

C.4 WAVE 4 – FULL AUDIT EXCEPT FOR EXISTING ASSET VALUATION

Wave 4 assertions include the proprietary side of budgetary transactions covered in Wave 2, as well as Accounts Receivable, Earned Revenue, Accounts Payable, Gross Cost and Other Liabilities. In addition, this wave adds the valuation assertion for assets (i.e., real property, general equipment, inventory, and operating materials and supplies). However, based on the results of a business case analysis performed by the Department not all of the assets of these types will be subject to the valuation assertion.

The business case analysis concluded that the value of historical cost information for existing military equipment, real property, general equipment, inventory, and operating materials and supplies did not merit spending additional resources to establish auditable historical costs for existing assets. Refer to Section 2.E for additional details.

C.4.1 Readiness Scope

Reporting entity audit readiness efforts must include all remaining processes, controls, and supporting documentation that result in financial transactions and balances that are material to their financial statements, except for those related to existing asset valuation. To effectively remediate new PP&E acquisition processes, reporting entities must identify the date they will be able to establish processes and practices (i.e., adequate systems and internal control practices) for future acquisitions. This is consistent with another conclusion from the business case, the Department will not spend resources to support the capitalized cost of existing general equipment, real property, inventory, and operating materials and supplies until it has the capability to capture transaction costs and retain documentation to support the recorded amounts.

Because reporting entities are at different stages in implementing new information technology systems and in improving business processes they must individually establish dates by type of asset – effectively acquisition dates – after which they expect to have supportable acquisition cost information. Depending on the type of asset and the reporting entity, those dates may be in the past or in the future after a reporting entity implements a new system or systems. For example, a reporting entity may have had effective processes and controls for real property since FY 2004. In that instance, the reporting entity could assert that the historical cost amounts for real property acquired during or after FY 2004 are auditable. Another reporting entity might not be able to assert that the historical cost information for its inventory is auditable until it completes implementation of an ERP. The selected dates must be disclosed in the financial statements and when asserting audit readiness.

C.4.2 Risks, Key Control Objectives and Key Supporting Documents

Risks

The following table presents the key ROMM related to Wave 4, including those specific to the valuation of new asset acquisitions. A reference to the source of each risk is included in parentheses. **These risks must be mitigated by designing and implementing control activities.** Refer to the KCOs in the table following this table for further details.

Wave 4 – Full Audit Except for Existing Asset Valuation Key Risks of Material Misstatement	
Financial Statement Assertion	Key Risks of Material Misstatement
Existence	<ol style="list-style-type: none"> 1. Recorded pension amounts are not representative of pensions earned by employees. (FAM 395B: 1) 2. Recorded Environmental Liabilities are not representative of legal environmental costs incurred by the entity. (FAM 395B: 1) 3. Recorded Environmental Liabilities do not pertain to the entity. (FAM 395B: 1) 4. Advances from Others, Accrued Unfunded Annual Leave and/or Contingent Liabilities do not pertain to the entity. (FAM 395B: 1) 5. Recorded Non-Exchange Revenue does not represent economic events that actually occurred or do not pertain to the entity. (FAM 395B: 1) 6. Imputed Financing costs do not represent economic events that actually occurred or do not pertain to the entity. (FAM 395B: 1) 7. Recorded Depreciation Expense does not represent depreciation cost incurred by the related asset. (FAM 395B: 1) 8. Transactions are recorded in the current period but the related economic events occurred in a different period. (FAM 395B: 2)* 9. Transactions are summarized improperly, resulting in an overstated total. (FAM 395B: 3)* 10. Recorded assets and liabilities do not exist at a given date. (FAM 395B: 4)** 11. Adjusting entries are not representative of events that actually occurred, were not properly classified or supported by valid supporting documentation. (FAM 395B: 1c)*
Completeness	<ol style="list-style-type: none"> 12. Valid pension liabilities were not recorded or are improperly summarized. (FAM 395B: 5) 13. Valid Environmental liabilities were not recorded or are improperly summarized. (FAM 395B: 5) 14. Advances from Others, Accrued Unfunded Annual Leave and/or Contingent Liabilities were not recorded or were improperly summarized. (FAM 395B: 5) 15. Valid Exchange Revenue transactions were not recorded or were improperly summarized. (FAM 395B: 5) 16. Valid Imputed Financing transactions were not recorded or were improperly summarized. (FAM 395B: 5) 17. Depreciation Expense was not recorded or was improperly summarized. (FAM 395B: 5) 18. Economic Events occurred in the current period, but the related transactions are recorded in a different period. (FAM 395B: 6)* 19. Transactions were summarized improperly, resulting in an overstated total. (FAM 396B: 7)* 20. Assets and liabilities of the entity exist but are omitted from the financial statements. (FAM 395B: 8)**
Valuation	<ol style="list-style-type: none"> 21. Transactions were recorded at incorrect amounts. (FAM 395B: 9) 22. Assets and liabilities included in the financial statements are valued at incorrect amounts. (FAM 395B: 10) 23. Assets and related book values included in the financial statements are valued on an appropriate basis.(FAM 395B: 10) 24. Revenues and expenses included in the financial statements are measured improperly. (FAM 395B: 11)
Presentation and Disclosure	<ol style="list-style-type: none"> 25. Accounts or the transactions they accumulate are not properly classified and described in the financial statements. (FAM 395B: 15)* 26. The current period financial statement components are based on accounting principles different than those used in the prior periods presented. (FAM 395B: 16)* 27. Information needed for fair presentation in accordance with U.S. GAAP is not disclosed in the financial statements or in the related footnotes. (FAM 395B: 17)*
Rights and Obligations	<ol style="list-style-type: none"> 28. The entity does not have an obligation for recorded liabilities at a given date. (FAM395B: 14)
<p>* Risks applies to all line items ** Risks apply to balance sheet line items.</p>	

Note: This table only includes a sample of information and will be expanded in a future version of the FIAR Guidance.

Key Control Objectives

The table below presents the KCOs that must be achieved in Wave 4 by the reporting entity designing and implementing effective control activities. Each KCO has been linked to its relevant financial statement assertions (as indicated with an “X” in the relevant columns), including if the KCO relates to compliance with laws and regulations. At the end of each KCO is a source reference. This is not a complete listing of control objectives, but rather those KCOs needed to address key risk areas most likely to be present based on the Department’s experience. **Reporting entities must apply judgment to determine if additional KCOs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B for a list of general control objectives based on financial statement assertions.

Wave 4 – Full Audit Except for Existing Asset Valuation Key Control Objectives							
Asset Categories	Key Control Objectives	Financial Statement Assertions					Compliance
		Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations	
Military Equipment	1. Ensure balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 15, 16, and 17).**				X		
Real Property	2. Ensure all assets are recorded at full cost in the general ledger at correct amounts (FAM 395B: 9, 10).			X			
General Equipment ¹	3. Ensure the net book value of assets is accurate and related depreciation, depletion and amortization is accumulated, based on the capitalized cost, useful life, date of service, and salvage value, if applicable (FAM 395B: 10).			X			
	4. Ensure transferred, sold, excess, unusable, or idle GE assets are timely and properly recorded at correct amounts (FAM 395B: 9, 10).			X			
Inventory Operating Material and Supplies	5. Ensure balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 15, 16, 17).**				X		
	6. Ensure all assets are recorded at full cost in the general ledger at correct amounts (FAM 395B: 9, 10).			X			
	7. Ensure transferred, sold/consumed , excess, unusable, or idle assets are timely and properly recorded (FAM 395B: 10).			X			

¹ The PP&E Category for Wave 4 only addresses key control objectives as they relate to the Accuracy & Valuation and Presentation & Disclosure Assertions. The control objectives addressing Existence and Completeness are discussed in Wave 3, “Mission Critical Asset E&C Audit”.

Wave 4 – Full Audit Except for Existing Asset Valuation Key Control Objectives							
Asset Categories	Key Control Objectives	Financial Statement Assertions					Compliance
		Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations	
Military Retirement Health Benefits	8. Ensure actuarial calculations related to military retirement benefits are supported by complete and accurate data, and valid assumptions that comply with specified laws and regulations.	X	X	X		X	
	9. Ensure military retirement benefits accruals are properly allocated across appropriate reporting periods (FAM 395B: 2, 6).	X	X				
	10. Ensure actuarial calculations related to military retirement benefits are summarized and recorded in the financial statements accurately (FAM 395B: 3, 7, 9).	X	X	X			
	11. Ensure Military Retirement Health Benefit accrual balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 15, 16, 17).**				X		
Environmental Liabilities	12. Ensure Environmental Liabilities balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 15, 16, and 17).**				X		
	13. Ensure all potential Environmental Liabilities are recorded at full cost in the general ledger (FAM 395B: 9, 10).			X			
	14. Ensure consistent use of appropriate methodologies for valuing Environmental Liabilities (FAM 395B: 16).			X			
	15. Ensure Environmental Liabilities are properly allocated across appropriate reporting periods (FAM 395B: 2, 6).	X	X				
	16. Ensure calculations related to Environmental Liabilities are summarized and recorded in the financial statements accurately (FAM 395B: 3, 7, 9).	X	X	X			
Other Liabilities Intragovernmental: Disbursing Officer Cash	17. Ensure all disbursing officer cash is recorded completely and accurately reflects amounts owed to Treasury.		X	X		X	
Other Liabilities Intragovernmental: FECA Reimbursement to DOL	18. Ensure all FECA reimbursements to DOL are recorded completely and accurately reflects amounts owed to DOL.		X	X		X	

Wave 4 – Full Audit Except for Existing Asset Valuation Key Control Objectives							
Asset Categories	Key Control Objectives	Financial Statement Assertions					Compliance
		Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations	
Other Liabilities Intragovernmental: Custodial Liabilities	19. Ensure all Custodial Liabilities are recorded completely and accurately reflects amounts owed.		X	X		X	
Other Liabilities Nonfederal:	20. Ensure advances from others and accrued unfunded annual leave represent events that actually occurred, are properly classified, and pertain to the entity (FAM 395B: 1c).	X					
Advances from Others	21. Ensure that appropriate individuals approve recorded contingent liabilities in accordance with management’s general or specified criteria (FAM 395B: 1b).	X					
Accrued Unfunded Annual Leave Contingent Liabilities	22. Ensure advances from others, accrued unfunded annual leave, and contingent liabilities are properly allocated across appropriate reporting periods (FAM 395B: 2, 6).	X	X				
	23. Ensure all valid transactions related to advances from others, accrued unfunded annual leave, and contingent liabilities are summarized and recorded in the financial statements accurately (FAM 395B: 3, 5, 7, 9).	X	X	X			
	24. Ensure recorded advances from others, accrued unfunded annual leave, and contingent liabilities are the entity’s obligation at a given date (FAM 395B:14).					X	
	25. Ensure advances from others, accrued unfunded annual leave, and contingent liabilities balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 15, 16, 17).**				X		
All Line Items	26. Adjusting entries are representative of events that actually occur, are properly classified and supported by valid supporting documentation (FAM 395B:1c).	X			X		
	27. Recorded assets and related processing procedures are authorized by federal laws, regulations, and management policy (FAM 395B: 1a)					X	X
	28. Access to assets, critical forms, records, and processing and storage areas is permitted only in accordance with laws, regulations, and management policy (FAM 395B: 4c)					X	X
	29. Persons do not have uncontrolled access to both assets and records; they are not assigned duties to put them in a position that would allow them to both commit and conceal errors or fraud (FAM 395B: 18)				X		

Wave 4 – Full Audit Except for Existing Asset Valuation Key Control Objectives						
Asset Categories	Key Control Objectives	Financial Statement Assertions				Compliance
		Existence	Completeness	Valuation	Presentation & Disclosure	
<p>**Components should review applicable sections of the GAO/PCIE FAM section 2010 Federal Accounting Checklist and 2020 Federal Reporting and Disclosure Checklists to ensure proper presentation and disclosures.</p>						

Note: This table only includes a sample of information and will be expanded in a future version of the FIAR Guidance.

Key Supporting Documents

The following table lists the minimum internal controls documentation and supporting documentation required to support activity and balances asserted as audit-ready for Wave 4. Each document indicates which financial statement assertions are potentially met by that specific document. Internal control documentation is marked as satisfying all financial statement assertions, because the specific control activities described in the internal control documentation will determine which financial statement assertions are met.

Wave 4 – Full Audit Except for Existing Asset Valuation Key Supporting Documents							
Key Supporting Documents		Financial Statement Assertions					
		Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations	
All Financial Statement Line Items	Internal Control Documentation	1. Statement-to-process analyses quantifying the dollar amount and volume of activity flowing through various processes and/or locations			X		
		2. Applicable policies and procedures			X		
		3. Process narratives and flowcharts			X		
		4. Control worksheets, identifying risks, KCOs and corresponding control activities			X		
		5. Test plans documenting detailed procedures used to test the operating effectiveness of control activities			X		
		6. Control assessments with test results			X		
		7. Evaluation of test results			X		
		8. Documentation evidencing the operation of internal control activities for the period under audit. Examples include: <ul style="list-style-type: none"> Approval signature documentation (electronic or manual) demonstrating authorization for an acquisition System edit checks alerting users that new obligations are for proper purpose and amount APSRs balances that reconcile to general ledger balances 			X		
		9. System inventory list, listing of system users and their access privileges.					
Asset Documentation	Transaction Documentation	10. Obligating documents such as contracts, reimbursable agreements, MIPRs, purchase orders, travel orders, payroll documents, etc.			X		
		11. Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the “book” and physically inspected on the “floor”), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD (AT&L) requirements.			X		
		12. Detailed listing of all assets from APSRs			X		
Military Retirement Health Benefits	Transaction Documentation	13. Summary schedule reporting the amounts/quantities by class of assets			X		
		14. Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule			X		
		15. Detail listing of factors, data, assumption, and formulas used to prepare the actuarial calculations for each sub-process involved in the projection.		X	X		

Wave 4 – Full Audit Except for Existing Asset Valuation Key Supporting Documents						
Key Supporting Documents		Financial Statement Assertions				
		Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations
Environmental Liabilities	16. Reconciliation of the detail listing of all assets in the APSR to the amounts reported by <u>the Treasury Department/FMS Judgment Fund</u> , including appropriate explanations for reconciling items.	X	X	X		X
	17. Record of Decision (ROD)	X		X		X
	18. Contract, invoices, receiving reports/status reports	X		X		
	19. Other clean-up cost estimates, if applicable			X		
	20. Data call results of site inspections, comparisons to EPA listings, other publicly available RCRA/CERCLA supporting documentation, etc. used to identify the complete population of environmental liabilities		X			
Other Liabilities Intragovernmental: Disbursing Officer Cash	21. DD Form 2657 Daily Statement of Accountability, DD Form 2665 Daily Agent Accountability Summary, DD Form 1081 Statement of Agent Officer’s Account-Advance of Funds/Return of Funds-Vouchers, and/or SF 1219 Statement of Accountability. GWA Treasury Statement.	X	X	X		X
Other Liabilities Intragovernmental: FECA Reimbursement to DOL	22. DOL FECA billings and IPAC subsequent payment documents	X	X	X		X
Other Liabilities Intragovernmental: Custodial Liabilities	23. Refer to Wave 2 SBR KSDs 32 and 33	X	X	X		X
Advances from Others (Other Liabilities Intragovernmental and Nonfederal)	24. Ordering Document: MIPR, Reimbursable Agreement, Customer Order, etc.	X				X
	25. IPAC/Goals report evidencing amounts advanced			X		
	26. Invoices, IPAC billings (using GOALS reports) supporting any reductions of advances for amounts earned			X		
Other Liabilities Nonfederal: Accrued Unfunded Annual Leave	27. Individual employee-level listing of hours, hourly rates, and total dollar amount of unfunded leave liability that reconciles to amount recorded in the financial statements		X	X		
	28. Timesheets & leave earning reports that support the amount of leave taken and earned, respectively, by pay period for individual employees			X		X
	29. SF-50s & SF-52s that support the hourly rate for leave liability calculation (supporting the grade/step/locality) for individual employees	X		X		

Wave 4 – Full Audit Except for Existing Asset Valuation Key Supporting Documents							
Key Supporting Documents			Financial Statement Assertions				
			Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations
Other Liabilities Nonfederal: Contingent Liabilities		30. Legal representation letter prepared by the Office of General Counsel (in accordance OMB Bulletin No. 07-04, Section 9)	X	X	X		X
		31. Management’s schedule of legal liabilities (in accordance OMB Bulletin No. 07-04, Section 9)	X	X	X		X
Depreciation Expense		32. DD-250, Receiving Report or DD-1354 to support placed in service date for asset			X		
		33. Mathematical calculations supporting recorded depreciation expense (demonstrating that the system is correctly calculating depreciation expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives and acquisition costs over the life of assets)			X		

Note: This table only includes a sample of information and will be updated in a future version of the FIAR Guidance.

C.4.3 Example Work Products

See Sections C.2.3 and C.3.3 for Wave 2 and Wave 3 specific work product examples.

C.4.4 Wave-Specific Audit Execution

Entities completing Wave 4 should be ready for a full-scope financial statement audit except for existing asset valuation. To prepare for full-audit, a reporting entity must clearly define and disclose what they classify as existing assets, in writing, to provide its auditors with clear boundaries of what is outside the scope of its audit readiness effort. Using this information, the auditor will be able to determine the impact of not having auditable costs for existing assets in relationship to the financial statements taken as a whole, the impact of which could result in a qualified or disclaimer of opinion.