



November 2011

UNITED STATES DEPARTMENT OF DEFENSE



Financial Improvement and Audit Readiness (FIAR) Plan Status Report

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) / CHIEF FINANCIAL OFFICER

Message from the Under Secretary of Defense (Comptroller)

I am pleased to transmit the November 2011 Financial Improvement and Audit Readiness (FIAR) Plan Status Report. Recently, Secretary Panetta directed significant changes in our audit goals, including calling for audit readiness of the Statement of Budgetary Resources in 2014. Because we are in the midst of revising our plans to meet the new goals, this FIAR Report does not contain detailed plans. Rather, it describes the new goals and progress to date, and describes our interim goals for Fiscal Year 2012 – many of which will not change based on Secretary Panetta’s directive. Fully updated plans will be provided in the next FIAR Plan Status Report.



Meeting Secretary Panetta’s new audit goals will be a challenge. Two Military Services will have to accelerate their efforts to achieve audit readiness of their Statement of Budgetary Resources by 2014. For one Service, that acceleration will require a new approach. We will also have to accelerate efforts to achieve audit readiness for the Defense Agencies. We must accomplish these changes while maintaining our overall plan to achieve audit readiness for all DoD financial statements by 2017.

While challenging, I believe that the new goals – and the Secretary’s interest and involvement in our audit efforts – provide a golden opportunity. Auditability must move from being an initiative primarily of interest to financial managers to an “all hands” effort. The Secretary’s involvement will help us further mobilize resources and attention to improve our financial information and achieve audit readiness. I look forward to overseeing the Department’s efforts to meet Secretary Panetta’s new goals.

A handwritten signature in cursive script that reads "Robert F. Hale". The ink is dark and the signature is fluid and legible.

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

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Preparation of this study/report cost the Department of Defense a total of approximately \$112,000 in Fiscal Years 2011 and 2012.

I. Achieving the Secretary's Direction for Audit Readiness

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. To address the issues preventing the reliability of Department of Defense (DoD) financial statements, the Report also serves as the Department's annual Financial Management Improvement Plan, required by Section 1008(a) of the NDAA for FY 2002.

Unlike previous versions, this FIAR Plan Status Report does not provide the detailed FIAR plans of the Military Departments, Defense Agencies, and other Defense organizations (DoD Components), because the DoD Components are in the midst of revising their audit readiness plans, as directed by the Secretary of Defense. Instead, the Report focuses on the recent direction of the Secretary of Defense to accelerate the FIAR goals. The Report also highlights recent audit readiness accomplishments, provides previously planned audit readiness goals that have not changed, and discloses the amount of resources being applied to audit readiness.

SECRETARY OF DEFENSE AND AUDIT READINESS

Through an October 13, 2011, DoD-wide memorandum, Secretary of Defense Leon Panetta directed the Department to accelerate key elements of the FIAR Plan and place greater emphasis on the overall effort (i.e., achieving the FIAR priorities and auditable financial statements). Specifically, the Secretary called for the Department to:



- Achieve audit readiness of the Statement of Budgetary Resources (SBR) by the end of calendar year (CY) 2014.
- Increase emphasis on accountability of assets.
- Execute a full review of the Department's financial controls over the next two years and establish interim goals against which to assess progress.
- Ensure mandatory training for audit and other key financial efforts, and establish by the end of CY 2012 a pilot certification program for financial managers--similar to the one now in place for acquisition managers.
- Appropriately resource efforts to meet these goals.
- Meet the legal requirements to achieve full audit readiness for all DoD financial statements by 2017.

The Secretary's memorandum also directed the DoD Components to revise their Financial Improvement Plans (FIPs) to incorporate the accelerated date of 2014 for the SBR, and directed the Under Secretary of Defense (Comptroller) (USD(C)) to submit the revised plans to the Secretary within 60 days.

Achieving these goals will be challenging, but with the Secretary's involvement, which has elevated audit readiness to an "all hands" DoD-wide effort, the Department's ability to achieve these goals has been significantly increased.

THE FIAR PLAN GOING FORWARD

The FIAR Plan is comprised of the DoD Components' FIPs, which are prepared and executed in accordance with FIAR Guidance issued by the Office of the USD(C) (OUSD(C)). The FIAR Guidance provides the strategy and standard methodology, as well as the step-by-step approach for discovery and evaluation; documenting, testing, and strengthening controls; and achieving an audit ready systems environment. Although the Secretary's direction shortened the time for achieving audit readiness of the SBR, the FIAR strategy and

methodology remain the same. Information on the FIAR strategy, methodology, and guidance is contained in the appendices of the May 2011 FIAR Plan Status Report.

FIAR Priorities Remain the Same

In addition to maintaining the same FIAR strategy and methodology, the FIAR priorities established in 2009 also remain the same. The priorities are:

- Budgetary information
- Mission critical asset information

Budgetary Information

The Department bases major financial decisions on budgetary data (e.g., status of funds received, obligated, and expended). Therefore, the first priority of the FIAR Plan focuses on process improvements, controls, and systems associated with budgetary information. This is the starting point for achieving the goal of obtaining auditable financial statements, beginning with the SBR. The benefits of focusing improvement efforts on budgetary information and the SBR are:

- Better and reliable visibility of budgetary transactions resulting in more effective use of limited resources.
- Operational efficiencies through more readily available financial information.
- Improved fiscal stewardship (ensures that funds appropriated, expended, and recorded are reported accurately, reliably, and timely).
- Effective budget processes and controls (precludes deficient budget practices and reduces Antideficiency Act violations).

Mission Critical Asset Information

The second FIAR Plan priority focuses improvement and audit readiness efforts on information essential to the effective management

of the Department's mission critical assets (i.e., Military Equipment, Real Property, Inventory, Operating Materials and Supplies (OM&S), and General Equipment.). Mission critical asset information also is required to support financial statement audits and includes:

- Individual Item Identifier (e.g., unique item identifier, aircraft tail number, ship number, and real property unique identifier)
- Category/Asset Type (e.g., aircraft – airlift fixed-wing)
- Location (e.g., military installation/base)
- Operational Status (e.g., active, closed, disposed)
- Item Description (e.g., building headquarters, base library)
- Controlling/Financial Reporting Organization (e.g., Air Force, Defense Logistics Agency)

This information, as well as other management and financial information, is recorded in official systems of record, which are referred to as “Accountable Property Systems of Record” (APSRs). By making mission critical asset information a priority, the Department is ensuring that asset information important to decision makers is accurately recorded in DoD APSRs.

Accomplishing this priority improves important management information about mission critical assets and moves the Department closer to financial statement auditability. Existence and completeness of assets are two of the five financial statement assertions that financial statement auditors test during financial statement audits. To assert audit readiness, the DoD Components must ensure:

1. All assets recorded in their APSR exist (Existence),
2. All assets are recorded in their APSRs (Completeness),
3. The DoD Component has the right to report all assets (Rights), and
4. Assets are consistently categorized, summarized, and reported period to period (Presentation and Disclosure).

The fifth financial statement assertion, Valuation, will be addressed by the DoD Components after achieving the FIAR priorities and will be the final work required to achieve full auditability.

Meeting the Accelerated Goal

Within two days of the Secretary's memorandum requiring revised plans in 60 days to achieve an auditable SBR in 2014, the OUSD(C) issued specific direction to the DoD Components, which included the following:

- Setting a meeting between the USD(C) and Assistant Secretaries of the Military Departments for Financial Management and Comptroller to provide direction and to discuss the framework, approach, challenges, and issues related to the 2014 audit readiness requirement.
- Establishing key dates to include:
 - SBR audit readiness assertion by the end of June 2014,
 - Validation of SBR assertions by September 30, 2014, and
 - Audit of the FY 2014 DoD Combined SBR to begin by the end of CY 2014.
- Issuing a schedule for incrementally submitting draft versions of the revised FIPs to the OUSD(C) for review and assistance, as needed.
- Clarifying that the 2014 goal is limited to the General Fund SBR and includes the Defense Intelligence Agencies.
- Providing to Secretary Panetta by December 13, 2011, revised plans for achieving an auditable SBR in 2014.

After approval by the Secretary of Defense, the revised FIPs will be incorporated in the FIAR Plan and reported in the next FIAR Plan Status Report.

The FIAR Governance process remains the same. However, Secretary Panetta also directed the Deputy Secretary of Defense, Ashton Carter,

in his role as the Department's Chief Management Officer (CMO), to conduct periodic reviews of the Department's progress in achieving the SBR auditability goal of 2014. Day-to-day oversight remains with the USD(C), Robert Hale, and the DoD Deputy CMO, Elizabeth McGrath. The additional regular involvement of the Deputy Secretary is expected to assist in achieving the 2014 goal.

Appendix 4 of the May 2011 FIAR Plan Status Report provides a detailed description of the FIAR Governance process.

Defense Intelligence Agencies

The Defense Intelligence Agencies (National Security Agency (NSA), Defense Intelligence Agency (DIA), and National Geospatial-Intelligence Agency (NGA)) are required to obtain an unqualified audit opinion on all financial statements by FY 2016. Due to this accelerated timeline, unique operations, classification requirements, and congressional direction to the Intelligence Community (IC) Agencies, the DoD Deputy Chief Financial Officer deferred to the Associate Director of National Intelligence (ADNI)/Chief Financial Officer to provide audit readiness direction to the IC Agencies.

The IC Audit Readiness Strategy is similar to the DoD FIAR Strategy and provides a phased approach, supported by an IC-wide governance structure. It also requires leadership engagement across the IC to implement financial management improvements and drive change. It differs from the DoD FIAR Strategy in that the IC Agencies are working to achieve audit readiness of all financial statements in FY 2014, instead of only the SBR.

The NSA, DIA, and NGA Agency Directors certified to conduct an audit in FY 2014, achieve an unqualified audit for FY 2016, and assign the management priority, leadership, and resources to accomplish these results. Based on a previous audit resulting in a disclaimer of opinion, the NSA plan includes remediation work identified during the audit. The IC Agencies' plans are currently being reviewed by the Office of the Defense National Intelligence Inspector General.

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II. Audit Readiness Accomplishments and Progress

Secretary Panetta’s accelerated goal for achieving an auditable Statement of Budgetary Resources (SBR) in 2014 is built on a foundation of significant past and recent audit opinions, ongoing audits, and audit readiness accomplishments. This section of the Report identifies and highlights those accomplishments. It also includes other accomplishments and activities since the May 2011 FIAR Plan Status Report that impact achieving and sustaining auditable financial statements.

AUDIT OPINIONS

Figure II-1 lists Department entities that have successfully achieved audit opinions on their FY 2011 financial statements. The list has expanded since the May 2011 Report, as follows:

- TRICARE Management Activity - Contract Resource Management
- Medicare-Eligible Retiree Health Care Fund

The organizations with unqualified audit opinions received over \$110 billion in budgetary resources in FY 2011, which is more than the budgetary resources under audit in 13 of the 24 individual Chief Financial Officers (CFO) Act Federal agencies.

Figure II-1. Financial Statement Audit Opinions

FY 2011 Unqualified Audit Opinions
U.S. Army Corps of Engineers - Civil Works
Defense Contract Audit Agency
Defense Commissary Agency
Defense Finance and Accounting Service
Military Retirement Fund
Office of the Inspector General
TRICARE Management Activity - Contract Resource Management
FY 2011 Qualified Audit Opinion
Medicare-Eligible Retiree Health Care Fund

AUDIT READINESS ASSERTIONS

Progress continues to be made in accomplishing the priorities of budgetary and mission critical asset information, as demonstrated by the audit readiness assertions since the May 2011 Report. They include the following:

- Navy asserted in Quarter 4 of FY 2011 audit readiness of the E-2D Advanced Hawkeye Major Defense Acquisition Program.
- Air Force asserted in Quarter 3 of FY 2011 existence and completeness audit readiness of Cruise Missiles and Aerial Targets/Drones.
- TRICARE Management Activity, Service Medical Activity, Defense Advanced Research Projects Agency, and Chemical Biological Defense Program asserted audit readiness of Appropriations Received in Quarter 4 of FY 2011.

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Figure II-2 identifies the audit readiness assertions that have been accomplished by the DoD Components. They include assertions for all financial statements, the SBR, portions (assessable units) of the SBR,

and assessable units of mission critical assets for existence and completeness. With each assertion, the Department takes another step closer to full auditability.

Figure II-2. FIAR Priority Audit Readiness Assertions

DoD Component	Audit Readiness Assertions	Assertion Date	Status
All Financial Statements			
DISA - WCF	All Financial Statements	Q3 FY 2010	Under Audit
Statement of Budgetary Resources (SBR) Audit			
U.S. Marine Corps	SBR	Q4 FY 2008	Under Audit
Army	Appropriations Received	Q4 FY 2010	Examination Complete - In Sustainment
Army	Examination of GFEBS Wave 1 Entities	Q2 FY 2011	Under IPA Examination
Navy	Appropriations Received	Q1 FY 2010	Examination Complete - In Sustainment
Navy	Civilian Pay	Q2 FY 2010	Additional Corrective Actions Needed
Navy	Transportation of People	Q4 FY 2010	Additional Corrective Actions Needed
Navy	Examination of One Acquisition Program	Q4 FY 2011	OUSD(C) Validation Underway
Air Force	Appropriations Received	Q4 FY 2010	Examination Complete - In Sustainment
Air Force	FBWT Reconciliation	Q1 FY 2011	Examination Complete - In Sustainment
Air Force	Rescissions	Q4 FY 2010	In Sustainment
Air Force	Non-expenditure Transfers	Q4 FY 2010	In Sustainment
Defense Logistics Agency	Appropriations Received	Q4 FY 2010	Additional Corrective Actions Needed
TRICARE Management Activity	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Service Medical Activity	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Defense Advanced Research Projects Agency	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Chemical Biological Defense Program	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Mission Critical Asset Existence and Completeness Audit			
Army	Military Equipment - 8 Asset Types	Q2 FY 2011	Additional Corrective Actions Needed
Army	General Equipment - Fire & Rescue	Q2 FY 2011	Additional Corrective Actions Needed
Navy	Military Equipment	Q4 FY 2010	Under DoD IG Examination
Navy	OM&S - Ordnance	Q4 FY 2010	Additional Corrective Actions Needed
Air Force	Military Equipment	Q1 FY 2011	Pending Examination
Air Force	OM&S - Cruise Missiles	Q3 FY 2011	Pending Examination
Air Force	OM&S - Aerial Targets/Drones	Q3 FY 2011	Pending Examination

USMC PROGRESS TOWARD A CLEAN OPINION



The U.S. Marine Corps (USMC) continues on the path toward financial statement audit success with the second year audit of its General Fund SBR, and it is possible that a positive audit opinion will be issued. In addition, the auditor's requirements and findings have generated a significant amount of improvements that have enhanced USMC business and financial operations and improved the recording and reporting accuracy of accounting transactions.



While there have been some delays in the audit, challenging timelines, data reconciliation anomalies, and internal control weaknesses, the problems have been addressed through a comprehensive remediation plan and the hard work of the dedicated people supporting the audit. The auditors are now in the process of confirming the remediation work while testing key information systems and account balances.

The USMC has embraced this opportunity as a way to enhance business operations while improving financial information for decision makers.

IPA ISSUES CLEAN OPINIONS TO ARMY, NAVY, AND AIR FORCE ON APPROPRIATIONS RECEIVED



In August 2011, an independent public accounting (IPA) firm completed its examination procedures and issued unqualified ("clean") opinions to the Army, Navy, and Air Force on their Appropriations Received audit readiness assertion. Appropriations Received is an important section of the SBR, and the clean opinions validate that the Military Departments have reliable and auditable processes, controls,

and systems in place to record annual appropriations from Congress. This is a significant step on the road to achieving a fully auditable SBR.



Accurate and timely recording of congressional appropriations and other related budget activity is critical, because it provides the budget authority needed to commit, obligate, and expend funds. Absent accurate and timely budget authority information, the Department's ability to fund mission and operational requirements could be jeopardized, diminishing the Department's ability to defend the Nation and its allies. Inaccurate budget authority information also could result in over obligating and expending funds resulting in Antideficiency Act violations.

With the successful completion of the Appropriations Received examinations, an important foundation for achieving a fully auditable SBR has been established for the Military Departments to methodically evaluate, document, test, and correct any deficiencies in the processes, controls, and systems used to allot, obligate, and eventually outlay (expend) DoD appropriations.

AUDIT OPINION EXPECTED ON DISA FY 2011 FINANCIAL STATEMENTS



The Defense Information Systems Agency (DISA) is in the final phase of an audit by an IPA that is expected to issue an opinion on DISA's FY 2011 Working Capital Fund financial statements. The IPA opinion will be a significant milestone for DISA and the Department, because DISA is a significant and complex agency.

From the outset, DISA's audit readiness initiatives have combined cleaning up legacy data with reengineering business processes and implementing reconciliation activities that ensure sustainable results. Additionally, DISA has compiled an audit readiness library that consists of over 15,000 documents ranging from end-to-end business processes and narratives to financial reports and reconciliations to key source documentation. This library is designed to hold documentation likely be requested by an external auditor and is positioned in a central location so it can be quickly accessed. Thanks in a large part to the library, the FY 2011 audit has remains on-track throughout the course of the engagement.

Another enabling factor supporting the FY 2011 audit and the entire audit readiness effort at DISA has been an infrastructure that includes DISA program and accounting offices, as well as the Defense Finance and Accounting Service (DFAS). Close coordination among these groups has been a critical element enabling the audit to stay on-track. As the initiative progresses, DISA will continue to work closely with its process partners and the OUSD(C) to share lessons learned.

AIR FORCE FBWT RECONCILIATION VALIDATED AUDIT READY



On October 21, 2011, the Air Force received an unqualified opinion from an IPA on management's assertion that the Fund Balance with Treasury (FBWT) reconciliation process for the Air Force's General Fund is audit ready. The IPA performed an examination of the processes and controls for the FBWT reconciliation process and deemed it audit ready. This is a major step forward in Air Force efforts to achieve audit readiness.



The FBWT reconciliation process is a key control for ensuring the accuracy of the amounts recorded in the general ledger. The process identifies and reconciles differences between the amounts posted in the Air Force general ledger and the related balance maintained in the general ledger of the Department of the Treasury. The reconciliation process, which occurs monthly, identifies all transaction differences between the two balances, identifies the reason for each difference, and tracks and monitors the timely resolution of those differences.

The Air Force is the first Military Department to receive a clean opinion for this essential reconciliation process, and it provides important lessons learned that will assist the Army and Navy as they work to achieve the same success for their FBWT reconciliation process

IPA EXAMINATION COMPLETED OF THE ARMY'S TARGET SYSTEM ENVIRONMENT



An IPA completed an examination to validate the audit readiness of the Army's target system environment, which includes the General Fund Enterprise Business System (GFEBS), an Enterprise Resource Planning (ERP) system. At an exit conference in October, the IPA indicated the Army will receive a qualified opinion in its final report to be issued by the end of November.

The examination assessed the audit readiness of five business processes at three installations (Forts Jackson, Benning, and Stewart) operating in the GFEBS environment. The examination identified one material weakness, one deviation, one deficiency, and provides several findings and recommendations. The Army is incorporating the needed remediation work in its financial improvement plans.

The IPA's recommendations will help the Army and other DoD Components prepare for future examinations and audits.

IPA EXAMINATION OF NAVY MAJOR DEFENSE ACQUISITION PROGRAM



The USD(C)/CFO, Robert Hale, challenged the Military Departments to assess the status of the budgetary information the Department uses to manage Major Defense Acquisition Programs (MDAPs) by identifying one MDAP and assessing, evaluating, testing controls, and correcting identified deficiencies in the obligations and disbursements recorded and reported for the MDAP in DoD general ledgers and ultimately reported in the SBR. This is a different approach to evaluating and improving the financial information used by decision makers, while maintaining consistency with the FIAR goal of producing an auditable SBR.

The Department of the Navy (DON) chose the E-2D Advanced

Hawkeye Program. In addition to the FIAR goal to validate the auditability of the E-2D MDAP obligations and disbursements, the DON assessed, evaluated, and tested the controls and audit readiness of the Navy ERP environment and related business processes.



After completing the assessment, testing, and corrective actions, the DON asserted audit readiness of the E-2D MDAP on September 30, 2011. Before the end of Quarter 1 of FY 2012, the Department will hire an IPA to perform an audit readiness examination.

The DON is taking full advantage of the lessons learned from the E2-D project, applying them to each business process segment as DON's audit strategy evolves. The strategy stresses the importance of internal controls, compliance with regulations, maintaining an audit trail, and other concepts that will contribute to the DON's ability to achieve and sustain audit readiness.

NAVY SHIPS AND OTHER ASSETS UNDER EXAMINATION BY THE DOD INSPECTOR GENERAL



The Department of the Navy (DON) made significant existence and completeness progress in FY 2011 by:

- Asserting audit readiness for five asset categories: Ships and Submarines, Aircraft, Satellites, Trident D5 Missiles, and Ordnance. These five asset categories represent DON's most critical assets and have the greatest impact on the DON Balance Sheet.
- Starting an examination by the DoD Inspector General (DoDIG) of the Ships and Submarines, Trident D5 Missiles, and Satellites.
- Planning for a DoDIG examination of aircraft and ordnance in FY 2012.

Together, these mission critical assets make up approximately 83 percent of the unaudited Net Book Value (NBV) of the General Property, Plant, and Equipment amount reported on the DON Balance Sheet and approximately 61 percent of the unaudited NBV for Operating Materials and Supplies on the DON Balance Sheet.

THREE IPA EXAMINATIONS PLANNED FOR FY 2012



Due to the size and complexity of the Department, the DoD strategy and approach to achieving auditable financial statements is to incrementally identify and resolve process, control, and system deficiencies. For the SBR, the incremental approach divided the SBR into assessable units based on end-to-end processes (e.g., Hire-to-Retire/Civilian Pay). The SBR assessable units also include the incremental deployment sites of the ERP systems and Major Defense Acquisition Programs.

At the conclusion of the assessable unit remediation work, each Component submits a management assertion package describing the scope of the assessable unit and stating it is ready for an audit. After

the management assertion is reviewed by the OUSD(C) and DoDIG, an IPA is hired to conduct an independent examination of the assessable unit and to render an opinion validating its audit readiness.

During FY 2012, the Army, Navy, and Air Force are planning to hire IPAs to conduct examinations to validate the audit readiness of the following assessable units:

- Army: GFEBS at Wave 2 sites
- Navy: E-2D Advanced Hawkeye Major Defense Acquisition Program
- Air Force: Funds Distribution to Base

Each of the above planned examinations represents another step closer to achieving fully auditable SBRs. They also provide lessons learned for other assessable units both within the Component and across the Department, and provide needed experience for DoD management and employees on how to prepare for an audit and how to support auditor requirements during a financial statement audit.

DAI DEPLOYED TO FOUR ADDITIONAL DEFENSE AGENCIES



By the end of November 2011, four additional Defense organizations will have implemented the Defense Agencies Initiative (DAI), an ERP system: TRICARE-Headquarters, Defense Threat Reduction Agency, Defense Prisoner of War/Missing Personnel Office, and Defense Technical Security Administration. Including these agencies, DAI has been deployed in eight Defense organizations and with over 7,000 users. By October 2012, DAI will deploy to an additional five Defense Agencies. Each implementation delivers standardization, compliance with laws and regulations, and support to achieving audit readiness.

Some of the major benefits of DAI implementation include:

- More accurate and timely financial information and reporting because business events are tracked from cradle to grave to include detailed financial transactions.

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- Standardized system capabilities via one shared instance of the ERP software to ensure all Defense Agencies comply with government and statutory regulations.
- Increased visibility of financial information, which is used to troubleshoot issues, track performance, and provide accurate and timely information for decision making.

To further capitalize on the above benefits, extensive work has started to configure DAI for Working Capital Fund Defense Agencies, such as DFAS.

GFEBs TO BE FULLY DEPLOYED IN JULY 2012



The Army is scheduled to complete the deployment of GFEBs in July 2012. This is a significant achievement for the Army, since GFEBs is critical to achieving audit readiness.

Upon full deployment, GFEBs will be the single system for Army General Funds, enabling full or partial retirement of 106 legacy systems. When fully deployed, GFEBs will have 52,000 users at 211 world-wide locations, including tactical financial units operating in combat zones.

GFEBs is one of the Department's most successful ERP programs. The GFEBs integration contract was awarded in June 2005 and has remained within cost and schedule thresholds. Full deployment of GFEBs provides the Army with the capability needed to achieve the Secretary's goal of SBR auditability in 2014 and full financial statement auditability in 2017.

NAVY ERP APPROVED FOR FULL DEPLOYMENT



On June 30, 2011, the DoD Deputy Chief Management Officer approved full deployment of the Navy ERP, which is a significant acquisition milestone (i.e., Full Deployment Decision (FDD) Acquisition Decision Milestone (ADM)). Of significant importance to audit readiness is that the FDD ADM approval requires the DON to address the ERP's role in achieving audit readiness in accordance with official DoD FIAR Guidance. The DON will declare full deployment, another important ADM, when the Navy ERP achieves audit readiness.

The Navy ERP is an integrated business and financial management system that modernizes and standardizes DON operations and processes, increases the effectiveness and efficiency of those operations, and provides unprecedented management visibility across the DON. To date, four major DON commands have implemented Navy ERP, and the system has approximately 66,000 users. At full deployment, the Navy ERP system will support an estimated 71,000 users at more than 120 sites within the continental U.S. and several overseas locations.

The deployment of Navy ERP has recently enabled the retirement of 19 legacy systems, and over 100 legacy systems were eliminated as a result of the implementation of the pre-Navy ERP pilots. An additional 86 Navy systems are expected to be retired by 2013.

SUNSETTING OF LEGACY SYSTEMS



One of the FIAR goals is to attain compliance with Federal Financial Management Improvement Act (FFMIA) of 1996, which requires financial systems to comply with:

- Federal financial system requirements
- Federal accounting standards
- U.S. Standard General Ledger at the transaction level

Key to achieving FFMIA compliance, and for most of the DoD Components to producing auditable financial statements, is the modernization of the Department's business and financial systems environment. Modernization includes the deployment of 10 ERP systems and the sunsetting of hundreds of legacy systems.

During FY 2011, the Department made progress in the retirement or sunsetting of legacy systems that do not comply with FFMIA, and many more will be retired during FY 2012. The Navy recently received an Acquisition Decision Memorandum that approved its planned deployment of the Navy ERP to the Fleet Industrial Supply Center and Naval Sea System Command field activities. As a result, the Navy anticipates 63 legacy systems being retired FY 2012, this is in addition to the 19 systems recently retired.

The Army, too, has made progress and retired 5 systems in FY 2011 and is targeting 19 systems for retirement in FY 2012.

As the Department's ERPs continue to deploy worldwide and achieve full deployment, such as GFEBS in FY 2012, many more legacy systems will be sunsetted resulting in reduced information technology operational costs, improved business and financial operations, more effective use of resources, better visibility of DoD assets, and auditable financial statements.

FIAR TRAINING PROVIDED TO NEARLY 1,000 DOD PERSONNEL



During FY 2011, almost 1,000 DoD personnel received professional development training that will assist them and their Components in achieving the FIAR goal of auditable financial statements and to sustain audit readiness through effective internal controls. The curriculum was 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 requirements.

The FIAR training courses were approved for Continuing Professional Education credits in accordance with the standards established by the National Association of State Boards of Accountancy. Currently, four courses are available; however, the Department is developing two additional courses focusing on identifying and addressing key risks of material misstatements, key control objectives, control activities, and key supporting documentation. The new courses are scheduled to be available in early 2012.

CONGRESSIONAL APPROVAL EXPECTED FOR DOD FINANCIAL MANAGEMENT CERTIFICATION PROGRAM



Both House and Senate committee reports on the FY 2012 National Defense Authorization Act support establishing a DoD Financial Management Certification Program for the Department's financial management workforce, similar to the successful acquisition workforce certification program.

The goals of the certification program are to:

- Advance the professionalism of the DoD financial management workforce,

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- Strengthen public confidence in DoD financial management by improving the financial management workforce's capabilities in audit readiness and analytics, and
- Broaden the competencies and experience of the financial management workforce of other DoD business operations (e.g., Acquisition).

The program's framework includes the following characteristics:

- The program will be mandatory for all financial management positions, and each position will be coded at Certification Level 1, 2 or 3 (similar to the acquisition workforce certification program).
- Personnel currently in financial management positions will have approximately 24 months to achieve certification.
- The program will be competency-based, with financial management and leadership courses aligned with competency requirements at each certification level.
- Each certification level will have DoD financial management experience requirements, and Levels 2 and 3 may have developmental assignment requirements.
- Once certification is achieved, there will be a continuing education requirement.



The program is in a developmental stage but has been announced within the Department and has broad support across the Financial Management Community. A DoD Directive and DoD Instruction are being developed, and implementation of pilots are scheduled for FY 2012.

The DoD Financial Management Certification Program is expected to have a significant impact on achieving and sustaining the Department's FIAR goal of auditable financial statements by increasing the competencies and capabilities of the financial management workforce.

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III. Audit Readiness Target Dates and Interim Goals

This section of the Report provides the audit readiness target dates and interim goals for the FIAR priorities.

AUDIT READINESS TARGET DATES FOR KEY ELEMENTS OF THE FIAR PRIORITIES

To achieve audit readiness, the FIAR Methodology requires the DoD Components to focus on the key elements of the FIAR priorities (i.e., budgetary and mission critical asset information). This approach organizes improvement work by material end-to-end processes and provides an incremental method of achieving auditability and means for monitoring progress.

The key elements of the SBR include:

- Fund Balance with Treasury
- Civilian Pay
- Military Pay
- Contracts
- Reimbursables
- Military Standard Requisitioning and Issuing Procedures (MILSTRIP)
- Financial Reporting

The key elements of mission critical assets include:

- Military Equipment
- General Equipment
- Real Property

- Inventory
- Operating Materials and Supplies

Audit Readiness Target Dates

The Army, Air Force, and other Defense organizations are revising their Financial Improvement Plans (FIPs) to achieve an auditable SBR in 2014, as directed by the Secretary of Defense. The Navy's FIP, prior to the Secretary's direction, already depicted achieving an auditable SBR in FY 2014.

The target dates (fiscal years) for accomplishing the FIAR priorities are provided in Figures III-1 and III-2. Figure III-1 shows the Army, Navy, Air Force, and Defense Logistics Agency (DLA) completing validation of the full SBR in FY 2014. Figure III-1 also shows the key elements of the SBR that will be completed prior to FY 2014, based on the Navy's and DLA's current FIPs. When the Army, Air Force, and DLA revise their FIPs to achieve an auditable SBR in 2014, the target dates for some of the elements of the SBR may change.

Highlights of what is shown in the Figure III-1 and Figure III-2 follow:

- The Army will achieve audit readiness of its General Fund SBR in FY 2014 and mission critical assets in FY 2015.
- The Navy will achieve audit readiness of its General Fund SBR in FY 2014, and its mission critical assets will be audit ready in FY 2015.
- The Air Force will achieve audit readiness of its General Fund SBR in FY 2014, and mission critical assets will be audit ready in FY 2017.
- The DLA SBR will be audit ready in FY 2014, and mission critical assets will be audit ready in FY 2015.

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Figure III-1. Audit Readiness Validation Completion Target Dates for Key Elements of the Statement of Budgetary Resources

SBR Element	FY 2012	FY 2013	FY 2014
Fund Balance with Treasury			
<ul style="list-style-type: none"> • Civilian Pay • Contracts • Reimbursables • Financial Reporting 			
Military Pay			
Military Standard Requisitioning and Issue (MILSTRIP)			
Full SBR			

Legend: Army  Navy  Air Force  DLA 

Figure III-2. Audit Readiness Validation Completion Target Dates for Key Elements of Mission Critical Asset Existence and Completeness (E&C)

E&C Element	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Military Equipment						
Real Property						
Operating Materials and Supplies						
Inventory						
General Equipment						

Legend: Army  Navy  Air Force  DLA 

FIAR PRIORITY INTERIM AUDIT READINESS GOALS

The FIAR priorities to improve budgetary and mission critical asset information were established in August 2009, and at that time, the USD(C) required the DoD Components to identify interim goals for achieving the priorities. Interim goals are defined as goals to be achieved within two years. With the end of FY 2011, the interim goals now extend through FY 2013. Figures III-4 and III-5 provide the DoD Component interim goals for FY 2012 and FY 2013.

The interim goals are essential to ensuring incremental progress is being made by the Components. The goals also provide visibility of current and near-term FIAR activity for senior leadership including the Deputy Secretary of Defense, who will be closely monitoring progress in achieving the FY 2012 goals.

The May 2011 Report contained interim audit readiness goals for FY 2011, as shown in Figure III-3. Six of the eight goals were met during the year. The remaining two goals, described below, will be completed in Quarter 1 of FY 2012,

- Air Force asserted military equipment existence and completeness audit readiness in December 2010, review of the assertion and recommendation for examination was completed in August 2011, but the examination scheduled to begin in the Quarter 4 of FY 2011 by the DoD Inspector General was delayed.
- U.S. Marine Corps FY 2011 SBR audit reported to be completed in Quarter 4 has not been completed as of the date of this Report; however, the audit is continuing and an opinion is possible by the end of calendar year 2011.

The FY 2012 goals include:

- Army will begin an independent public accounting (IPA) firm examination of Army Wave 2 General Funds Enterprise Business System (GFEBS) sites in Quarter 3.
- Army will assert existence and completeness audit readiness of Operating Materials and Supplies Quick Wins in Quarter 3.

- Army will fully deploy GFEBS in Quarter 4.
- Navy will begin an IPA examination of one Major Defense Acquisition Programs in Quarter 1.
- Navy will assert audit readiness of Civilian Pay, Transportation of People, and Reimbursable Work Orders (Performer and Grantor) in Quarter 3.
- Navy will assert audit readiness for Financial Statement Compilation and Reporting in Quarter 4.
- Navy will assert audit readiness of Military Standard Requisitioning and Issue (MILSTRIP) Ordering in Quarter 4.
- Air Force will assert audit readiness of OM&S - Missile Motors in Quarter 1.
- Air Force will assert audit readiness of OM&S - Spare Aircraft Engines in Quarter 2.
- Air Force will assert audit readiness of a Scott Air Force Base (AFB) entity using Defense Enterprise Accounting and Management System (DEAMS) and assert audit readiness of one Major Defense Acquisition Program in Quarter 4.

Five (one Army and four Navy) interim audit readiness goals for FY 2012 that were reported in the May 2011 Report have changed. Figure III-6 identifies the five goals and provides an explanation for the changes. None of the changes impact the Army's or Navy's ability to achieve an auditable SBR in 2014 or achieve full audit readiness in 2017.

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Figure III-3. FY 2011 Audit Readiness Interim Goals for the FIAR Priorities

Audit Readiness Goals	FY 2011	
	Quarter 3	Quarter 4
Begin IPA Examination of Appropriations Received		
Begin IPA Examination of Army Wave 1 GFEBS Sites SBR		
Begin IG Examination of Military Equipment Existence and Completeness		
Achieve an Audit Opinion on USMC FY 2011 SBR		
Begin IPA Examination of Fund Balance with Treasury Reconciliation		

Legends: Army  Navy  Air Force 

Goal Met  Goal Delayed 

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Figure III-4. FY 2012 Audit Readiness Interim Goals for the FIAR Priorities

Audit Readiness Goals	FY 2012			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<ul style="list-style-type: none"> Begin IPA Examination of Army Wave 2 GFEBs Sites SBR Assert Existence and Completeness Audit Readiness of Operating Materials and Supplies Quick Wins 				
Fully Deploy GFEBs				
Begin IPA Examination of SBR Audit Readiness of One Major Defense Acquisition Program				
<ul style="list-style-type: none"> Assert SBR Audit Readiness for Civilian Pay Assert SBR Audit Readiness for Transportation of People Assert SBR Audit Readiness for Reimbursable Work Orders (Performer and Grantor) 				
<ul style="list-style-type: none"> Assert SBR Audit Readiness for Financial Statement Compilation and Reporting Assert SBR Audit Readiness for Military Standard Requisitioning and Issue (MILSTRIP) Ordering 				
Assert Existence and Completeness Audit Readiness of Operating Materials and Supplies – Missile Motors				
Assert Existence and Completeness Audit Readiness of Operating Materials and Supplies – Spare Engines				
<ul style="list-style-type: none"> Assert SBR Audit Readiness of Scott AFB Entity Using DEAMS Assert SBR Audit Readiness of One Major Defense Acquisition Program 				

Legend: Army  Navy  Air Force 

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Figure III-5. FY 2013 Audit Readiness Interim Goals for the FIAR Priorities

Audit Readiness Goals	FY 2013			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<ul style="list-style-type: none"> Begin IPA Examination of Existence and Completeness Audit Readiness of Real Property Begin IPA Examination of Army Wave 3 GFEBS Sites SBR 				
Begin IPA Examination of Reimbursable Orders (Performer and Grantor)				
Begin IPA Examination of Military Standard Requisitioning and Issue (MILSTRIP) Ordering				
Begin IPA Examination of SBR Audit Readiness of Contracts				
<ul style="list-style-type: none"> Begin IPA Examination of SBR Audit Readiness of Military Pay Begin IPA Examination of FBWT Reconciliation Full Deployment of Navy ERP 				
Full Deployment of Expeditionary Combat Support System (Release 1)				

Legend: Army  Navy  Air Force 

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Figure III-6. FY 2012 SBR Audit Readiness Goals that Have Changed

	Army	Navy			
Changed SBR Audit Readiness Goal	Fully Deploy GFEBS	Begin IPA Examination of Reimbursable Orders	Begin IPA Examination of MILSTRIP Orders	Begin IPA Examination of Contracts	Begin Examination of FBWT Reconciliation
Original Goal Dates	Quarter 2 of FY 2012	Quarter 2 of FY 2012	Quarter 2 of FY 2012	Quarter 2 of FY 2012	Quarter 4 of FY 2012
Reason(s) Goals Were Changed	The FY 2011 Continuing Resolution Authority delayed funding required to develop interfaces between the Logistics Modernization Program and GFEBS.	<ul style="list-style-type: none"> • Receipt and acceptance is not timely. • Reimbursable agreements are not adequately monitored, reconciled, or documented. • Authority delegation is not sufficiently supported. 	<ul style="list-style-type: none"> • Unable to identify obligation sources. • Lack of regular reconciliation between feeder systems and field level accounting system. 	<ul style="list-style-type: none"> • Further testing of contract processes, documentation, and systems is needed to achieve reasonable audit readiness assurance. 	<ul style="list-style-type: none"> • Inability to reconcile unmatched disbursements. • Audit Readiness Assurance is dependent on the Business Activity Monitoring (BAM) tool implementation.
Revised Goals	Quarter 4 of FY 2012	Quarter 1 of FY 2013	Quarter 2 of FY 2013	Quarter 3 of FY 2013	Quarter 4 of FY 2013
Actions to Ensure New Goals Will Be Met	Army senior leadership is closely monitoring GFEBS deployment through scheduled In-Process Reviews (IPRs) to ensure timely deployment.	The revised goals will be met as part of the Navy's overall audit readiness strategy and approach to achieving an auditable SBR in FY 2014. Segment specific assertion strategies have been developed and defined within the Integrated Plan of Action and Milestones (POA&M). These strategies include risk assessment, corrective action, remediation, and evaluation.			
Impact on Achieving SBR Auditability in 2014	None	None			

IV. Audit Readiness Resources

Applying the right level of resources to achieving the FIAR goals and priorities in a time of significant budget constraints is challenging, but it has the attention of the Department’s senior leaders, who are balancing competing funding requirements and applying an appropriate level of resources to FIAR efforts.

The FIAR activities funded by the amounts in Figure IV-1 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.

Audit Readiness includes the resources for evaluation, discovery, and corrective actions of the Components and their service providers (e.g., Defense Finance and Accounting Service) 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.

Validations and Audits includes the resources for validations, examinations, and financial statement audits conducted by IPAs.

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 make needed and cost-effective changes to legacy systems that will be part of the audit ready systems environment. Financial System resources include: design, development, deployment, interfaces, data conversion and cleansing, independent verification and validation and testing, implementation of controls and control testing, and system and process documentation.

The amounts reported in Figure IV-1 may change based on modifications to financial improvement plans being made by the DoD Components to accelerate audit readiness of the SBR in 2014 in accordance with the direction of Secretary Panetta.

Figure IV-1. DoD FIAR Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Audit Readiness								
Department of Defense	\$ 135	\$ 170	\$ 188	\$ 178	\$ 170	\$ 158	\$ 169	\$ 138
DFAS Audit Readiness Support	-	30	53	57	58	59	60	60
Service Audit Agency Audit Readiness Support	9	20	15	15	16	16	16	16
Audit Readiness Subtotals	\$ 144	\$ 220	\$ 256	\$ 250	\$ 244	\$ 233	\$ 245	\$ 214
Validations and Audits								
Validations and Audits	\$ -	\$ 8	\$ 13	\$ 24	\$ 31	\$ 36	\$ 21	\$ 36
Audit Readiness and Validations and Audits Subtotal	\$ 144	\$ 228	\$ 269	\$ 274	\$ 275	\$ 269	\$ 266	\$ 250
Financial Systems								
Non-Enterprise Resource Planning (ERP) Systems	\$ 77	\$ 72	\$ 72	\$ 62	\$ 52	\$ 49	\$ 46	\$ 40
ERP Systems	1,423	1,685	1,600	1,591	1,264	1,513	1,163	873
Financial Systems Subtotal	\$ 1,500	\$ 1,757	\$ 1,672	\$ 1,653	\$ 1,316	\$ 1,562	\$ 1,209	\$ 913
Total Resources	\$ 1,644	\$ 1,985	\$ 1,941	\$ 1,927	\$ 1,591	\$ 1,831	\$ 1,475	\$ 1,163

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Appendix 1. Commonly Used Acronyms

Acronym	Definition
ADM	Acquisition Decision Milestone
ADNI	Associate Director of National Intelligence
AFB	Air Force Base
APSR	Accountable Property System of Record
BAM	Business Activity Monitoring
CFO	Chief Financial Officer
CMO	Chief Management Officer
CY	Calendar Year
DAI	Defense Agencies Initiative
DEAMS	Defense Enterprise Accounting and Management System
DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency

Acronym	Definition
DNI	Director of National Intelligence
DoD	Department of Defense
DoD IG	Department of Defense Inspector General
DON	Department of the Navy
ERP	Enterprise Resource Planning
E&C	Existence and Completeness
FBWT	Fund Balance with Treasury
FDD	Full Deployment Decision
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness
FIP	Financial Improvement Plan
FY	Fiscal Year
GFEBs	General Fund Enterprise Business System
IC	Intelligence Community

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Acronym	Definition
IPA	Independent Public Accountant (or Accounting Firm)
MDAP	Major Defense Acquisition Program
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MOCAS	Mechanization of Contract Administration Services
NBV	Net Book Value
NDAA	National Defense Authorization Act
NGA	National Geospatial-Intelligence Agency
NSA	National Security Agency
OM&S	Operating Materials and Supplies
OUSD	Office of the Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
POA&M	Plan of Action and Milestones
SBR	Statement of Budgetary Resources
USD	Under Secretary of Defense
USD(C)	Under Secretary of Defense (Comptroller)
USMC	United States Marine Corps



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