purposes of this priority, mission critical assets are:

- Military Equipment (ME) (e.g., ships, aircraft, combat vehicles),
- Real Property (RP) (e.g., land, buildings, structures, construction in progress, facilities),
- Inventory (INV) (e.g., rations, supplies, spare parts, fuel),
- Operating Materials and Supplies (OM&S) (e.g., ammunition, munitions, missiles), and
- General Equipment (GE) (e.g., material handling equipment, training equipment, special tooling, and special test equipment).

Financial management information necessary for the management of the Department's mission critical assets is also required to support future financial statement audits. This financial management information 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/organization),
- Operational Status (e.g., active, closed, disposed),
- Item Description (e.g., building headquarters, base library), and
- 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). Ensuring that asset accountability and important management information relevant to mission critical assets is accurately recorded in each reporting entity's APSRs is the objective of this priority. Please see FIAR Guidance website for the ***Existence and Completeness Financial Management Data Fields Definitions and Supporting Documentation requirements*** document.

Accomplishing this priority will improve important management information about mission critical assets and move the Department closer to achieving financial statement auditability and reliable financial information. The existence and completeness (E&C) of assets are two of the four financial statement assertions that financial statement auditors will test in Wave 3. **Reporting entities must ensure that all assets recorded in their APSR exist (Existence), all of the reporting entities' assets are recorded in their APSRs (Completeness), reporting entities have the right to report all assets (Rights) and assets are consistently categorized, summarized and reported period to period (Presentation and Disclosure).** The fifth financial statement assertion, Valuation, will not be addressed until Wave 4.

2.C Strategy

Since 2005, when the first FIAR Plan was published, the Department's strategy for achieving improved financial information and auditability has evolved to be more focused, effective, and consistent across the reporting entities. The FIAR Strategy (Strategy) incorporates refinements and remains:

- Incremental and prioritized;
- Guided by a Methodology (Business Rules);
- Integrated with the requirements of OMB Circular A-123, Appendix A;
- Integrated with the implementation of the CFO Act and Federal Financial Management Improvement Act (FFMIA) (DoD FMR Vol.1 Chap 3);
- Integrated with the modernization of business and financial systems;
- Based on decentralized, reporting entity-level execution; and
- Comprehensive by focusing improvements on policies, processes and controls, systems and data, audit evidence, and human capital.

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

Each of the Department's material financial statement line items is affected by unique and complex accounting and auditing challenges that must be overcome to achieve auditability and reliable financial information. **The Strategy groups and prioritizes the material business processes (that result in activity reported on various financial statement line items) within four waves, and then summarizes the steps each reporting entity must take to address each wave.** The waves and steps are prioritized based on the USD(C) priorities, known challenges, and the related dependencies of financial statements, line items and business processes on one another. The Strategy "waves" representing significant levels of effort and accomplishments are noted on **Figure 3.**

Figure 3. FIAR Strategy includes 4 Prioritized Waves to Achieve Full Financial Statement Audits

The Department's Strategy draws from the strengths of several alternative approaches and groups individual end-to-end processes into one or more waves. It provides coverage of all financial statements, while prioritizing and improving information most often used by DoD management and the war fighter. Furthermore, as depicted in **Figure 3**, the four waves will lead to interim audit-ready milestones and ultimately to a full-scope financial statement audit. **The reporting entities must ensure appropriate controls are in place and operating effectively**

for relevant financial reporting processes before asserting that each wave is audit ready (e.g., controls over the presentation and disclosure over the SBR must be asserted as ready at the end of Wave 2). The first three waves should be performed concurrently because they focus on both of the USD(C)'s priorities, budgetary information and mission critical asset information. Once reporting entities achieve audit readiness for Waves 1, 2, and 3, they should commence Wave 4 audit readiness activities.

Previously, the Strategy included a fifth wave that required a full audit (including the valuation of existing assets). However, based on a business case analysis performed by the Department, all assets will not be subject to the valuation assertion. Refer to section 2.E for discussion of the business case analysis.

The following sections discuss critical aspects of each wave, including the key capabilities that must be reached to demonstrate audit readiness and related success criteria and challenges.

2.C.1 Wave 1 – Appropriations Received Audit

Accurate and timely recording of appropriations and other 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 its mission and operational requirements could be jeopardized and could affect the Department's ability to defend the Nation and its allies. Inaccurate budget authority information could also result in over obligation and expenditures resulting in Antideficiency Act violations.

Recognizing the importance of budgetary information, on August 11, 2009, the USD(C) established the Department's financial improvement priorities. The goal of one of the priorities is accurate and reliable budgetary information, as validated by an SBR audit.

A key element of the SBR is the appropriations receipt and distribution process, which reflects the current fiscal year's appropriated funds. It also includes apportionment and re-apportionment activity by OMB as well as allotment and some sub-allotment activity. **Recognizing the importance of the Department's ability to record properly such funding activity in budget and accounting systems, the USD(C) directed that appropriations received and funds distribution be prepared for audit.**

Wave 1 processes and related controls include activities performed to control and record transactions related to: (1) the receipt of the budget ("Appropriations Received"), and (2) the distribution of the budget to the major command level. Once Wave 1 related processes and controls have achieved audit readiness, it will demonstrate to Congress and the public that the Department's annual funding has been accurately recorded, controlled, and allocated, and that the funds have been accurately recorded in its financial statements. Successful achievement of Wave 1 will also instill more congressional confidence in the Department's budget processes and budget requests. The processes in this wave include Budget-to-Report, including Fund Balance with Treasury (FBWT).

Although this assertion covers controls that are in place to prevent over-issuance of budget authority, it does not include controls required to prevent over-obligation of budget authority. Controls to prevent over-obligation of appropriated funds are addressed in Wave 2, SBR Audit, which covers all processes, internal controls, systems and supporting documentation that must be audit ready before the entire SBR can be audited.

The goal of audit readiness is for the reporting entity to design and implement control activities that limit the risk of material misstatements by achieving the KCOs and support account balances with sufficient and appropriate audit evidence, defined as KSDs and found in **Appendix C**, supplemented with the reporting entity's own documentation requirements.

2.C.1.1 Key Capabilities, Capability Measures, and Success Criteria

Key Capabilities and Capability Measures

Reporting entities must achieve key capabilities while working to complete Wave 1. Reaching these key capabilities demonstrates a reporting entity's Appropriations Received audit readiness. The key capabilities are aligned with the capability measures, as shown in **Figure 4.**

These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress towards achieving these capabilities.

Key Capabilities	Definitions/Capability Measures
1. Effective controls over recording Appropriations	**Reporting entities must design and implement control activities to achieve KCOs for recording Appropriations.** See Wave 1 KCOs in **Appendix C**, for a complete listing of relevant KCOs. • % of appropriation control activities assessed • % of appropriation control activities determined effective
2. Retain and make available supporting documentation to meet audit standards	**Reporting entities must ensure that adequate documentation is readily available for an Appropriations Received audit.** See Wave 1 KSDs, in Appendix C, for minimum documentation requirements. • % of supporting documentation assessed • % of supporting documentation determined sufficient

Figure 4. Appropriations Received Key Capabilities

Success Criteria

To achieve audit readiness for Appropriation Received, a reporting entity must:

- **Design and implement control activities that limit the risk of material misstatements by meeting all relevant KCOs defined in Appendix C, and**
- **Support account transactions and balances with sufficient audit evidence defined as KSDs in Appendix C, supplemented with the reporting entity's own documentation requirements.**

Reporting entities must test their control activities and supporting documentation to ensure audit readiness. In most cases, auditors will need to test both controls and supporting documentation to support their audit opinion. The more reliance the auditor can place on the reporting entity's internal controls, based on their test of controls, the less testing of supporting documentation will be needed. A high reliance on internal controls yields a more effective and efficient audit, lowering the cost of the audit and the impact on the reporting entity personnel and operations.

2.C.1.2 Common Challenges

Each wave contains accounting and auditing challenges that must be resolved for reporting entities to become audit ready. For example, during Wave 1 reporting entities must ensure that:

- **They are capable of supporting the completeness of funds distributed to the major commands or equivalent. Reporting entities must demonstrate completeness of funds distribution by reconciling the current year budget authority apportioned and allotted to USSGL accounts 4510 and 4610 of the general ledger to the fund distribution system. The reconciliation must identify current year budget authority as an element of the entire**

balance, which includes beginning balances, reductions for executed funds, and upward/downward adjustments, recorded in these accounts.

- **Internal controls and supporting documentation are appropriately evaluated and maintained for all material funds sub-allotted to other DoD organizations (e.g., U.S. Army Corps of Engineers (USACE), Naval Facilities Engineering Command (NAVFAC)).**

2.C.2 Wave 2 – SBR Audit

The SBR presents all budgetary resources that a reporting entity has available, the status of those resources at period end, a reconciliation of changes in obligated balances from the beginning to the end of the period, and cash collections and disbursements for the period reported. A Wave 2 SBR audit includes all processes, internal controls, systems and supporting documentation that must be audit ready before the SBR can be audited. Significant processes in this wave include Procure-to-Pay, Hire-to-Retire, Order-to-Cash, and Budget-to-Report, including Fund Balance with Treasury (FBWT).

2.C.2.1 Key Capabilities, Capability Measures, and Success Criteria

Key Capabilities and Capability Measures

The FIAR Directorate has defined key capabilities that reporting entities must achieve to complete Wave 2. These are major capabilities that reporting entities must achieve and sustain to demonstrate SBR audit readiness. The key capabilities are aligned with the capability measures, as shown in **Figure 5**. These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress in achieving these capabilities.

Key Capabilities	Definitions/Capability Measures
1. Effective FBWT transaction-level reconciliations and reporting to Treasury	**Reporting entities must design and implement control activities to meet KCOs for FBWT.** See Wave 2 FBWT KCOs Table in **Appendix C** for a complete listing of relevant KCOs. • % of FBWT control objectives assessed • % of FBWT control activities determined effective
2. Effective controls over recording and maintaining obligations	**Reporting entities must design and implement control activities to meet KCOs for recording obligations.** See Wave 2 KCO table in **Appendix C** for a complete listing of KCOs relevant to the obligations incurred. • % of obligation control objectives assessed • % of obligation control activities determined effective
3. Effective controls over recording receipt of goods or services	**Reporting entities must design and implement control activities to meet KCOs for recording receipt of goods or services.** See Wave 2 KCO table in **Appendix C** for a complete listing of relevant KCOs. • % of receipt control objectives assessed • % of receipt control activities determined effective
4. Effective controls over recording disbursements	**Reporting entities must design and implement control activities to meet KCOs for recording disbursements.** See Wave 2 KCO table in **Appendix C** for a complete listing of KCOs relevant to disbursements/outlays. • % of disbursement control objectives assessed • % of disbursement control activities determined effective

Key Capabilities	Definitions/Capability Measures
5. Retain and make available supporting documentation to meet audit standards	Reporting entities are responsible for ensuring adequate documentation is readily available for all material line items. See Wave 2 KSD table, in Appendix C, for minimum documentation requirements. • % of supporting documents assessed • % of supporting documents determined sufficient (adequately retained and readily available)

Figure 5. SBR Key Capabilities

Success Criteria

To achieve SBR audit readiness, a reporting entity, in coordination with its service provider(s) must:

- **Have designed and implemented control activities that limit the risk of material misstatements by meeting all relevant KCOs defined in Appendix C, and**
- **Be able to support account transactions and balances with sufficient audit evidence defined as KSDs in Appendix C, supplemented with the reporting entity's own documentation requirements.**

Reporting entities must test their control activities and supporting documentation to ensure audit readiness. In most cases, auditors will need to test both controls and supporting documentation to support their audit opinion. The more reliance the auditor can place on the reporting entity's internal controls based on their test of controls, the lesser the amount of testing of supporting documentation they will need to complete. A high reliance on internal controls yields a more effective and efficient audit, lowering the cost of the audit and the impact on the reporting entity personnel and operations.

2.C.2.2 Common Challenges

Each wave contains accounting and auditing issues that must be resolved for reporting entities to progress towards audit readiness. For example, during Wave 2 reporting entities must address:

- **Beginning balances for FBWT. Given the long life of Federal appropriations, reporting entities must keep a minimum of six to 10 years of documentation to support all funding, collections, disbursements, adjustments, and reconciliation activity (note: audit requirements are different from National Archives and Records Administration (NARA) requirements).**
- **Complexities surrounding shared Treasury accounts. Reporting entities sharing Treasury accounts must work with their service provider to ensure that internal controls and supporting documentation are in place to support an SBR audit, especially to ensure suspense account items are assigned to the correct entity.**
- **Reconciliation and traceability of interagency agreements, including Military Interdepartmental Purchase Requests (MIPR). Due to the limited capabilities of existing**

accounting systems, reporting entities are not always able to capture sufficient trading partner information needed to reconcile intragovernmental transactions and balances. Additionally, some reporting entities have difficulty in tracing recorded interagency agreements back to originating source documentation (e.g., interagency agreement, invoices, receiving reports).

- **Accounts Payable Accruals. Because goods/services are partially or fully delivered in advance of invoices, reporting entities should design effective accrual processes to ensure that goods or services received are recorded in the SBR in the proper period.**

- **Dependencies on service provider(s) processes and controls for efficient and effective execution of its end-to-end business processes.**

As reporting entities continue to work on Wave 2, additional accounting and auditing issues may be identified. Reporting entities should report issues in their FIPs, allowing them to track progress for resolution and assign resources and dependencies based on related key tasks.

2.C.3 Wave 3 – Mission Critical Asset E&C Audit

Mission Critical Asset E&C audit focuses primarily on the E&C financial statement assertions, but also includes the Rights assertion and portions of the Presentation and Disclosure assertion. That is, **reporting entities must ensure that all assets recorded in their APSR exist (Existence), all of the reporting entities' assets are recorded in their system (Completeness), reporting entities have the right to report all assets (Rights),** and assets are consistently categorized, summarized, and reported period to period (Presentation and Disclosure). **The asset categories included in this wave include ME, RP, INV, OM&S, and GE.** This will allow the Department and its reporting entities to demonstrate the E&C of its assets before focusing on the reported value of the assets.

2.C.3.1 Key Capabilities, Capability Measures, and Success Criteria

Key Capabilities and Capability Measures

The FIAR Directorate has defined key capabilities that reporting entities must achieve to successfully complete Wave 3. These are key capabilities the reporting entities must achieve and sustain to demonstrate E&C audit readiness. The key capabilities are aligned with the capability measures, as shown in **Figure 6**. These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress towards achieving these capabilities.

Key Capabilities	Definitions/Capability Measures
1. Effective physical inventories that meet audit standards	**Reporting entities must design and implement physical inventory count procedures and documentation that will withstand audit scrutiny.** See DoDI 4140.1 R, 4000.25-M, 4000.25-2M, 5100.76-M, 4165.14, 5000.64 for the Department's instructions for physical inventory counts. % of assets subject to physical inventory within the required time span
2. Effective controls over recording asset acquisitions, disposals and transfers	**Reporting entities must design and implement control activities to meet KCOs for recording asset acquisitions, disposals, and transfers.** Adjustments to physical inventory counts are an indication of the effectiveness of controls over recording acquisitions, disposals, and transfers of assets. % of physical inventory adjustments
3. Retain and make available supporting documentation to meet audit standards	**Reporting entities must ensure adequate documentation is readily available for an E&C audit.** See Wave 3 KSD table, in Appendix C, for minimum documentation requirements. • % of supporting documents assessed • % of supporting documents determined sufficient (adequately retained and readily available)
4. Effective controls over financial and management data in the Accountable Property Systems of Record	**Reporting entities must ensure the accuracy of Financial and Management data in preparation for an E&C audit.** See Wave 3 Financial Management Data Table in Appendix C for minimum data fields validation requirements. # of data fields blank out of total data fields

Key Capabilities	Definitions/Capability Measures
5. Effective processes, controls and system improvements	**Reporting entities must design and implement corrective actions to remediate weaknesses in processes, internal controls, and supporting financial related systems.** • % of corrective actions complete (per FIPs) • % of assessable units validated

Figure 6. Wave 3 Key Capabilities

Success Criteria

To achieve E&C audit readiness, a reporting entity, in coordination with its service provider(s) must:

- **Have designed and implemented control activities that limit the risk of material misstatements by meeting all relevant KCOs defined in Appendix C, and**
- **Be able to support account transactions and balances with sufficient audit evidence defined as KSDs in Appendix C, supplemented with the reporting entity's own documentation requirements.**

Reporting entities and service providers must test their control activities and supporting documentation to ensure audit readiness. In most cases, auditors will need to test both controls and supporting documentation to support their audit opinion. The more reliance the auditor can place on internal controls based on their test of controls, the lesser the amount of testing of supporting documentation they will need to complete. A high reliance on internal controls yields a more effective and efficient audit, lowering the cost of the audit and the impact on the reporting entity personnel and operations.

2.C.3.2 Common Challenges

Each wave is subject to accounting and auditing issues that must be resolved to progress towards audit readiness. For example, during Wave 3 reporting entities must address:

- **Units of Measure – Implementing standard definitions for units of inventory and assets to ensure that item counts are accurate (e.g., will airframes be separately counted from engines or the two items together comprise one asset record within the APSR?).**
- **Rights to Assets – Work with leading OSD offices to implement business rules around co-located facilities (joint basing) and assets purchased by others (e.g., USMC aircraft).**
- **Reworked Assets – Implement a standard and consistent method for tracking and reporting assets that are removed from a larger asset, reworked or otherwise modified and then integrated into a different asset (e.g., aircraft engines).**
- **Physically Isolated Assets – Implement techniques and methods for demonstrating the existence of assets that are not easily inspected (e.g., assets located in space or underwater).**
- **Dependencies on service provider(s) processes and controls for efficient and effective execution of its end-to-end business processes.**