rarely used. Therefore, the CFO Council is reviewing alternative Federal reporting models that can increase transparency while maintaining sound internal controls. After that review is complete, and after consulting with the appropriate stakeholders, the Department will identify and report to the Congress on a cost effective approach to achieving fully auditable statements. As stated in the May 2010

Report, the Department is committed to improving financial management, but with the highest priority placed on the information most often used for decision making. That priority has not changed.

Prior to the May 2010 Report and since its issuance, the USD(C) has discussed the FIAR priorities with the Congress, the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). The USD(C) has noted the Department’s sensitivity to the cost of obtaining information solely for purposes of proprietary accounting, financial reporting or auditable financial statements, when this information is not used by management. Of most concern is the cost to develop auditable historical costs for Balance Sheet assets, such as military equipment (e.g., ships, aircraft, combat vehicles), as well as the cost to audit the Balance Sheet.

To address the USD(C)’s concern, the Department started a business case analysis by assessing the costs and associated benefits of reporting and auditing Balance Sheet cost information. The results of the business case will be included in the May 2011 FIAR Plan Status Report. More information on the business case is provided in Section IV of this Report. The DoD is also discussing possible changes in financial reporting with OMB, Treasury and GAO.

In conclusion, the Department will continue to aggressively work to achieve the objectives of the FIAR priorities and work with the Congress and OMB to resolve the Department’s concerns about the cost of achieving full auditability under the existing Federal accounting and auditing standards.

**PROGRESS TO DATE**

**Audit Opinions**

The Department has made measured progress in improving financial information and in achieving full auditability, as demonstrated by the financial statement audit opinions identified in Figure 1.

The organizations with unqualified audit opinions received more than \$100 billion in budgetary resources in FY 2009, which is more than the

**Figure 1. Financial Statement Audit Opinions**

<b>FY 2009 Unqualified Audit Opinions</b>
U.S. Army Corps of Engineers - Civil Works
Defense Contract Audit Agency
Defense Commissary Agency
Defense Finance and Accounting Service
Office of the Inspector General
Military Retirement Fund
<b>FY 2009 Qualified Audit Opinions</b>
Medicare-Eligible Retiree Health Care Fund
TRICARE Contract Resource Management

budgetary resources under audit in 13 of the 24 individual Chief Financial Officers (CFO) Act Federal agencies.

**Audit Readiness Assertions**

The Department’s FIAR activities are focused on the priorities of General Fund budgetary and mission critical assets information and progress is being made, as demonstrated by the audit readiness assertions shown in Figure 2. In addition to the FIAR priorities, the Defense Information Systems Agency (DISA) has remediated their financial management deficiencies identified in a 2009 audit, strengthened their control environment and asserted that their Working Capital Fund (WCF) financial statements are ready for audit.

Progress in achieving the FIAR priorities and audit readiness is expected to continue because the Department has:

- Implemented a focused FIAR Strategy and detailed FIAR Methodology (see Appendix 1),
- Provided additional resources (discussed in Section I), and
- Expanded FIAR governance and oversight (see Appendix 1).

**Figure 2. FIAR Priority Audit Readiness Assertions**

Component	Audit Readiness Assertions	Date
<b>All Financial Statements</b>		
DISA - WCF	All Financial Statements	3Q 2010
<b>Statement of Budgetary Resources (SBR) Audit</b>		
USMC	SBR	4Q 2008
Navy	Appropriations Received	2Q 2009
Navy	Civilian Pay	3Q 2010
Air Force	Appropriations Received	4Q2010
Air Force	Rescissions	4Q2010
Air Force	Non-expenditure Transfers	4Q2010
DLA	Appropriations Received	4Q 2010
<b>Mission Critical Asset Existence and Completeness Audit</b>		
Navy	Military Equipment	4Q 2010
Navy	OM&S - Ordnance	4Q 2010

### U.S. Marine Corps

The U.S. Marine Corps (USMC) has made significant progress in improving budgetary and other financial information used by DoD decision makers and in obtaining Acquisition, Logistics and other business community support for achieving auditable financial statements. Because of the USMC-wide participation in improving business and financial processes and internal controls, the USMC began the process of auditing its FY 2010 Statement of Budgetary Resources (SBR). This is a significant accomplishment, since the USMC is the first Military Service to have one of its financial statements audited.

The outcome of the FY 2010 audit is not certain but all involved, including the DoD Inspector General (DoD IG) and GAO, agree that the USMC has made great progress on the road to auditability. With continued leadership focus on improved processes, internal controls and system improvements, success is achievable. The USMC and DoD

IG are planning to continue the FY 2010 SBR audit to document all areas with sufficient audit support and implement corrective actions. The USMC will then execute those corrective actions so that the FY 2011 audit achieves or moves closer to the goal of a “clean” audit opinion.

### AUDIT READINESS PLANS

To achieve the FIAR priorities, the Components plan and execute their financial improvement and audit readiness work in Financial Improvement Plans (FIPs). The Department requires the Components to use a standard, phased methodology that is prescribed in official guidance (“FIAR Guidance”) issued by the OUSD(C). The FIAR Guidance is available on the OUSD(C) website at: <http://comptroller.defense.gov/FIAR/index.html>.

The FIAR Guidance provides detailed instructions for the development and maintenance of the Components’ FIPs. This guidance established consistency in the FIPs within each Component and across the Department. This consistency is important for a number of reasons to include providing the DoD Chief Management Officer (CMO), USD(C), Deputy CFO, FIAR governance bodies and OUSD(C)/FIAR Directorate the ability to oversee, monitor and report progress.

The milestones for achieving the FIAR priorities by wave and assessable unit that are presented in the following two figures and subsections were derived from the Components’ FIPs. The two figures are:

- **Figure 3. Audit Readiness Wave and ERP Milestones.** This figure provides Appropriations Received Audit (Wave 1), SBR Audit (Wave 2) and Existence and Completeness of Mission Critical Assets Audit (Wave 3) milestones for achieving the FIAR priorities to improve budgetary and mission critical asset information by Component through FY 2017.

Figure 3 also contains key milestones for the Components’ deployment of Enterprise Resource Planning (ERP) systems. An ERP is an automated system using commercial off-the-shelf

software consisting of multiple, integrated functional modules that perform a variety of business related tasks such as general ledger accounting, payroll and supply chain management.

The ERP milestones are included because they are changing DoD business and financial operations by eliminating over 500 legacy systems that cost hundreds of millions of dollars annually to operate. In addition, the ERPs are significantly changing the Components' business and financial processes and controls and impact their FIPs. Furthermore, the Department's goals to improve financial information and to sustain audit readiness are dependent in part on the successful deployment of the ERPs.

- Figure 4. Interim Audit Readiness Goals and Milestones. This figure provides interim goals and milestones by Component, which are defined as goals and milestones for audit readiness progress that will be achieved by the end of FY 2012.

The majority of the milestone completion dates in both figures have not changed from those presented in the May 2010 Report. Where the milestones have changed, they are indicated symbolically in the figures and explained in the accompanying narrative.

## AUDIT READINESS WAVE AND ERP MILESTONES

Figure 3 provides the Components' milestones by Audit Readiness Wave. Three milestones have changed since the May 2010 Report and are described below. Figure 3 has been modified since the May 2010 Report to include the milestones for the Other Defense Organizations

(ODOs) and to identify the Discovery and Corrective Action phases of the FIAR Methodology providing additional visibility of the Components' FIAR activity.

Specific accomplishments and changes are highlighted below. More information on each Component's strategy and progress to achieve the objectives of Wave 1, Wave 2 and Wave 3 is provided in Section II and Section III of this Report.

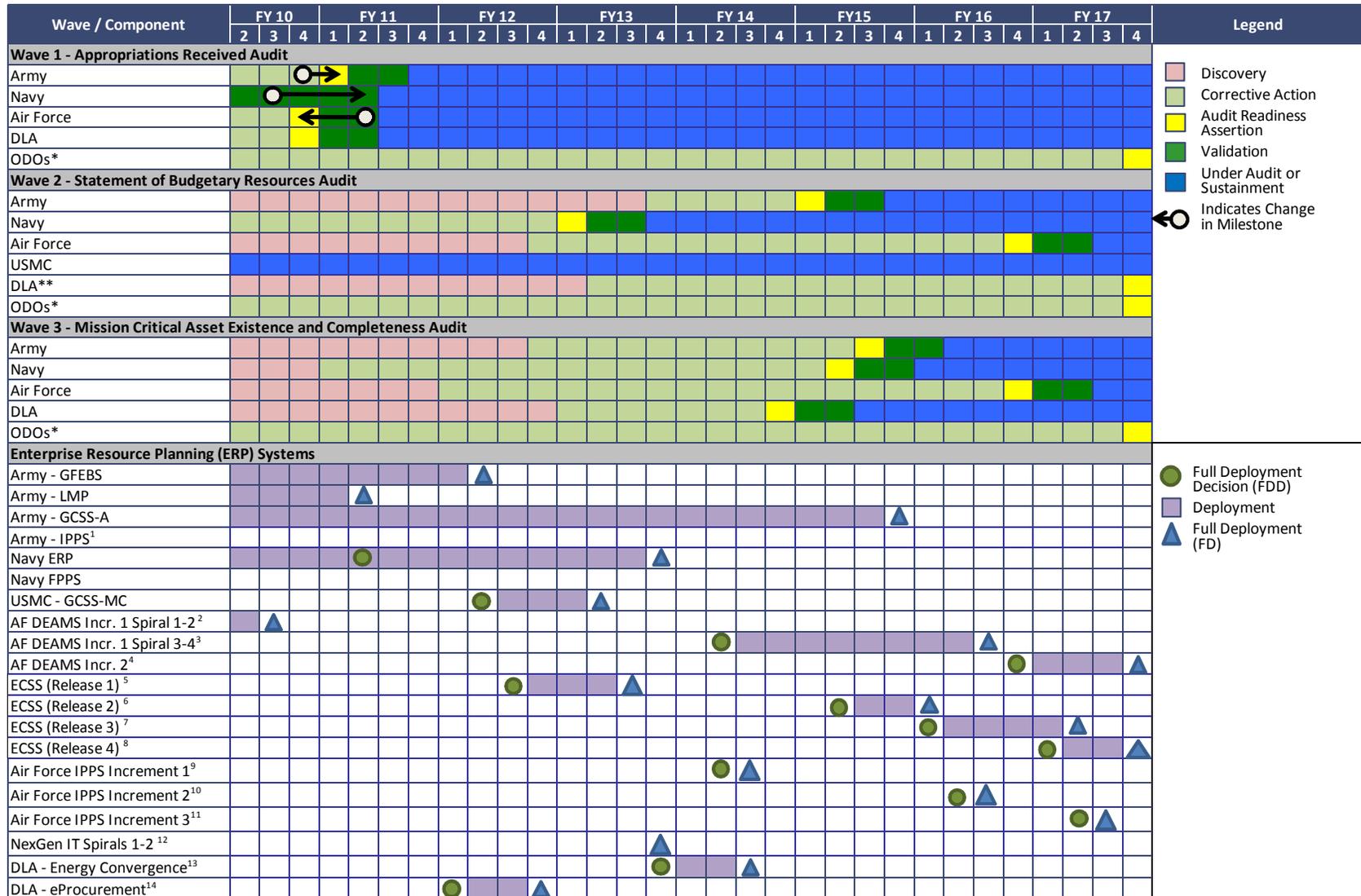
### Accomplishments

- The Air Force and Defense Logistics Agency (DLA) submitted audit readiness assertions to the OUSD(C) for Appropriations Received (Wave 1) in Quarter 4 of FY 2010.

### Changes to Milestones since the May 2010 Report

- The Army Appropriations Received (Wave 1) audit readiness assertion was to be completed in Quarter 4 of FY 2010, but was completed and submitted to the OUSD(C) until October 2010.
- The validation of the Navy Appropriations Received (Wave 1) audit readiness assertion will be completed in Quarter 2 of FY 2011, rather than Quarter 3 of FY 2010, as was originally planned and reported, due to delays in contracting with an audit firm to perform the validation.
- The Air Force Appropriations Received audit readiness assertion was planned to be submitted to the DoD IG and OUSD(C) in Quarter 2 of FY 2011, but instead was submitted two quarters earlier in Quarter 4 of FY 2010.

Figure 3. Audit Readiness Wave and ERP Milestones



\* ODOs are other Defense organizations comprising the remainder of DoD material reporting entities. See Figures II-14 and III-15.

\*\* DLA's plan reflects the fourth quarter of FY 2017 pending completion of the Discovery phase of its end-to-end business processes.

Endnotes 1 - 14: See Appendix 2

Figure 4. Interim Audit Readiness Goals and Milestones

Component	Goals	FY 10			FY 11				FY 12				Legend	
		2	3	4	1	2	3	4	1	2	3	4		
<b>Financial Statement Audits</b>	<b>Achieve and Sustain Audit Opinions</b>													
USACE, DCAA, DFAS, DeCA, MERHCF, MRF, TRICARE-CRM, OIG	Sustain Audit Opinions													
USMC	Achieve and Sustain SBR Audit Opinion													
DISA-WCF	Achieve and Sustain Audit Opinion													
<b>Wave 1 - Appropriations Received Audit</b>	<b>Achieve, Validate and Sustain Audit Readiness</b>													
Army	Achieve, Validate and Sustain Audit Readiness													
Navy	Validate and Sustain Audit Readiness													
Air Force	Achieve, Validate and Sustain Audit Readiness													
DLA	Achieve, Validate and Sustain Audit Readiness													
3 Defense Agencies	Achieve, Validate and Sustain Audit Readiness													
<b>Wave 2 - Statement of Budgetary Resources Audit</b>	<b>Achieve, Validate and Sustain Incremental Audit Readiness</b>													
Army	Examination of GFEBS Wave 1 Entities													
	Examination of GFEBS Wave 2 Entities													
	Military Pay													
	Civilian Pay													
	Transportation of People													
	MILSTRIP Orders													
	Reimbursable Authority													
	Reimbursable Work Orders - Grantor													
	Contracts													
	Net Outlays (Includes FBWT)													
	Financial Statement Compilation and Reporting													
	Examination of One Acquisition Program													
	Examination of One Navy ERP Entity													
	Rescissions													
	Non-expenditure Transfers													
	Funds Distribution to Base													
	FBWT Reconciliation													
	Examination of One Acquisition Program													
	Examination of DEAMS at TRANSCOM/Scott AFB													
DLA	FBWT													
Tricare Management Activity	Preparing SBR for Consolidated Audit													
<b>Wave 3 - Mission Critical Asset Existence and Completeness Audit</b>	<b>Achieve, Validate and Sustain Incremental Audit Readiness</b>													
Army	Military Equipment (9 Asset Types)													
	General Equipment - Fire and Rescue													
Navy	Military Equipment (4 Asset Types)													
	OM&S - Ordnance													
Air Force	Military Equipment													
	OM&S - Missile Motors													
	OM&S - Spare Engines													
	OM&S - Cruise Missiles & Drones													

**Legend**

- FIP Development Underway
- Discovery
- Corrective Action
- Audit Readiness Assertion
- Validation
- Under Audit/ Examination or Sustainment
- Capability to Reconcile FBWT
- Indicates Change in Milestone

## INTERIM AUDIT READINESS GOALS AND MILESTONES

Figure 4 provides the Components' interim milestones (defined as milestones to be completed by the end of FY 2012). Six milestones have changed since the May 2010 Report as identified in the figure and are explained below.

Figure 4 has been modified since the May 2010 Report to include the milestones to identify the Discovery and Corrective Action phases of the FIAR Methodology to provide additional visibility of the Components' FIAR activity.

Specific accomplishments and changes are highlighted below. More information on each Component's strategy and progress to achieve the objectives of Wave 1, Wave 2 and Wave 3 is provided in Section II and Section III of this Report.

### Accomplishments

- The Navy submitted an audit readiness assertion to the DoD IG and OUSD(C) for Transportation of People (Wave 2) in Quarter 4 of FY 2010.
- The Navy submitted audit readiness assertions for Military Equipment (Ships and Submarines, Aircraft, Trident Missiles and Satellites) and OM&S-Ordnance (Wave 3) to the DoD IG and OUSD(C) in Quarter 4 of FY 2010.
- The Air Force and DLA submitted audit readiness assertions to the DoD IG and OUSD(C) for Appropriations Received (Wave 1) through the funds distribution process to major fund holder in Quarter 4 of FY 2010.
- The Air Force submitted audit readiness assertions to the DoD IG and OUSD(C) for Rescissions and Non-expenditure Transfers (Wave 2) in Quarter 4 of FY 2010.

### Changes to Milestones since the May 2010 Report

- The Army Appropriations Received (Wave 1) audit readiness assertion was to be completed in Quarter 4 of FY 2010, but was submitted to the OUSD(C) in Quarter 1 of FY 2011.

- The validation of the Navy Appropriations Received (Wave 1) audit Readiness assertion was to be completed in Quarter 3 of FY 2010 and will now be completed in Quarter 2 of FY 2011. The first step of the validation of audit readiness was successfully completed by the DoD IG and OUSD(C); however, the next step is to hire an Independent Public Accounting (IPA) firm to perform an audit that is planned to begin in Quarter 3 of FY 2011.
- The validation of the Navy Civilian Pay (Wave 2) audit readiness assertion was to be completed in Quarter 4 of FY 2010 and will now be completed in Quarter 2 of FY 2011. The Navy is currently working with the OUSD(C) to validate the assertion.
- The Air Force submitted Appropriations Received, Rescissions and Non-expenditure Transfers audit readiness assertions in Quarter 4 of FY 2010, which is two quarters earlier than planned in Quarter 2 of FY 2011.

## ACTIVITY SINCE THE MAY 2010 REPORT

As reported in the May 2010 Report, significant collaborative work produced a revised FIAR Strategy and Methodology that is being executed by the Components to achieve the FIAR goals and priorities. With the issuance of the revised FIAR Strategy and Methodology and focus on new priorities, the Department's leadership and OUSD(C) have focused on other areas to better ensure the FIAR goals and audit readiness are achieved across the Department.

The following identifies and briefly describes the most significant FIAR related activity within the Department since the May 2010 Report. Additional information on these initiatives is provided in Section I.

- Other Defense Organizations. The Department has expanded the FIAR Plan to include Other Defense Organizations (ODOs) that materially impact the DoD Combined SBR and have mission critical assets. The ODOs that plan to achieve the FIAR priorities are included in Section II and Section III of this Report.

- DFAS Audit Readiness Support Initiative. The Defense Finance and Accounting Service (DFAS) established a dedicated infrastructure to support and sustain their customers' (the DoD Components) discovery and corrective actions, audit assertions and audits. This initiative is expected to positively impact the Components' ability to achieve audit readiness, prepare for audits and support auditor requirements.
- Audit Ready Environment and ERP Assessments. Auditability is dependent on establishing an audit ready systems environment and for most of the Components that includes successfully deploying an Enterprise Resource Planning (ERP) system and interfacing it with other business systems. To assist the Components' efforts to achieve an audit ready systems environment, the OUSD(C) is leading an initiative to provide assistance by conducting assessments that identify impediments, provide solutions when needed and/or validate that an audit ready environment has been achieved through an examination by an independent auditor.

Audit readiness preparation and testing is starting with the Army's General Fund Enterprise Business Systems (GFEBS) Wave 1 sites of Forts Benning, Jackson and Stewart. The Department plans to hire an IPA firm to conduct an audit readiness examination at these sites early in FY 2011.
- Service Providers. A Service Provider (e.g., DFAS) is an organization, internal or external to DoD, that provides financial, information technology or other business services that impact one or more Component's financial reporting. Integrating Service Providers in the FIAR process is critical to achieving auditable financial statements. To that end, the OUSD(C) formed a working group comprised of the Components and Service Providers to promote a comprehensive and coordinated approach to address Service Provider financial improvement requirements and activities that impact Component financial reporting.
- Human Capital. The Department's most important resource is its people, both military and civilian. Accordingly, the Department is focusing on its people by ensuring DoD personnel are: (1) aware of the FIAR goals and priorities through a Change Management and Communications effort, (2) knowledgeable of the FIAR process through professional development curriculum and (3) informed of Financial Management (FM) online, a website that offers the FM community a central source for FIAR information, topics of interest, change management, communication and FIAR professional development.

# I. Audit Readiness Strategy and Recent Activity

This section of the Report describes the FIAR Strategy to achieve the FIAR goals and priorities. It also identifies the resources that are being applied and planned to support FIAR activities, as well as the FIAR governance bodies that oversee and manage the FIAR process.

In addition, this section discusses the Department's concerns about the cost and benefits of achieving full auditability (i.e., fully auditable financial statements in accordance with Federal accounting standards) and provides the status of the Department's analysis of alternatives for valuing Balance Sheet assets and preparation of a business case.

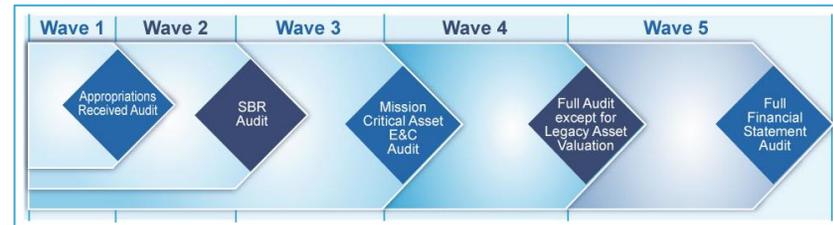
Significant FIAR activities, since the May 2010 Report, are presented at the conclusion of this section of the Report.

## FIAR STRATEGY

The FIAR Strategy (Figure I-1) focuses financial improvement work into five well-defined and distinct waves of activity that incrementally lead to audit readiness, while prioritizing and improving first the information most often used by DoD management. The strategy is consistent with, and focuses improvement work on, the objectives and priorities established by the Under Secretary of Defense (Comptroller) (USD(C)) in August 2009.

The FIAR Strategy also draws from the strengths of several alternative approaches and groups individual end-to-end processes into one or multiple waves. Corrective action is prioritized within each wave by end-to-end processes including corresponding line-items reported on other financial statements, as well as by dependencies.

Figure I-1. FIAR Strategy



The Components are ensuring appropriate controls are in place and operating effectively for relevant financial reporting processes prior to asserting each wave as complete (e.g., controls over the presentation and disclosure for the Statement of Budgetary Resources must be asserted ready at the end of Wave 2).

The Audit Readiness Strategy “waves” representing significant levels of effort and accomplishments are:

- Wave 1 - Appropriations Received Audit
- Wave 2 - Statement of Budgetary Resources (SBR) Audit
- Wave 3 - Mission Critical Asset Existence and Completeness Audit
- Wave 4 - Full Financial Statement Audit, Except for Legacy Assets (New Asset Valuation)
- Wave 5 - Full Financial Statement Audit

Wave 1, Wave 2 and Wave 3 are being worked concurrently, as shown in Figure I-1.

Sections II, III and IV of this Report provide the Components' plans and progress for each of the five waves. Additional information on the FIAR Strategy and waves is contained in Appendix 3.

## FIAR PRIORITIES

The primary objective of the FIAR priorities is to focus financial improvement work on the processes, controls and systems supporting information that is most often used to manage the Department, while continuing financial improvement to achieve unqualified audit opinions on DoD financial statements. To achieve that objective, the USD(C) assigned a high priority to:

- Budgetary information, and
- Mission critical asset information.

### Budgetary Information

Recognizing that many decisions made in the Department are budget related, the first FIAR priority focuses improvement effort on processes, controls and systems that report budgetary information. By focusing improvement activity on budgetary information and ensuring it is timely and accurately produced, the Department will accomplish the objective to improve information most often used by management and also meet the goal of obtaining auditable financial statements starting with the SBR.

The benefits of focusing improvement efforts on budgetary information and the SBR include:

- Improving the visibility of budgetary transactions resulting in more effective use of resources,
- Providing for operational efficiencies through more readily available and accurate cost and financial information,
- Improving fiscal stewardship (ensures that funds appropriated, expended and recorded are reported accurately, reliably and timely),
- Improving budget processes and controls (reduces Antideficiency Act violations), and
- Linking fund execution to the President's Budget (provides more consistency with the financial environment).

### Mission Critical Asset Information

The second FIAR priority focuses improvement and audit readiness work on information essential to effectively manage the Department's mission critical assets. For purposes of this priority, mission critical assets include:

- Military Equipment (e.g., ships, aircraft, combat vehicles)
- Real Property (e.g., land, buildings, structures, utilities)
- Inventory (e.g., rations, supplies, spare parts, fuel)
- Operating Materials and Supplies (e.g., ammunition, munitions)
- General Equipment (e.g., training equipment, special tooling and test equipment, shipyard cranes, fire and rescue equipment)

Some of the same information needed to manage the Department's mission critical assets is also needed for financial statement audits. Such information includes:

- Unique Identifiers (e.g., item unique identification [IUID] number, Real Property UID [RPUID], aircraft tail number, ship number)
- Location (e.g., military installation/base)
- Condition (e.g., operational status/in-service)
- Accountable organization (e.g., 374th Tactical Airlift Wing)
- Accountable individual (e.g., SSGT John Smith)

This information, and other management and financial information, is recorded in the Department's property and logistics systems. Ensuring that important management information regarding mission critical assets is accurately recorded in the Component's property and logistics systems is the objective of this priority.

The benefits of focusing improvement efforts on mission critical asset information include:

- Assists the Department in achieving its long-standing goal of total asset visibility;
- More reliable and accurate logistics supply chain and inventory systems;
- Improved ability to timely acquire, maintain and retire assets;
- More effective utilization of assets;
- Better control over assets preventing their misuse, theft or loss; and
- Reduction of unnecessary reordering.

Accomplishing this priority will not only improve important management information, it will also move the Department closer to auditability since existence and completeness of assets are two of the five financial statement assertions (Existence, Completeness, Valuation, Rights and Obligations, Disclosure and Presentation) that auditors test in a full financial statement audit.

## ACHIEVING FULL AUDIT READINESS

The FY 2010 NDAA requires the Department's financial statements to be validated as ready for audit not later than September 30, 2017. Under the current accounting and audit standards, meeting that date would require the expenditure of a significant amount of DoD funds to obtain and maintain information – especially valuation information – that is rarely used by DoD managers. Non-Defense financial managers also are expressing similar concerns about the costs of maintaining such information in an audit ready status even though the information is rarely used. Therefore, the CFO Council is reviewing alternative Federal reporting models that can increase transparency while maintaining sound internal controls. After that review is complete, and after consulting with the appropriate stakeholders, the Department will identify and report to the Congress on a feasible approach to achieving fully auditable statements. As stated in the May 2010 Report, the Department is committed to improving financial management, but with

the highest priority placed on the information most often used for decision making. That priority has not changed, and the Department is continuing to focus on:

- Budget information, and
- Mission critical asset information.

Budget and mission critical asset information were established as the priorities for FIAR activities in August 2009 by the USD(C) and have since received DoD-wide commitment by the Department's senior leadership to include the Department's Chief Management Officers. These priorities are explained below. Success on these priorities will be validated by unqualified audit opinions on the Department's SBR and existence and completeness examinations of mission critical assets.

The USD(C) discussed the FIAR priorities with the Congress, Office of Management and Budget (OMB) and Government Accountability Office (GAO), and also discussed the Department's sensitivity to the cost of obtaining information solely for purposes of proprietary financial reporting or audit compliance, when this information is not used by management. Of most concern is the cost to develop auditable historical costs for Balance Sheet assets, such as military equipment (e.g., ships, aircraft, combat vehicles), as well as the significant cost to audit the DoD Balance Sheet. The Department will continue to work with the OMB, Treasury and GAO regarding alternative approaches to financial reporting and auditability.

The Department started a business case by assessing the costs and associated benefits of reporting and auditing Balance Sheet cost information and will provide the results in the May 2011 FIAR Plan Status Report. A key element of the business case are interviews being conducted and documented with decision makers within the Office of the Secretary of Defense, Components and other Federal agencies to determine if historical acquisition cost information is used for decision making. Additional information on the cost-benefit analysis and business case is included in Section IV of this Report.

In conclusion, the Department will continue to aggressively work to achieve the objectives of the FIAR priorities and work with the Congress, OMB, Treasury and GAO to resolve the Department's concerns about the cost of achieving full auditability under the existing Federal accounting and auditing standards.

## FIAR RESOURCES

Progress in achieving the FIAR goals and priorities is dependent on visible leadership commitment, an effective strategy and focused priorities, a phased and detailed methodology, the modernization of legacy business and financial systems, and an effective change management strategy. These requirements and activities are all essential, but without an appropriate level of resources (people and funds) progress will be slow and very limited. Recognizing the importance of applying the correct level of resources to Component FIAR activities, the USD(C) has been actively engaged to ensure the Components are adequately funded.

The FIAR activities funded by the amounts in Figure I-2 include conducting audit readiness activities, hiring independent public accounting (IPA) firms to conduct validations and audits, and resolving financial system issues (i.e., achieving an audit ready systems environment). Each of these activities is described below. Appendix 4

provides the audit readiness resources of the Army, Navy, Air Force and DLA.

**Audit Readiness** includes the resources for evaluation, discovery and corrective actions of the Components and their Service Providers to include documenting and/or modifying processes and controls, identifying internal control deficiencies through testing and remediation of deficiencies, and evaluating transaction-level evidential matter and ensuring that it is readily available. Also included are the resources for activities to test or verify audit readiness after completing corrective actions and preparation of management assertion packages.

**Audit/Validation** includes the resources for validations, examinations and financial statement audits conducted by IPAs. It also includes the funds to be provided to Service Providers (e.g., DFAS) for audit support.

**Financial Systems** includes the resources for designing and achieving an audit ready systems environment. This includes ERP deployment costs. It also includes the resources to modernize or change legacy systems that will be part of the audit ready systems environment. Financial System resources include: design, development, deployment, interfaces, data conversion and cleansing, system Independent Verification and Validation and testing, implementation of controls and control testing, and system and process documentation.

**Figure I-2. DoD Audit Readiness Resources (\$ in Millions)**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Audit Readiness</b>	\$ 95	\$ 151	\$ 169	\$ 180	\$ 186	\$ 124
<b>Audit/Validation</b>	-	12	12	27	32	33
<b>Audit Readiness and Audit Subtotal</b>	95	163	181	207	218	157
<b>Financial Systems</b>						
<b>Non-Enterprise Resource Planning Systems (ERPs)</b>	197	217	212	214	204	197
<b>ERPs</b>	1,259	1,431	1,403	1,234	1,158	1,105
<b>Financial Systems Subtotal</b>	1,456	1,648	1,615	1,448	1,362	1,302
<b>Total Resources</b>	\$ 1,551	\$ 1,811	\$ 1,796	\$ 1,655	\$ 1,580	\$ 1,459

## FIAR GOVERNANCE

The Department established a governance structure that engages all of the key stakeholders. Figure I-3 provides a graphical representation of the governance structure, the participants and their roles.

The USD(C) provides the vision, goals and priorities of the FIAR Plan, which are coordinated with key stakeholders within the Department (e.g., Military Departments), as well as outside the Department (Congress, OMB and GAO). The Deputy Secretary of Defense/Chief Management Officer (CMO) approves the vision, goals and priorities. Appendix 1 provides a description of each stakeholder’s role and responsibilities.

The FIAR Governance groups meet regularly (e.g., FIAR Governance Board meets quarterly, FIAR Committee and Subcommittee meet monthly). At the last FIAR Governance Board meeting, on October 27, 2010, the USD(C) and DoD Deputy CMO were briefed by each Military Department on their Financial Improvement Plans (FIPs).

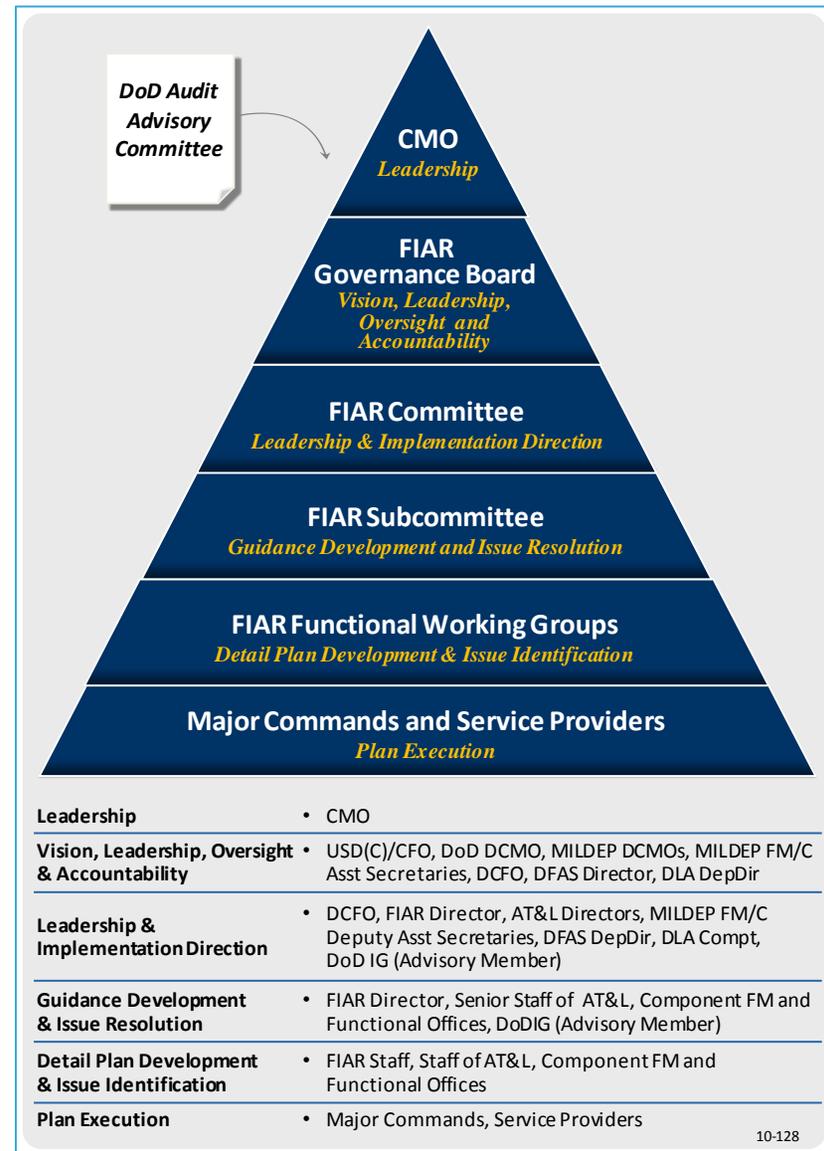
During preparation of this Report, the USD(C) and DoD Deputy CMO met with each Military Department CMO and Vice Chief of Staff on the FIAR goals and priorities and to ensure their engagement in the process, and the USD(C) and DoD Deputy CMO briefed the FIAR Plan status and progress to the DoD CMO (Deputy Secretary of Defense).

## ACTIVITIES SINCE THE MAY 2010 REPORT

As reported in the May 2010 Report, significant collaborative work produced a revised FIAR Strategy and phased FIAR Methodology that is being executed by the Components to achieve the FIAR goals and priorities. With the issuance of the revised strategy and methodology, the Department’s leadership and OUSD(C) focused on other areas requiring change, more emphasis or oversight to better ensure the FIAR goals and priorities are effectively achieved across the Department.

The following describes the more significant FIAR related activities within the Department since the May 2010 Report.

Figure I-3. FIAR Governance



### Other Defense Organizations

With the focus on budgetary information and achieving an auditable SBR, the FIAR Plan has been expanded to include the Other Defense Organizations (ODOs) that have a material impact on the SBR and mission critical assets. Included in the ODOs are the Defense Agencies, Field Activities and several funds such as the Pentagon Reservation Maintenance Revolving Fund.

The first step taken by the OUSD(C)/FIAR Directorate was to divide the ODOs into three groups, as follows:

- ODOs that are presently obtaining audit opinions on their financial statements (e.g., DCAA, DeCA, DFAS, DoD IG),
- ODOs that already have Financial Improvement Plans (FIPs), and
- ODOs with FIPs under development.

To expand the FIAR Plan to include the ODOs without audit opinions, the OUSD(C)/FIAR Directorate has been meeting with the ODOs to engage them in the FIAR process, ensure they understand the FIAR Methodology and offer assistance in the development of their FIPs. The ODOs also are now active participants in FIAR Subcommittee meetings.

The ODOs are presently in the process of preparing detailed FIPs and have started developing process flowcharts, narratives and control assessments in accordance with the FIAR Guidance. As needed, the ODOs are designing and implementing solutions to mitigate control deficiencies and changes to business and financial processes and systems.

A complete listing of the ODOs now included in the FIAR Plan (see Figure II-14) and additional information on their plans to achieve the FIAR priorities is provided in Sections II and III of this Report.

### DFAS Audit Readiness Support Initiative

The Defense Finance and Accounting Service (DFAS) developed a dedicated infrastructure to support and sustain their customers' (the DoD Components) audit readiness assertions and audits. This includes:

- Establishing an Enterprise-wide Audit Readiness Office that reports directly to the DFAS Director and oversees Audit Readiness Support Teams at five key DFAS locations.
- Developing roles and responsibilities with their customers; implementing an organizational structure staffed by a workforce with the necessary skills and experience;
- Ensuring that end-to-end processes and reconciliations are documented and the necessary controls are in place, working effectively (i.e. key control objectives are met), and sustained;
- Identifying and correcting process deficiencies;
- Ensuring supporting documentation is sufficient and accessible; and
- Ensuring DFAS-owned systems and micro applications have sufficient controls and documentation and can produce the universe of transactions impacting financial statements.

This initiative is expected to positively impact the Components' ability to achieve audit readiness, prepare for audits and support auditor requirements.

### Audit Ready Environment Assessments

Auditability is dependent on establishing an audit ready systems environment, and for most of the Components, that includes successfully deploying Enterprise Resource Planning (ERP) systems and interfacing them with other business systems. To assist the Components' efforts to achieve an audit ready systems environment, the OUSD(C) is leading an initiative to provide assistance and/or validate the audit ready environment through an examination by an IPA.

This initiative is consistent with the FIAR Methodology requiring the Components to prepare process and control documentation. When a Component determines that it has achieved an audit ready system environment, an IPA is employed to conduct an examination to validate auditability.

Audit readiness preparation and testing, starting with the Army's General Fund Enterprise Business System (GFEBS), is presently taking place at the first GFEBS sites of Forts Benning, Jackson and Stewart. The Department plans to hire an IPA to conduct an audit readiness examination at these first GFEBS sites early in FY 2011.

### Service Providers

The Components are supported by accounting, information technology and other Service Providers internal and external to the Department. The Service Provider organizations record, process and report on transactions or perform other business functions on behalf of their customer Components. The relationships with Service Providers add complexity to audit readiness efforts, as the Components must coordinate with their Service Providers to prepare for and support annual financial statement audits. In response to this challenge, the OUSD(C) is working with the Components and their Service Providers to implement a coordinated strategy that will address the needs of the Component financial statement auditors in an efficient and effective manner.

When Service Providers have multiple customer Components, efficiencies are realized by engaging an IPA (the Service Auditor) to render an opinion on the relevant internal controls performed by the Service organization (e.g., Statement on Auditing Standards (SAS) 70 Report) versus having each Component financial statement auditor perform independent audit testing of the Service Provider. Effective for periods ending after June 15, 2011, the SAS 70 audit will be replaced by the Statement on Standards for Attestation Engagements No. 16, Reporting on Controls of a Service Organization (SSAE 16). In situations where cost savings can be realized, the Department is requiring Service Providers to obtain SAS 70/SSAE 16 reports and developed a strategy to define these situations. Specifically, the Department's audit readiness strategy for Service Providers includes the following business rules:

- Service Providers recording, processing and/or reporting activity material to three or more customer Components must obtain an SAS 70/SSAE 16 report to maximize the economies of scale benefits.
- Service Providers must commence SAS 70/SSAE 16 engagements two years prior to their earliest customer Component's planned audit readiness assertion date to demonstrate that the Service Providers are ready to support their customer Component's audits.
- Service Providers must coordinate with their customer Components if they will not be able to commence a SAS 70/SSAE 16 engagement in the required timeframe so that compensating controls can be identified and tested, or audit readiness timelines can be adjusted to ensure the Service Provider's audit readiness timeline is appropriately addressed in the customer Component's audit readiness plans.

The OUSD(C) formed a Service Provider working group to ensure the Components and their Service Providers are implementing the audit readiness strategy using a consistent Department-wide approach. The working group is currently developing an inventory of Service Providers and their roles. The working group is also establishing consensus among the Service Providers on a common set of baseline key control objectives (i.e., the criteria that will be relevant to their customer Component's auditors), and therefore, within the scope of their SAS 70/SSAE 16 reports. The OUSD(C) will then review the individual Service Providers' audit readiness plans to ensure they are synchronized with their customer Component financial improvement programs.

### Human Capital

The Department's most important resource is its people--both military and civilian. Accordingly, the Department is focusing on its people by ensuring DoD personnel are: (1) aware of the FIAR goals and priorities through a Change Management and Communications effort, (2) knowledgeable of the FIAR process through professional development

curriculum, and (3) informed of financial management activities and through a new website, “FM online”. Information on these personnel related efforts follow.

**Change Management and Communications**

The Department developed a Change Management and Communications Plan to help build a culture of financial accountability throughout the Department and achieve the commitment needed to effectively achieve the FIAR goals and priorities. Numerous activities have been conducted or are planned to cause a cultural shift for implementing and sustaining ownership and engagement in accomplishing the FIAR goals and priorities.

The Department has:

- Conducted a stakeholder assessment through interviews with key personnel across the Department that highlighted a need to establish a clear message and customer service approach, improve teamwork and increase communication for change management.
- Refined and clarified the FIAR mission, vision and strategic goals to set a consistent message.
- Established periodic, continuous senior-level meetings for better communication and critical decision making.
- Developed, coordinated and distributed the first consolidated FIAR guidance, which will be updated annually.
- Updated the public FIAR website with pertinent information and established responsibilities and procedures for keeping it up to date.

Activities ongoing and planned for change management and communication include:

- Conducting a FIAR offsite meeting to build stronger teams.
- Conducting FIAR conferences to promote training and outreach to the Military Departments, Defense Agencies and other DoD organizations.

- Establishing branding, such as a logo, that establishes a FIAR identity to foster recognition and better communications.
- Increasing DoD-wide exposure by creating a blog and publishing articles in various DoD trade journals and making maximum use of appropriate social networking.

**FIAR Professional Development**

In support of the FIAR goals to achieve and sustain both audit readiness and unqualified assurance on the effectiveness of internal controls, the Department developed FIAR professional development curriculum. As described in Figure I-4, the FIAR curriculum is designed to enhance Department-wide knowledge and understanding of the FIAR goals and priorities, introduce the FIAR Guidance and its step-by-step instructions to become audit ready, and reinforce the Department’s Internal Control over Financial Reporting (ICOFR) requirements.

**Figure I-4. FIAR Goals and Professional Development Course Objectives**

FIAR Goals	Course Objectives
Achieve and Sustain Audit Readiness	<ul style="list-style-type: none"> <li>• Increase understanding of audit requirements</li> <li>• Enhance understanding of OUSD(C)'s audit readiness prioritization and reporting entity methodology</li> <li>• Provide guidance on executing the systematic audit readiness methodology</li> <li>• Outline how ERP/system modernization efforts support audit readiness</li> <li>• Define roles/responsibilities of service providers</li> </ul>
Achieve and Sustain Unqualified Assurance on the Effectiveness of Internal Controls	<ul style="list-style-type: none"> <li>• Outline ICOFR/A-123 Requirements</li> <li>• Improve quality and consistency of work products across reporting entities</li> <li>• Define relationship between reporting entities' ICOFR efforts and FIPs focused on audit readiness</li> </ul>

The FIAR professional development curriculum includes courses specifically designed to address lessons learned from the Department's audit readiness efforts to-date, feedback from successful and unsuccessful financial statement audits within the Department and feedback from individual Components and service providers. For example, Components frequently question what constitutes sufficient supporting documentation to withstand the scrutiny of a financial statement audit; therefore, the OUSD(C) is developing and incorporating specific training and real-life examples of adequate supporting documentation into the training courses for each of the Department's priority areas (waves). A listing of the courses and course descriptions is provided in Appendix 5.

Due to the size and geographic dispersion of Department personnel, two delivery methods will be used. Internet-based, on-demand technology will allow users to complete the courses anytime, anywhere around the world; and live, classroom-based workshops will supplement internet-based courses. This will provide a more interactive group-based learning experience complete with real-life examples and exercises.

The OUSD(C) is planning to work with the OUSD for Personnel and Readiness (P&R) and the Military Department training and education

commands and professional development schools and institutions, as well as the Service Academies, to incorporate the FIAR professional development curriculum into appropriate existing military and civilian courses and curriculum.

#### **Financial Management on Line (FM online)**

The OUSD(C) is developing a new one-stop multi-purpose website for the FM workforce entitled, FM onLine. This website will be implemented by the end of December 2010. The website will be broadened to include a webpage that supports FIAR related initiatives and offers the FM community a central source for FIAR information, topics of interest, change management, communication, and FIAR professional development. Plans for FM onLine also include an FM Professional Networking webpage, which is projected for completion by December 2011.

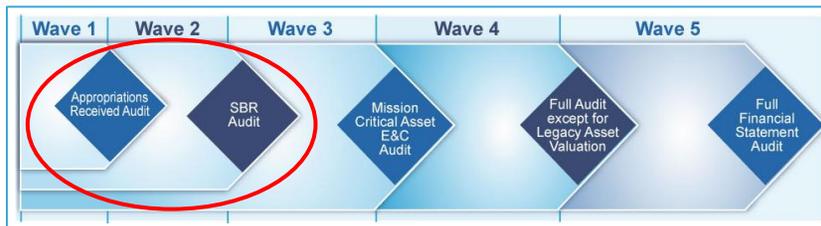
FMmyLearn is a web location on the FM onLine website focused on FM-related professional development. It is to be the e-catalog of all DoD sponsored FM training courses. This site will provide greater visibility to the FIAR courses and increase the awareness of the available training. The FM onLine website will also be used to launch the FIAR web-based training courses.

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## II. Audit Ready Statement of Budgetary Resources (Wave 1 & Wave 2)

This section of the Report provides the Army, Navy, Air Force, Defense Logistics Agency (DLA) and Other Defense Organizations (the “Components”) plans and progress to achieve the objectives of Wave 1 and Wave 2 of the FIAR Strategy (Figure II-1). It also provides the status of the U.S. Marine Corps audit of their FY 2010 Statement of Budgetary Resources.

**Figure II-1 FIAR Strategy**



Wave 1, *Appropriations Received Audit*, and Wave 2, *Statement of Budgetary Resources (SBR) Audit*, focuses the Department’s improvement work on the FIAR priority to improve budgetary information and to achieve an unqualified audit opinion on the SBR. Appendix 3 provides the objectives, challenges and other information pertaining to Wave 1 and Wave 2.

When Wave 1 and Wave 2 are complete:

- Business and financial processes related to the SBR will have been changed to conform with generally accepted accounting principles (GAAP),
- Audit ready systems environments requiring the modernization of business and financial systems will be complete;

- Internal controls will have been documented, tested and strengthened or changed as part of process and system changes, and strong internal control programs will be operational to sustain audit readiness;
- Audit evidential matter for SBR transactions will have been evaluated and readily available repositories will be in place to support future audits;
- Ability to perform capital and budget planning will improve; and
- Budgetary information contained in accounting systems of record will be reliable and accurate, and the Department-wide SBR will be ready for audit.

Improvements in all of these areas will not only result in auditable SBRs, but more importantly, will improve the reliability of budget information in various management reports used for decision making.

### U. S. MARINE CORPS

In May 2009, the U.S. Marine Corps (USMC) began the process of auditing their FY 2010 SBR after making many process and control improvements and demonstrating some ability to support audit assertions in a FIAR and DoD Inspector General (DoD IG) audit readiness validation. This represents a significant step forward in demonstrating Department-wide progress toward compliance with the requirements of the Chief Financial Officers (CFO) Act of 1990, as the USMC becomes the first Military Service to proceed with a full financial statement audit.

The USMC audit has concentrated efforts primarily on obligation beginning balance testing across key budgetary General Ledger accounts. In addition to the obligation account testing, the auditors also tested journal vouchers to ensure accuracy from a calculation, documentation, authorization and posting perspective. Although success was not complete for current year transactions and beginning balances, the auditors were able to validate the Appropriations Received process and traced balances to all apportionment and reapportionment schedules (SF132s) for USMC appropriations. The

auditors also tested Transfers, but have not rendered any findings with respect to this evaluation.

### Next Steps and Timeline

The way ahead for the USMC audit includes the remediation of auditor findings. In October 2010, the USMC completed the remediation of key areas of emphasis: bulk obligations and expenses, advance payments, and military payroll disbursement processing. At the time of the preparation of this Report, the auditor was testing current year transactions for Military Pay (Active and Reserve), Civilian Pay, Outlays and Recoveries to validate audit readiness in these areas. When the auditor completes this testing, a decision will be made whether it is best to continue or conclude the FY 2010 audit. In either case, the USMC is committed to success and achieving a “clean” audit opinion to demonstrate the reliability of its financial management information.

### Lessons Learned

In addition to the audit goal of validating USMC financial management information, the audit has also achieved another goal, helping the USMC identify several business process improvements that will enhance effectiveness and efficiency. During the audit process, the USMC identified several lessons learned that will help other Components during their audits. The lessons learned are grouped into two categories: (1) Financial Improvement and Audit Preparation and (2) Organizational and Cultural.

#### Financial Improvement and Audit Preparation Lessons Learned:

- Trial Balance Reconciliation. Beginning balance reconciliations must support financial statement compilation in order to validate opening balances for the year under audit. For initial audit engagements, this effort provides the starting point, as well as year-to-year comparative financial statement presentation. The audit cannot proceed unless beginning, interim and year-end trial balances and adjustments are accurate, reconciled and supported by detailed transactions.

- Fund Balance with Treasury Reconciliation (FBWT). The entity must reconcile each appropriation supporting funds receipt and disbursements, and the reconciliation should be prepared for the life of all appropriations not cancelled. FBWT is recognized as a central control account that provides confirmation of budgetary-to-proprietary account relationships. Thus, it is necessary to validate the universe of cash transactions utilizing FBWT when auditing the SBR.
- Timely Contract Closeout. If the contract delivery and period of performance are not synchronized and available resources remain as Unliquidated Obligations (ULOs), then the budgetary accounts will be affected. This is a Service Provider (e.g., Defense Contract Management Agency) function for much of the Department. Service Provider performance must be timely and efficient to reasonably manage contract closeouts, thereby avoiding misstatement of ULO balances as an audit finding.
- Accounting Data and Sample Source Documents. Data and source documentation requirements are large and complex. A mechanism for communicating with audit stakeholders and capturing their input is paramount. Identification, extraction and submission of data requested must be tightly coordinated with the DoD IG in conjunction with the audit firm. Audit responses should be captured in the most efficient manner by leveraging existing technologies. Establish a communication protocol that accounts for the breadth and depth of accounting data extracted from the core accounting system and leverage collaboration portals to transmit sample requirements and retrieve responses in a paperless manner.

#### Organizational and Cultural Lessons Learned:

- Financial and Functional Community Communication. The functional community (e.g., Logistics) normally controls the business events underlying the financial transactions. A clear understanding of the business environment is valuable to both the auditor and the entity to achieve a common understanding of processes, expectations and outcomes. The functional community

must provide sufficient ongoing training to both the financial and functional communities to support a clear and unified understanding of auditor expectations.

- **Service Provider Readiness and Support.** While financial data is the ultimate responsibility of the entity under audit, reliance on Service Providers is crucial to a successful audit engagement. Coordination is critical between the audited entity and its Service Providers, as well as among Service Providers on behalf of the audited entity. This coordination requires the involvement of all external providers in support of auditor training, information technology (IT) testing and source documentation retrieval and distribution. There must be an understanding of audit requirements to enable a successful audit engagement to include transaction and reconciliation support necessary to validate the accuracy and timeliness of financial recording and reporting.
- **Time Commitment.** Resources with competing requirements are often spread thin, particularly in critical positions such as IT support to the financial system initiatives such as Federal Financial Management Improvement Act (FFMIA) compliance. These competing demands are particularly acute in areas where the knowledge and expertise is only “one person deep.” Time commitment from the principal staff responsible for the audit will be significant. This commitment will require coordination within the entity’s substructure, as well as among its Service Providers and contractor support. The use of dedicated resources to support the audit is essential.
- **Communication Plans and Expectations.** Large, diverse, multi-location organizations, such as the USMC, require a clear communication plan covering client-auditor, as well as intra-USMC auditor expectations and requirements. It is important to understand what the auditor is asking, and if there is doubt, ask for an explanation. If the auditor’s request appears to diverge from the audit objective, be proactive in pursuing clarity of detail and expectation. Clarifying duties and responsibilities is critical to an

entity-wide understanding of requirements, expectations and timelines.

## AUDIT READINESS PLANS

The Components plan and execute their financial improvement and audit readiness work in Financial Improvement Plans (FIPs). The Department requires the Components to use a standard phased methodology that is prescribed in official guidance (the “FIAR Guidance”) issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).

The FIAR Guidance provides detailed instructions for the development and maintenance of the FIPs. This is important for a number of reasons to include providing the DoD Chief Management Officer, USD(C) and the FIAR governance organizations (see Appendix 1) the ability to oversee and monitor progress.

The Component FIPs are used to prepare the Audit Readiness Plans in this section of the Report and also to provide other status and planning information. The Audit Readiness Plans in this section provide a summary-level view of the Components’ planned completion dates by quarter and fiscal year for key events consistent with the FIAR Methodology and leading to achieving SBR auditability. Such key events include:

- Start and completion of the *Evaluation and Discovery Phase*, when the Components are documenting and evaluating business and financial processes and systems, and assessing risks and testing internal controls to identify deficiencies that impact auditability;
- Start and completion of the *Corrective Action Phase*, when the Components are correcting deficiencies such as modifying or reengineering processes, strengthening controls and modernizing systems; the Evaluation and Discovery and Corrective Action Phases can overlap in period of performance, but for presentation purposes, Figure 3 in the Executive Summary shows the final

completion date for the Evaluation and Discovery Phase as the start date of Corrective Action Phase;

- Submission of the *Audit Readiness Assertion* to the OUSD(C) and DoD IG;
- Start and completion of the audit readiness *Validation* performed by the OUSD(C); and
- Start date for an *Audit* and/or when *Sustainment* of audit readiness begins.

Information on the above events and activity is explained in the FIAR Methodology section of Appendix 1.

The Components' SBR Audit Readiness Plans were provided in the May 2010 Report. In this Report, they have been updated, as necessary, and changes have been identified. In addition, each Component section begins with a description of their strategy for achieving the objectives of Wave 1 and Wave 2.

### **Key Control Objectives and Key Supporting Documentation**

To achieve audit readiness for the SBR, the Components must:

- Design and implement control activities to limit the risk of material misstatements by meeting Key Control Objectives (KCOs), and
- Support account balances with sufficient and competent audit evidence, Key Supporting Documents (KSDs).

To maximize the efficiency and effectiveness of Component audit readiness efforts, the Department identified standard KCOs to mitigate financial reporting risks and KSDs that are required to substantiate transactions and balances by major section of the SBR. The KCOs were derived from the Government Accountability Office's (GAO) Financial Audit Manual.

During the *Evaluation and Discovery Phase*, the Components are identifying existing control activities for meeting the KCOs, as well as assessing the quality and availability of supporting documentation needed to assert audit readiness. KCOs and KSDs are discussed in Appendix 1 of this Report, and a complete listing of the KCOs can be found in the FIAR Guidance document located at: <http://comptroller.defense.gov/FIAR/index.html>.

To measure the Components' progress in achieving audit readiness, the Department is tracking the Components' progress in assessing the KCOs and KSDs and progress of determining that they are effective. In other words, these metrics track progress in achieving the end-state outcome of auditability and a strong internal control program that ensures financial transactions are recorded timely and accurately.

The KCO and KSD metrics were reported in the May 2010 Report and are reported in this section for each of the Components following their Audit Readiness Plans.



# Department of the Army



In response to the FIAR priorities established by the Under Secretary of Defense (Comptroller) (OUSD(C)), the National Defense Authorization Act (NDAA) for FY 2010, and the Under Secretary of the Army, the Department of the Army (“Army”) initiated a General Fund Statement of Budgetary Resources (SBR) discovery and evaluation effort in March 2010. To accomplish the FIAR priorities, the Army is obtaining visible support from the senior Army leaders, who have issued numerous memoranda to ensure the Office of the Assistant Secretary of the Army (Financial Management & Comptroller) (OASA(FM&C)) receives sufficient support from Army organizations. To help garner support and circulate information about the Army’s audit readiness efforts, the ASA(FM&C) recently hosted the first annual Army Financial Improvement Plan (FIP) Conference/Workshop that provided senior DoD and Army leaders, including the USD(C), DoD Deputy Chief Financial Officer, Undersecretary of the Army, ASA(FM&C) and Principal Deputy ASA(FM&C), the chance to communicate the importance of, and their support for, the Army’s audit readiness efforts. Just as important, the Army FIP Conference/Workshop enabled Army Command resource managers to understand their role in the Army’s approach toward achieving audit readiness.

Since the May 2010 FIAR Plan Status Report, the Army continued its evaluation and discovery work on the funds distribution and budget execution business processes. The Army synchronized its SBR discovery visit schedule directly with the General Fund Enterprise Business System (GFEBS) deployment schedule because of the system’s importance to Army audit readiness. GFEBS is a transaction-driven general ledger USSGL compliant Enterprise Resource Planning (ERP) system. In conjunction with the GFEBS deployment, many of the Army’s business processes are changing to adapt to the new system’s environment. By integrating the GFEBS deployment with SBR evaluation and discovery visits, the Army will validate its business processes and quickly discover system or process deficiencies in the GFEBS environment. Any process changes or control

modifications identified through the course of site visits will become tasks in the Army FIP and, upon full completion of these corrective actions, the Army will conduct follow-up testing to ensure their effectiveness.

The Army will complete its audit readiness validation efforts by employing an Independent Public Accounting firm to conduct multiple audit readiness examinations of the SBR at GFEBS locations, beginning with Forts Jackson, Stewart and Benning during Quarter 2 of FY 2011. These examinations serve a critical role in the feedback loop by providing an external validation of the Army’s audit readiness, as well as recommendations for business process and audit support improvements. After completing the examinations, the Army expects to assert audit readiness of the General Fund SBR by Quarter 1 of FY 2015.

The OASA(FM&C) has several important partners on its path to audit readiness, including Army G-4, Army Materiel Command (AMC), Army Internal Review, DFAS, and the Army Audit Agency (AAA), among others. Moreover, the Army is applying lessons learned from organizations that are preparing for, currently undergoing or have successfully completed a financial statement audit, including the Navy, U.S. Marine Corps and U.S. Army Corps of Engineers.

The Army has made significant accomplishments with the SBR discovery effort to date. Since the start of the evaluation and discovery site visits, the Army has been able to visit 32 different installations and/or commands, including the GFEBS Wave 1 locations – Forts Stewart, Jackson and Benning. The site visit teams have documented budget execution and monitoring processes for budgetary and reimbursable authority (including allotments), obligations, and disbursements. The teams have also identified risks, controls and potential weaknesses based on their review of the Army’s budget execution processes, utilizing past Government Accountability Office, DoD Inspector General and AAA audit reports to guide their work. In addition, the Army developed test plans based on the key control

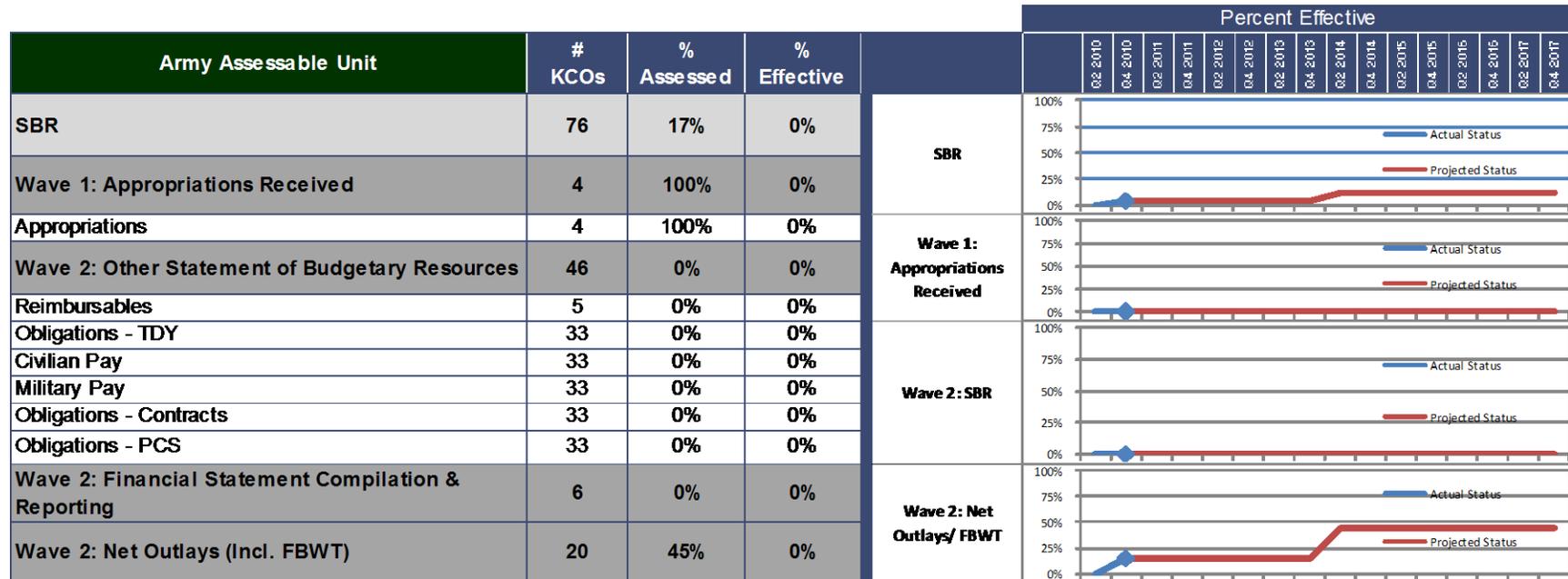




# Department of the Army



**Figure II-3. SBR Key Control Objective (KCO) Status and Projections**

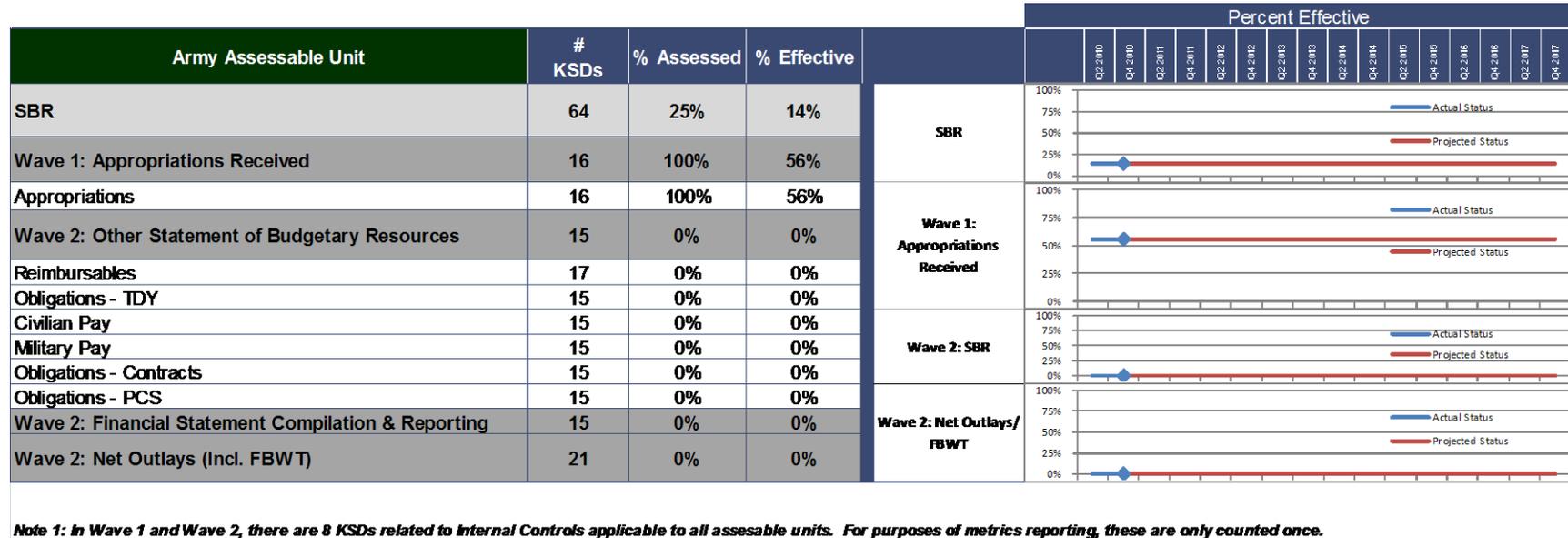




# Department of the Army



**Figure II-4. SBR Key Supporting Document (KSD) Status and Projections**





# Department of the Navy



The Department of the Navy's (DON) audit readiness plan for its Statement of Budgetary Resources (SBR) remains on schedule; the DON still expects to achieve the SBR audit readiness milestone by December 31, 2012. Since the May 2010 FIAR Report, the DON has enhanced its SBR Plan, incorporating many of the lessons learned from the ongoing audit of the USMC SBR.

The U.S. Marine Corps (USMC), as a component of the DON, has demonstrated leadership in improving its budgetary and other financial information. This leadership has enabled the USMC to enter into an audit of the USMC FY 2010 SBR. The DON has benefited greatly from the USMC audit experience and has prioritized on several key tenets in preparing the overall DON for an SBR audit.

The four tenets, which comprise the DON SBR Plan, are:

1. Establishing a strengthened array of internal controls throughout the DON, implemented at all major commands;
2. Establishing repeatable capabilities to support a controlled financial environment, including: Fund Balance with Treasury (FBWT) reconciliation and end-to-end traceability of transactions, as demonstrated by supported balances and unadjusted-to-adjusted trial balance reconciliation;
3. Standardizing business processes, using best-of-breed procedures in legacy environments and identical procedures among Navy Enterprise Resource Planning (ERP) users; standardization will lead to reduced cost in financial management overhead and to tighter internal controls; and
4. Establishing an audit support infrastructure, emphasizing top-level knowledge and control of the DON's financial data, as well as the ability to respond efficiently and effectively to an auditor's request for information.

Accomplishing the first three tenets involves transforming the current DON business and financial culture. First, implementing and

sustaining an improved array of internal controls over processes and systems is a long-term goal, which the DON will aggressively pursue. Business processes, which affect the SBR, include Appropriations Received, Military and Civilian Pay, Contracts, Reimbursables, Requisitions and Temporary Duty Travel. Business practices will be realigned to meet key control objectives; these changes will improve accuracy, timeliness and reliability of financial data and reduce the cost of reworking improperly executed transactions. Navy ERP, the target business environment, has demonstrated a robust, improved control environment.

Second, the DON must develop and exercise capabilities that demonstrate mastery of the department's financial environment. These include: cash reconciliation with Treasury, including prompt clearing of reconciling items; tracing transactions from the general ledger systems to the SBR, noting crosswalks and adjustments; and demonstrating supported balances. Developing and repeating these capabilities will require close collaboration with the Defense Finance and Accounting Service (DFAS).

Third, another longer-term transformation objective will be to standardize and enforce business processes and controls, especially among disparate commands implementing the target business environment, Navy ERP. Although commands using Navy ERP have differing missions and business cultures, the DON's goal is to standardize as many ERP processes and controls as possible, aiming for consistent practices among all ERP commands. This consistency will reduce the number of control activities and reduce the risk of errant financial transactions. The DON is currently expanding its Navy-wide survey of business processes, documenting differences with a goal of identifying, implementing and enforcing "best practices."

A fourth element of the DON SBR audit readiness strategy is preparing for the audit itself. While understanding the DON's financial environment is the key to "getting in the game," putting in place an audit response infrastructure is vital to "playing the game."



# Department of the Navy



Responding promptly and precisely to an auditor’s data requests will require a choreographed process. Data transfers may often be large and require encryption. DON managers providing the information must do so knowledgeably. This response mechanism must be built well ahead of the audit and exercised strenuously.

The DON believes that it will accomplish the objective of bringing its SBR to audit within its legacy system environment. The eventual full deployment of Navy ERP will only improve and sustain audit readiness capabilities through enforced standards, more automated controls and less complexity. The DON also understands, that in the path to its SBR audit objective, there are complexities and challenges that will require remediation, including:

- Lack of standardized processes, controls and systems. This causes significant inefficiencies in ensuring risks are accurately assessed and controls are appropriately implemented and evaluated.
- Absence of enterprise policies and procedures governing business processes. Authoritative guidance is a necessity, a mandate for uniformity and change.
- Need for closer collaboration with external business partners. Integrating Service Providers into the required environmental and procedural changes is essential.

The DON is methodically addressing each challenge. Although processes are not standardized, the DON has employed a Control Gap Analysis to identify when a command’s process and/or controls differ significantly from suggested controls. The Control Gap Analysis allows the DON to identify and address significant deviations. Additionally, the DON has begun a concerted, multi-year effort to standardize processes and controls within the Navy ERP environment.

To address the limitation of existing policy and procedure documentation, the DON plans to develop Navy-wide accounting guidance to establish guidelines for standard business processes. The guidance will include detailed procedures for the DON business processes, to include control objectives and activities.

Finally, to enable improved alignment of priorities between the DON and its Service Providers, the DON will enter into memorandums of agreement that will outline and detail the expectations of the Service Provider and will require commitment and accountability from their executive leadership.

In Summary, the DON has asserted audit readiness in key DON SBR business processes, to include Appropriations Received, Civilian Pay and Travel initiated through the Defense Travel System. Additionally, the DON and its primary Service Provider, DFAS, have forged a strong partnership and, together, have made considerable progress in moving closer to fully reconciling the DON’s Fund Balance with Treasury. Jointly, with DFAS, the DON has launched initiatives to bring transparency to the DON’s full transaction universe, which will allow meaningful testing and provide audit trails. Both of these DFAS initiatives will yield considerable value to its audit readiness efforts over the next year. And, despite various challenges, the USMC SBR audit continues to move forward, providing significant insight and lessons that have led the DON to enhance its overall SBR Audit Readiness Plan.

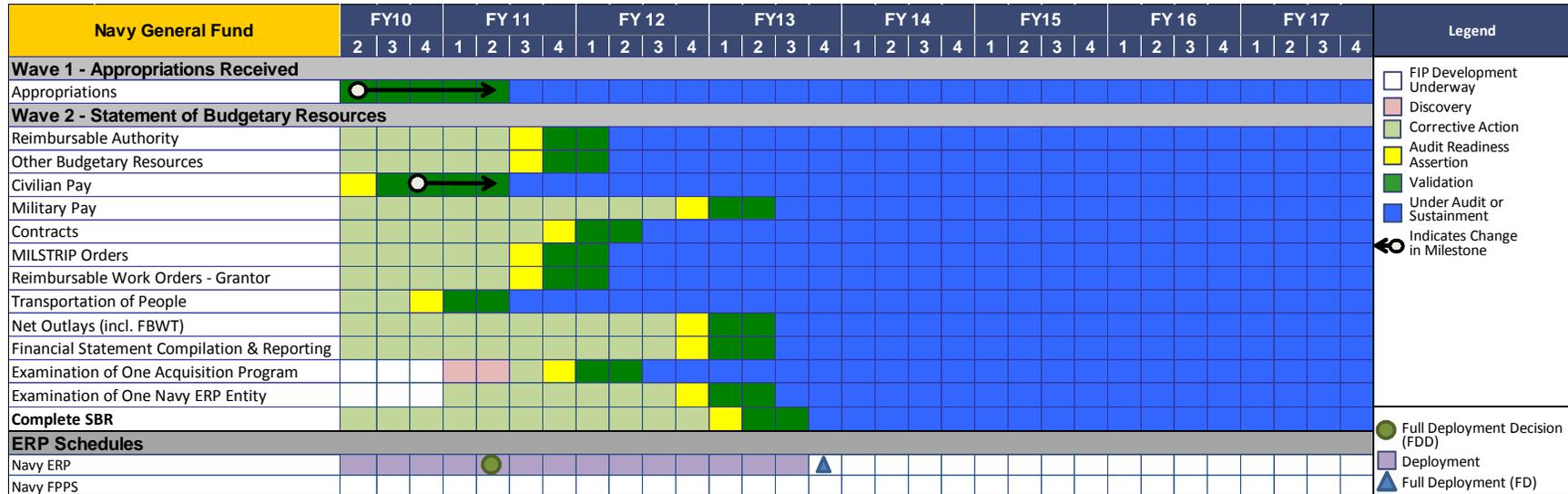
The DON milestones for achieving the objectives of Wave 1 and Wave 2 are presented in Figure II-5.



# Department of the Navy



**Figure II-5. Audit Readiness Plans**



Notes to Figure II-5. The DON Appropriations Received (Wave 1) validation milestone was to be completed in Quarter 2 of FY 2010 and will now be completed in Quarter 2 of FY 2011. Validation of audit readiness was successfully completed by the DoD IG and OUSD(C); however, the next and final step is to hire an IPA to perform an audit that is planned to begin in Quarter 3 of FY 2011.

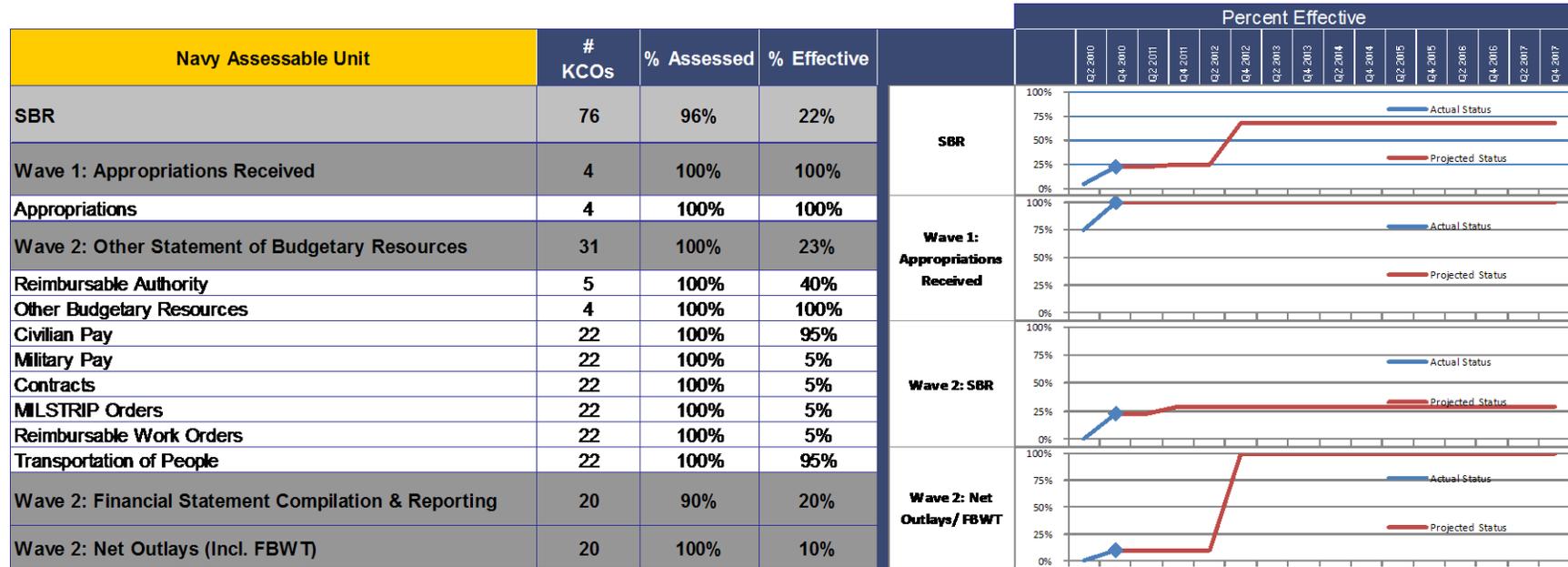
The DON Civilian Pay (Wave 2) validation milestone was to be completed in Quarter 4 of FY 2010 and will now be completed in Quarter 2 of FY 2011. The DON is currently working with OUSD(C) to validate the assertion.



# Department of the Navy



**Figure II-6. SBR Key Control Objective (KCO) Status and Projections**

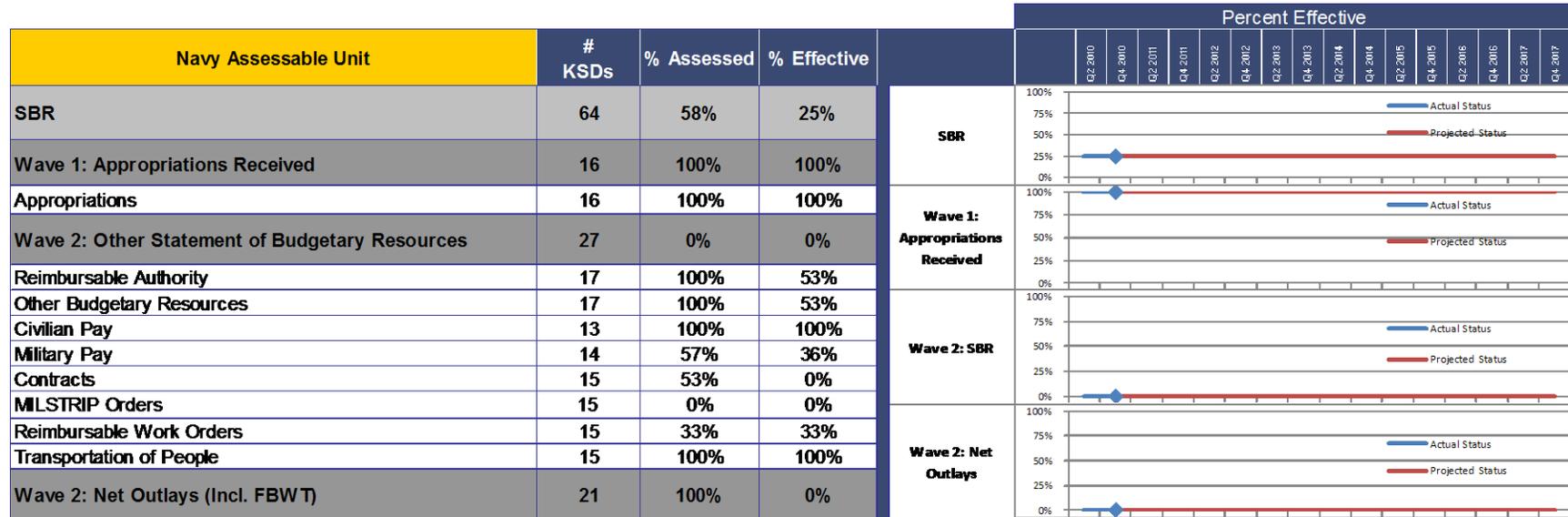




# Department of the Navy



**Figure II-7. SBR Key Supporting Document (KSD) Status and Projections**



**Note 1:** In Wave 1 and Wave 2, there are 8 KSDs related to Internal Controls applicable to all assessable units. For purposes of metrics reporting, these are only counted once.



# Department of the Navy



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# Department of the Air Force



The Department of the Air Force (“Air Force”) employed a strategy to achieve audit readiness of the Statement of Budgetary Resources (SBR) focused on the life-cycle of appropriated funds. The Air Force, in coordination with Defense Finance and Accounting Service (DFAS), developed a methodology for audit readiness of the SBR focused around four assessable units that cover the fund receipt and distribution, obligation, outlays and reconciliation processes highlighted in the sections of the SBR.

Since the May 2010 FIAR Status Report, the Air Force has made significant progress toward audit readiness of the SBR. On September 30, 2010, the Air Force asserted audit readiness of the Budget Authority assessable unit. The achievement of this milestone provides confidence to stakeholders that the Air Force funds receipt and distribution processes have effective controls. The assertion of the Budget Authority assessable unit is the first step in the life-cycle strategy.

In March 2010, the Columbus Cash Accountability System - Air Force (CCAS-AF), a joint venture with DFAS, was put into operation to identify Fund Balance with Treasury (FBWT) in-transit collection and disbursement transactions requiring correction, redirection, or research and make actionable information available to the responsible parties for corrective action. CCAS-AF enables the Air Force to complete voucher-level reconciliation of FBWT that is sustainable and meets audit requirements. Since inception, CCAS-AF analyzed over 6.4 million transactions, matched 99.58 percent, and tracked 200 appropriations from 26 different feeder systems across various Air Force disbursing sites. The cycle time to complete a full voucher-level reconciliation decreased from months to less than a week. Based on

these results and the effective testing of the key controls, the Air Force will assert by December 31, 2010, the FBWT Reconciliation process as audit ready.

Air Force audit readiness of the SBR does not come without challenges. First and foremost, the Air Force does not have a transaction based general ledger or the ability to trace financial transactions from the business event to the financial statements and back. The problem is a direct result of an antiquated accounting system based on 1960’s accounting processes and procedures. The Air Force’s solution to this challenge is a combination of the implementation of the Defense Enterprise Accounting and Management System (DEAMS), Expeditionary Combat Support System (ECSS) and business process improvements. Currently, DEAMS is operational at Scott Air Force Base, and the Air Force plans to conduct interim audits to validate the effectiveness of the system and ability to address the key control objectives. Lessons learned and findings will result in corrective actions for the roll out of DEAMS to the rest of the Air Force.

The Air Force asserted Budget Authority in Quarter 4 of FY 2010, which includes: Appropriations Received, Non-Expenditure Transfers, Recessions, and Funds Distribution to Major Commands. With this assessable unit asserted as audit ready, the Air Force will focus on the execution of Budgetary Resources as noted in the “Status of Budgetary Resources,” depicted in Figure II-8. As Discovery and Evaluation is conducted, the Air Force expects to shift the assertion dates for these assessable units to the left; however, as noted earlier, some dates are dependent upon the successful implementation of Air Force ERPs.

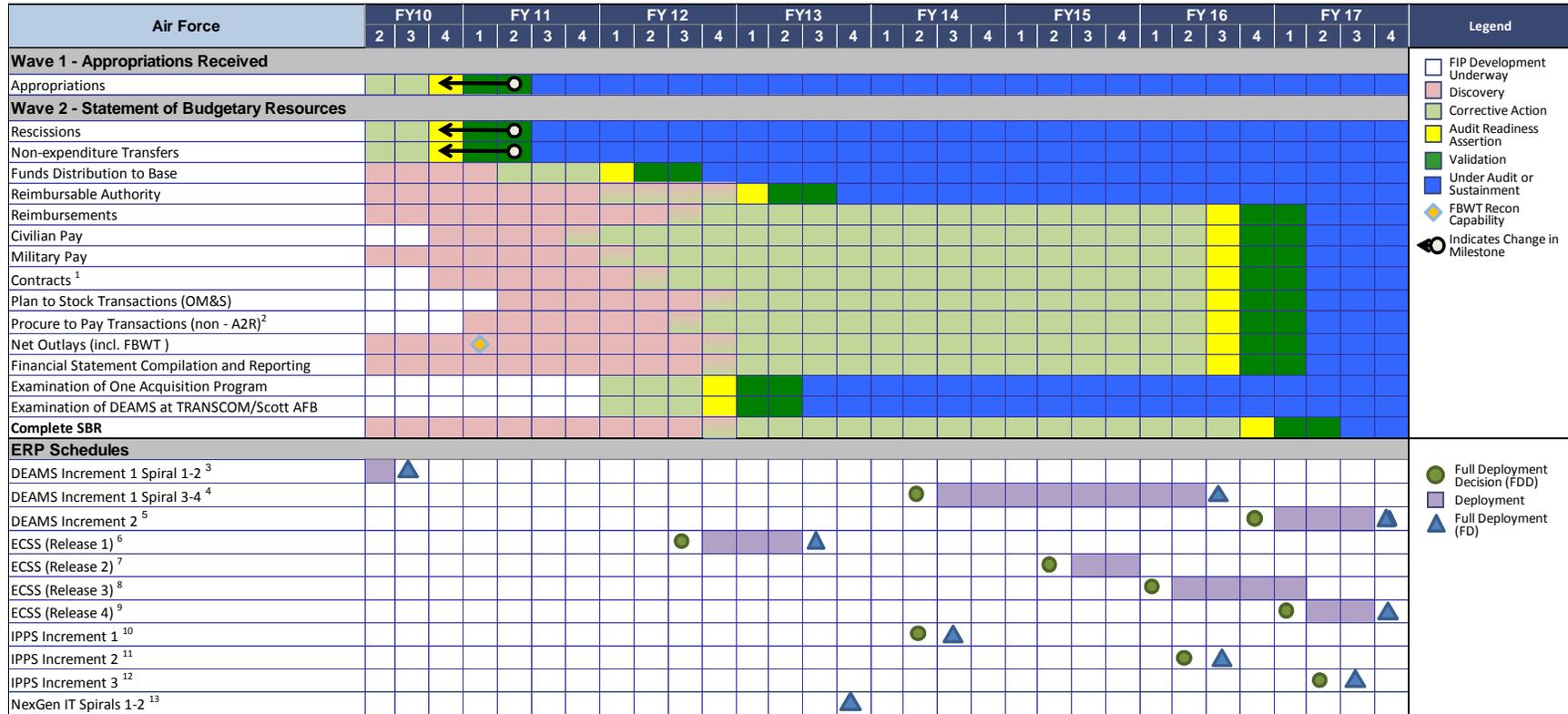
The Air Force milestones for achieving the objectives of Wave 1 and Wave 2 are presented in Figure II-8.



# Department of the Air Force



**Figure II-8. Audit Readiness Plans**



<sup>1</sup> "Contracts" is an aggregation of Military Equipment, Real Property, General Equipment, and Other Assets (Acquire to Retire - A2R)

<sup>2</sup> Non - Acquire to Retire (A2R) transactions include things such as "Transportation of People", "Transportation of Things", "Rent", etc.

<sup>3</sup> DEAMS Increment 1 Spiral 1-2 - Implementation at Scott AFB including 2 Guard GSUs (full functionality)

<sup>4</sup> DEAMS Increment 1 Spiral 3-4 - Roll-out to USTC, MSC, SDDC, AMC, ACC, USAFE, PACAF, AFSOC, AETC & AFRC (including ANG)

<sup>5</sup> DEAMS Increment 2 - Roll-out to AFSPC and AFMC (including ANG)

<sup>6</sup> ECSS Release 1 - Tools/Equipment/Vehicle Mgmt and Base-level Materiel Mgmt

<sup>7</sup> ECSS Release 2 - Enterprise Mgmt and Wholesale Materiel Mgmt

<sup>8</sup> ECSS Release 3 - Heavy (Depot) Maintenance and Planning

<sup>9</sup> ECSS Release 4 - Flight Line Maintenance and Ammunition Mgmt

<sup>10</sup> IPPS Increment 1 - Leave for all

<sup>11</sup> IPPS Increment 2 - Active Officer

<sup>12</sup> IPPS Increment 3 - Full Capability with Guard/Reserve/Enlisted

<sup>13</sup> NextGenIT - There are 4 more spirals for full NextGen IT deployment

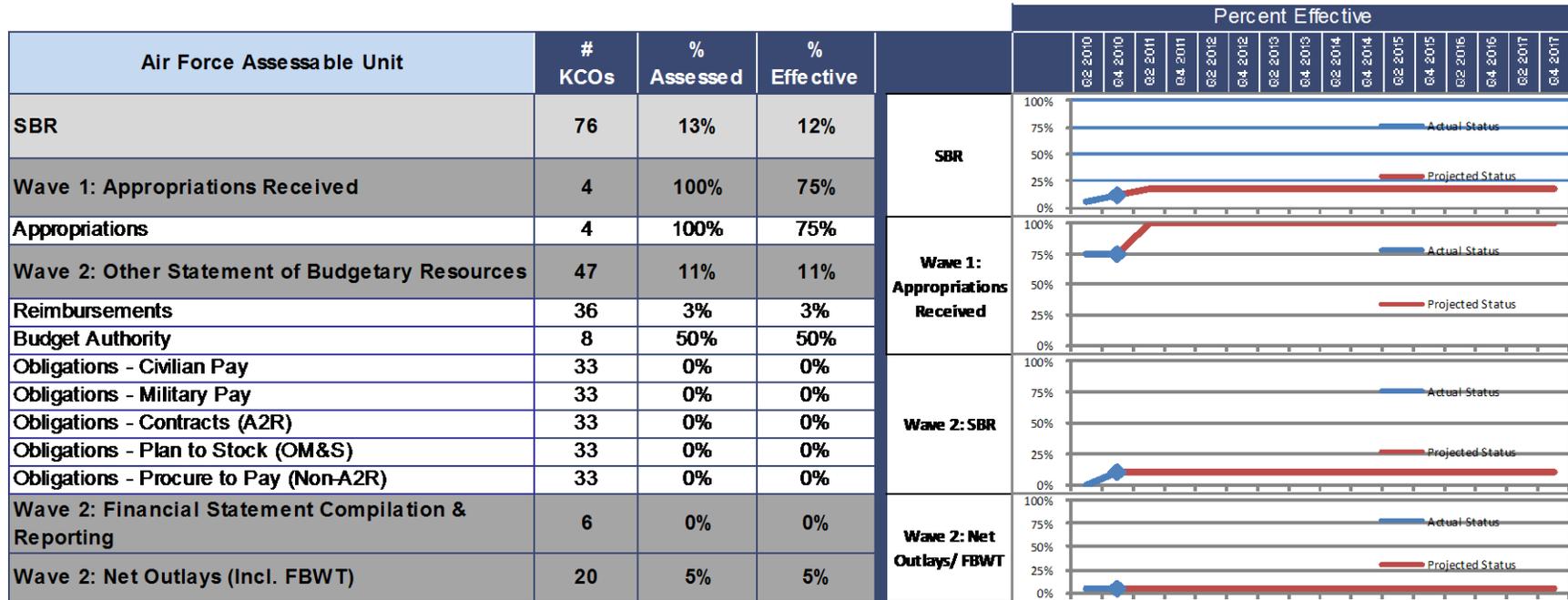
**Note to Figure II-8.** The scope for "Appropriations" in Wave 1 was broadened to include both the budgetary funding received from Congress and the distribution of that funding for Air Force use. The Air Force initially agreed to assert audit readiness on the expanded scope in Quarter 2 of FY 2011 and later accelerated the assertion date to Quarter 4 of FY 2010.



# Department of the Air Force



**Figure II-9. SBR Key Control Objective (KCO) Status and Projections**







# Defense Logistics Agency



The Defense Logistics Agency (DLA) approach to audit readiness has evolved over the years from strictly a financial line item approach to a comprehensive enterprise business approach. The initial approach was Balance Sheet and line item focused with primarily DLA Headquarters financial personnel attempting to prepare the Agency for audit. While the approach made progress in the financial areas, DLA recognized that its Working Capital Fund (WCF) business processes, with controls performed outside of the financial organization, drive the financial results and, therefore, its audit readiness. Coupled with the size and complexity of DLA (millions of business transactions monthly in eight major supply chains), and the integration of its business and financial system in an Enterprise Resource Planning (ERP) system, it became clear that the engagement of the entire enterprise was required to achieve sustainable audit readiness.

The DLA's Stewardship Excellence approach, while focused on enabling operational excellence, builds the foundation for sustainable audit readiness. Using the DoD Business Enterprise Architecture as the starting point, the DLA identified and aligned all of its business processes into ten (10) end-to-end business cycles, each "owned" by a senior executive at DLA Headquarters. Business Cycle Teams (BCTs) were created to support each of the Enterprise Business Cycle Owners. The BCTs are cross functional teams comprised of business area and financial personnel from Headquarters, Field Activities, internal audit, and Defense Financial Accounting Service (DFAS), as well as Independent Public Accountant audit advisory support. The DLA's modified approach also incorporates an understanding of how auditors approach the financial statement audit of a commercial business.

The Enterprise Business Cycles encompass all processes performed within the cycle, regardless of the type of funds (WCF or General Fund), with differentiation identified where needed. The DLA business cycles are supported by over 140 DLA and non-DLA automated systems, adding to the complexity of ensuring process and data controls are effective.

To support this approach, the DLA established and published Standards and Criteria outlining the expected capabilities that enable operational excellence and achieve audit readiness. This enabled a consistent and comprehensive enterprise approach to assessing the status of each business cycle. The BCT's assess the policies, processes, controls, data, systems and human capital associated with the business events within the business cycle against the Standards and Criteria, identifying deficiencies and taking corrective action.

Through the improvements to business processes, controls and documentation within these cycles and their supporting systems, the DLA can reduce process variation and improve data integrity and transparency from the point of origin, thus improving the information available for decision making and financial reporting. This operational or "business" emphasis enables the DLA, as a combat support agency, to strongly support the warfighter while also preparing for audit.

As of July 2010, the DLA completed substantial discovery for the end-to-end business cycles associated with the SBR. While some discovery tasks still remain to be accomplished, the outcome is that key capabilities identified in the Standards and Criteria have been assessed as effective or deficient. Where key capabilities were assessed to be effective, the controls and processes are incorporated into the annual OMB Circular A-123, Appendix A, Internal Controls Over Financial Reporting (ICOFR), testing activities. Where deficiencies were uncovered, detailed corrective action plans have been developed and responsibilities for actions assigned, resulting in significant changes to the DLA Financial Improvement Plans (FIPs) beyond the first Wave.

The DLA also is reliant upon key Service Providers in order to assert audit readiness, one of these is DFAS. The DLA is closely partnering with DFAS to assess the business processes, controls and documentation for the DFAS activities that support DLA business cycles. The testing of internal controls related to DFAS processes that support DLA's business is incorporated into DLA's annual ICOFR activities. The DFAS has identified the various systems that support



## Defense Logistics Agency



the processes it performs in support of DLA and will be testing the audit readiness of those systems in the coming months.

Other key DLA Service Providers include:

- Defense Information Systems Agency (DISA) – DISA is responsible for the processes and controls within their computing centers which house key DLA systems.
- U.S. Army Corps of Engineers (USACE) – USACE executes military construction activities in support of DLA. The dependency includes the systems and processes USACE uses to perform the support.
- Naval Facilities Engineering Command (NAVFAC) – NAVFAC executes military construction activities in support of DLA. The dependency includes the systems and processes NAVFAC uses to perform the support.

The DLA identified specific business cycles that support the assessable units for Waves 1 and 2 of the FIAR strategy. The cycles identified are those that impact the SBR and associated key control objectives: Budget to Execute, Fund Balance with Treasury, Hire to Retire, Order

to Cash, Procure to Pay, and Record to Report. In addition, the DLA Technical Infrastructure and Architecture BCT supports all BCTs by assessing the policies, processes, controls, data, systems and human capital involved in the end-to-end IT Lifecycle Management of DLA owned systems.

The DLA asserted audit readiness at the end of FY 2010 for Wave 1, Appropriations Received, in accordance with the FIAR Guidance and priorities. The DLA assertion was limited to the processes and controls from the point of receiving a funding document from the OUSD(C), the accurate recording in DLA's financial/reporting systems, through funds distribution to the internal DLA execution level. As part of Defense-Wide Treasury Index 97 appropriation, which includes many other Defense Agencies, the DLA is dependent upon the OUSD(C) for the controls and processes that link the funding documents provided to DLA to the enabling legislation. Those controls and processes must be in place and working properly in order for the Department to assert audit readiness of Defense-Wide Appropriations Received.

DLA milestones for achieving the objectives of Wave 1 and Wave 2 are presented in Figure II-11.

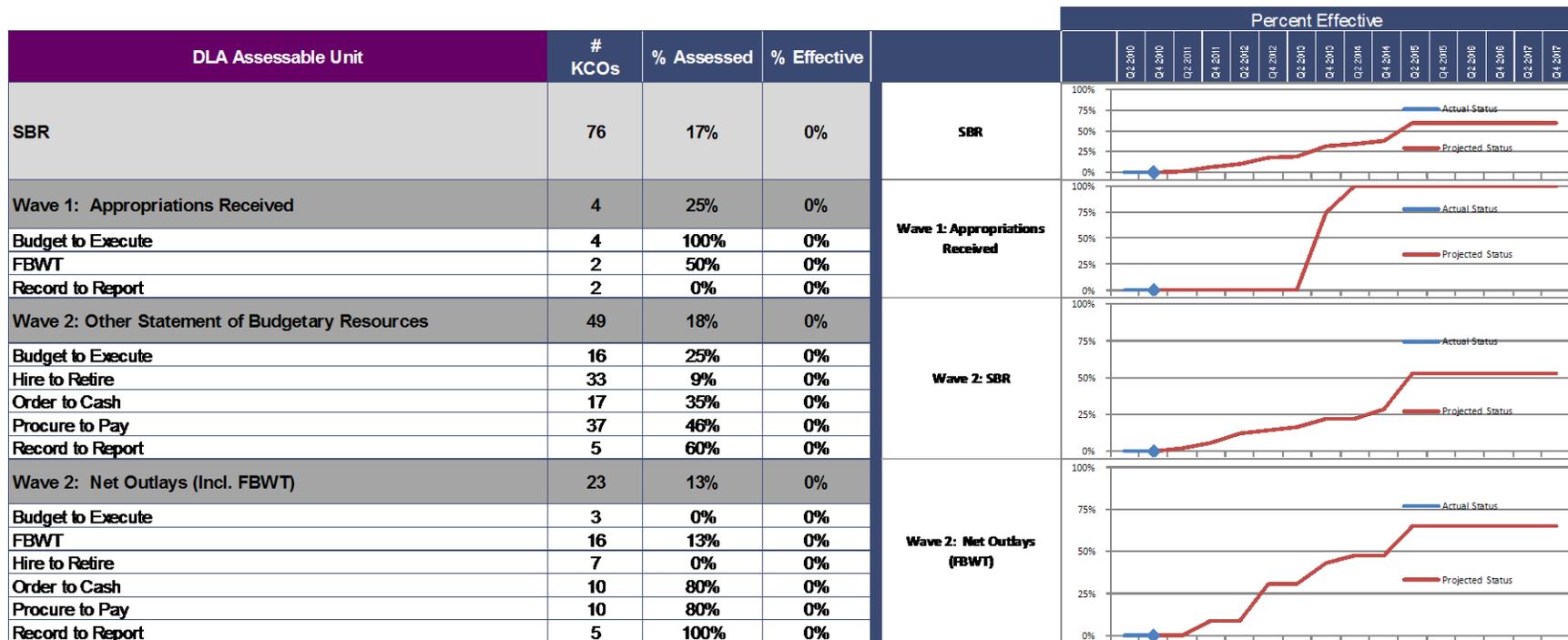




# Defense Logistics Agency



Figure II-12. SBR Key Control Objective (KCO) Status and Projections

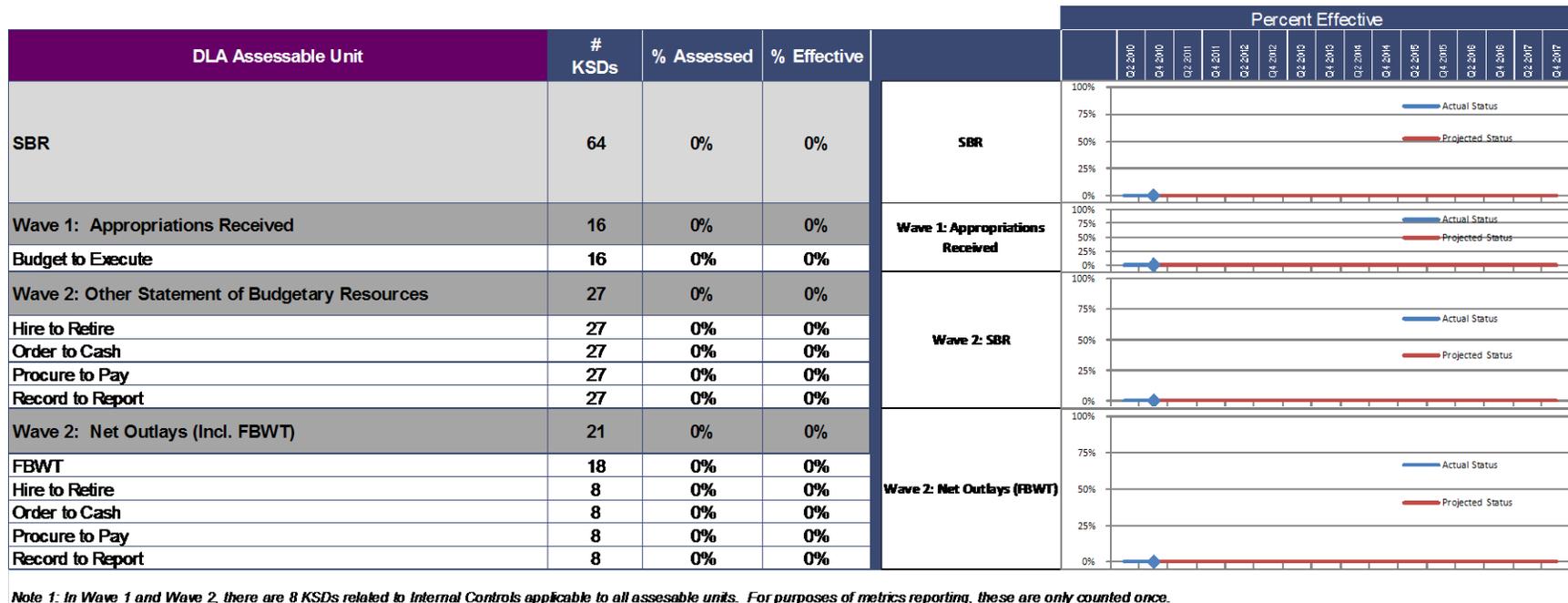




# Defense Logistics Agency



Figure II-13. SBR Key Supporting Document (KSD) Status and Projections





# Defense Logistics Agency



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## Other Defense Agencies



To comply with the FIAR priorities, directed by the USD(C) in August 2009, the ODOs have expanded the scope of their OMB Circular A-123, Appendix A, Internal Control over Financial Reporting (ICOFR) efforts to improve budgetary and mission critical asset information. To achieve the FIAR priorities, the ODOs are documenting the processes, controls and systems that affect the SBR. In addition, with the expanded scope of ICOFR documentation and audit remediation work already underway, several of the ODOs plan to assert audit readiness for Appropriations Received (Wave 1) by Quarter 4 of FY 2011. These assertions will be based on the current processes supported by the Program Budget Allocation System. Their financial improvement plans and audit readiness milestones are not expected to change as long as they do not encounter significant issues in converting to the Enterprise Funds Distribution System, which is currently being implemented.

The OMB Cir. A-123, Appendix A, initiatives have resulted in implementing additional internal controls in areas identified as potential risks, such as Fund Balance with Treasury (FBWT). This includes utilizing the DFAS Indianapolis Detail Audit Retrieval and Research System to build queries and extract transaction level data to develop FBWT reconciliations. A reconciliation of transaction level data of information submitted to Treasury will help resolve variances related to unsupported entries and suspense actions. Several ODOs are currently teaming with DFAS to develop a new reconciliation process between transactions reported to Treasury and budgetary data. A methodology for reconciling limit level data from the Treasury Government Wide Accounting system against the DFAS Treasury Division Cash Management Report to identify variances is in the developmental phase. In addition, the ODOs are working to build reconciliations in collaboration with DFAS to support SBR balances.

The status of the ODOs' Financial Improvement Plans (FIPs) for the SBR (Wave 1 and Wave 2) vary with some mature and others under development. For those ODOs with mature FIPs, their planned milestones for achieving audit readiness are reflected in Figure II-14, but for the others, whose FIPs are still being developed, Figure II-14 does

not show any milestones and only indicates that their FIP is under development.

### CHALLENGES

The ODOs manage funds at a more detailed level than displayed in the current financial statement structure. Therefore, pursuing financial systems and processes that allow for greater visibility to the underlying data is critical. The Defense Agency Initiative system (DAI), an ERP currently being deployed, will improve the ODOs' ability to achieve and sustain auditable SBR balances. The ODOs are developing their FIPs to be consistent with the DAI implementation schedule and plans.

The ODOs' financial improvement efforts have been hampered by the complexity of ODO transactions contained in various Military Department accounting systems, which are in the midst of transition to various ERPs. Other challenges the ODOs must address include system constraints that are due to allotments. The ODOs allot/sub-allot material amounts of their funding annually to the Military Departments. While gathering data from the Military Department systems, the issues with identifying ODO data and the transition to more auditable ERP systems plays a key role in those efforts.

The greatest challenge ODOs face is the lack of a Component unique Treasury symbol to segregate their funds and balances. No direct appropriation link to Treasury results in an inability to capture and distinguish one ODO's transactions from those of other ODOs.

The Department is researching and developing an effective, auditable FBWT reconciliation. The ODO FBWT reconciliation initiative has been successful in a limited scope. The DFAS now plans to test this initiative with an entire ODO's FBWT for an accounting period. The FBWT reconciliation efforts for all ODOs may not be accomplished in the near term. This may delay the ODOs ability to assert for overall SBR (Wave 2).

The ODO milestones for achieving the objectives of Wave 1 and Wave 2 are presented in Figure II-14.



## PROGRESS METRICS

Results-oriented, progress metrics provide a useful means for management to monitor and measure financial improvement progress. This section of the Report provides two types of metrics:

- Metrics that measure progress by validations and audits, and
- Metrics that measure and reflect progress for improvements made to ongoing financial operations.

### Progress Measured by Validations and Audits

Figure II-15 provides the Department's current status and interim goals, to be accomplished by the end of FY 2012, for achieving the Wave 1 and Wave 2 objectives, as well as achieving auditability of the FBWT line of the Balance Sheet. Achieving FBWT audit readiness is essential to preparing for each SBR audit.

As shown in Figure II-15, 80 percent of the Appropriations Received line of the SBR will be validated through independent examinations as audit ready in FY 2011, and 14 percent of the DoD Combined SBR will be validated as audit ready in FY 2011. These percentages may change for FY 2012 as the Department begins working with the ODOs now included in the FIAR Plan. The May 2011 FIAR Plan Status Report will provide updated information on the status and progress of the ODOs. The percentages are based on the total reported amounts on the Department's FY 2009 financial statements. The percentage increase for SBR Audit Ready from FY 2009 to FY 2010 is for the audit of the USMC SBR.

**Figure II-15 SBR Priority Status and Interim Goals**

	FY 2009	FY 2010	FY 2011	FY 2012
SBR Appropriations Received Audit Ready	19%	53%	80%	80%
SBR Audit Ready	13%	14%	14%	14%
FBWT Audit Ready	7%	8%	9%	9%

### Progress Measured by Improvements to Financial Operations

The second type of metric has a direct relationship to budgetary information and the SBR and measures improvements to financial operations. The metrics either measure outcomes of better budgeting information (e.g., Abnormal Fund Balances) or measure progress improvements needed to achieve better budgetary information.

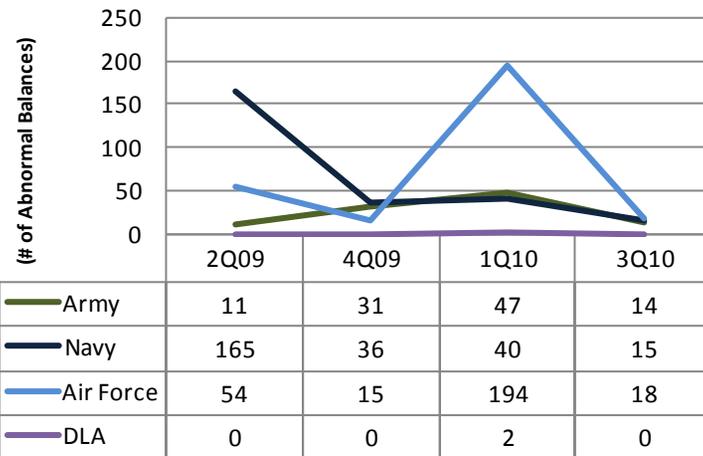
Each metric is accompanied by a description and identifies the goals, benefits and results. These metrics include the following:

- Figure II-16. Abnormal Fund Balances
- Figure II-17. In-Transit Disbursements and Collections Over 60 Days
- Figure II-18. Unmatched Disbursements Over 120 Days
- Figure II-19. Negative Unliquidated Obligations Over 120 Days
- Figure II-20. Appropriations with Negative Balances

Figure II-16

**Metric Title: Abnormal Fund Balances**

Wave 2 - SBR



**Description:**

This metric measures the number of abnormal fund balances, at levels lower than the appropriation level, not resolved within 60 days. An abnormal balance exists when a debit balance account has a credit balance or vice versa.

**Goal:**

0 abnormal balances unresolved in greater than 60 days.

**Benefit:**

Preventing and/or timely resolution of abnormal fund balances results in more accurate obligation and outlay balances on management reports and the Statement of Budgetary Resources resulting in better utilization of funds in the year appropriated.

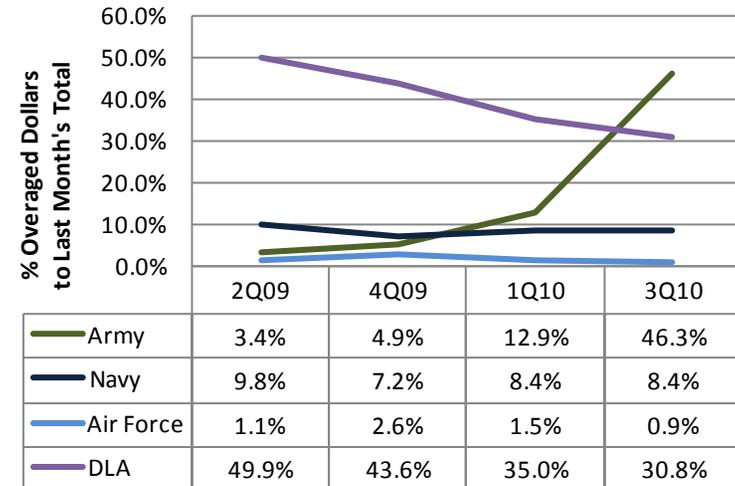
**Results:**

Air Force and DLA reconciliation efforts are resulting in improved and consistent good results in this metric.

Figure II-17

**Metric Title: In-Transit Disbursements & Collections > 60 days**

Wave 2 - SBR



**Description:**

This metric measures Component timeliness in recording collections and disbursements. An in-transit disbursement or collection is a payment or collection made by one activity on behalf of another accounting activity, but not yet recorded in the general ledger of the accounting entity.

**Goal:**

To have 5% or less of the prior month's total absolute in-transit balance greater than 60 days old.

**Benefit:**

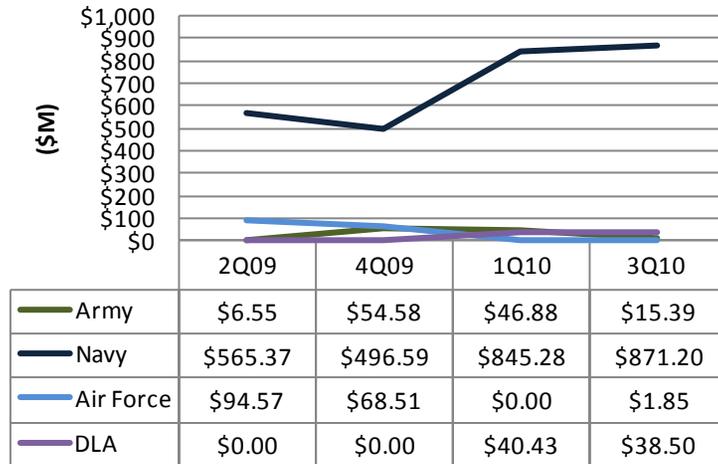
Timely recording of disbursements and collections results in greater accuracy of Components' accounts balances on management reports and the SBR resulting in better utilization of funds.

**Results:**

Air Force consistently meets the goal. Navy and DLA show improvement. Army's increase was due to how Intransits were being calculated in GFEBs.

Figure II-18

**Metric Title: Unmatched Disbursements (UMD) > 120 days**  
Wave 2 - SBR



**Description:**

This metric measures Component success in correcting UMD amounts that are 120 days old or older. A UMD occurs when a disbursement cannot be matched to an obligation in the accounting system.

**Goal:**

No UMD amounts greater than 120 days old.

**Benefit:**

Preventing and/or timely resolution of UMDs results in greater accuracy of Components' accounts balances on management reports and the SBR resulting in better utilization of funds.

**Results:**

Navy's lack of transaction level visibility hinders overaged UMD reductions. Appropriate data matching through automated systems is imperative to overcome UMDs. Overaged UMDs have been considerably reduced from a September 1999 level of \$2.03B.

Figure II-19

**Metric Title: Negative Unliquidated Obligations > 120 days**  
Wave 2 - SBR



**Description:**

This metric measures Component payment discrepancies, known as negative unliquidated obligations (NULOs), caused by disbursing amounts greater than the corresponding obligations that are not resolved within 120 days.

**Goal:**

No NULOs greater than 120 days old.

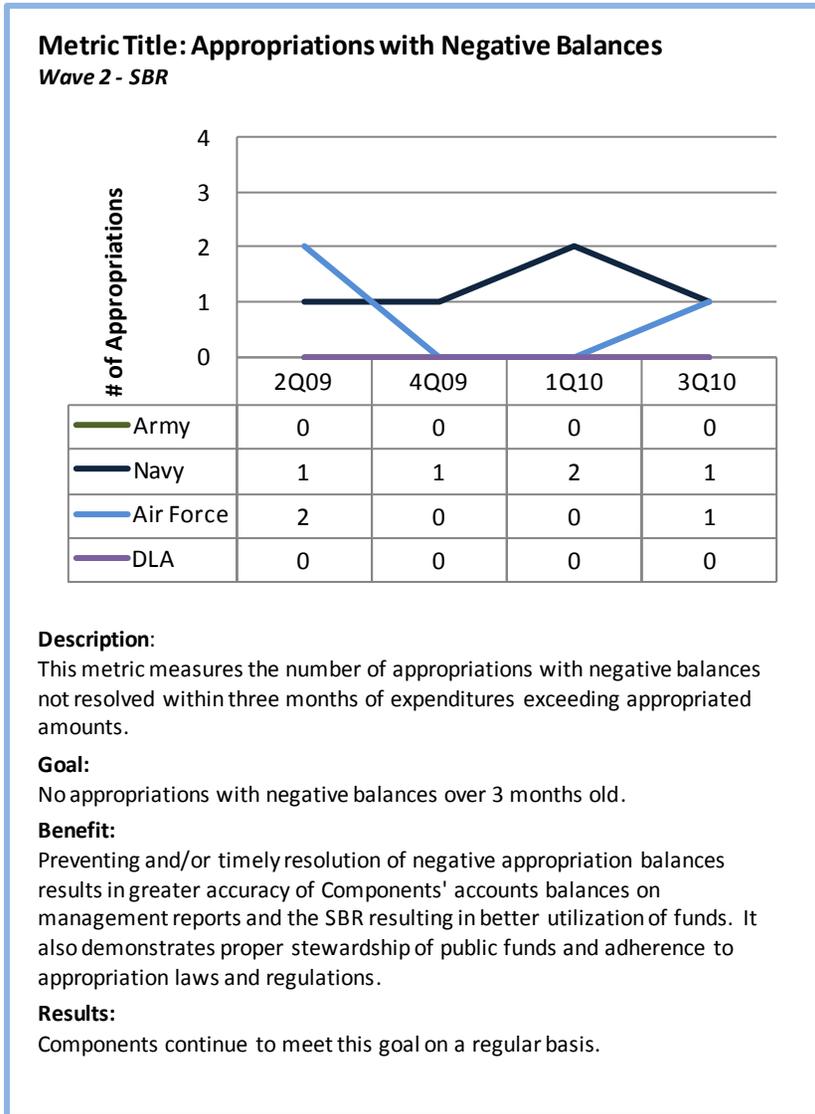
**Benefit:**

Preventing and/or timely resolution of NULOs results in greater accuracy of Components' accounts balances on management reports and the SBR resulting in better utilization of funds.

**Results:**

Overaged NULOs have been considerably reduced from a September 1999 level of \$1.6B.

Figure II-20



### III. Audit Ready Existence and Completeness of Assets (Wave 3)

This section of the Report provides the Army, Navy, Air Force and Defense Logistics Agency's (the "Components") plan to achieve the objectives of Wave 3 of the FIAR Strategy (Figure III-1).

**Figure III-1 FIAR Strategy**



Wave 3, *Existence and Completeness of Assets*, focuses the Department's corrective actions on the FIAR priority to improve information pertaining to the Department's mission critical assets and to prepare for audits that will test the accuracy of that information. Mission critical assets include:

- Military Equipment,
- Real Property,
- Inventory,
- Operating Materials and Supplies (OM&S), and
- General Equipment

When Wave 3 is completed, the Department's:

- Information (e.g., quantity, location) pertaining to the existence and completeness of mission critical assets will be reliable and accurate,
- Specific important management information (e.g., condition, usage) pertaining to mission critical assets will be reliable and accurate,
- Maintenance planning and asset disposition decisions will be improved,
- Ability to perform capital and budget planning will improve, and
- Business and financial processes and controls will have been documented, controls tested and strengthened.

Information on the objectives, challenges and benefits of achieving Wave 3 audit readiness is provided in Appendix 3.

#### AUDIT SCOPE OF WAVE 3

The Department's progress toward audit readiness will be demonstrated through independent auditors rendering unqualified opinions on the existence and completeness of mission critical assets. By definition, Existence and Completeness audits will focus on the Existence and Completeness financial statement assertions. That is, determining whether:

1. All the assets the Component lists in its accountable property system of record (APSR) exist, and
2. The Component reported all of its assets.

To ensure compliance with auditing standards, the auditors are also required to consider the impact of additional, interrelated financial statement assertions (i.e., Rights assertion and Presentation and Disclosure assertion), as Figure III-2 demonstrates.

Auditors performing government financial statement audits must adhere to professional standards promulgated by the Government Accountability Office (GAO) and the American Institute of Certified Public Accountants' Auditing Standards Board. These professional

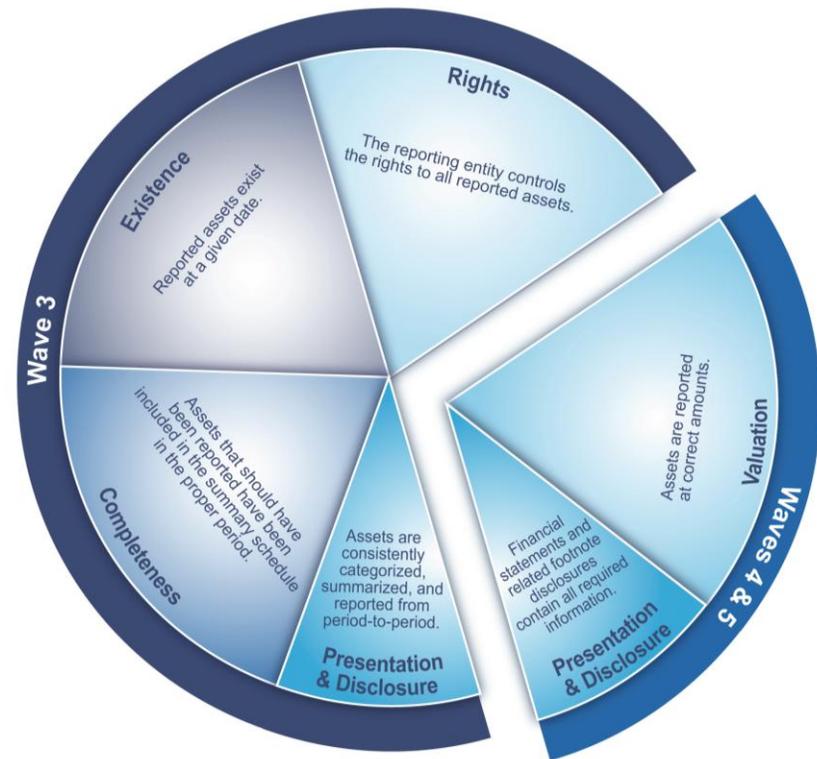
standards require that the auditor be satisfied that elements, accounts or items that are interrelated with those on which the auditor has been engaged to express an opinion have been considered in expressing an opinion.

The GAO Financial Audit Manual defines the Existence or Occurrence of financial statement assertions as “Recorded transactions and accounting events have occurred during the given period, are properly classified and *pertain to the entity*. An entity’s assets, liabilities and net position exist at a given date.” The italicized text (which is the essence of the definition of the Rights financial statement assertion) demonstrates the interrelationship of the Rights and Existence financial statement assertions.

Presentation and Disclosure is the other financial statement assertion that is interrelated with Existence and Completeness audits. Specifically, the summarization and classification elements of Presentation and Disclosure are directly related to Existence and Completeness audits, because these are the assertions that ensure accurate quantities of assets are presented and correctly classified (e.g., assets reported as Military Equipment vs. General Equipment) on summary schedules covered by Existence and Completeness audits.

Because of the interrelationship among the Existence and Completeness and Rights assertions, along with elements of the Presentation and Disclosure assertion, it is necessary to include these interrelated assertions in the scope of Existence and Completeness audit readiness preparation and resulting Existence and Completeness audits, as shown in Figure III-2.

Figure III-2 Audit Scope of Wave 3



## AN ENGAGED FUNCTIONAL COMMUNITY

A significant difference in the approach the Department is employing to achieve the objectives of the existence and completeness priority is that this priority is being led by the functional communities (i.e., the Acquisition, Logistics and Installations communities), supported by the Financial community. This approach is essential to success, since it is the functional communities, not financial community, that are responsible for the processes, controls and systems used to manage the Department's mission critical assets. The objective of this priority does not include the valuation of these assets for financial reporting, but rather ensuring that these assets are accurately recorded in the functional communities' systems of record.

To engage the functional communities, the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) issued a DoD-wide memorandum endorsing the existence and completeness priority and requiring the Components' functional communities to fully participate in achieving the objectives of the priority. The USD(AT&L) memorandum was issued three months after the priorities were established. In addition, various offices within the Office of the USD(AT&L) have been:

- Participating in FIAR governance and oversight bodies,
- Assisting in defining FIAR guidance,
- Reviewing Component Financial Improvement Plans and providing feedback,
- Assisting the Components in executing discovery and correction activity, and documenting and sharing lessons learned,
- Leading business process reengineering efforts and focused working groups,
- Addressing long-standing Government Furnished Property management and reporting issues,

- Developing training courses for contract officers/specialists, and
- Developing new policy (e.g., Physical Inventory policy) and guidance such as for management assertions.

Sustaining the improvements to processes, controls and systems to achieve the existence and completeness priority is the responsibility of the functional community, and the Department is certain that the improvements will be sustained because of the visible commitment and partnership of the OUSD(AT&L).

## AUDIT READINESS PLANS

The Components plan and execute their existence and completeness improvement and audit readiness work in Financial Improvement Plans (FIPs). The Components use a standard phased methodology that is prescribed in official guidance (the "FIAR Guidance") issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).

The FIAR Guidance provides detailed instructions for the development and maintenance of the FIPs. This is important for a number of reasons, to include providing the USD(C) and the FIAR governance organizations (see Appendix 1) the ability to oversee and monitor progress.

The Component FIPs were used to prepare the Audit Readiness Plan figures in this section of the Report and to provide other status and projection information. The Audit Readiness Plans in this section provide a summary-level view of the Components' planned completion dates by quarter and fiscal year for key events consistent with the FIAR Methodology and leading to achieving auditability. Such key events include:

- Start and completion of the *Evaluation and Discovery Phase*, which is when the Components are documenting and evaluating business and financial processes and systems, and assessing risks and testing internal controls to identify deficiencies that impact auditability;

- Start and completion of the *Corrective Action Phase*, which is when the Components are correcting deficiencies such as modifying or reengineering processes, strengthening controls and modernizing systems;
- Submission of an *Audit Readiness Assertion* to the OUSD(C) and DoD IG;
- Start and completion of the audit readiness *Validation* performed by the OUSD(C); and
- Start of an *Audit* and/or when *Sustainment* of audit readiness begins.

Information on the above events and activity is explained in the FIAR Methodology section of Appendix 1. Included in the Component plans that follow are the key milestones for their ERPs, because the deployment of most of the ERPs are essential to achieving the mission critical asset priority (e.g., for Inventory and OM&S) or will be used to replace legacy APSRs.

Existence and completeness Audit Readiness Plans were provided in the May 2010 Report. In this Report, they have been updated, as necessary, and changes have been identified. In addition, each Component section begins with a description of its strategy for achieving the objectives of Wave 3.

### Key Control Objectives and Key Supporting Documentation

To achieve existence and completeness audit readiness, the Components must:

- Design and implement control activities to limit the risk of material misstatements by meeting Key Control Objectives (KCOs), and
- Support account balances with sufficient and competent audit evidence, Key Supporting Documents (KSDs).

To maximize the efficiency and effectiveness of Component audit readiness efforts, the Department identified standard KCOs to mitigate financial reporting risks and KSDs that are required to substantiate transactions and balances.

The Components are identifying existing control activities for meeting the KCOs, as well as assessing the quality and availability of supporting documentation needed to assert audit readiness. KCOs and KSDs are discussed in Appendix 1 of this Report and a complete listing of the KCOs can be found in the DoD FIAR Guidance document located at: <http://comptroller.defense.gov/FIAR/index.html>.

To measure the Components' progress in achieving audit readiness, the Department is tracking the Components' progress in assessing the KCOs and KSDs and progress on determining their effectiveness. In other words, these metrics track progress in achieving the end-state outcome of auditability and a strong internal control program that ensures financial transactions are timely and accurately recorded.

The KCO and KSD metrics were reported in the May 2010 Report and are included this section following each Component's audit readiness plan. Any significant changes are highlighted and discussed.



# Department of the Army



The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)) and Army G-4 have chosen to focus the Army's initial existence and completeness efforts on Army installation Military Equipment and General Equipment in support of the FIAR priorities. The DoD Financial Management Regulation Volume 4, Chapter 6, defines General Equipment as tangible assets with a useful life of two years or more, which is not intended for sale, is acquired with the purpose of being used by the entity to complete its mission and exceeds the capitalization threshold. Military Equipment expands on this definition as a classification of assets not ordinarily losing their identity or becoming subsumed into another item and that are used for battlefield missions.

As part of the existence and completeness initiative, the OUSD(AT&L) directed the Components to develop "quick win" assessable units (i.e., those programs or asset classes that could be asserted by Quarter 2 of FY 2011). The OASA(FM&C) and Army G-4 developed their list of assessable units by first narrowing the focus to General Equipment and Military Equipment assets that exceed the DoD capitalization threshold of \$100,000. Next, these organizations identified the primary sources of relevant property as the Army's accountable property system of record, Property Book Unit Supply Enhanced (PBUSE); an Army logistics and maintenance system, the Logistics Information Warehouse; and the Army's interim financial reporting solution, the Capital Asset Management System – Military Equipment. Then, the organizations narrowed the initial quick win focus to specific General Equipment and Military Equipment mission critical assets, as follows:

## Military Equipment

The Army is scheduled to validate the existence and completeness of approximately 14 percent of its Military Equipment net book value during FY 2011. These assets include:

- Aircraft (Apache AH-64A, Apache Longbow AH-64D, Aircraft Utility UC-35A, CH-47 F/MH-47G Chinook, OH-58D Kiowa Warrior, UH-60L Blackhawk, UH-60M Blackhawk, and Light Utility Helicopter)
- 900 Series Small Tug

## General Equipment

- Fire and Rescue Equipment

The OASA(FM&C) and Army G-8 are planning to utilize the Army's Equipment Readiness Codes to identify programs to be used for full management assertion of Existence and Completeness by Quarter 1 of FY 2015. These programs will be researched in the Army's current logistics and financial reporting systems to determine the universe of mission critical assets. These systems are interim solutions until the Enterprise Resource Planning (ERP) systems are fully implemented, which will then provide comprehensive accountability and financial treatment of Army asset records.

Since March of 2010, the OASA(FM&C) has sent teams to installations to execute the existence and completeness effort. The Army's existence and completeness approach incorporates site visits to Army Installations/Organizations maintaining quick win General Equipment and Military Equipment assets. At each installation visited, a complete physical inventory of all capital General Equipment and Military Equipment is conducted. Team members work with installation property book officers, hand receipt holders and internal review personnel to verify the serial numbers recorded in PBUSE for each capital asset and to verify that the assets are supported by acceptable documentation. Any additional quick win asset found on the installation, but not recorded in the accountable property book, is documented for completeness.



# Department of the Army



Team members also travelled to Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) Program Executive Office and Program Management offices to gather supporting documentation for the existence and completeness effort. Official Army and DoD forms, such as DD Form 250, Material Inspection and Receiving Report, are used to verify receipt and acceptance of assets, especially in the case of deployed assets. This documentation will also support future assertion efforts (e.g., Valuation). In addition, existence and completeness teams will conduct internal control analyses; prepare process narratives, flowcharts and control activities for the various General Equipment and Military Equipment asset lifecycle events; and execute test plans for General Equipment and Military Equipment assets for control activities found to be appropriately designed and tested.

The results of the installation site visits are relayed to the installation personnel in a trip report. The trip report, after a quality review by OASA(FM&C), is delivered to the installation. This document serves as a “scorecard” of how prepared the installation is for an audit and recommends corrective actions to mitigate any issues. In recent installation site reviews, teams have found:

- Capital assets that lack source documentation to support management assertions,
- Inaccurate information recorded in data fields (i.e., acquisition date, nomenclature, serial number),
- Property book offices that have not been notified of procurement and receipt of new property on the installation,

- Hand receipt holders unable to locate property that they are custodians of,
- Property system functionality limitations, and
- Difficulty in verifying assets deployed in support of the Overseas Contingency Operations.

The Army is addressing these challenges. For example, for deployed assets, alternative methods are being used to verify existence and completeness, as recommended in the FIAR Guidance. In lieu of a physical inventory inspection/identification of deployed Military Equipment assets, supporting documentation is being gathered to verify existence and completeness in accordance with the FIAR supporting documentation guidance. In addition, top down guidance from Army leadership to the field, in the form of memorandums and trip reports, has communicated that the drive for auditability is a top priority and has detailed how the Army plans to achieve the existence and completeness audit readiness priority.

Army leadership will assert the existence and completeness of quick wins by Quarter 2 of FY 2011. Once the verification of the quick win assets is complete, the existence and completeness effort will expand to the full universe of mission critical assets. This supports the overall goal of achieving an unqualified audit opinion on the Army’s financial statements by September 30, 2017, in accordance with the FY 2010 National Defense Authorization Act. Figure III-3 provides the Army Existence and Completeness Audit Readiness Plan milestones by assessable unit.



# Department of the Army



**Figure III-3. Existence and Completeness Audit Readiness Plans**

Army	FY10			FY11			FY12			FY13			FY14			FY15			FY16			FY17			Legend			
Wave 3 - Existence & Completeness	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1		2	3	4
<b>Military Equipment</b>																												
Military Equipment - Quick Wins (9 Asset Types)																												
Military Equipment - Remainder																												
<b>Real Property</b>																												
Real Property																												
<b>Operating Materials and Supplies (OM&amp;S)</b>																												
OM&S																												
<b>Inventory</b>																												
Inventory																												
<b>General Equipment</b>																												
General Equipment - Quick Wins																												
General Equipment - Remainder																												
<b>ERP Schedules</b>																												
Army - GFEBS																												
Army - LMP																												
Army - GCSS - A																												

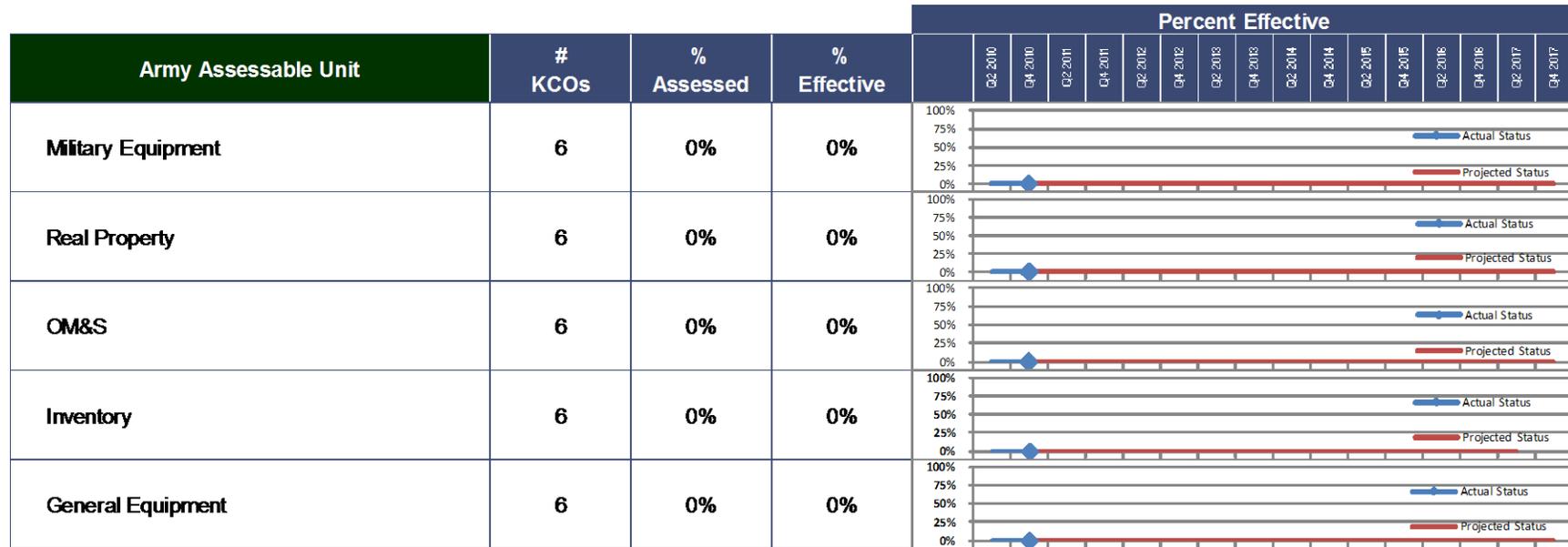
Note to Figure III-3. The above milestones have not changed since the May 2010 Report.



# Department of the Army



**Figure III-4. Existence and Completeness Key Control Objective (KCO) Status and Projections**



Army is currently performing assessments. The projected effective status will increase when assessments are completed and projected effective dates are determined.





# Department of the Army



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In September 2010, the Department of the Navy (DON) completed management assertions for Existence and Completeness over the following mission critical assets. These areas, comprising approximately 94% percent of DON's Military Equipment net book value, were targeted as "quick wins" because they typically have a relatively small inventory count with large dollars, are centrally managed and are essential to the DON mission.

- **Ships and Submarines** Ships and submarines are tracked in one accountable system of record (APSR) – Naval Vessel Register (NVR). In addition, there are 350 ships and submarines (including reserve forces, auxiliary forces, and special mission support), all of which are high dollar value, mission critical assets. Because of their importance to the mission of the DON, these assets are closely tracked and managed. This asset class accounts for approximately \$100 billion net book value (NBV) in Balance Sheet assets.
- **Aircraft** Aircraft are accounted for in a single APSR – Aircraft Inventory Readiness and Reporting System (AIRRS). Like ships and submarines, all 3,969 aircraft are high-dollar value, mission-critical assets. These assets are closely tracked and managed, accounting for approximately \$50 billion NBV in Balance Sheet assets.
- **Trident Missiles** Due to the relatively low number of Trident missiles, coupled with a rigorous internal control environment, these assets are tracked by a monthly inventory report and not in an APSR. This asset class accounts for approximately \$6 billion NBV in Balance Sheet assets.
- **Satellites** Satellites are tracked manually, but due to the small number of satellites (10) and mission critical nature of the assets, strong operational controls exist. This asset class accounts for approximately \$132 million NBV in Balance Sheet assets.

- **Ordnance** Ordnance is tracked in one APSR, the Ordnance Information System. While there are a large number of these assets, the mission critical nature of the asset requires strong internal controls over both access and use. In addition, the Naval Audit Service Audit Report N2007-0017, dated September 28, 2007, on the Ordnance Information System (OIS) noted that internal controls over accountability were strong. This asset class accounts for approximately \$31 billion NBV in Balance Sheet assets.

Existence, Completeness, and Rights verification focused on:

- **Validation of APSR Beginning Balances as of 09/30/2010** The beginning balances in the APSRs were evaluated through the review of previous audit reports, budget data and the verification of sample items.
- **Validation of APSR Additions/Deletions** The additions/deletions were evaluated based on process discussions with functional personnel. Once the processes, risks and controls were documented, a sample was selected, and the asset was supported by visual inspection or source documentation provided by functional personnel.
- **Validation of APSR Inventory Controls/Procedures** Inventory results were requested and assessed. In lieu of inventory procedures, alternative procedures were employed to meet control objectives. A 100 percent "Virtual Inventory" was performed through a reconciliation of asset unique identifier between APSR and established operational and maintenance systems.

A "Test Procedures/Source Document Matrix" was completed for each existence and completeness asset class. This document aligns key control objectives for management assertions to specific test procedures and source documentation requirements. Additionally, this matrix provided a standard testing methodology across asset classes



and accountability systems, and standardized the evaluation and reporting of results.

The DON approach to the remaining asset categories is as follows:

- **Inventory and Operating Materials and Supplies (IOM&S)** IOM&S are relatively high volume assets with varying dollar values. These items will primarily be tracked in our target environment Navy ERP, except for ordnance, which is an assessable unit and tracked in the OIS. The key to the strategy, therefore, is to align our existence and completeness efforts with the deployment of Navy ERP.
- **General Equipment** General Equipment is tracked in numerous local systems across a number of DON commands. Although the Defense Property Accountability System (DPAS) records a significant number of assets, these local systems do not feed DPAS. Thus, the Completeness assertion will be difficult to meet until either all General Equipment is tracked in one APSR or all General Equipment is uniquely identified to assure completeness of asset reporting without duplication.
- **Real Property** Real Property is tracked in a single APSR, the Internet Navy Facility Assets Data Store. Because the DON is engaged in a full reengineering of business processes to account for and value Real Property, the DON will execute all Real Property management assertions (including Valuation) together.

Because of the sensitive nature of mission critical assets, the support systems, documentation and location of deployed assets were not always available to the validation teams. To address this issue, the DON relied on deployment/scheduling data, maintenance records and other supporting documentation to prove that the asset existed. These alternative procedures were verified through on-site testing of data elements and location codes to prove the accuracy of the data. In some cases, classified data files or source documents were provided to cleared personnel for review, as some assets were not available for visual inspection (e.g., submarines, satellites). Through unprecedented cooperation, functional personnel were often made available to discuss documented procedures, asset management policies and supporting systems and data. This buy-in and cooperation was key to completing the Existence and Completeness audit assertion.

The DON has made significant progress in the existence and completeness effort through the assertion of the five targeted asset areas. The DON accomplished these objectives by actively pursuing responsible operational personnel, achieving leadership buy-in and developing alternative procedures to validate the existence and completeness of mission critical assets across the world.

The DON Existence and Completeness Audit Readiness Plan milestones by assessable unit are presented in Figure III-6.



# Department of the Navy



**Figure III-6. Existence and Completeness Audit Readiness Plans**

Navy	FY10				FY11				FY12				FY13				FY14				FY15				FY16				FY17				Legend				
	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4						
<b>Wave 3 - Existence &amp; Completeness</b>																																					
<b>Military Equipment</b>																																					
Military Equipment - Aircraft																																					
Military Equipment - Ships																																					
Military Equipment - ICBMS																																					
Military Equipment - Satellites																																					
Military Equipment - Remainder																																					
Military Equipment - USMC																																					
<b>General Equipment</b>																																					
General Equipment																																					
General Equipment - USMC																																					
<b>Operating Materials and Supplies (OM&amp;S)</b>																																					
OM&S - Ordnance																																					
OM&S - Remainder																																					
OM&S - USMC																																					
<b>Inventory</b>																																					
Inventory - Navy																																					
Inventory - USMC																																					
<b>Real Property</b>																																					
Real Property - Navy																																					
Real Property - USMC																																					
<b>ERP Schedules</b>																																					
Navy ERP																																					
USMC - GCSS-MC																																					

Note to Figure III-6. The only change to the above milestones, since the May 2010 Report, is the addition of the assessable unit of OM&S - Ordnance.

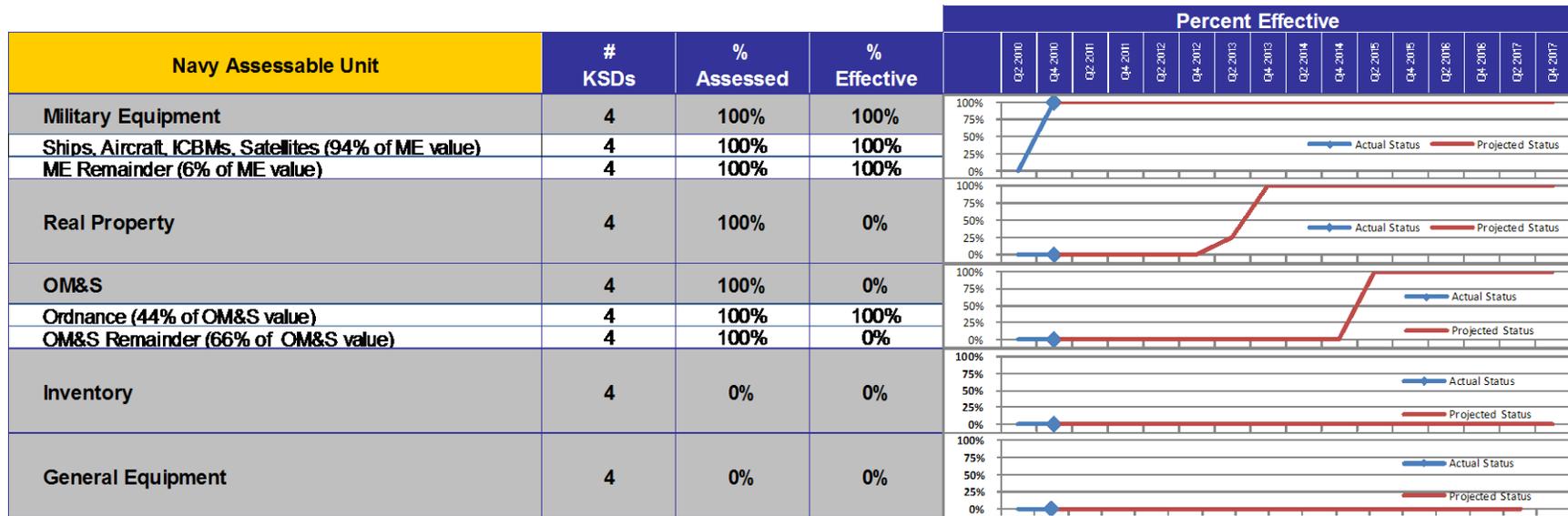




# Department of the Navy



**Figure III-8. Existence and Completeness Key Supporting Document (KSD) Status and Projections**



Note 1: The Percent Effective graph line is based on KSDs being assessed and effective for the entire asset category. As a result, quick win assertions that have effective KSDs are not reflected in the graph.

Note 2: DON is currently performing assessments for Inventory and General Equipment. The projected effective status will increase when assessments are completed and projected effective dates are determined.



# Department of the Navy



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## Department of the Air Force



The Air Force is employing a strategy to achieve existence and completeness audit readiness for mission critical assets by establishing Business Process Sub-Assessable Units based on Accountable Property System of Record (APSR). The alignment of each mission critical asset to a single APSR allows the Air Force to comply with Wave 3 existence and completeness audit readiness requirements while limiting the scope of Existence and Completeness audits to focus on a single system and all of the assets within that system.

The successful execution of the Air Force strategy for Wave 3 existence and completeness audit readiness, as well as other audit readiness initiatives, requires close coordination with Air Force functional staff throughout all Air Force Commands. To address this challenge, the Air Force relies upon the FIAR Planning Tool and Air Force Knowledge Now to store financial improvement plans, assign discovery and corrective action tasks, post supporting documents for task closure, and perform other management functions. The use of these tools and technologies enables Air Force communication, collaboration and progress within Wave 3, while working with various functional communities and locations.

Discovery efforts are dependent on several key Service Providers:

- U.S. Army Corps of Engineers and Naval Facilities Engineering Command - execute military construction activities in support of the Air Force (approximately 95 percent of all military construction projects).
- Defense Logistics Agency - stores and manages inventory and supplies for the Air Force.
- U.S. Army - is the Single Manager for Conventional Ammunition and has acquisition/production responsibilities for conventional munitions for all of DoD.

The first series of Air Force Wave 3 Existence and Completeness assertions are:

- Military Equipment (scheduled for 100 percent validation by the end of FY 2011),
- Operating Materials and Supplies (limited to Missile Motors, Spare Engines, Cruise Missiles and Drones ), and
- Real Property.

These assertions are not dependent on the implementation of the Air Force ERPs. Instead, they use APSRs that are operating in a legacy environment. The second series of Air Force Wave 3 existence and completeness assertions are: Inventory, General Equipment and the remaining OM&S, which occur in FY 2015 or beyond, and are dependent on the successful implementation of the Expeditionary Combat Support System (ECSS) ERP. The Air Force realizes that the implementation of an ERP does not guarantee audit readiness and, therefore, plans to improve the existing business processes and cleanse the financial and logistical data prior to migration to the ERP.

The Air Force focused available resources on mission critical assets where significant progress had already been made prior to establishing the existence and completeness priority or where the assets were similar in type/scope. Once Military Equipment and the three types of OM&S are asserted as audit ready, the Air Force will next focus on Real Property. However, Government Furnished Equipment (part of General Equipment) recently was determined to be an Air Force material weakness, so it will require attention. As the Air Force progresses with Wave 3 assertions, it will leverage lessons learned to accelerate audit readiness dates for other mission critical assets.

The Air Force Existence and Completeness Audit Readiness Plan milestones by assessable unit are presented in Figure III-9.

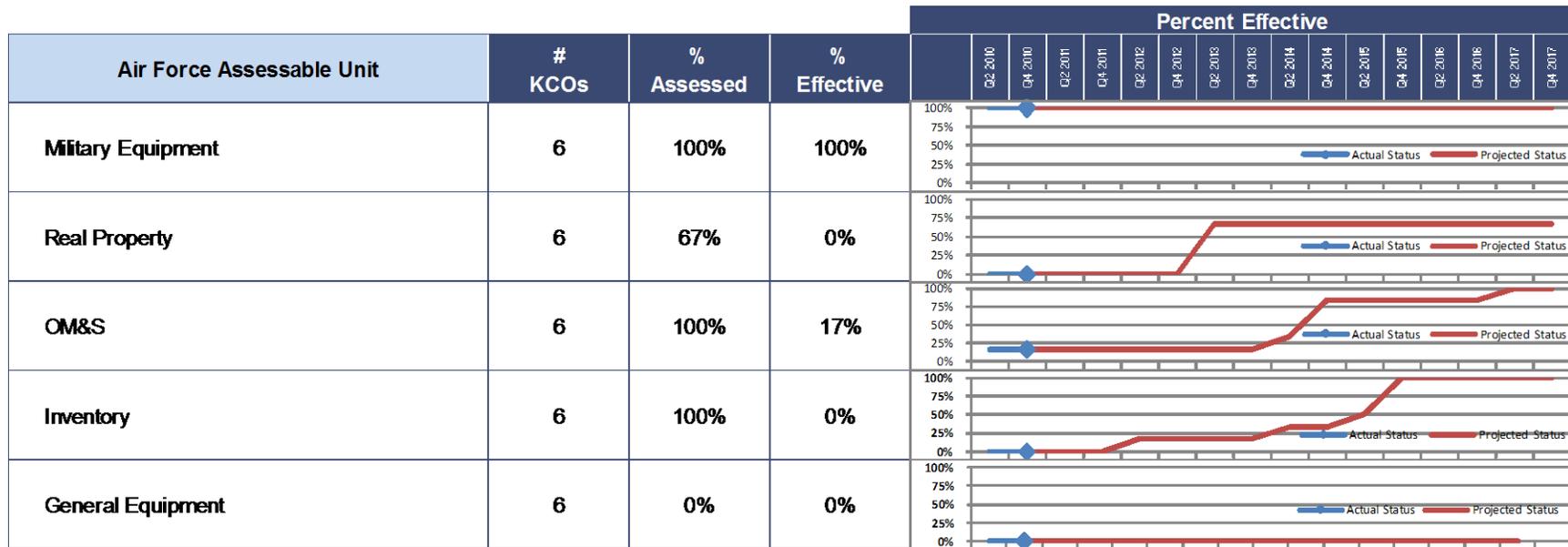




# Department of the Air Force



**Figure III-10. Existence and Completeness Key Control Objective (KCO) Status and Projections**



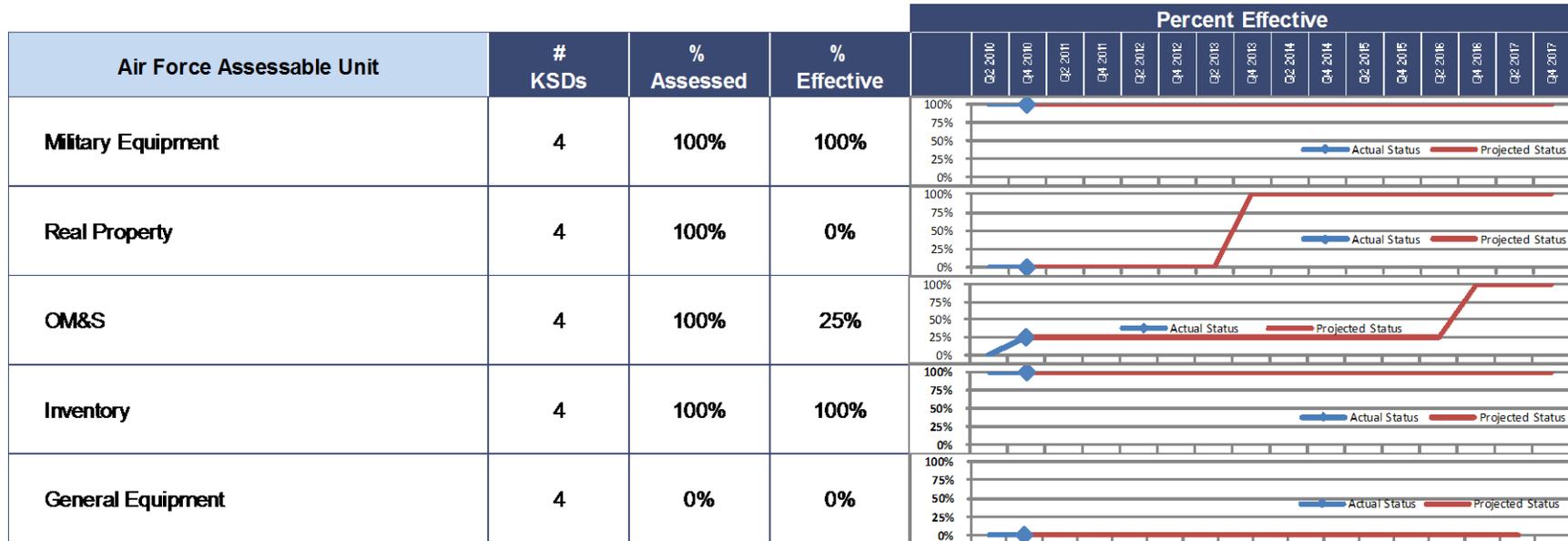
Air Force is currently performing assessments for General Equipment. The projected effective status (red line) will increase when assessments are completed.



# Department of the Air Force



**Figure III-11. Existence and Completeness Key Supporting Document (KSD) Status and Projections**



Air Force is currently performing assessments for General Equipment. The projected effective status (red line) will increase when assessments are completed.



## Defense Logistics Agency



The background, strategy and approach for the DLA, as described in Section II of this Report, are also applicable to Wave 3. In brief, the DLA Enterprise Business Cycles encompass all business processes within the cycle, whether performed by DLA or a Service Provider, and are “owned” by a senior executive at DLA Headquarters. The Enterprise Business Cycle Owners are supported by Business Cycle Teams (BCTs) composed of business area and financial personnel from Headquarters, Field Activities, internal audit and Defense Financial Accounting Service (DFAS), as well as Independent Public Accountant audit advisory support. The BCTs assess the policies, processes, controls, data, systems and human capital associated with the business events within each cycle against the DLA Standards and Criteria, identifying deficiencies and taking corrective action.

The DLA has completed substantial discovery activity for the end-to-end business cycles associated with the existence and completeness of assets. While some discovery tasks still remain to be accomplished, key capabilities identified in the DLA Standards and Criteria have been assessed as effective or deficient. Where key capabilities were assessed as effective, the controls and processes are incorporated into the annual OMB Circular A-123, Appendix A, Internal Controls Over Financial Reporting (ICOFR) activities. Where deficiencies were uncovered, detailed corrective action plans have been developed and responsibilities for actions assigned, resulting in significant changes in the DLA Financial Improvement Plans (FIPs). The FIPs reflect the guidance provided by the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) regarding timeframes for completion of General Equipment and Real Property tasks.

Substantial discovery also identified key Service Providers that DLA is reliant on to assert audit readiness for this wave:

- Defense Information Systems Agency (DISA) - DISA is responsible for the processes and controls within their computing centers which house key DLA systems.
- U.S. Army Corps of Engineers (USACE) – USACE executes military construction activities in support of DLA. The dependency includes the systems and processes the USACE uses to perform the support.
- Naval Facilities Engineering Command (NAVFAC) – NAVFAC executes military construction activities in support of DLA. The dependency includes the systems and processes NAVFAC uses to perform the support.

The DLA identified specific business cycles impacting Wave 3 and the tracking and accounting for mission critical assets as follows: Plan to Stock (P2S) and Acquire to Retire (A2R). The Technical Infrastructure and Architecture BCT supports all BCTs by assessing the policies, processes, controls, data, systems and human capital involved in the end-to-end Information Technology Lifecycle Management of DLA owned systems. The assessable units that DLA has identified for Wave 3 are General Equipment, Real Property (encompassed within the A2R business cycle) and Inventory (the P2S business cycle).

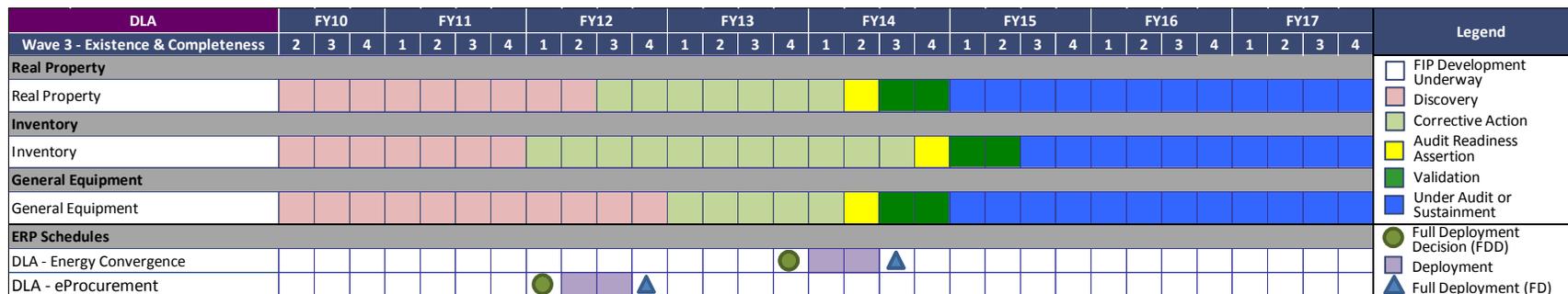
The DLA Existence and Completeness Audit Readiness Plan milestones by assessable unit are presented in Figure III-12.



# Defense Logistics Agency



**Figure III-12. Existence and Completeness Audit Readiness Plans**



Note to Figure III-12. The above milestones have not changed since the May 2010 Report.

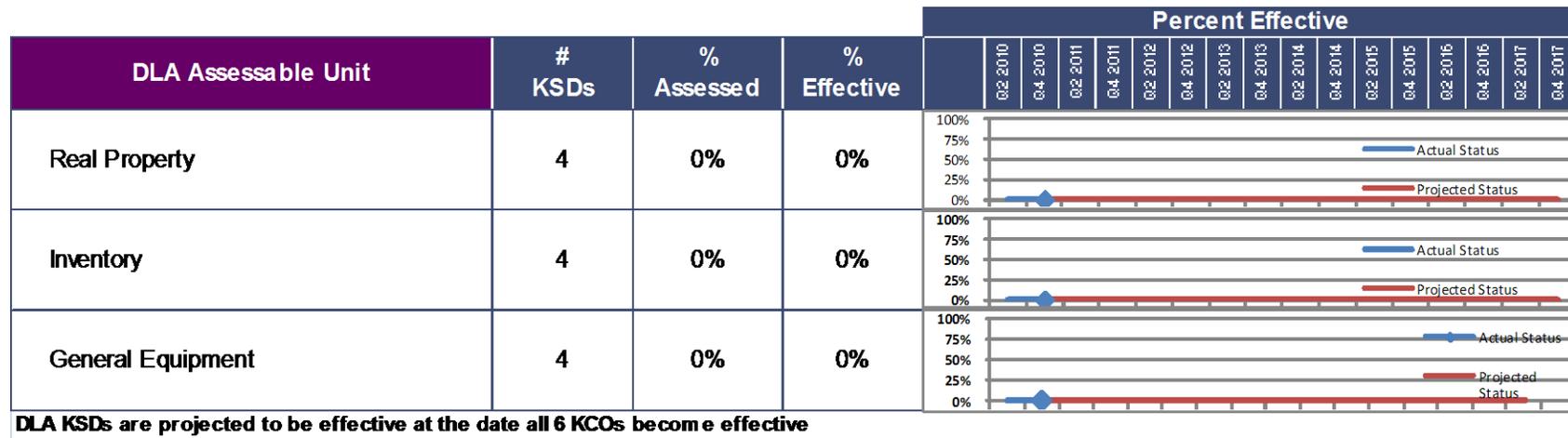




# Defense Logistics Agency



**Figure III-14. Existence and Completeness Key Supporting Document (KSD) Status and Projections**





## Other Defense Agencies



The Other Defense Organizations (ODOs) that have a material dollar value of mission critical assets and that are actively working to achieve the USD(C) directed priority are limited to: TRICARE Medical Activity, Service Medical Activity, Defense Information Services Agency, Special Operations Command (SOCOM), Missile Defense Agency and Washington Headquarters Services (WHS). The approach the ODOs are taking is similar to the approach they are using for the budgetary information priority, where they are capitalizing on their OMB Cir. A-123, Appendix A, work to document processes, risks,

controls and systems and to perform corrective actions, as needed, to resolve deficiencies and strengthen controls.

The ODO milestones for achieving the mission critical asset existence and completeness priority are provided in Figure III-15. However, at the time of this Report, SOCOM and WHS were in the process of developing the needed Financial Improvement Plans (FIPs), and therefore, Figure III-15 does not include their milestone dates. More complete information will be provided in the May 2011 Report.

**Figure III-15. Existence and Completeness Audit Readiness Plans**

Other Defense Agencies Assessable Unit	FY10			FY11			FY12			FY13			FY14			FY15			FY16			FY17			Legend			
	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1		2	3	4
<b>General Equipment</b>																												
TRICARE Medical Activity																												
Defense Information Services Agency - GF																												
Special Operations Command																												
<b>Real Property</b>																												
Service Medical Activity																												
Missile Defense Activity																												
Special Operations Command																												
Washington Headquarters Services																												



## Other Defense Agencies



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## PROGRESS METRICS

Results-oriented, progress metrics provide a useful means for management to monitor and measure financial improvement progress. This section of the Report provides two types of metrics:

- Metrics that measure progress by validations and audits, and
- Metrics that measure progress by improvements to mission critical asset management.

### Progress Measured by Validations and Audits

Figure III-16 provides the Department’s current status and interim goals--those to be accomplished by the end of FY 2012--for achieving Wave 3 objectives. The figure also includes the assessable units for Wave 3.

Figure III-16 shows that 43 percent of Wave 3 will be validated through independent examinations as audit ready by the end of FY 2012. The percentages are based on mission critical asset dollar values reported in the Department’s FY 2009 financial statements.

**Figure III-16. FIAR Existence and Completeness Priority Status and Interim Goals**

	FY 2009	FY 2010	FY 2011	FY 2012
Existence and Completeness Audit Ready	4%	4%	20%	40%
<b>Assessable Units</b>				
Military Equipment	0%	0%	12%	32%
Real Property	4%	4%	4%	4%
Inventory	0%	0%	0%	0%
Operating Material and Supplies	0%	0%	4%	4%
General Equipment	0%	0%	0%	0%

### Progress Measured by Improvements to Mission Critical Asset Management

The second type of metric measures improvements to functions and capabilities that impact the management of mission critical assets. They either measure outcomes of better asset information (e.g., OM&S Release Denial Rate) or measure progress improvements needed to achieve better asset information (e.g., Equipment Contracts Compliant with Item Unique Identification (IUID)).

Several of the Existence and Completeness metrics have been recently developed. As a result, consistent collection and reporting methodologies are being established. Therefore, in many metrics the Components were not able to provide information for past periods and for some metrics the current reporting period. Periods for which data was not available are identified with a dash. The OUSD(C) is working with the Components to improve the methods for data collection for future reports.

Each of the metrics that follows includes a description, goal, benefits, and results. These metrics include the following:

- Figure III-17 Contracts Compliant with IUID
- Figure III-18 Proper Financial Accounting Treatment for Military Equipment Compliance
- Figure III-19 Military Equipment Physical Inventory Completion
- Figure III-20 General Equipment Physical Inventory Completion
- Figure III-21 Real Property Asset Reconciliation
- Figure III-22 Real Property Physical Inventory Completion
- Figure III-23 Physical Inventory Adjustments – Real Property
- Figure III-24 Inventory Valued at Moving Average Cost
- Figure III-25 Inventory Release Denial Rate

- Figure III-26 Physical Inventory Adjustments – Inventory Value
- Figure III-27 Physical Inventory Adjustments – Inventory Quantity
- Figure III-28 OM&S Valued at Moving Average Cost
- Figure III-29 Physical Inventory Adjustments – OM&S Value
- Figure III-30 Physical Inventory Adjustments – OM&S Quantity

Figure III-17

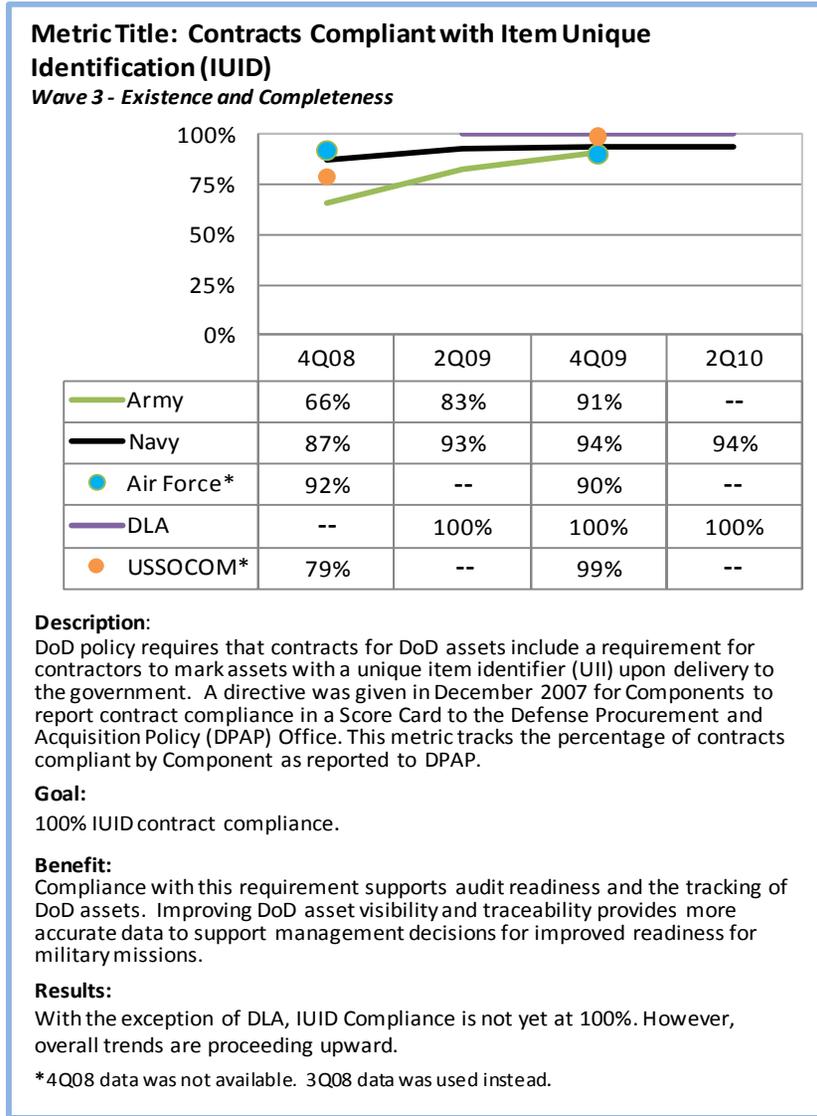


Figure III-18

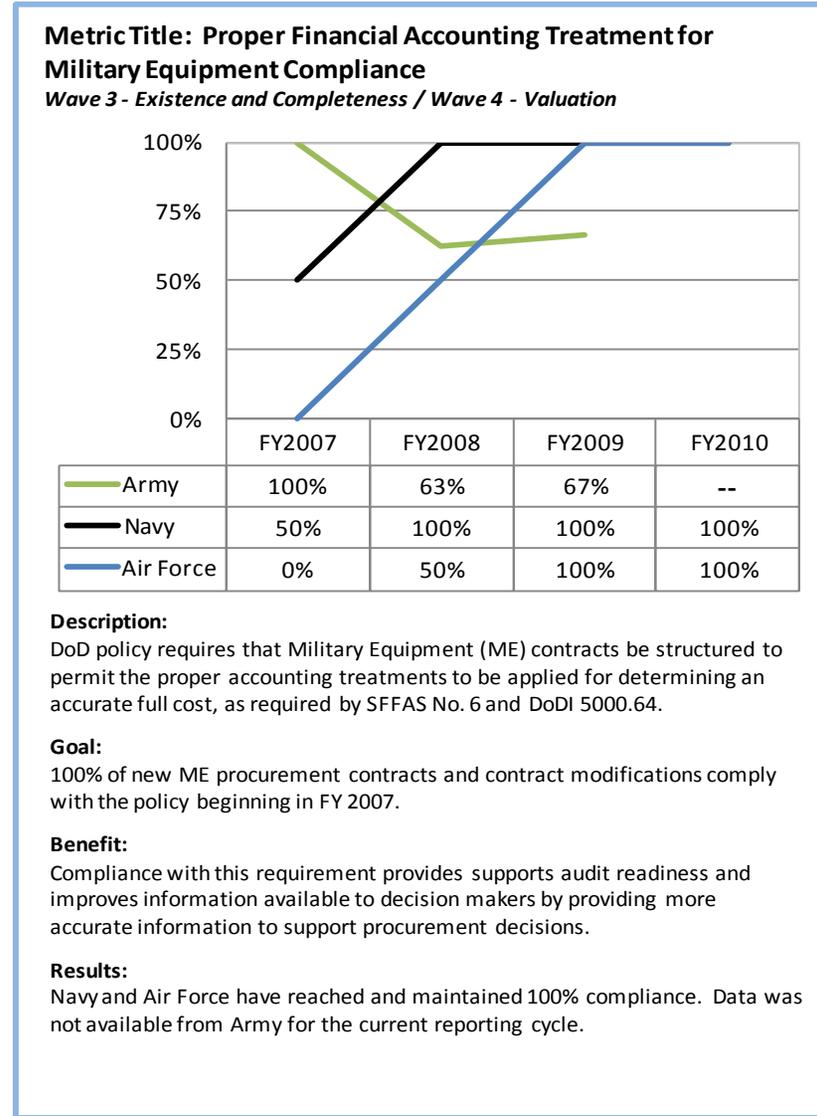


Figure III-19

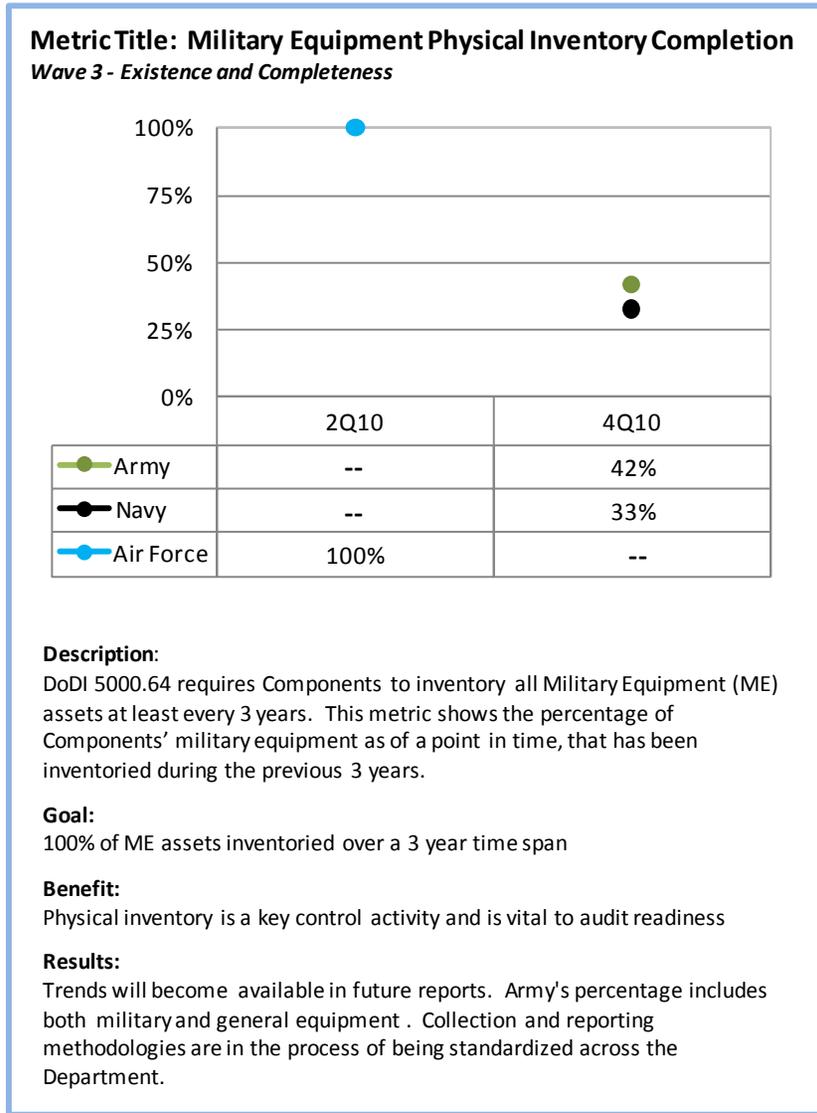


Figure III-20

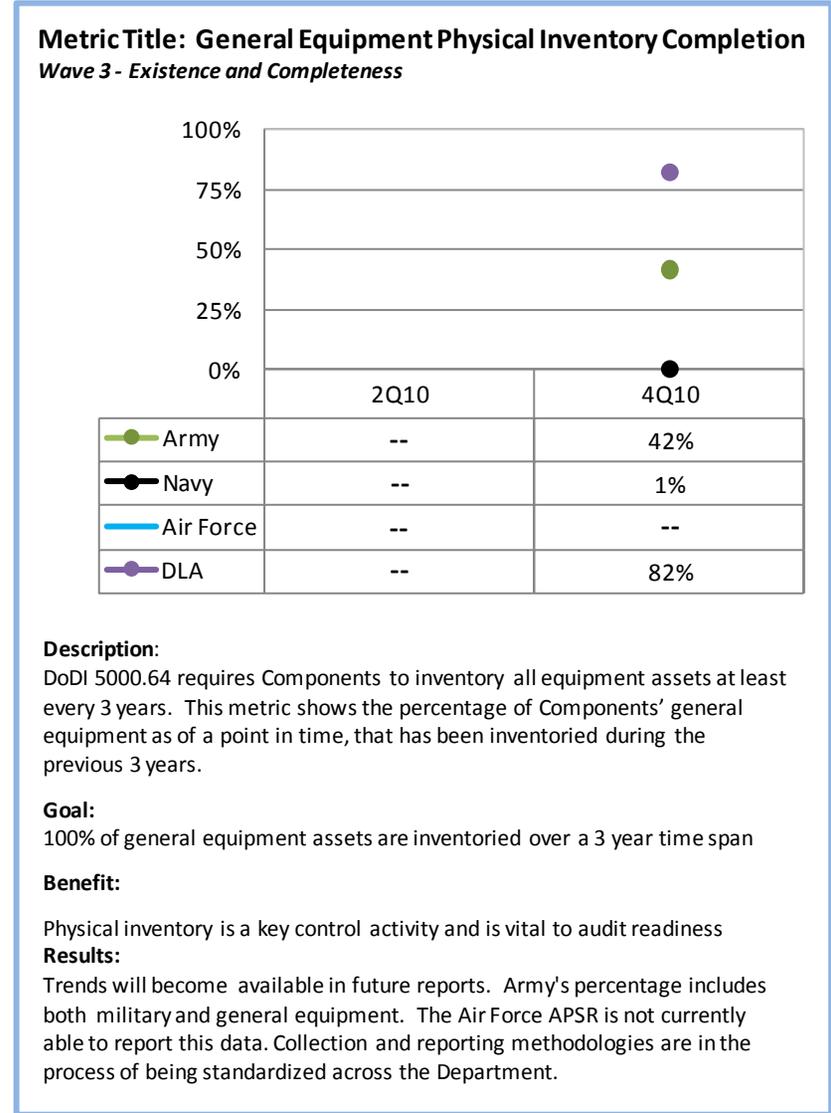
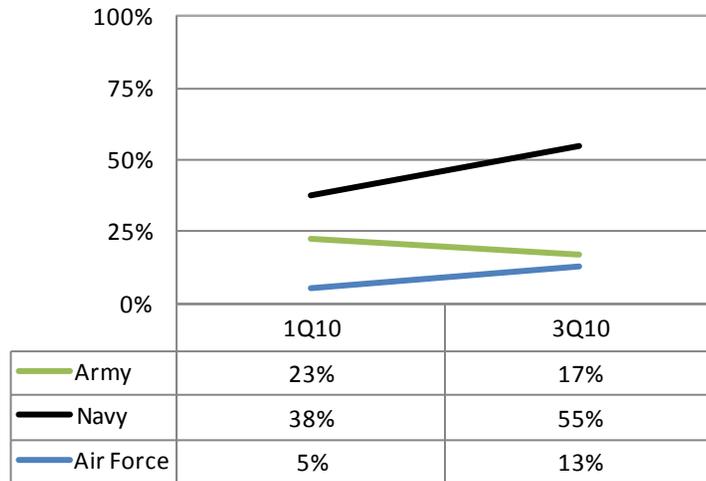


Figure III-21

**Metric Title: Real Property Asset Reconciliation**  
*Wave 3 - Existence and Completeness*



**Description:**

In accordance with DoDI 4165.14, all DoD real property data must be reconciled between the Defense Agencies and Military Services. This metric displays the percent of Components' real property information compliant with this requirement. It provides a status over a period, rather than a specific point in time.

**Goal:**

100% of Defense Agencies' real property assets reconciled by the end of FY11.

**Benefit:**

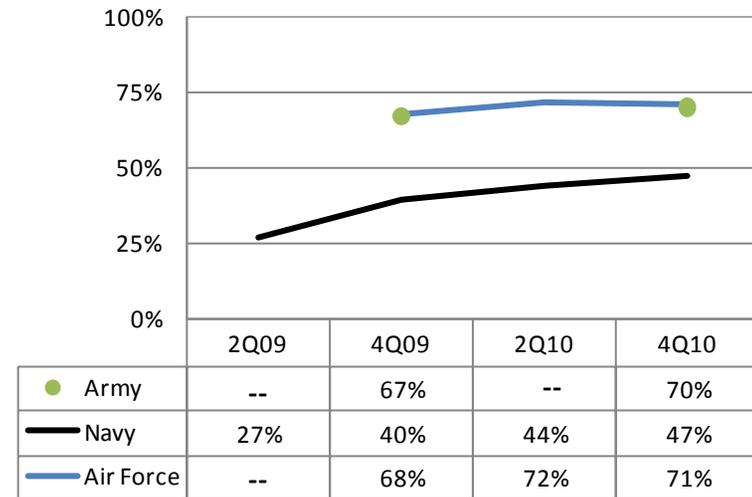
Reconciling real property provides management with better access to accurate and complete data. This facilitates decision making and supports audit readiness.

**Results:**

The real property reconciliation effort continues to make significant progress. However, because several agencies' assets were recently added to the base denominator, comparisons to 1Q10 do not fully illustrate the extent of progress made.

Figure III-22

**Metric Title: Real Property Physical Inventory Completion**  
*Wave 3 - Existence and Completeness*



**Description:**

DoDI 4165.14 requires Components to inventory all real property assets at least every five years. This metric shows the percentage of Services' real property inventoried within a 5 year time span against the total number of reported assets.

**Goal:**

Physical inventory of 100% of real property assets over a five year period.

**Benefit:**

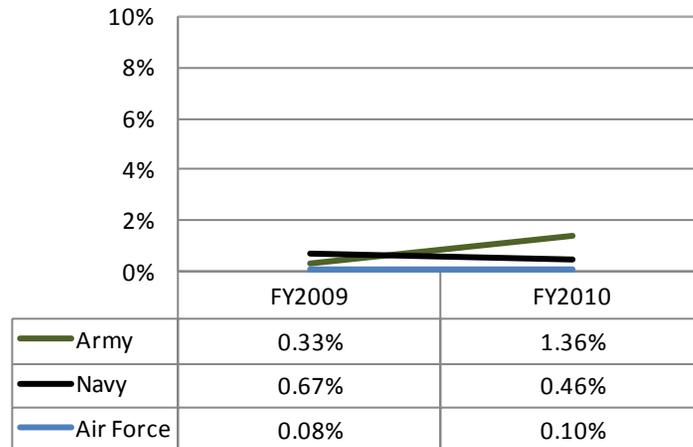
Ensuring that all real property is inventoried is important for audit readiness. It is especially pertinent to completeness but assists other assertions as well. This metric provides a status on how Services are complying with this important control activity.

**Results:**

Real property is not yet compliant, but reported data indicates gradual improvement. However, collection and reporting methodologies are still in the process of being standardized across the Department.

Figure III-23

**Metric Title: Physical Inventory Adjustments - Real Property**  
*Wave 3 - Existence and Completeness*



**Description:**

DoDI 4165.14 requires Components to inventory all real property assets at least every five years. This metric shows the percentage of a Component's real property asset records that are either added ("found on post", "inventory adjustment") or archived ("loss by inventory") from its real property inventory. Significant additions or deletions as a result of inventory activities may indicate internal control weaknesses.

**Goal:**

Physical inventory process confirms the effectiveness of the acquisition and disposal processes and results in no adjustments.

**Benefit:**

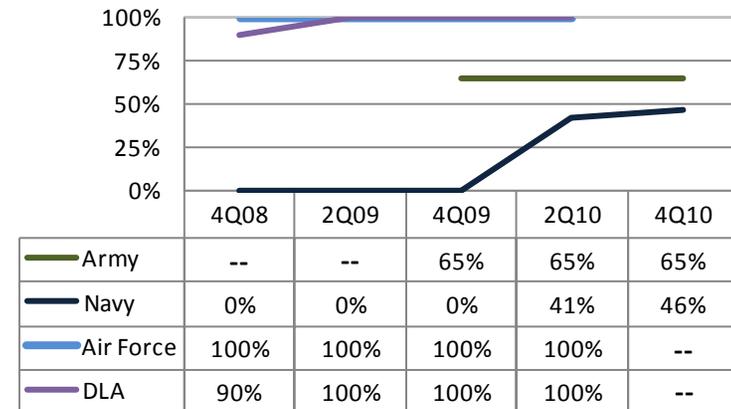
Accurate property records enable managers to effectively plan for and execute the DoD mission.

**Results:**

Adjustments resulting from inventory are consistently low for real property assets. This is a positive indicator of existence and completeness controls.

Figure III-24

**Metric Title: Inventory Valued at Moving Average Cost**  
*Wave 4 - Valuation*



**Description:**

This metric shows the Components' status as a percentage of dollars for valuing appropriate inventory at a moving average cost (MAC). This costing method is used in conjunction with a perpetual inventory system. A weighted average cost per unit is recalculated following each purchase. This costing method is required by DoD.

**Goal:**

100% of Inventory valued at MAC where applicable.

**Benefit:**

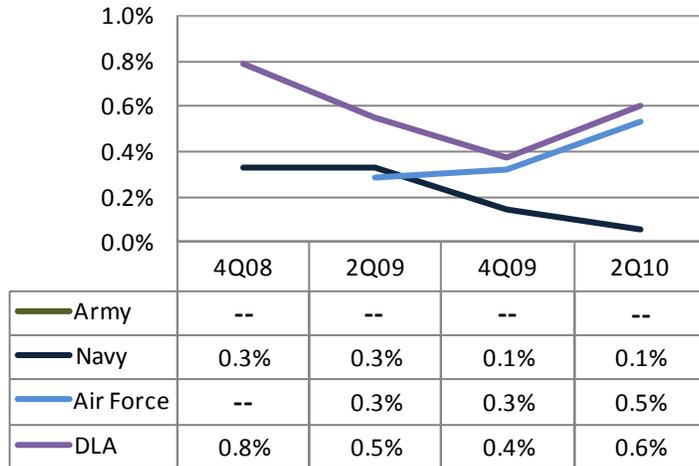
Valuing inventory at MAC will bring DoD into compliance with current Federal accounting standards and DoD regulations. It will also provide users of financial reports the most accurate picture of the actual value of inventory in stock.

**Results:**

Air Force and DLA currently value their applicable inventory at MAC. Army is reporting an estimate due to system baselining challenges.

Figure III-25

**Metric Title: Inventory Release Denial Rate**  
*Wave 3 - Existence and Completeness*



**Description:**

This metric displays the percentage of requested Inventory orders that were not shipped by a warehouse or distribution center due to the requested assets not being of the type, quantity or location indicated in the system. While there are appropriate reasons to deny the release of Inventory, denials as a result of inaccurate records may indicate poor controls related to asset existence.

**Goal:**

Denial rates due to inaccurate records reach 0%.

**Benefit:**

Tracking denial rates provides visibility into a critical function of Inventory management. Inventory records and quantities need to be accurate to ensure that supplies are refreshed and available when needed for missions.

**Results:**

Navy, Air Force and DLA show consistent denial rates of less than 1%. This is a positive indicator of existence and completeness controls.

Figure III-26

**Metric Title: Physical Inventory Adjustments - Inventory Value**  
*Wave 3 - Existence and Completeness / Wave 4 - Valuation*



**Description:**

Inventory is periodically counted to ensure stock levels are accurate. This metric shows the percentage of a Component's inventory balance that is adjusted as a result of physical inventory activities during a six month time period. Significant adjustments as a result of inventory activities may indicate internal control weaknesses. Poor acquisition controls can result in positive adjustments, while poor controls over inventory disposal can result in negative adjustments.

**Goal:**

Have sufficient controls in place so that physical inventories confirm the accuracy of inventory records and result in no material adjustments.

**Benefit:**

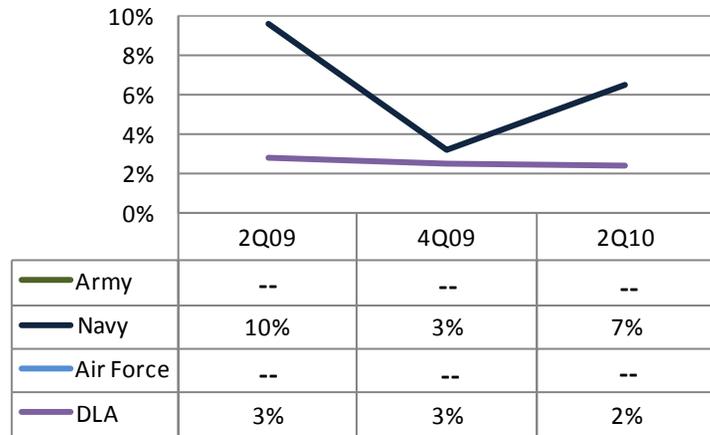
Accurate inventory records enable commanders and managers to effectively plan for and execute the DoD mission.

**Results:**

Reported adjustment amounts are consistently less than 10% but have room for improvement. Navy's data is based on a representative sample, rather than the full population.

Figure III-27

**Metric Title: Physical Inventory Adjustments-Inventory Quantity**  
*Wave 3 - Existence and Completeness*



**Description:**

Inventory is periodically counted to ensure stock levels are accurate. This metric shows the percentage of a Component's inventory balance that is adjusted as a result of physical inventory activities during a six month time period. Significant adjustments as a result of inventory activities may indicate internal control weaknesses. Poor acquisition controls can result in positive adjustments, while poor controls over inventory disposal can result in negative adjustments.

**Goal:**

Have sufficient controls in place so that physical inventories confirm the accuracy of inventory records and result in no material adjustments.

**Benefit:**

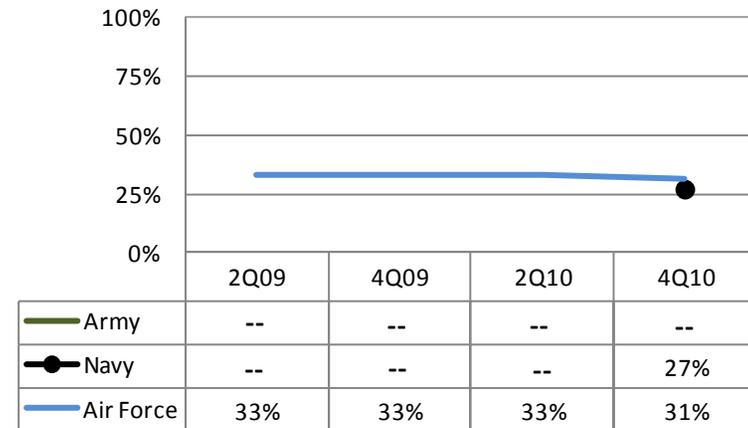
Accurate inventory records enable commanders and managers to effectively plan for and execute the DoD mission.

**Results:**

Reported adjustment amounts are consistently less than 10%. Army and Air Force were not able to submit data for this report.

Figure III-28

**Metric Title: OM&S Valued at Moving Average Cost**  
*Wave 4 - Valuation*



**Description:**

This metric shows the Components' status as a percentage of dollars for valuing appropriate operating material and supplies at a moving average cost (MAC). This costing method is used in conjunction with a perpetual inventory system. A weighted average cost per unit is recalculated following each purchase. This costing method is required by DoD.

**Goal:**

100% of OM&S valued at MAC.

**Benefit:**

Valuing OM&S at MAC will bring DoD into compliance with current Federal accounting standards and DoD regulations. It will also provide users of financial reports the most accurate picture of the actual value of OM&S in stock.

**Results:**

OM&S has not progressed as far as inventory. It is anticipated that ERP implementation will facilitate further use of MAC.

Figure III-29

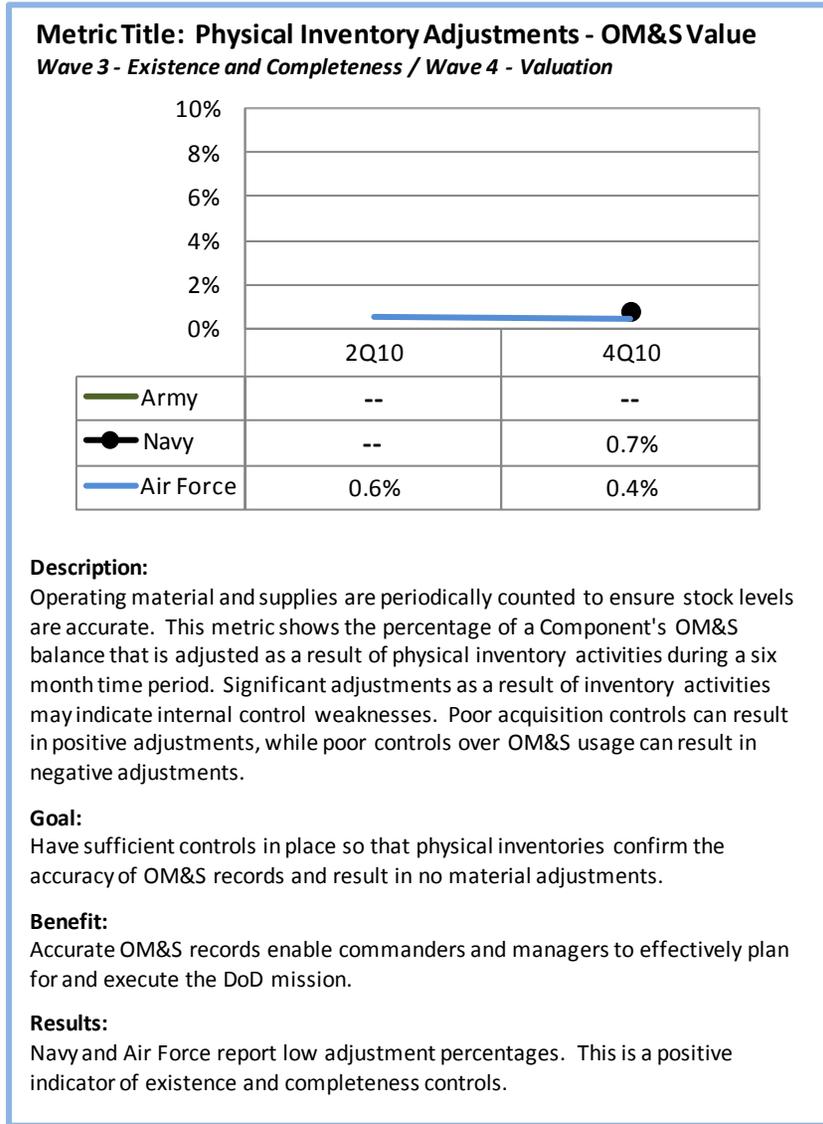
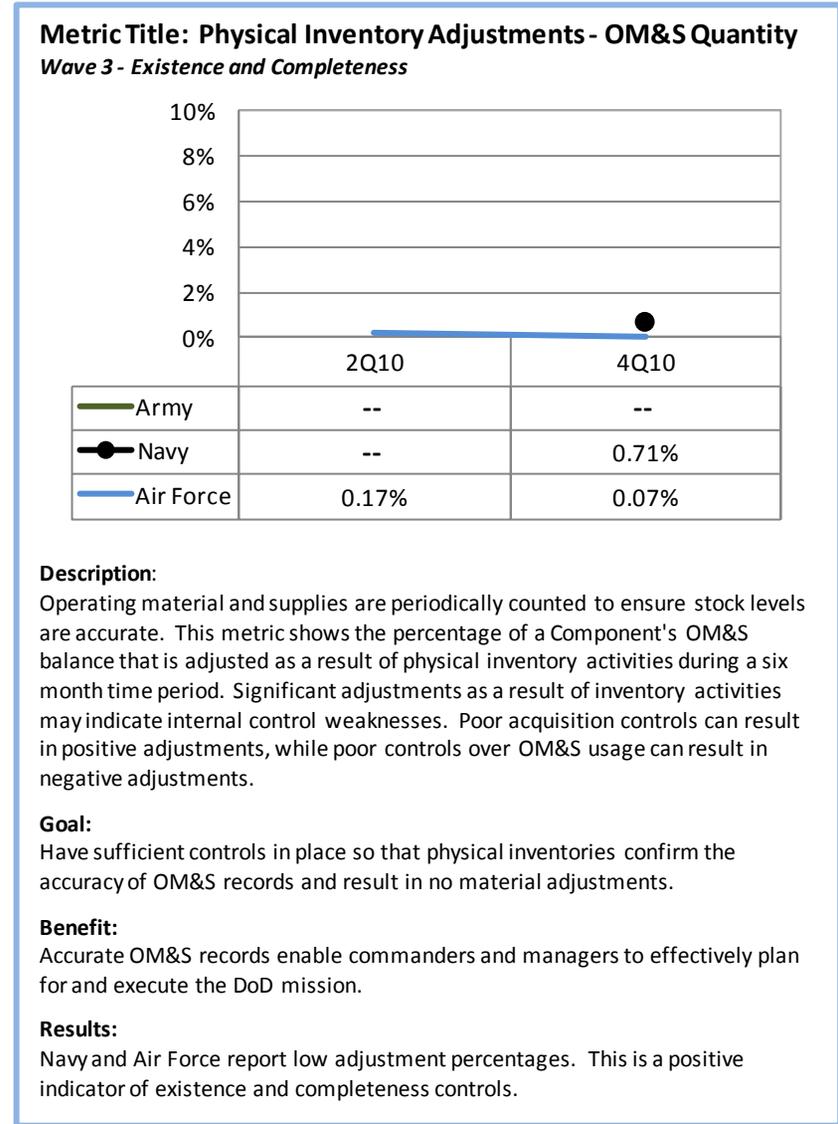


Figure III-30



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## IV. Audit Ready Financial Statements (Wave 4 & Wave 5)

This section of the Report describes Wave 4 and Wave 5 of the FIAR Strategy (Figure IV-1), and the progress that has been made within these waves. It also provides the Department's strategy for achieving the objectives of these waves, which is driven by:

- The FIAR priorities of budgetary information and mission critical asset information and the direction of the Under Secretary of Defense (Comptroller), who directed the Components to place a lower priority on asset valuation work, and
- The Department's concerns about the cost and benefits of achieving fully auditable financial statements under the current Federal accounting and auditing standards.

Wave 4 and Wave 5 define the activity needed to prepare the Department for full financial statement audits.

**Figure IV-1 FIAR Strategy**



### WAVE 4, FULL AUDIT EXCEPT FOR LEGACY ASSET VALUATION

Wave 4 includes the Valuation assertion over new asset acquisitions and depends on the successful completion of Wave 3, requiring the Existence and Completeness assertions to be remediated before the

Valuation assertion can be completed. Also, proper contract structure for cost accumulation and cost accounting data must be in place prior to completion of the Valuation assertion for new asset acquisitions.

The financial management benefits of completing Wave 4 are:

- Moves the Department closer to achieving its long-standing goal of obtaining an unqualified audit opinion on its financial statements,
- Provides more reliable and accurate logistics supply chain information on the cost of Inventory items and Operating Materials and Supplies (OM&S), and
- Improves the quality of information used by management when making acquisition (e.g., lifecycle cost considerations) and operational decisions about capital investments in Military Equipment and General Equipment.

Wave 4 includes all of the discovery and correction actions necessary to achieve auditability except for the work required to develop and document the opening balances for the most significant (i.e., material) balance sheet line items, which occurs in Wave 5.

When Wave 4 is completed, the Department's:

- Financial environment will have been documented, assessed and deficiencies corrected;
- Business and financial processes will have been changed, as needed, to conform with Federal accounting standards and the modernization of business and financial systems;
- Internal controls will be documented, tested and strengthened or changed as part of process;
- System changes and strong internal control programs will be operational to sustain audit readiness;

- The ERPs will have been deployed and be operational having eliminated hundreds of legacy systems, and compensating controls, as needed, will be in place for the remaining legacy systems that interface with the ERPs;
- Audit evidential matter for every type of transaction will have been evaluated and readily available repositories will be in place to support future audits; and
- Financial statements will be ready for audit except for resolving the long-standing challenges of valuing long-lived assets/General Property, Plant and Equipment, which are addressed in Wave 5.

### **WAVE 5, FULL FINANCIAL STATEMENT AUDIT**

Wave 5 focuses on the valuation of legacy assets, which include:

- Military and General Equipment,
- Real Property,
- Inventory,
- Operating Materials and Supplies, and
- Internal Use Software.

Valuation of legacy assets entails either locating and evaluating supporting acquisition documentation or using alternative methods to estimate the acquisition cost and date of acquisition. This includes the cost of capital improvements, modifications and service life extensions performed on Military Equipment. After the completion of Wave 4 and the valuation of legacy assets in Wave 5, the Department's financial statements will be fully auditable.

As is commonly known, the Department has a tremendous inventory of legacy assets located worldwide, and obtaining auditable values on

these assets is an enormous and costly challenge, because much of the supporting acquisition documentation is no longer available. As discussed in the Executive Summary and Section I of this Report, auditable legacy asset value information is not used in the Department for decision making. Its sole purpose is to comply with Federal accounting standards and reporting requirements.

### **WAVE 5 FULL AUDIT STRATEGY AND BUSINESS CASE**

For most of the Department, Wave 5 FIAR activity has been postponed or limited in accordance with the direction of the Under Secretary of Defense (Comptroller) (USD(C)) in August 2009, when the USD(C) established the FIAR priorities of budget and mission critical asset information. Although the USD(C) directed that the Components to place a lower priority on asset valuation work (Wave 5 activities), there have been some exceptions (e.g., valuation of Military Equipment and Real Property).

The Wave 5 improvement efforts that continued did so because they were either integrated in the Components' FIAR efforts to achieve the FIAR priorities, or because significant progress had been made and discontinuing ongoing work would have detrimentally impacted that progress or would have required rework at some future date.

Also potentially impacting ongoing or planned Wave 5 financial improvement work is a business case analysis being conducted by the Department. The business case will document whether historical acquisition cost information is used in the Department for decision making, evaluate alternatives for valuing DoD assets and include an analysis of the most cost beneficial alternative. The following alternatives will be evaluated:

- Accept the recorded values for existing assets and capture and maintain transaction data to support the costs of future acquisitions.

- Accept the recorded values for existing assets and use estimated costs for future acquisitions in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 35.
- Eliminate Balance Sheet reporting by expensing asset costs or request a Federal Accounting Standards Advisory Board change to the Federal accounting standards.

The business case is being prepared by the Accounting and Finance Policy Directorate of the OUSD(C), supported by the OUSD(AT&L). The results of the business case will be presented in the May 2011 FIAR Report.

## WAVE 4 AND WAVE 5 ACCOMPLISHMENTS AND PLANS

Although the FIAR priorities generally exclude what must be accomplished in Wave 4 and Wave 5, the Department has been working for years on what is described above when Wave 4 is completed. The Department also has worked to identify supporting documentation for legacy asset valuation and has used alternative methods with varying success for such assets as Military Equipment and Real Property. This work is focused on financial information used to manage and not just on financial reporting.

In previous FIAR Plans, the Department's work in Wave 4 and Wave 5 was described in sections pertaining to Focus Area priorities, and more recently, in the March 2009 FIAR Plan, as Priority Segments. Some of the work that was started has been continuing, because it is embedded in business and financial system modernization projects (e.g., ERPs) and the associated changes to business and financial processes and internal controls.

The Department's ERP deployments that are presently taking place in the Military Departments and many Defense Agencies, when completed, will provide the capability to capture the cost of new asset acquisitions, which is the key activity of Wave 4. In addition, as the

ERPs are being deployed, in many instances, the Components are performing data cleansing and migration activities that will provide auditable opening balances. Some of this opening balance work is the same activity required in Wave 5.

The following two subsections provide information on Military Equipment and Real Property, where significant progress has been made and is planned to achieve the objectives of Wave 4 and Wave 5. This progress is expected to eliminate the Department's material weaknesses pertaining to the reporting of the General Property, Plant and Equipment. There are other Wave 4 and Wave 5 activities taking place in the Department, but only these two areas are highlighted in the Report because of their materiality and near-term planned accomplishments.

### Military Equipment

The Department reported \$407 billion (net book value) in Military Equipment on its FY 2009 financial statements (23 percent of DoD assets). The Services hold 99 percent of Military Equipment Assets. Of this amount, the Department is scheduled validate the existence and completeness of approximately 72 percent of its Military Equipment net book value by the end of FY 2011. Military Equipment assets include assets such as ships, aircraft, combat vehicles, intercontinental ballistic missiles, satellites and command and control systems.

Military Equipment assets in service today include weapon systems and equipment acquired many years ago, such as B-52 aircraft and several ships. This makes valuing such assets very challenging because much of the supporting acquisition documentation is unavailable. Furthermore, many of these assets have been upgraded or refurbished at significant costs that also must be documented or estimated and capitalized to comply with Federal accounting standards.

Significant recent Wave 4 and Wave 5 activities and plans to achieve auditable Military Equipment values include:

- The OUSD(AT&L) Property Equipment and Policy Office is:
  - Facilitating the transition of Military Equipment valuation information from the Capital Asset Management System for Military Equipment (CAMS-ME) to interim reporting systems. This transition applies to the Army, Navy, Marine Corps, U.S. Special Operations Command and Missile Defense Agency. The Air Force transitioned from CAMS-ME in FY 2009. The transition will be completed by the end of the first quarter of FY 2011. As part of this transition, the Property and Equipment Policy Office reviewed existing data and resolved data anomalies to promote integrity of Military Equipment financial reporting.
  - Reviewing and improving existing values for Military Equipment reported in CAMS-ME, based on DoD IG findings, which require certain costs (e.g., costs of initial spares, support equipment and training equipment) to be excluded from valuation. Where sufficient detail exists in budgetary documentation, Military Equipment valuations are being updated and will be recorded in interim financial reporting systems as the Components transition out of CAMS-ME.
  - Performing work for the Navy, Marine Corps, U.S. Special Operations Command, and Joint Program Executive Office (Chemical and Biological Defense) as they transition to a new Military Equipment Accounting module of the Defense Property Accountability System (DPAS).
  - Working with the Navy to implement controls over shipbuilding Construction in Progress (CIP). Full resolution requires the implementation of the Navy ERP, which is currently scheduled for FY 2011. In the interim, the CIP values are being reconciled with the Navy's accounting system (STARS). These actions will help ensure that: (i) CIP will be reported for all ships under construction, (ii) ships will be capitalized and the related CIP will be credited upon completion of construction, and (iii) all applicable payments will be capitalized.
- The Air Force, having recently successfully tested controls over the existence and completeness of its Military Equipment, pressed on with valuation work utilizing an acquisition cost estimation methodology for their Military Equipment assets.
  - The valuation estimation method was reviewed by the DoD IG and determined to be acceptable.
  - The Air Force is planning to assert full audit readiness (all five management assertions) for Military Equipment by the end of the first quarter of FY 2011.
  - Recognizing the progress achieved thus far, the Air Force downgraded its previously reported material weakness for Military Equipment valuation to a Reportable Condition in the FY 2010 Annual Statement of Assurance.

### Real Property

The Department owns over \$125 billion (net book value) in Real Property, which is 7 percent of DoD Balance Sheet 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.

Managing DoD worldwide Real Property assets is a monumental effort. To effectively manage this vast inventory of Real Property assets, DoD decision makers require quick access to accurate and reliable real property management and financial information.

To improve Real Property information and to support achieving audit readiness, the Department initiated several significant transformation and business process reengineering initiatives, which are consistent with Wave 4 activities and objectives. Those initiatives include:

- Real Property Assets Database (RPAD). The RPAD was developed to provide a single authoritative source/data warehouse for all DoD Real Property inventory and is available to authorized users via standardized Web Services.

- Real Property Inventory Requirements (RPIR). The RPIR initiative was launched in 2003 to improve Real Property's technology infrastructure and processes. This effort provides the warfighter and business enterprise with improved access to mission-critical Real Property information. The RPIR objective is to achieve real property efficiencies by standardizing data, processes and systems.
- Real Property Acceptance Requirements (RPAR). The RPAR initiative was launched in 2005 to specifically address real property acceptance – the process of accepting accountability for a Real Property asset at the point in time when the Department obtains legal interest in a property.

Construction in Progress Requirements (CIPR). The CIPR initiative was launched in 2006 to improve the accuracy and timeliness of Construction in Progress (CIP) cost and project information from construction agents to Components. In support of the President's Management Agenda to integrate financial management and business operations, the CIPR initiative is focused on establishing sustainable business processes, management controls, and standardized data elements, across all of the DoD.

CIP is an accounting term referring to the temporary classification of assets under construction. While under construction, costs of new construction and facility improvement projects are accumulated in CIP accounts.

- Real Property Unique Identification (RPUID). To improve the accessibility and consistency of Real Property data across the Department, RPUIDs were developed. RPUIDs are issued by and maintained in a centralized database--called the Real Property Unique Identifier Registry--providing 24x7 access to core real property site and asset data.

The above initiatives impact the accuracy and availability of reliable Real Property management information and also impact the Department's ability to achieve the existence and completeness priority (Wave 3). The initiatives also are important to achieving the objectives of Wave 4. The CIPR initiative directly impacts Real Property new acquisition valuation (Wave 4).

The Business Enterprise Integration Directorate (BEI) of the Office of the Deputy Under Secretary of Defense for Installations and Environment has been leading these initiatives, working with the DoD Components and the OUSD(C). As indicated by the above dates, the BEI Directorate started the initiatives prior to the establishment of the existence and completeness priority by the USD(C) in August 2009, and the USD(C) direction to postpone valuation work. Because these initiatives were already being implemented by the Components to include establishing historical costs (Wave 5), the Components' work (Wave 4 and Wave 5) has continued and progress is being made.

Figure IV-2 that follows reflects the Army, Navy and Air Force Real Property audit readiness plans to achieve the existence and completeness priority (Wave 3) and the objectives of Wave 4 and Wave 5 resulting in full audit readiness.



## Appendix 1. FIAR Strategy, Methodology and Governance

A clear, comprehensive strategy, methodology and effective governance for achieving audit readiness is critical to ensuring limited resources are assigned effectively to facilitate measurable and sustainable progress. The FIAR Strategy provides a critical path for the Department while balancing the need to achieve short-term accomplishments with the long-term goal of an unqualified opinion on the Department's financial statements.

The FIAR Methodology provides a phased process and required key tasks for accomplishing FIAR work. It also provides a capability to manage the FIAR Plan by utilizing an organized structure that facilitates oversight of improvement activity and that holds people and organizations accountable for progress.

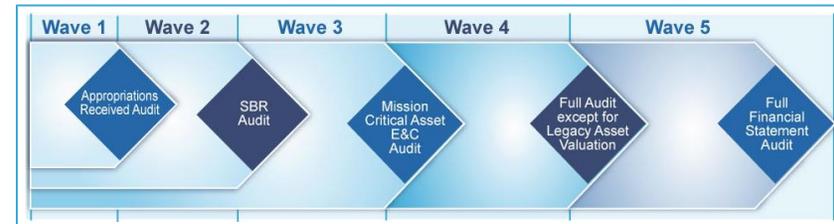
### FIAR STRATEGY

The FIAR Strategy is consistent with, and focuses improvement work on, the objectives and priorities established by the Under Secretary of Defense (Comptroller) (USD(C)), that require the Department to first focus on improving financial and business information most useful to DoD management and warfighters. The USD(C) priorities require improvements to budgetary information and mission critical asset information. Both of these priorities are specifically addressed and prioritized within the FIAR Strategy.

Each of the Department's material financial statement line items have unique and complex accounting and auditing challenges and issues that must be overcome before auditability can ultimately be achieved. The FIAR Strategy groups and prioritizes the material business processes (that result in activity reported on various financial statement line items) within one of five waves, and then summarizes steps each Component should take to address each wave. The waves and steps are

prioritized based on USD(C) priorities, known issues and the dependencies of financial statements, line items and business processes on one another.

**Figure A1-1. FIAR Strategy**



The Department's Audit Readiness Strategy (Figure A1-1) draws from the strengths of several alternative approaches and groups individual end-to-end processes into one or more waves. Efforts are prioritized within each wave by end-to-end processes including corresponding line-items reported on other financial statements, as well as by dependencies.

This strategy provides coverage of all financial statements, while prioritizing and improving first the information most often used by DoD management. Furthermore, the five distinct waves lead to interim audit readiness milestones, and ultimately, to a full-scope financial statement audit. The Components are ensuring appropriate controls are in place and operating effectively for relevant financial reporting processes prior to asserting each wave as complete (e.g., controls over the presentation and disclosure over the SBR must be asserted ready at the end of Wave 2).

*The five distinct waves that comprise the FIAR Strategy lead to audit readiness milestones that will be validated by an independent auditor once controls are in place and operating effectively, and the appropriate management assertions have been made.*

The Audit Readiness Strategy “waves” representing significant levels of effort and accomplishments are:

- Wave 1 - Appropriations Received Audit
- Wave 2 - Statement of Budgetary Resources (SBR) Audit
- Wave 3 - Mission Critical Asset Existence and Completeness Audit
- Wave 4 - Full Financial Statement Audit, Except for Legacy Assets (New Asset Valuation)
- Wave 5 - Full Financial Statement Audit
- Wave 1, Wave 2 and Wave 3 are being worked concurrently, as shown in Figure A1-1. Additional information on the waves is contained in Appendix 2.

### DoD Strategic Management Plan

The DoD SMP, a requirement of the NDAA for FY 2008, established five top-level priorities for business operations. Business Priority 5, “Strengthen DoD Financial Management,” establishes required outcomes, goals, measurements, and key initiatives to ensure DoD leaders have access to timely, relevant and reliable financial and cost information.

As shown in Figure A1-2, the FIAR Plan provides the strategy and methodology to achieve the outcomes of Strategic Management Plan (SMP) Business Priority 5 by integrating the Component FIPs with the other key DoD plans, OUSD(AT&L) Plans, Component Accountability Plans, Defense Enterprise Transition Plan (ETP), and System Implementation Plans. The outcomes, goals and measures associated with this Business Priority focus on improving financial information for fact-based, actionable management decisions and achieving auditable financial statements.

One of the outcomes of Business Priority 5 is to “Demonstrate good stewardship of public funds.” The USD(C) is responsible for achieving this outcome and the associated goal to “Increase the audit readiness of individual DoD Components.” The FIAR Plan and Component FIPs have been synchronized with their ETP milestones to achieve the FIAR goals. The FIAR strategy and priorities are discussed in this Report.

### FIAR METHODOLOGY

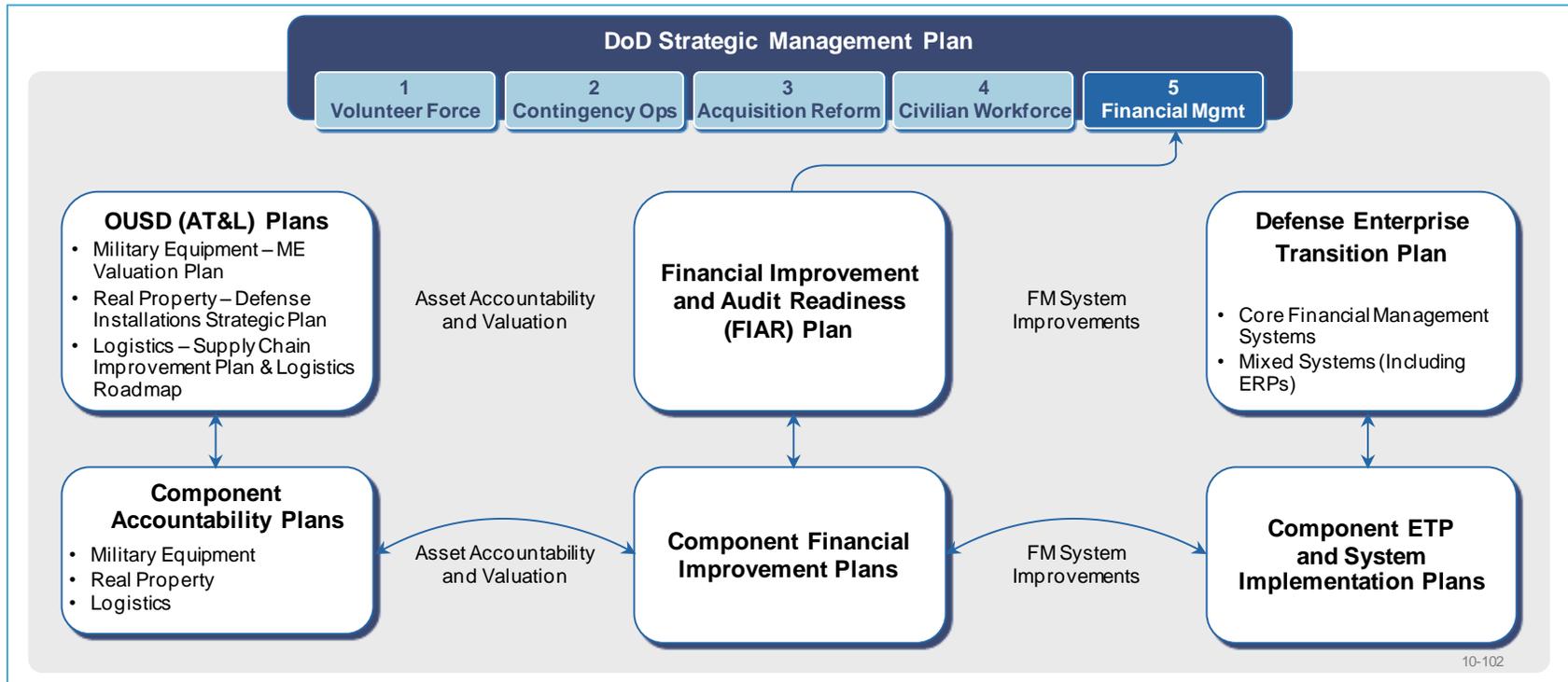
The Department’s methodology for achieving improved financial information and auditability has evolved and has been refined since the FIAR Plan was first issued in 2005. The methodology is now more focused, effective and consistent across the Components. Regardless of this evolution, much of the methodology remains the same, such as:

- Guided by Business Rules,
- Integrated with the implementation of OMB Circular A-123, Appendix A,
- Integrated with the modernization of business and financial systems, and
- Comprehensive by focusing improvements on policies, processes, controls, systems, data, audit evidence, and human capital.

The Business Rules, which drive a mandatory, standard step-by-step approach to achieving audit readiness, have been updated to incorporate lessons learned from earlier audit readiness initiatives, and two other important changes to the methodology have been made, as follows:

- Identification of, and focus on, Key Control Objectives (KCOs) and Key Supporting Documents (KSDs) as a primary outcome of financial improvement activities, and
- Use of a standard framework for Component Financial Improvement Plans (FIPs) that incorporates the modified Business Rules.

Figure A1-2. FIAR Plan Relationship to the DoD Strategic Management Plan and Other DoD Plans



The modifications to the Business Rules, which are now referred to as the Audit Readiness Phases, and the two above changes are discussed next.

**FIAR Methodology Phases and Key Tasks**

Before publication of the FIAR Plan in 2005, the Department developed “Business Rules” that required the Components to execute a phased approach to achieving auditability. The Business Rules also established a process for the OUSD(C) and Department of Defense Inspector General (DoD IG) to evaluate the audit readiness of a

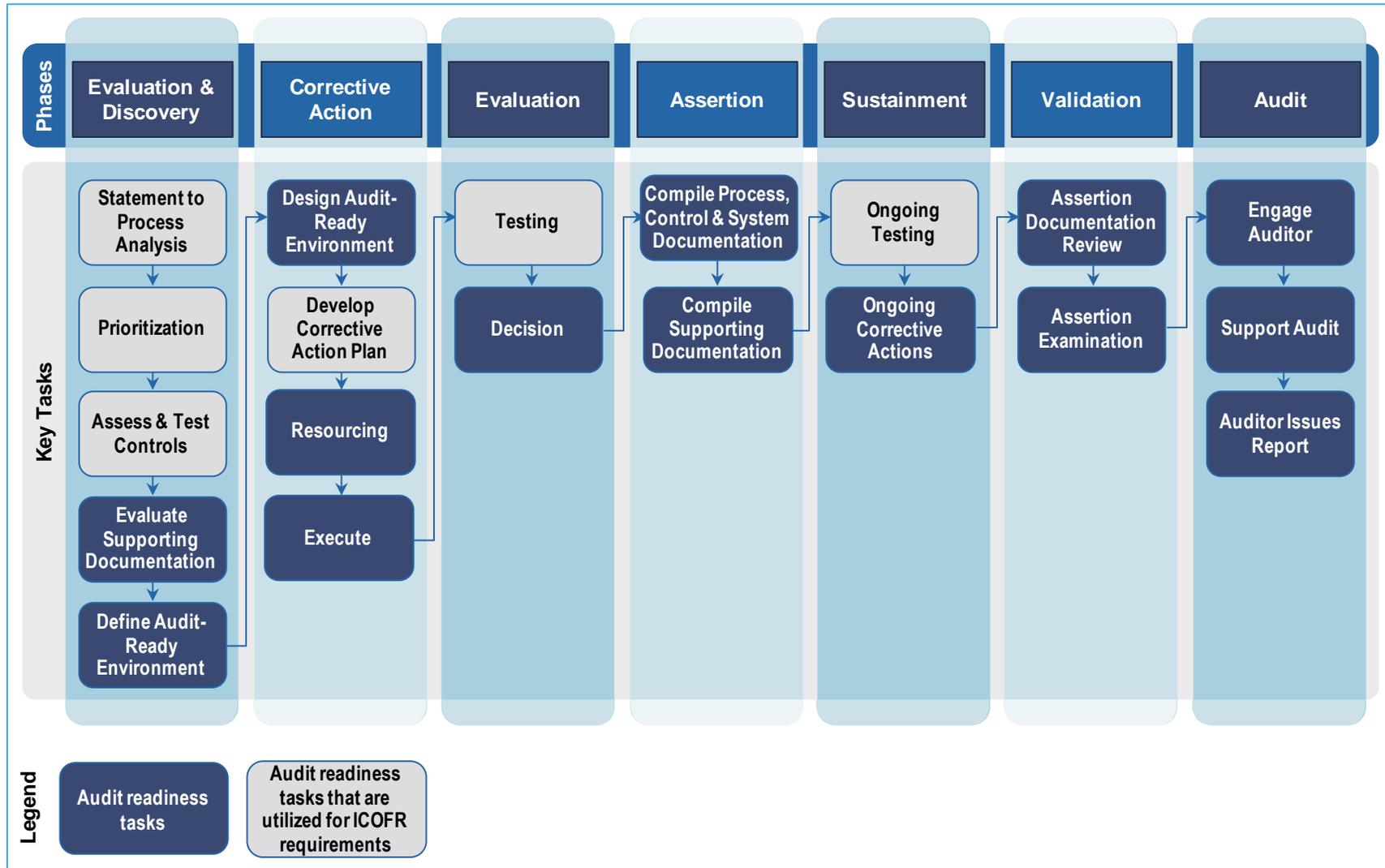
Component before a financial statement audit was initiated. This process lessened the risk that the audit would not be successful.

The Business Rules have been refined and are presently referred to as phases within the FIAR Methodology. The methodology provides a step-by-step, approach to achieving improved financial information and audit readiness. Figure A1-3 provides a graphical depiction of the phases and the key tasks within each phase.

The phases and key tasks can be applied uniformly regardless of the size, materiality or scope of an assessable unit, and are as follows:

1. Evaluation and Discovery. Management maps its business and financial environment, assesses risks and tests controls, evaluates supporting documentation, identifies weaknesses and deficiencies, and defines its audit readiness environment.
  2. Corrective Action. Management develops and executes corrective action plans/FIPs that include implementation of the audit ready environment, solutions to resolve deficiencies and weaknesses, and tests and strengthens internal controls.
  3. Evaluation. Management evaluates corrective action effectiveness through testing and decides if it is ready to assert audit readiness.
  4. Assertion. Management asserts audit readiness to the OUSD(C)/FIAR and DoD IG who evaluate the assertion and decide whether to proceed with an audit.
  5. Sustainment. Management maintains audit readiness through risk based periodic testing of internal controls utilizing the OMB Circular A-123, Appendix A, process and procedures, and resolves any identified weaknesses.
  6. Validation. OUSD(C), DoD IG or an Independent Public Accountant (IPA) tests and validates audit readiness.
  7. Audit. DoD IG or IPA audits the assessable unit or financial statements.
- This step-by-step phased methodology delineates responsibilities between management and the auditors. Management's responsibilities focus on completing discovery and correction, asserting audit readiness of assessable units or financial statements, sustaining improvements, and asserting audit readiness (Phases 1, 2, 3, 4 and 5). The OUSD(C), DoD IG or independent auditors validate audit readiness (Phase 6), and the DoD IG or an IPA performs the audit of the assessable unit or financial statements (Phase 7).
- Detailed information explaining the FIAR Methodology, to include the phases and key tasks, can be found in the FIAR Guidance document issued by the OUSD(C). The FIAR Guidance document is on the Department's FIAR website at:  
<http://comptroller.defense.gov/FIAR/index.html>.

Figure A1-3. FIAR Methodology Phases and Key Tasks



## FIAR GOVERNANCE

The Department has established a governance structure that engages all key stakeholders. Figure A1-4 provides a graphical representation of the governance structure, the participants and their roles.

The USD(C) provides the vision, goals and priorities of the FIAR Plan, which are coordinated with key stakeholders within the Department (e.g., Military Departments), as well as outside the Department (OMB and Congress). The Deputy Secretary of Defense /Chief Management Officer (CMO) approves the vision, goals and priorities.

### FIAR Governance Board

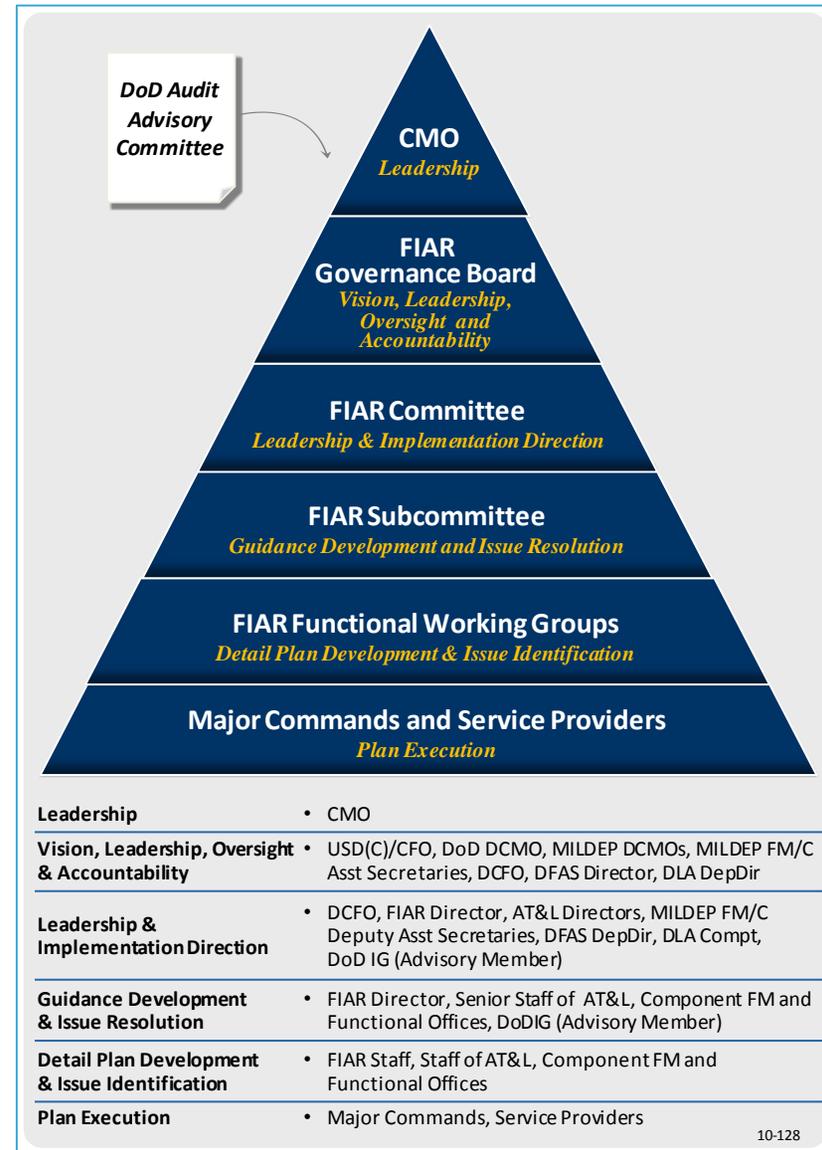
The FIAR Governance Board, established in FY 2010, replaces the Financial Management Leadership Council and expands the participants to include the DoD DCMO and Military Department DCMOs. The FIAR Governance Board engages the Department’s most senior leaders from the financial management community along with the DCMOs. The DCMOs have cross-community (business and financial) responsibilities and authority to transform budget, finance and accounting operations and to eliminate or replace financial management systems that are inconsistent with transformation. The Board is chaired by the USD(C).

The FIAR Governance Board meets quarterly and reviews Component progress. Accountability for progress begins at the top and is a key role of the Board. The Board’s governance role also provides the Department with a visible leadership commitment, which is critical to achieving the FIAR goals and objectives.

### FIAR Committee and Subcommittee

The Department also looks to the FIAR Committee, which meets monthly, to oversee the management of the FIAR Plan. The FIAR Committee leads the implementation of the FIAR Plan priorities. Chaired by the Deputy Chief Financial Officer (DCFO), the Committee is comprised of executive-level representatives of the

Figure A1-4. FIAR Governance



Office of the Under Secretary of Defense (Acquisition, Technology and Logistics (OUSD(AT&L)), Military Departments, Defense Logistics Agency, Business Transformation Agency, and Defense Finance and Accounting Service (DFAS). The Deputy Inspector General for Auditing acts as an adviser to the FIAR Committee. An active FIAR Subcommittee of senior accountants, financial managers, management analysts, and auditors support the FIAR Committee. The Subcommittee assists the OUSD(C) in developing detailed guidance and resolutions to issues. This collaborative management structure ensures the FIAR Plan is comprehensive with regard to DoD-wide organizations, issues and solutions.

### **FIAR Directorate and Functional Working Groups**

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 OUSD(C) established the FIAR Directorate, a program management office. The FIAR Directorate:

- Recommends strategic direction to the DCFO and USD(C),
- Assists the Components where possible,
- Develops and issues detailed financial improvement and audit preparation methodologies and guidance,
- Organizes and convenes cross-Component financial and functional working groups to assist in developing the audit readiness methodology and process,
- Utilizing experienced financial, accounting and auditing personnel, embeds teams to develop, improve and execute FIPs and provide training to Components,

- Biannually, publishes the FIAR Plan Status Report,
- Maintains the FIAR Planning Tool, which is used by the Components to manage their FIPs,
- Monthly, performs detail reviews of the Component FIPs supported by the OUSD(AT&L) and provides feedback to the Components, as needed, and
- Develops metrics for monitoring and reporting progress.

### **Major Commands and Service Providers**

It is Components' major commands and Service Providers, such as the Army Materiel Command and DFAS, where the FIPs are executed. The major commands and Service Providers perform the evaluation and discovery work, test and strengthen internal controls and correct deficiencies. It is within the major commands where business events occur that trigger financial transactions, and where the functional community engages with the financial community to achieve the vision, goals and priorities of the FIAR Plan.

### **DoD Audit Advisory Committee**

The DoD Audit Advisory Committee, established under the provisions of the Federal Advisory Committee Act of 1972, provides the Secretary of Defense, through the USD(C), independent advice and recommendations on DoD financial management, to include financial reporting processes, internal controls, audit processes, and processes for monitoring compliance with relevant laws and regulations. The Committee is comprised of five members, who are distinguished members of the audit, accounting and financial communities. The members are not DoD employees.

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No.	Endnote
1	IPPS-A is planned to achieve Milestone B in January 2011. The FDD has not been scheduled.
2	DEAMS Increment 1 Spiral 1-2 - Implementation at Scott AFB including 2 Guard GSUs (full functionality)
3	DEAMS Increment 1 Spiral 3-4 - Roll-out to USTC, MSC, SDDC, AMC, ACC, USAFE, PACAF, AFSOC, AETC & AFRC (including ANG)
4	DEAMS Increment 2 - Roll-out to AFSPC and AFMC (including ANG)
5	ECSS Release 1 - Tools/Equipment/Vehicle Management and Base-level Materiel Management
6	ECSS Release 2 - Enterprise Management and Wholesale Materiel Management
7	ECSS Release 3 - Heavy (Depot) Maintenance and Planning
8	ECSS Release 4 - Flight Line Maintenance and Ammunition Management
9	IPPS Increment 1 - Leave for All
10	IPPS Increment 2 - Active Officer
11	IPPS Increment 3 - Full Capability with Guard/Reserve/Enlisted
12	NextGenIT - There are 4 more spirals for full NextGen IT deployment.
13	The DLA Energy Convergence (EC) schedule reflects a FDD date of 4 Qtr FY 2013 which is when the program expects the preponderance of users from DLA Energy community to use the system. The EC program may update the schedule upon completion of the System Requirement Review (SRR), when the program requirements would be approved. The SRR for EC is scheduled for February, 2011.
14	DLA eProcurement Acquisition Program Baseline is being finalized in the next 60 days. The dates provided are threshold dates and are subject to change once the APB is finalized.

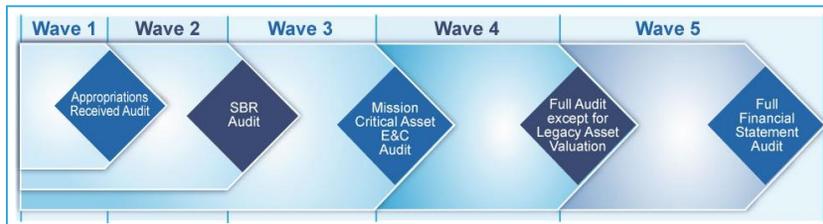
## Appendix 3. FIAR STRATEGY “WAVES”

The FIAR Strategy “waves” representing significant levels of effort and accomplishments are:

- Wave 1 - Appropriations Received Audit
- Wave 2 - Statement of Budgetary Resources (SBR) Audit
- Wave 3 - Mission Critical Asset Existence and Completeness Audit
- Wave 4 - Full Financial Statement Audit, Except for Legacy Assets (New Asset Valuation)
- Wave 5 - Full Financial Statement Audit

Wave 1, Wave 2 and Wave 3 are being worked concurrently, as shown in Figure A2-1.

**Figure A2-1. FIAR Strategy**



### Wave 1 - Appropriations Received Examination

Wave 1 focuses on the processes and controls associated with the appropriation and distribution of funds from the Congress to the Department. Completing Wave 2 depends on the successful completion of Wave 1.

Wave 1 is critically important to the Department’s overall financial improvement efforts, because it is the first step in receiving, recording and tracking the funds provided to the Department to accomplish its mission. Recognizing the importance of this critical first step, the Under Secretary of Defense (Comptroller) specifically directed that the Components focus initially on Wave 1 and work to prepare it for examination by the DoD IG or an IPA by the end of FY 2010.

The financial management benefits of completing Wave 1 are:

1. Improves the accuracy and reliability of appropriated funds recorded in DoD systems, and
2. Assures accuracy in the prior year funding amounts reported in the Department’s annual President’s Budget.

### Wave 2 - Statement of Budgetary Resources Audit

Wave 2 includes several end-to-end processes that are separated into assessable units each of which must be audit ready before the SBR can be audited. For example, cash disbursements within the Procure-to-Pay process and cash receipts within the Order-to-Cash process must be remediated before the Fund Balance with Treasury (FBWT) Balance Sheet line item can be audit ready. Also, the Procure-to-Pay process must be effective to ensure that Accounts Receivable recorded as a result of reimbursable activity and overpayments (in the Order-to-Cash process) is accurate. Ultimately, successful remediation of the Assessable Units contributes to an audit ready SBR.

Financial management benefits of completing Wave 2 are:

1. Improves the visibility of budgetary transactions ensuring a more effective use of limited resources,
2. Provides operational efficiencies through more readily available and accurate cost and financial information (e.g., more accurate obligation data for the Planning, Programming, Budgeting, and Execution process and fewer unmatched disbursements),

3. Improves fiscal stewardship through reduced improper payments,
4. Improves budget processes and controls thus reducing Anti-deficiency Act violations, and
5. Links execution to the President's Budget thus providing more consistency with the financial environment.

### **Wave 3 - Mission Critical Asset Existence and Completeness Audits**

The audit readiness focus of this wave is primarily on the existence and completeness assertions, but also includes Rights and Obligations and portions of the Presentation and Disclosure assertions. Interdependencies between remediation of the receipt of goods and services processes included in the Procure-to-Pay process in Wave 2 helps ensure the sustainability of the existence and completeness assertions in future periods, especially for assessable units with a high volume of purchasing activity.

The benefits of completing Wave 3 are:

1. Moves the Department closer to achieving its long-standing goal of total asset visibility;
2. Improves the reliability and accuracy of the logistics supply chain and inventory systems, which ensures items needed by the warfighter are on-hand when needed and not procured unnecessarily;
3. Improves the ability to timely acquire, maintain and retire assets;
4. Provides better management information about assets;
5. Ensures better control over assets, preventing their misuse, theft or loss; and
6. Reduces unnecessary reordering.

### **Wave 4 - Full Audit Financial Statements, Except for Legacy Assets (New Asset Valuation)**

Wave 4 includes the valuation assertion over new asset acquisitions and depends on the successful completion of Wave 3, requiring the existence and completeness assertions to be remediated before the valuation assertion can be completed. Also, proper contract structure for cost accumulation and cost accounting data must be in place prior to completion of the valuation assertion for new acquisitions.

The financial management benefits of completing Wave 4 are:

1. Moves the Department closer to achieving its long-standing goal of obtaining an unqualified opinion on all of its financial statements,
2. Provides more reliable and accurate logistics supply chain information on the cost of Inventory items and Operating Materials and Supplies (OM&S),
3. Improves the quality of information used by management when making operational decisions about capital investments in Military Equipment and General Equipment.

### **Wave 5 - Full Financial Statement Audit**

Wave 5 focuses on the valuation of legacy assets. Once the Components have asserted effective controls over valuation of new acquisitions of Military Equipment, Real Property, Inventory, OM&S, and General Equipment, they will focus on valuing legacy assets. This sequencing of efforts ensures that controls are in place to go forward before addressing legacy assets. Legacy asset valuation depends on the availability of adequate documentation to support appropriate cost accumulation by asset. Successful remediation of assertions related to Existence and Completeness and Valuation will allow the Components to support full-scope financial statement audits.

## Appendix 4. FY 2010 - FY 2015 Audit Readiness Resources

### DoD Audit Readiness Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Audit Readiness</b>	\$ 95	\$ 151	\$ 169	\$ 180	\$ 186	\$ 124
<b>Audit/Validation</b>	-	12	12	27	32	33
<b>Audit Readiness and Audit Subtotal</b>	95	163	181	207	218	157
<b>Financial Systems</b>						
<b>Non-Enterprise Resource Planning Systems (ERPs)</b>	197	217	212	214	204	197
<b>ERPs</b>	1,259	1,431	1,403	1,234	1,158	1,105
<b>Financial Systems Subtotal</b>	1,456	1,648	1,615	1,448	1,362	1,302
<b>Total Resources</b>	\$ 1,551	\$ 1,811	\$ 1,796	\$ 1,655	\$ 1,580	\$ 1,459

### Army Audit Readiness Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Audit Readiness</b>	\$ 9	\$ 44	\$ 46	\$ 62	\$ 64	\$ 1
<b>Audit/Validation</b>	-	5	5	20	25	25
<b>Audit Readiness and Audit Subtotal</b>	9	49	51	82	89	26
<b>Financial Systems</b>						
<b>Non-Enterprise Resource Planning Systems (ERPs)</b>	56	65	61	61	59	58
<b>General Funds Enterprise Business System</b>	135	186	85	61	66	59
<b>Logistics Modernization Program</b>	238	175	156	106	108	110
<b>Global Combat Support Systems - Army</b>	115	114	273	302	316	310
<b>Integrated Personnel and Pay System - Army</b>	49	101	69	54	65	67
<b>Financial Systems Subtotal</b>	593	641	644	584	614	604
<b>Total Resources</b>	\$ 602	\$ 690	\$ 695	\$ 666	\$ 703	\$ 630

### Navy Audit Readiness Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Audit Readiness	\$ 49	\$ 47	\$ 50	\$ 53	\$ 55	\$ 56
Audit/Validation	-	7	7	7	7	8
<b>Audit Readiness and Audit Subtotal</b>	<b>49</b>	<b>54</b>	<b>57</b>	<b>60</b>	<b>62</b>	<b>64</b>
<b>Financial Systems</b>						
Non-Enterprise Resource Planning Systems (ERPs)	12	9	8	7	7	7
Navy ERP	209	243	161	127	119	114
Future Pay and Personnel System	36	47	124	111	82	58
Global Combat Support System - Marine Corps	87	138	80	58	61	56
<b>Financial Systems Subtotal</b>	<b>344</b>	<b>437</b>	<b>373</b>	<b>303</b>	<b>269</b>	<b>235</b>
<b>Total Resources</b>	<b>\$ 393</b>	<b>\$ 491</b>	<b>\$ 430</b>	<b>\$ 363</b>	<b>\$ 331</b>	<b>\$ 299</b>

### Air Force Audit Readiness Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Audit Readiness	\$ 12	\$ 32	\$ 29	\$ 26	\$ 27	\$ 27
Audit/Validation	-	-	-	-	-	-
<b>Audit Readiness and Audit Subtotal</b>	<b>12</b>	<b>32</b>	<b>29</b>	<b>26</b>	<b>27</b>	<b>27</b>
<b>Financial Systems</b>						
Non-Enterprise Resource Planning Systems (ERPs)	-	-	-	-	-	-
Defense Enterprise Accounting Management Systems	65	53	98	144	154	154
Expeditionary Combat Support System	297	312	229	120	40	34
Integrated Personnel and Pay System - Air Force	28	52	105	125	139	136
NexGen IT	-	10	23	26	8	7
<b>Financial Systems Subtotal</b>	<b>390</b>	<b>427</b>	<b>455</b>	<b>415</b>	<b>341</b>	<b>331</b>
<b>Total Resources</b>	<b>\$ 402</b>	<b>\$ 459</b>	<b>\$ 484</b>	<b>\$ 441</b>	<b>\$ 368</b>	<b>\$ 358</b>

**DLA Audit Readiness Resources (\$ in Millions)**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Audit Readiness</b>	\$ 25	\$ 28	\$ 44	\$ 39	\$ 40	\$ 40
<b>Audit/Validation</b>	-	-	-	-	-	-
<b>Audit Readiness and Audit Subtotal</b>	25	28	44	39	40	40
<b>Financial Systems</b>	129	143	143	146	138	132
<b>Total Resources</b>	\$ 154	\$ 171	\$ 187	\$ 185	\$ 178	\$ 172

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## Appendix 5. FIAR Professional Development Courses

Recommended as FIAR Competencies for Target Audiences	FIAR Course	Course Description
Non-Financial Managers (FMs) and Senior Leaders throughout DoD	100 – <i>Overview of Financial Improvement and Audit Readiness (FIAR)</i>	Basic, high-level overview of FIAR to enhance awareness and buy-in for FIAR support / success
Non-FMs and FMs needing basic training	101 – <i>Introduction to the FIAR Guidance and ICOFR</i>	Basic introduction to FIAR Guidance (goals, roles and responsibilities of audit readiness) plus auditors' perspective toward ICOFR
Non-FMs and FMs, Involved with FIAR or ICOFR, at Reporting Entities and their Service Providers	102 - <i>FIAR Methodology for Reporting Entities and ICOFR Deliverables</i>	FIAR Methodology and audit execution for Reporting Entities including ICOFR documentation, testing and corrective action plans
Non-FMs and FMs, Involved with FIAR, as Service Providers <u>or</u> at Reporting Entities	103 - <i>FIAR Methodology for Service Providers</i>	In-depth review of the Service Provider's role in audit readiness
Non-FMs and FMs, Involved in Appropriations Received - Wave 1 - Audits, as Service Providers <u>or</u> at Reporting Entities	201 – <i>FIAR Appropriations Received (Wave 1)</i>	In-depth review of scope considerations associated with preparing for Appropriations Received (Wave 1) audits

Recommended as FIAR Competencies for Target Audiences	FIAR Course	Course Description
Non-FMs and FMs, Involved in Statement of Budgetary Resources - Wave 2 - Audits, as Service Providers <u>or</u> at Reporting Entities	202 – <i>FIAR Statement of Budgetary Resources (Wave 2)</i>	In-depth review of scope considerations associated with preparing for Statement of Budgetary Resources (Wave 2) audits
Non-FMs and FMs, Involved in Existence and Completeness of Mission Critical Assets - Wave 3 - Audits, as Service Providers <u>or</u> at Reporting Entities	203 – <i>FIAR Existence and Completeness of Mission Critical Assets (Wave 3)</i>	In-depth review of scope considerations associated with preparing for Existence and Completeness of Mission Critical Assets (Wave 3) audits
IT & Systems Personnel or Others Involved with Systems in Audit Readiness Tasks as Service Providers <u>or</u> at Reporting Entities	301 – <i>FIAR Information Technology Controls and Audit Readiness</i>	In-depth review of management's responsibilities for IT controls when preparing for a financial statement audit

## Appendix 6. Commonly Used Acronyms

Acronym	Definition
AAA	Army Audit Agency
AMC	Army Materiel Command
APSR	Accountable Property System of Record
AT&L	Acquisition, Technology and Logistics
A2R	Acquire to Retire
BCT	Business Cycle Team
CAMS-ME	Capital Asset Management System for Military Equipment
CAP	Corrective Action Plan
CCAS-AF	Columbus Cash Accountability System – Air Force
CFO	Chief Financial Officer
CIP	Construction in Progress
CIPR	Construction in Progress Requirements
CMO	Chief Management Officer
DAI	Defense Agency Initiative
DCAA	Defense Contract Audit Agency

Acronym	Definition
DCFO	Deputy Chief Financial Officer
DCMO	Deputy Chief Management Officer
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DoD	Department of Defense
DoD IG	Department of Defense Inspector General
DON	Department of the Navy
DPAS	Defense Property Accountability System
E&C	Existence and Completeness
ECSS	Expeditionary Combat Support System
ERP	Enterprise Resource Planning
ETP	Enterprise Transition Plan

Acronym	Definition
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness
FIP	Financial Improvement Plan
FM	Financial Management
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GCSS	Global Combat Support System
GFEBs	General Fund Enterprise Business System
ICOFr	Internal Control Over Financial Reporting
IPA	Independent Public Accountant (or Accounting Firm)
IPPS	Integrated Personnel Pay System
IT	Information Technology
IUID	Item Unique Identification
LMP	Logistics Modernization Program
KCO	Key Control Objective

Acronym	Definition
KSD	Key Supporting Document
MILSTRIP	Military Standard Requisitioning and Issue Procedures
NAVFAC	Naval Facilities Engineering Command
NBV	Net Book Value
NDAA	National Defense Authorization Act
OASA(FM&C)	Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
ODOs	Other Defense Organizations
OIS	Ordnance Information System
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
OUSD	Office of the Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P&R	Personnel and Readiness
PBUSE	Property Book Unit Supply Enhanced
P2S	Plan to Stock
RPAD	Real Property Assets Database
RPAR	Real Property Acceptance Requirements

Acronym	Definition
RPIR	Real Property Inventory Requirements
RPUID	Real Property Unique Identification
SAS	Statement on Auditing Standards
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SMP	Strategic Management Plan
SSAE	Statement on Standards for Attestation Engagements
TDY	Temporary Duty
TMA	TRICARE Management Activity
USACE	United States Army Corps of Engineers
USD	Under Secretary of Defense
USD(C)	Under Secretary of Defense (Comptroller)
USMC	United States Marine Corps
WCF	Working Capital Fund

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