

FINANCIAL IMPROVEMENT AND AUDIT READINESS (FIAR) PLAN STATUS REPORT



NOVEMBER 2014

UNITED STATES DEPARTMENT OF DEFENSE

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

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Table of Contents

Message from the Under Secretary of Defense (Comptroller)iii

Executive Summary ES-1

I. Department of the Army Audit Readiness Plans I-1

II. Department of the Navy Audit Readiness Plans..... II-1

III. Department of the Air Force Audit Readiness Plans III-1

IV. Other Defense Organizations Audit Readiness Plans IV-1

V. Service Providers Audit Readiness Plans V-1

VI. Enterprise Resource Planning Systems..... VI-1

Appendix 1. Acronyms A1-1

The FIAR Plan Status Report was prepared in accordance with section 1003 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010, as amended by the FY 2011, FY 2012, FY 2013, and FY 2014 NDAs. The Report addresses issues impeding the reliability of the Department of Defense financial statements and serves as the Department's annual Financial Management Improvement Plan, required by section 1008(a) of the NDAA for FY 2002.

Preparation of this Report cost the Department of Defense an approximate total of \$125,900.

Message from the Under Secretary of Defense (Comptroller)

Secretary Hagel and Deputy Secretary Work have repeatedly sent the strongest message to the men and women of the Department—getting our financial statements in order is a top priority. On June 27, 2014, I was sworn in as the Under Secretary of Defense (Comptroller)/Chief Financial Officer. I am proud to continue my service to the Department of Defense in this important position and am committed to leading the Department's audit readiness efforts and achieving the Secretary's priority.



The Department has made tremendous financial improvement progress. Recently, the chief management officers of the Military Departments asserted the Military Departments are prepared to begin audits on their current year appropriations in January 2015. In addition, a number of the other Defense organizations have asserted audit readiness and will be under audit in 2015. These assertions mark a noteworthy cultural shift from financial improvement to undergoing annual financial statement audits. Approximately 91 percent of the Department's fiscal year 2015 General Funds will be under audit this year.

Although there is more work to be done, we will continue to move the Department from audit readiness to audit. We will not let up until every Defense organization has achieved the Secretary's goal and the congressional mandate for validated full financial statement audit readiness by September 30, 2017, and, ultimately, has achieved a positive audit opinion.

A handwritten signature in black ink that reads "Michael McCord".

Michael McCord

Under Secretary of Defense (Comptroller)/
Chief Financial Officer

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Executive Summary

The Financial Improvement and Audit Readiness (FIAR) Plan Status Report details the Department of Defense (DoD) strategy, status, and accomplishments toward achieving audit readiness on the Statement of Budgetary Resources (SBR) by September 30, 2014, and validating audit readiness of all financial statements by September 30, 2017. Audit ready means the Department has strengthened internal controls and improved financial practices, processes, and systems so there is reasonable confidence the information can withstand an audit by an independent auditor.

Although the Department did not achieve the September 30, 2014, SBR deadline, significant progress was made. In January 2015, approximately 91 percent of fiscal year (FY) 2015 DoD appropriations will be under independent audit. This is a tremendous accomplishment, and the funds that will be under audit represent most of the financial information reported in the SBR. As annual audits are conducted, appropriation balances for prior years will carry forward to support full SBR audits.

Lessons learned from the FY 2015 audits will be invaluable in helping the Department meet its goal of validating full financial statement audit readiness by September 30, 2017. With less than three years remaining, the Department has expanded its priorities from budgetary data to all financial transactions. This expanded focus includes valuing and reporting over \$1 trillion in assets, accurately reporting environmental and other liabilities, and preparing Working Capital Fund financial statements for audit. Leadership is confident this expanded focus will keep the Department on the right path to full audit readiness.

LEADERSHIP AND GOVERNANCE

In recent years, the Department's leadership has demonstrated an ongoing commitment to audit readiness, which is critical to success. Secretary Hagel and Deputy Secretary Work continue to make audit



Deputy Defense Secretary Bob Work addresses top Defense Department leaders at the August 4, 2014, conference devoted to ODO audit readiness. (DoD photo by U.S. Navy Petty Officer 2nd Class Sean Hurt)

readiness a top priority by emphasizing to the Service Secretaries and other Department leaders the importance of strengthening internal controls and improving business and financial processes.

Deputy Secretary Work launched a new forum of senior political appointees, the Defense Executive Committee or DEXCOM, which meets twice a month to discuss high-priority issues. The second meeting of the DEXCOM focused entirely on financial statement audits. The message is being carried throughout the Department that the leadership team is serious about improving internal controls over business processes and systems, and is holding DoD leaders accountable.

Deputy Secretary Work also recently spoke to leaders of the other Defense organizations (ODOs) at an August 2014 meeting devoted to audit readiness, saying, "we are in an extraordinarily trying time financially." He challenged everyone in the room to be a champion

FIAR Plan Status Report

for audit readiness—to demand compliant processes and systems, to make audit readiness a part of everyone’s performance plan, and to be prepared to move out of audit readiness and into the business of being under audit. Ultimately, audit readiness elevates the Department’s credibility, helps leadership substantiate the need for resources, and reassures Congress and the American people we are good stewards of their funds.

On June 27, 2014, the Honorable Michael McCord was sworn in as the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), replacing Robert Hale who had served since 2009. Under Secretary McCord, who previously served as Principal Deputy Under Secretary of Defense (Comptroller), has reinforced the focus of being audit ready by the end of FY 2017. He and Acting Deputy Chief Management Officer (DCMO) David Tillotson meet quarterly with the Military Departments’ financial managers, their DCMOs, acquisition leaders, technology leaders, and logistics leaders to discuss how the Department is addressing impediments to obtaining a positive audit opinion. Participants in these meetings also examine other topics, such as lessons learned from successful financial statement audits at the Department of Homeland Security.

Additionally, the Department has maintained a formal FIAR governance process comprising most of the Department’s financial management senior political leaders, senior executives, and senior action officers, who attend regularly scheduled FIAR Governance Board, FIAR Committee, and FIAR Subcommittee meetings. At these meetings, senior leadership and Component representatives discuss audit readiness status, plans, risks, and challenges, such as how the Department will apply accounting standards for asset valuation.

FINANCIAL STATEMENT AUDIT OPINIONS

Achieving audit ready financial information for the DoD Consolidated Financial Statements by September 30, 2017, is the goal of every Component. To date, six ODOs have received unmodified opinions on their FY 2013 financial statements, and one

ODO has received a modified opinion. These Components will continue to prepare stand-alone, audited financial statements.

Figure ES-1 lists the Components that have already achieved the goal of auditing full financial statements and received audit opinions in previous years and on their FY 2013 financial statements.

Figure ES-1. Financial Statement Audit Opinions

FY 2013 Unmodified Audit Opinions
U. S. Army Corps of Engineers – Civil Works
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Health Agency – Contract Resource Management
Military Retirement Fund
FY 2013 Modified Audit Opinions
Medicare-Eligible Retiree Health Care Fund

STATEMENT OF BUDGETARY RESOURCES

In August 2009, the USD(C)/CFO directed the Department to focus FIAR efforts on the information most often used to manage: budgetary information reported in the General Fund Statement of Budgetary Resources. In October 2011, Secretary Panetta required the SBR to be audit ready by September 30, 2014, and Congress codified the Secretary’s SBR requirement in the National Defense Authorization Act of 2012. The DoD Components responded by accelerating their financial improvement plans and aggressively working to improve financial and business processes, test and strengthen internal controls, and modernize or retire legacy systems used to manage and report budgetary resources.

Schedule of Budgetary Activity

In FY 2010, the U.S. Marine Corps became the first Component to begin an SBR audit. During the audit, the Marine Corps had difficulties obtaining documentation for prior-year transactions supporting SBR opening balances. Historical documentation (e.g., requisitions, receiving reports, invoices) was primarily in paper form and dispersed across various commands and activities worldwide. Based on the Marine Corps' experience, the Department concluded the more effective path to a full SBR audit would be by starting with reporting and auditing only the financial activity for FY 2015 appropriations on a Schedule of Budgetary Activity (SBA) and expanding subsequent audits to include all open appropriations.

Successful SBA audits will demonstrate the Department is effectively implementing improvements, allowing for materially complete and accurate reporting of current-year activity (including the receipt and execution of budgetary funding) for current year appropriations in accordance with generally accepted accounting principles (GAAP). This sensible and cost-effective approach has been favorably received by the Government Accountability Office (GAO) and DoD Office of Inspector General (DoD OIG).

U.S. Marine Corps SBA Unmodified Audit Opinion

In December 2013, the DoD OIG issued an unmodified opinion on the audit of the Marine Corps FY 2012 budgetary information reported on an SBA. This significant accomplishment demonstrates a Military Service can achieve audit readiness on its business processes and systems and validates the approach the Department is taking. The Marine Corps FY 2013 SBA is presently under audit.

Earlier this year, Secretary Hagel hosted an audit recognition ceremony to recognize the Marine Corps for this important accomplishment. Over 75 past and present leaders gathered for the event. In his remarks, Secretary Hagel reemphasized his commitment to audit readiness and thanked "the men and women in our armed forces, the uniformed and the civilians, who more than occasionally do not get enough credit for their efforts."

Military Department Audit Readiness Assertions

In the last quarter of FY 2014, each Military Department asserted audit readiness on their General Fund SBA. The General Fund SBAs for FY 2015 will include financial transactions directly related to appropriations received in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years. The DoD OIG will oversee the SBA audits and is expecting to award contracts to independent public accounting (IPA) firms in December 2014. The audits should begin in January 2015 on the Army, Navy, and Air Force SBAs.

Although the Military Departments have asserted SBA audit readiness, they are continuing to strengthen internal controls, ensure a complete universe of transactions can be provided to the auditors, verify reconciliations and journal vouchers are accurate and documented, and ensure supporting documentation is readily available. The Military Departments are also continuing the modernization of business and financial systems by implementing system changes and deploying new systems.

Unmodified audit opinions are not expected in the initial years. However, it is important the Department proceed with audits as a means of uncovering any remaining challenges. Proceeding with audits now follows the example of the Department of Homeland Security and is consistent with the feedback received from some members of Congress.

Other Defense Organizations Audit Readiness Assertions

In FY 2013, the USD(C)/CFO directed 14 ODOs that had not already achieved audit readiness to accelerate improvement activities and assert SBA audit readiness. By June 30, 2014, each of the ODOs asserted audit readiness of their applicable assessable units (e.g., Civilian Pay, Contract Pay) or of specific SBR line items, such as Obligations. Although the ODOs asserted audit readiness, critical capabilities needed to achieve successful audits will continue to be

FIAR Plan Status Report

addressed in FY 2015. The capabilities include the ability to:

- Produce a complete universe of transactions reconciled to accounting and feeder systems
- Reconcile Fund Balance with Treasury
- Provide fully supported journal vouchers
- Produce transaction-level supporting documentation

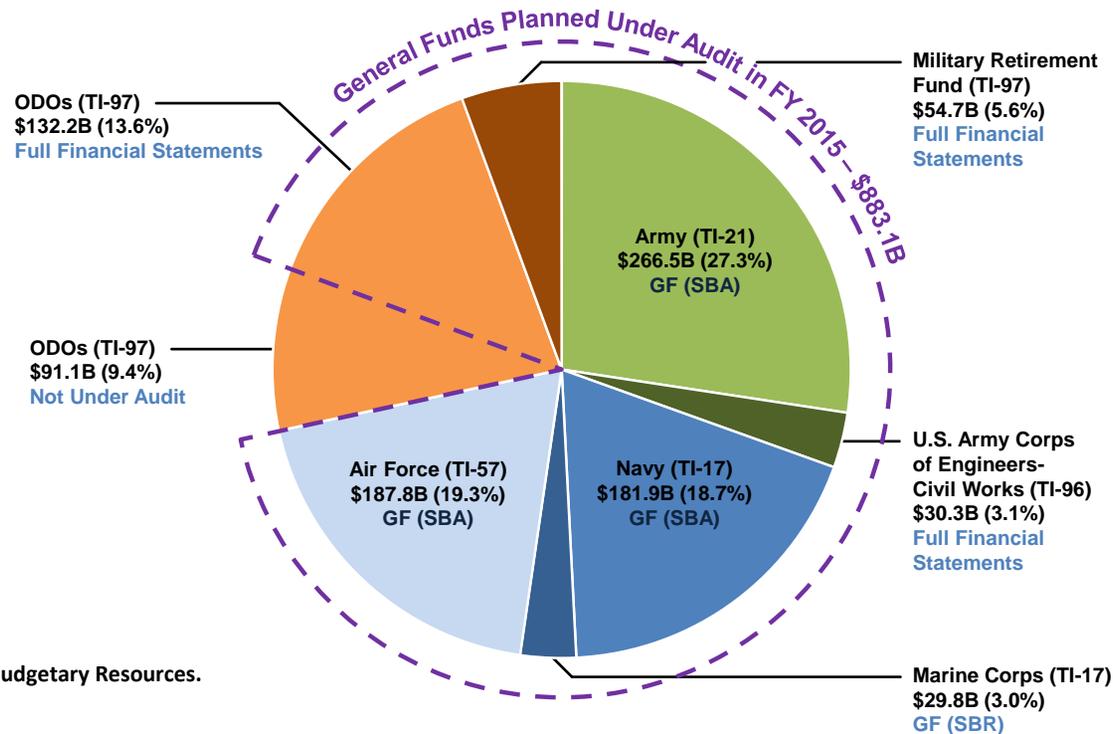
The ODOs material to the DoD Consolidated Financial Statements will undergo either SBA mock audits or IPA examinations in FY 2015. SBA audits are planned to begin in FY 2016.

General Fund SBA Audits, Mock Audits, and Examinations

When the Military Departments' General Fund SBA audits begin in January 2015, more than 90 percent of the Department's current year appropriations will be under audit. The material ODOs not under audit will begin SBA examinations or mock audits in FY 2015. All remaining ODOs will continue audit readiness activities and not be audited until the DoD Consolidated Financial Statements are audited in FY 2018.

Figure ES-2 identifies the Components that will be under audit in FY 2015 and their percent of the total DoD General Funds Budgetary Resources (based on FY 2013 total).

Figure ES-2. General Funds Under Audit in FY 2015



Note: Based on FY 2013 Total Budgetary Resources.

REMAINING FINANCIAL STATEMENTS

With the start of SBA audits in FY 2015, the Department's improvement activities will focus on completing mission critical asset existence and completeness and preparing the other DoD financial statements for audit by September 30, 2017. The FIAR Guidance is being updated to better facilitate an organized, complete, and effective approach to achieving full financial statements audit readiness. The revised guidance will include requirements that apply to either the General Fund or Working Capital Fund statements or both, such as:

- Merging mission critical asset existence and completeness with asset valuation needed for the Balance Sheet, including General Property, Plant, and Equipment; and Inventory and Related Property
- Accurately reporting other Balance Sheet assets, such as Investments and Fund Balance with Treasury
- Accurately reporting Balance Sheet liabilities, such as Accounts Payable, Environmental and Disposal Liabilities, and Military Retirement and Other Federal Employee Benefits

Because much remains to be done to complete and validate audit readiness by September 30, 2017, the revised guidance will also include critical interim audit requirements, such as:

- Analyzing each beginning balance of all open appropriations that will be material on October 1, 2017
- Developing a methodology for determining opening balances of all unexpired appropriations from prior years that will be used in FY 2018
- Defining and applying a methodology for valuing General Property, Plant, and Equipment; Inventory; and Operating Materials and Supplies
- Validating mission critical assets existence and completeness

- Implementing reconciliations of financial statements to general ledgers, general ledgers to accounting detail (universe of transactions), general ledgers to feeder systems, and general ledgers to Treasury as part of regular business processes
- Designing and implementing a concept of operations for managing audits

When the revised guidance is issued, the Military Departments and ODOs must update their financial improvement plans accordingly. The revised financial improvement plans must be submitted to the OUSD(C), who will review the plans and monitor progress.

FINANCIAL STATEMENTS AUDIT STRATEGY

The Department is developing a strategy for moving from individual Component audits and examinations to the audit in FY 2018 of the DoD Consolidated Financial Statements. The audit of the DoD Consolidated Financial Statements will likely be the largest financial statement audit ever performed, worldwide.

The Department's audit strategy will employ a phased approach. Each year between FY 2015 and FY 2017, additional audits will be added. This strategy will allow for continual growth and expansion of the Department's audit infrastructure to support the increasing number of audits. In addition, the strategy will prescribe requirements and timeframes for the Component reporting entities by the following categories:

- OMB Designated Audits – Components required to prepare stand-alone audited financial statements, which account for 74 percent of budgetary resources (e.g., General Funds and Working Capital Funds of the Military Departments, U.S. Army Corps of Engineers).
- DoD Designated Audits – Material ODOs and funds, which account for 22 percent of budgetary resources (e.g., U.S. Special Operations Command, Defense Health Agency, Defense Logistics Agency).

FIAR Plan Status Report

- DoD Designated Examinations – Other material ODOs and funds that account for 4 percent of budgetary resources (e.g., Missile Defense Agency, Defense Security Cooperation Agency, Washington Headquarters Services).
- Defense Agencies and Funds Not Material – ODOs not included in the above categories, which together account for less than 1 percent of budgetary resources. These Components will continue audit readiness efforts and strengthen internal controls but will only be audited as part of the FY 2018 DoD Consolidated Financial Statements audit (e.g., Defense Media Activity, Defense Acquisition University, DoD Education Benefits Fund).

The financial statement audit strategy is being finalized and approved by DoD leadership and will be discussed with the DoD OIG and GAO.

AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure ES-3 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., the Defense Finance and Accounting Service (DFAS))
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

- Designing, developing, and deploying audit-ready compliant systems as well as cost-effective changes to legacy systems that will be part of the systems environment
- Converting and validating data, implementing and testing controls, and documenting systems and processes

Because Enterprise Resource Planning (ERP) systems are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure ES-3. ERP costs are reported in Section VI.

Figure ES-3. DoD Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	579	598	511	524	534	542
Financial Systems	51	55	56	48	38	36
Total Resources	630	653	567	572	572	578

Message from the Department of the Army Under Secretary and Chief Management Officer

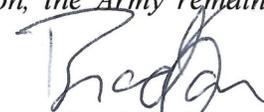
Achieving audit readiness continues to be a top Army priority. The Army has built significant momentum and gained the unyielding support and commitment of its leadership, Soldiers, and civilians in becoming more engaged and dedicated to this necessary mission. This support and commitment has enabled the Army to achieve several critical milestones, including the assertion of audit readiness on the Schedule of Budgetary Activity (SBA), and to the existence and completeness of Real Property, and Operating Materials and Supplies—all in FY 2014. Additionally, we are supporting the DoD Office of the Inspector General audit readiness examination of General Equipment.



The Army's most notable recent accomplishment is the assertion of the SBA. This achievement has positioned the Army to support an SBA audit in FY 2015. In preparation for the SBA audit, the focus was on implementing and monitoring corrective action plans based on external auditor findings and recommendations from examinations, as well as results from monthly internal controls and substantive testing. Remaining corrective actions are monitored monthly to identify command and business process areas requiring additional focus.

The Army is establishing a well-defined business process architecture for deploying effective Enterprise Resource Planning (ERP) systems. The ERPs and critical feeder systems are validated for compliance with internal control requirements to support audit readiness. Standardized processes within the ERPs and regular controls assessments instill discipline and compliance with current regulating policies.

The most critical effort to sound business operations and achieving our financial management goals is properly training our staff. We have trained more than 23,000 Army personnel in audit readiness fundamentals and continue to expand our online training resources and suite of audit readiness resources. I am extremely proud of our personnel and all they do to be Army Strong. Through the dedicated efforts of our entire organization, the Army remains committed to achieving audit readiness by September 30, 2017.


Brad R. Carson

Under Secretary and Chief Management Officer
Department of the Army

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I. Army Audit Readiness Plans

The Army is executing a comprehensive, fully-resourced audit readiness plan to achieve and sustain audit readiness. The Army's approach aligns with the deployment of modern financial systems and focuses heavily on training and developing Army personnel across all business processes to support and sustain financial accountability.

In FY 2014, the Army asserted audit readiness on the Army General Fund SBA. The Army General Fund SBA for FY 2015 will include financial transactions directly related to appropriations received by the Army in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years.

Leadership and Governance

The senior leaders of the Department of the Army are actively engaged in improving financial accountability. The Secretary of the Army directed all senior leaders to:

- Support the Office of the Assistant Secretary of the Army for Financial Management and Comptroller (OASA(FM&C)) audit readiness activities
- Identify a single point of contact responsible for coordinating audit readiness activities within their organization
- Include audit readiness goals in the annual performance plans of all members of the Army's Senior Executive Service

A comprehensive governance structure, including quarterly Financial Improvement Plan (FIP) in-process reviews, a Senior Leader Steering Group, and Audit Committee meetings chaired by the ASA(FM&C), ensures leadership and stakeholders remain engaged.

Communications and Training

To communicate the Army's audit readiness requirements, the OASA(FM&C) is implementing a strategic communication plan that includes the governance structure forums along with the annual Army Financial Improvement Workshop. These forums ensure business process owners understand their role in achieving audit readiness and provide an opportunity to report and monitor progress.

The Army communicates its audit readiness strategy to a broad audience through several web-based and print media, including "The FIP Report," a quarterly newsletter on audit readiness activities and other financial management topics. In September 2014, the Army updated "The Audit Readiness Command and Installation Guide," a guide for commands and installations to use in preparing for audits. First developed in February 2012, the guide lists resources available



U.S. Soldiers fire at a target from an M1A1 Abrams tank during exercises at Camp Rodriguez, Republic of Korea, Feb. 3, 2012. (U.S. Army photo by Sgt. Reeba Critser)

FIAR Plan Status Report

to commands and installations for becoming audit ready. It also includes a description of internal control activities for each command and installation, including authoritative guidance and policies requiring the activities. The guide also addresses common internal control problems uncovered during discovery and testing.

To further help commanders incorporate audit readiness into their daily business, the Army tests internal controls and the control environment monthly. Testing helps spotlight commands and business process areas that require additional focus. Results are reported, by command, to the Vice Chief of Staff of the Army and provide a picture of how the Army is performing overall and which commands or business processes need additional attention.

In addition, the Army continues to expand the audit readiness training program to ensure personnel at all levels have the knowledge and skills needed to function effectively in an audit ready environment. As of August 2014, the OASA(FM&C) trained over 23,000 personnel in audit readiness fundamentals and continues to expand the suite of audit readiness resources. Training is offered as instructor-led courses and self-paced online courses through the Army Learning Management System.

The newsletter, guide, monthly testing, and other resources can be found on the Army Knowledge Online (AKO) audit readiness site and the OASA(FM&C) public website.

Addressing Impediments

To help achieve the DoD FIAR objectives, the Army has established a financial improvement activities infrastructure to define and execute the Army's Financial Improvement Plan. The plan is maintained by the OASA(FM&C) and includes specific, measurable actions to address impediments and achieve audit readiness. Impediments identified in Army examinations of General Funds and in the Discovery phase of Working Capital Funds include:

- Inadequate information technology (IT) controls for the General Fund Enterprise Business System (GFEBS), Global Combat

Support System – Army (GCSS-A), and the Logistics Modernization Program (LMP) applications and the supporting IT general controls environment

- Inadequate controls over journal voucher processing within GFEBS, LMP, and Defense Departmental Reporting System
- Inadequate controls over physical inventory
- Lack of documentation available to support control activities for certain transactions processed within GFEBS and LMP
- Inability to produce a universe of transactions and complete data populations

To equip the organization with the proper resources and infrastructure, the Army has established interim financial improvement and audit readiness milestones that allow it to assess progress and incorporate recommendations from independent auditors, GAO, DoD OIG, and Army Audit Agency. The Army's Financial Improvement Plan is the overall tool for documenting and tracking milestones, impediments, accomplishments, and progress.

Audit Support Infrastructure

The Army's audit support infrastructure comprises strong governance systems, communications management, and personnel development and training. Under the purview of the OASA(FM&C), this infrastructure is maintained by the Accountability and Audit Readiness Directorate. The Accountability and Audit Readiness Directorate established General Fund and Working Capital Fund audit readiness divisions that manage activities, including communications with external auditors, the internal review community, command stakeholders, and the OUSD(C)/FIAR Directorate.

The OASA(FM&C) also created the Army Audit Data Repository to consolidate and maintain all discovery, evaluation, and testing documents. To manage auditor requests, OASA(FM&C) funnels requests to the internal review community, which distributes the

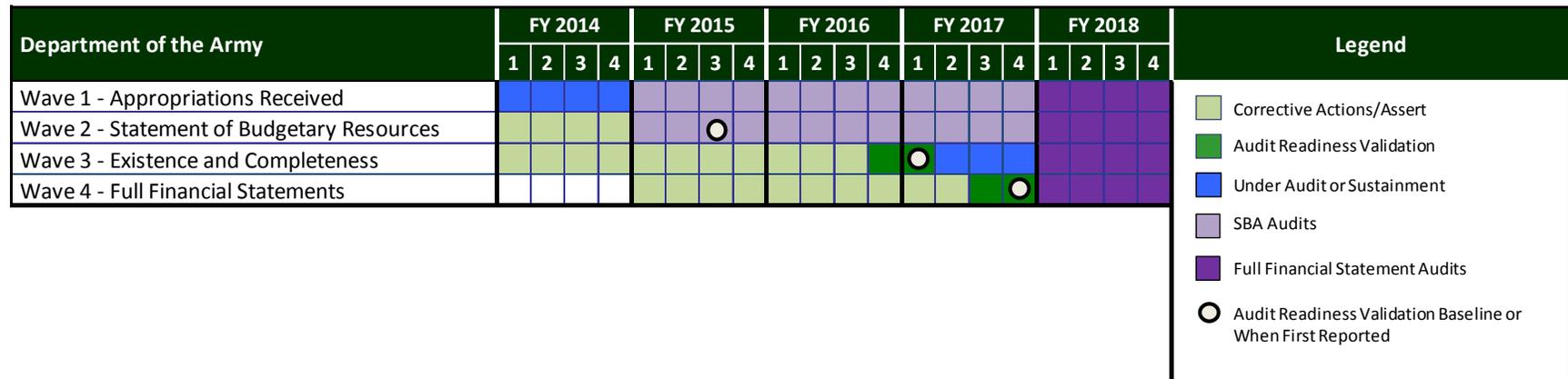
FIAR Plan Status Report

requests to functional stakeholders throughout their respective commands. The internal review community performs a quality control review of the commands' submissions before consolidating and returning them to the OASA(FM&C) Audit Readiness Directorate. This Directorate performs a final review of the requested information before providing it to the auditors. This multi-layered,

quality control system ensures the technical accuracy and completeness of information provided to the auditors.

Figure I-1 provides the Army audit readiness and audit plans by FIAR Strategy wave. As shown, FIAR activity will be completed in FY 2017, and audits of full financial statements will begin in FY 2018.

Figure I-1. Army Audit Readiness Plans by FIAR Strategy Wave



STATEMENT OF BUDGETARY RESOURCES

The OASA(FM&C) has completed three examinations of SBR processes and systems. The third examination included FY 2013 SBA activity and most closely mirrored the SBA audit to be conducted in FY 2015. It also evaluated IT controls of the three core Army ERPs: GFEBS, GCSS-A, and LMP. The audit report from the examination confirmed internal findings.

Management Assertion

On July 24, 2014, the Army asserted audit readiness of its General Fund SBA. The Army General Fund SBA for FY 2015 will include financial transactions directly related to appropriations received by the Army in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years. The assertion was based on control activities and supporting documentation, and the Army’s ability to produce a transaction universe to reconcile to the SBA summary data. Since asserting, the Army has corrected deficiencies and resolved completeness of populations, service provider integration, and internal control compliance.

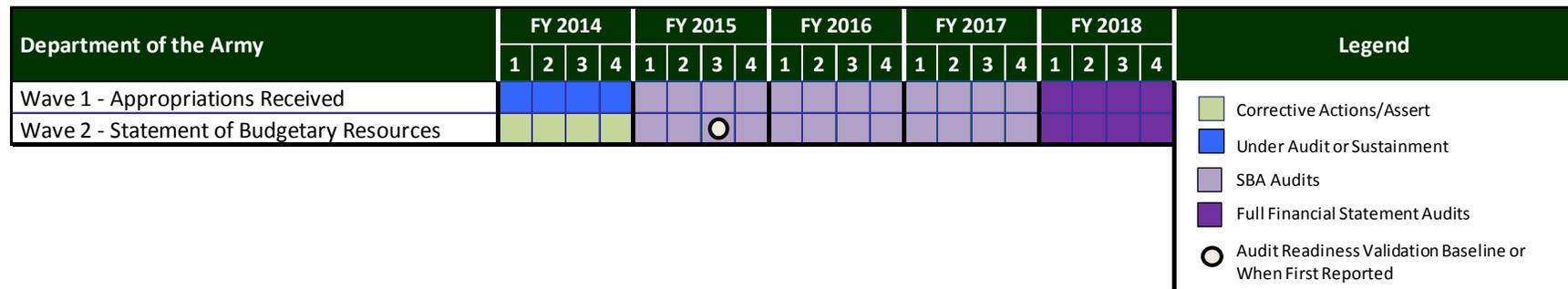
Risks to Successful SBA Audits

Risks to successful SBA audits include:

- Service Provider Support and Involvement – The Army is increasing its integration of DFAS and the Defense Logistics Agency (DLA) in monthly testing. The retention of documents supporting transactions processed by these service providers is critical to substantiating balances.
- Supporting Documentation – Documentation to support transactions is sometimes missing or inadequate, lacking evidence of review, or not posted timely. The Army is working with its commands and service providers to identify root causes and solutions.
- Policy Gaps – Differences exist between current Army policy and audit readiness standards. The Army is aligning internal policies to audit readiness standards.
- Legacy Systems – Army’s classified activity is processed in a legacy environment. The automated controls within these systems cannot support financial statement audits. Some legacy system processing will continue until ERPs are fully deployed.

Figure I-2 provides the Army SBR audit readiness plans. As shown, SBR FIAR activity was completed in FY 2014, and SBA audits will begin in FY 2015 and continue through FY 2017, when SBR audits begin as part of full financial statements audits in FY 2018.

Figure I-2. Army SBR Audit Readiness Plans



EXISTENCE AND COMPLETENESS OF MISSION CRITICAL ASSETS

Existence and completeness assessable units in the Army's Financial Improvement Plans include:

- General Equipment
- Real Property
- Operating Materials and Supplies (OM&S)
- Internal Use Software
- General Equipment (Working Capital Fund)
- Real Property (Working Capital Fund)
- Internal Use Software (Working Capital Fund)
- Inventory (Working Capital Fund)

Audit readiness discovery activity on Internal Use Software is planned to begin in FY 2015 after an audit report is issued by the DoD OIG on General Equipment.

Accomplishments

General Equipment. The approach for General Equipment existence and completeness audit readiness follows the SBR approach. The Army conducts monthly internal controls and substantive testing (e.g., transaction completion testing, transaction authority testing, physical inventory re-performance, reverse testing of asset records). Results are consolidated, summarized, reviewed, and distributed to Army stakeholders after each testing cycle. Internal review offices analyze and evaluate monthly testing exceptions and assist in developing and implementing corrective actions to ensure audit readiness is sustained.

Each testing cycle shows improvement in property accountability and internal controls effectiveness. During FY 2014, General

Equipment existence and completeness monthly testing results averaged a 94 percent pass rate for substantive testing and a nearly 60 percent pass rate for internal controls testing. The Army is generally able to provide supporting documentation for assets recorded in the accountable property system of record, but some documentation may be missing key attributes such as signatures and acquisition or placed in service dates.

The Army asserted General Equipment existence and completeness in December 2013. The assertion did not include medical equipment and equipment provided to contractors (Government Furnished Equipment). The DoD OIG is presently examining the General Equipment assertion, and an audit report is expected in FY 2015.

Operating Materials and Supplies. The initial OM&S approach focused on the existence and completeness of three tactical missile programs: the Hellfire, Javelin, and TOW missiles, as part of the Army's Quick Wins strategy. The OM&S approach included substantive testing, creating process flowcharts and narratives of major life cycle business processes, and assessing internal control activities within the munitions life cycle business processes of:

- Production
- Receive Shipment
- Surveillance
- Physical Inventory
- Issue and Turn-In
- Prepare Shipment
- Demilitarization
- Account Management

The Army continues to evaluate the overall internal controls environment and facilitate corrective actions at depots, arsenals, test

FIAR Plan Status Report

centers, ammunition supply points, and production facilities that manage OM&S.

- Received a qualified opinion in April 2013 on Quick Wins assets, representing approximately 17 percent of the dollar value of Army's missile assets, including Hellfire, Javelin, and TOW. The Army applied the results to broaden its OM&S audit readiness efforts to all Class V assets (munitions).
- Asserted audit readiness for all Class V assets (munitions) in September 2014. The examination by an external auditor is expected to begin in FY 2015.

Real Property. The real property approach to audit readiness included a Quick Wins assertion in December 2012 on 23 installations. These installations had reported substantial progress in obtaining supporting documentation for real property assets, excluding land. Since the assertion, the Army has continued monthly substantive and internal controls testing over all real property assets, excluding land. Results show a steady improvement in the accountability of real property assets, averaging an 87 percent pass rate for substantive testing and a 72 percent pass rate on internal controls testing. These installations include over 50 percent of Army's real property assets.

The Army continues to evaluate internal controls and the availability of documentation to support real property transactions. In addition, the Army is implementing corrective actions with a focus on more timely processing of real property transactions in GFEBS. The Army plans to use a valuation approach consistent with DoD guidance, such as plant replacement value for real property assets placed in service prior to October 1, 2013.

The Army received a clean opinion from an IPA examination on existence and completeness Quick Wins assertion in November 2013. The opinion represented the largest successful fixed assets examination in the Army's history. The Army was able to validate the existence and completeness of over 95 percent of the sampled assets and asserted audit readiness on the existence and completeness

of all real property in September 2014. An examination by an external auditor is expected to begin in FY 2015.

Remaining Activity to Be Completed by June 2016

The Army remains confident in achieving existence and completeness audit readiness for all mission critical assets by June 30, 2016. The Army continues to develop, implement, and monitor corrective action plans based on findings and recommendations from DoD OIG and IPA examinations, and on results from monthly internal controls and substantive testing. The Army is evaluating entity-wide performance to determine whether material weaknesses and deficiencies have been resolved and conducts follow-up testing to verify remediation of controls.

Remaining activities specific to each assessable unit include:

- General Equipment: Expand data analysis efforts to review capital asset data elements
- Operating Materials and Supplies: Determine reliance of IT controls (general and business process applications) within LMP
- Real Property: Track real property metrics detailing command execution of corrective actions
- Inventory: Implement corrective actions for the existence and completeness, rights and obligations, and valuation assertions

Additionally, the Army will assert valuation over its fixed assets in accordance with OUSD(C) requirements for audit readiness of its full financial statements and within required timeframes. Asset valuation activities will be conducted by validating supporting documentation for all new fixed asset acquisitions accepted by the Army and placed into service as of October 1, 2013.

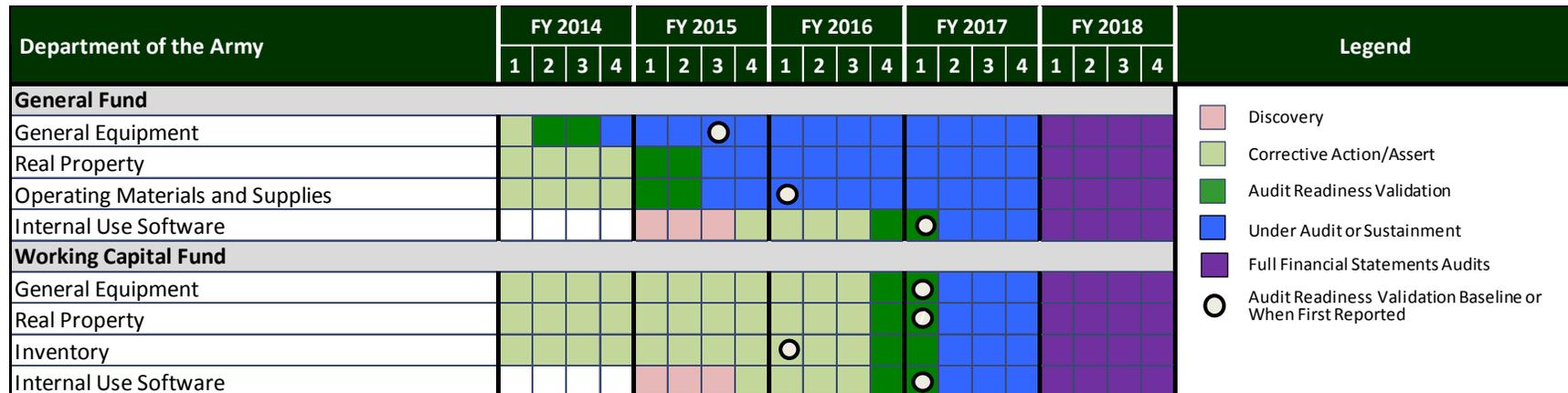
FIAR Plan Status Report

Challenges and Risks

While monthly test results show improvements, many issues remain across all assessable units, including missing or inadequate supporting documentation, lack of evidence and documentation for reviews, and transactions not timely posted to the accountable property system of record. The Army is aggressively targeting the root causes of these issues and taking corrective actions. The Army remains confident this targeted approach, as well as its overall audit readiness strategy, will mitigate the risks to achieving existence and completeness audit readiness by June 30, 2016.

Figure I-3 provides the Army audit readiness plans for mission critical asset existence and completeness audit readiness by assessable unit. As shown, the Army will complete mission critical asset existence and completeness audit readiness activity in FY 2016.

Figure I-3. Army Mission Critical Assets Existence and Completeness Audit Readiness Plans



General Equipment (General Fund)

Remaining Audit Readiness Actions and Challenges

- Continue taking corrective actions for deficiencies and weaknesses across commands that maintain accountability of assets.
- Facilitate data conversion and interface development between Army information systems, Property Book Unit Supply-Enhanced (PBUSE), and GFEBS.
- Test internal controls monthly and report results, trends, and recommendations to commands.
- Support validation of General Equipment, which began in 05/2014. Examination report expected in FY 2015.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	✓

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	✓
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	✓
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	✓
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	✓
Changes (e.g., condition, location) are recorded timely in the APSR.	Property Book Holders	✓
Changes (e.g., condition, location) are recorded accurately in the APSR.	Property Book Holders	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (PBUSE)	OASA(FM&C), Army G-4, PEO-EIS, DLA, DFAS	✓

Real Property (General Fund)

Remaining Audit Readiness Actions and Challenges

- Continue taking corrective actions for deficiencies and weaknesses across commands that maintain accountability of assets.
- Conduct monthly internal control testing and report results, trends, and recommendations to commands.
- Distribute lessons learned and corrective actions to real property stakeholders.
- Support audit readiness validation to begin in FY 2015.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	03/2015

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	IMCOM, AMC, ARNG, USARC	✓
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	IMCOM, AMC, ARNG, USARC	✓
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	IMCOM, AMC, ARNG, USARC	✓
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	IMCOM, AMC, ARNG, USARC	✓
Changes (e.g., condition, location) are recorded timely in the APSR.	IMCOM, AMC, ARNG, USARC	✓
Changes (e.g., condition, location) are recorded accurately in the APSR.	IMCOM, AMC, ARNG, USARC	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (GFEBS)	OASA(FM&C), OACSIM, DFAS, DLA	✓

Operating Materials and Supplies (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete corrective actions for deficiencies and weaknesses for remaining OM&S, including remediating findings from qualified opinion issued by IPA in 04/2013 on Quick Wins assets.
- Conduct monthly internal control testing and report results, trends, and recommendations to commands.
- Support OM&S validation to begin in FY 2015.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	03/2015

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC	✓
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	✓
Issuances and disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC	✓
Issuances and disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	✓
Changes (e.g., condition, location) are recorded timely in the APSR.	AMC	✓
Changes (e.g., condition, location) are recorded accurately in the APSR.	AMC	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (LMP)	OASA(FM&C), AMC, PEO-EIS, DFAS, DLA	✓

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Develop corrective actions for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in the absence of implemented corrective actions.
- Continue quarterly testing of controls and supporting documentation.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	06/2016
Audit Readiness Validated	12/2016

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	AMC	06/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	AMC	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (DPAS, LMP)	OASA(FM&C), Army G-4, PEO-EIS, OSD-AT&L	06/2016

Real Property (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Develop corrective actions for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Continue quarterly testing of controls and supporting documentation.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	06/2016
Audit Readiness Validated	12/2016

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	AMC, DLA	06/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	AMC, DLA	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (GFEBs)	OASA(FM&C), AMC, PEO-EIS, OACSIM	06/2016

Inventory (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Develop and implement corrective actions for audit impediments identified in Inventory processes at the Depots, Life Cycle Management Commands, Supply Support Activities, War Reserve sites, and contractor locations.
- Implement corrective actions for physical inventory procedures at the depots.
- Monitor the status of the Defense Logistics Agency’s Statement on Standards for Attestation Engagement (SSAE) No. 16 examination for Army-owned items in DLA custody.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	06/2016
Audit Readiness Validated	12/2016

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Sales are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Sales are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC, DLA	06/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	AMC, DLA	06/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	AMC, DLA	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (LMP)	OASA(FM&C), Army G-4, PEO-EIS, OUSD(AT&L)	06/2016

Internal Use Software (General Fund & Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Continue discovery work to document processes and controls.
- Test Internal Use Software balances through a quarterly testing process.
- Develop and implement corrective actions for existence, completeness, and valuation.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	06/2015
Process Documentation	06/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	06/2015
Corrective Actions/Assert	06/2016
Audit Readiness Validated	12/2016

Accountable Entities and Completion Dates for Audit Readiness Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	06/2016
Changes (e.g., functionalities, capabilities) are recorded timely in the APSR.	AMC	06/2016
Changes (e.g., functionalities, capabilities) are recorded accurately in the APSR.	AMC	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AMC	06/2016

FULL FINANCIAL STATEMENTS

As the Army meets the SBR and mission critical assets existence and completeness audit objectives, it is now focusing on requirements for asserting audit readiness on its full financial statements. These assertions will include all remaining material reporting entity line items, account balances, and financial transactions for the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. The Army Working Capital Fund has included all assertions and all four financial statements in its audit readiness efforts. It includes existence, completeness, valuation, and rights and obligations as part of testing and corrective actions.

Status and Plans

Auditor examinations to date have been organized on processes, controls, and financial management systems that generate, process, or maintain transactions that affect the financial statements. As the Army begins work toward audit readiness on its full financial statements, it will ensure all significant line items are addressed through a combination of implementation, maintenance, and evaluation of internal controls and substantive testing (i.e., test of details and substantive analytics), which will be used to:

- Provide additional evidence, beyond the results of internal controls testing, of the effectiveness of internal controls over financial reporting
- Evaluate balances of significant line items that are impacted by low-volume–high-dollar transactions
- Confirm that documentation required to support balances is readily available and can be retrieved and provided to auditors within required timeframes

Overall, the Army’s approach relies on identifying the line items that have the most significant impact on the financial statements, as well identifying the underlying general ledger accounts.

The Army is moving forward with its commitment to achieving full financial statements audit readiness by September 30, 2017. The following efforts are addressing financial management challenges and contributing to the sound infrastructure the Army is building:

- Sustaining continuous leadership through active engagement and directive memoranda from the Secretary of the Army, Chief of Staff of the Army, and ASA(FM&C)
- Building a competent workforce through comprehensive communications and training efforts
- Establishing a well-defined architecture and effective ERPs through the Army Chief Management Officers’ Army Business Management Strategy and regular auditability assessments of the ERPs and critical systems
- Increasing accountability and oversight by continuing to embed audit readiness metrics in each Senior Executive Service civilian leader’s annual performance plan, as well as quarterly audit committee meetings
- Establishing internal controls through standardized processes within the ERPs, installation-level training, and regular controls assessments that are instilling discipline and compliance with current policies

ARMY AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure I-4 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

- Designing, developing, and deploying audit-ready compliant systems as well as cost-effective changes to legacy systems that will be part of the systems environment
- Converting and validating data, implementing and testing controls, and documenting systems and processes

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure I-4. ERP costs are reported in Section VI.

Figure I-4. Department of the Army Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	89	69	73	58	59	63
Financial Systems	4	4	5	4	4	2
Total Resources	93	73	78	62	63	65

Message from the Department of the Navy Chief Management Officer

The Department of the Navy (DON) is confident the Navy General Fund (GF) Schedule of Budgetary Activity (SBA) for Fiscal Year (FY) 2015, and related notes, will be prepared and fairly presented in all material respects, and in conformity with U.S. Generally Accepted Accounting Principles. We continue to make progress on the journey to full financial statement auditability. In the last year, we received unmodified opinions on the United States Marine Corps (USMC) SBA audit and the Navy Military Pay assessable unit. These results serve as independent validations of our diligent efforts to date. As the DON prepares for an unprecedented SBA audit in FY 2015, we will continue to focus on leadership accountability, organizational change management, and strong governance to ensure engagement across the enterprise during this important effort.



The DON is well positioned to support and complete the upcoming SBA audit. We have applied lessons learned from the USMC's audit and independent feedback received during the assertion and validation of multiple assessable units. We have established a robust audit infrastructure and response protocol, trained and educated the DON workforce to set expectations for the audit, and engaged senior leaders across the DON to raise awareness.

Going forward, the DON will continue to aggressively pursue audit the readiness activities required to achieve full financial statement auditability by September 30, 2017, as mandated by the National Defense Authorization Act of 2010. Additionally, we have made significant progress in establishing audit readiness for the existence and completeness of mission critical assets, to include asserting 8 of 13 assessable units. I am dedicated to achieving the remaining auditability milestones and continually transforming and improving the DON's financial and business management processes.

A handwritten signature in black ink, appearing to read 'Thomas W. Hicks', with a long horizontal flourish extending to the right.

Thomas W. Hicks
Performing the Duties of the
Under Secretary of the Navy

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II. DON Audit Readiness Plans

The Department of the Navy (DON) is confident the Navy General Fund SBA and related notes for FY 2015 will be prepared and fairly presented in all material respects and in conformity with GAAP. The Navy General Fund SBA for FY 2015 will include financial transactions directly related to appropriations received by the Navy in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years.

In preparation for the General Fund SBA audit, the DON completed several important milestones to prepare for an SBA audit, including three SBA assessable unit examinations by an IPA, the DoD OIG, and GAO:

- Reimbursable Work Order Performer and Grantor
- Fund Balance with Treasury
- Contract/Vendor Pay

In addition, the DON received an unqualified opinion on Military Pay. Other unqualified opinions previously received include:

- Appropriations Received
- E-2D Advanced Hawkeye Major Defense Acquisition Program
- Civilian Pay
- Transportation of People

The DON continues to make significant progress toward asserting audit readiness for the existence and completeness of mission critical assets by June 30, 2016, and validating audit readiness on the full financial statements by September 30, 2017. To date, the DON has demonstrated existence and completeness of mission critical assets with successful assertions on Ordnance, Navy Small Boats, and Uninstalled Aircraft Engines, while also receiving unqualified opinions on Ships, Submarines, Trident Missiles, Satellites, and Aircraft. The DON also continues to engage in audit readiness



F/A-18F Super Hornet completes the 400,000th arrested landing aboard the aircraft carrier USS Enterprise (CVN 65) in the Arabian Sea, May 24, 2011. Enterprise is the first nuclear-powered aircraft carrier to reach this milestone. (U.S. Navy photo by Mass Communication Specialist 3rd Class Brooks B. Patton, Jr.)

activities for Navy Working Capital Funds and is developing plans and approaches for addressing asset valuation and achieving audit readiness on its full financial statements.

Accountability and Commitment

The DON is committed to achieving full financial statements audit readiness by September 30, 2017. DON senior leaders, including the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)), DON Chief Information Officer (CIO), Chief of Naval Operations, Vice Chief of Naval Operations (VCNO), and others, have coordinated with functional leadership and the financial communities at each command to ensure all levels of the DON are ready to support audit readiness initiatives and the audit of the SBA in FY 2015. In addition, DON senior leaders are

FIAR Plan Status Report

setting the tone at the top by inculcating the importance of being audit ready across the DON and down to the deck-plate level through site visits, training sessions, and communications. For example, the ASN (FM&C) and the ASN's Office of Financial Management Operations (FMO) regularly engage the budget submitting offices through roundtables with command comptrollers and monthly meetings with FIAR managers. These meetings ensure consistent and frequent messaging on audit readiness initiatives and make certain commands are progressing toward full audit readiness. The ASN (FM&C), ASN (Research, Development, and Acquisition), DON CIO, and the DON DCMO also cosigned a letter emphasizing the importance of assessing IT systems at the command-level and addressing system auditability issues. The letter was distributed to the Secretariat organizations, budget submitting offices, and subordinate commands,

Governance

Through the DON audit readiness governance framework, leaders engage on issues affecting audit readiness. The DON chartered the Audit Readiness Steering Committee to support audit readiness efforts by promoting and facilitating effective financial management and guiding compliance with laws and regulations that could have a material effect on the General Fund and Working Capital Fund financial statements.

The Financial Information Systems Working Group (FISWG) was established to provide specific governance and leadership engagement in audit readiness focus areas for IT systems. Co-chaired by the ASN (FM&C) and the DON CIO, the FISWG helps the DON achieve and sustain an audit ready financial systems environment.

Change Management

Shifting from a state of audit readiness to conducting an audit and reaching full financial statements audit readiness requires a focus on

planning and executing change management. A DON that will be fully auditable with an effective control environment and that can produce supporting documentation in a timely manner is the new norm—auditability is not a one-time exercise.

Leadership regularly visits commands to emphasize the need to operationalize audit readiness activities as a part of day-to-day business. The ASN (FM&C) Audit Readiness Roadshows, in which senior financial management leadership interact with members of the command functional community, emphasize the importance of a financial audit, expectations while undergoing an audit, and recommendations for successfully completing an audit. These site visits exemplify the DON's commitment to change management, and this top-down and bottom-up approach ensures that adopting a culture of sound financial stewardship is achieved and, most importantly, endures.

Preparing for SBA Audit

The next milestone toward full financial statements audit readiness is an audit of the SBA. The upcoming audit will be a valuable learning experience, providing a comprehensive review of the Navy's business processes, documentation, and internal controls. Feedback and lessons learned will help build a more complete picture of the DON's existing capabilities and capacity to undergo an audit of its financial statements.

The DON's preparations for the audit in FY 2015 include a comprehensive communication and change management campaign to engage command leadership and train Navy personnel on the importance and expectations of fully supporting the audit.

Figure II-1 provides the DON audit readiness and audit plans by FIAR Strategy wave. As shown, FIAR activity will be completed in FY 2017, and audits of full financial statements will begin in FY 2018.

FIAR Plan Status Report

Figure II-1. DON Audit Readiness Plans by FIAR Strategy Wave

Department of the Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Wave 1 - Appropriations Received	Under Audit or Sustainment	SBA Audits	SBA Audits	SBA Audits	SBA Audits	Full Financial Statements Audits	Full Financial Statements Audits	Full Financial Statements Audits	Full Financial Statements Audits	<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Audit Readiness Validation Under Audit or Sustainment SBA Audits Full Financial Statements Audits Audit Readiness Validation Baseline or When First Reported 											
Wave 2 - Statement of Budgetary Resources	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	SBA Audits	SBA Audits	SBA Audits	SBA Audits	Full Financial Statements Audits	Full Financial Statements Audits	Full Financial Statements Audits	Full Financial Statements Audits									
Wave 3 - Existence and Completeness	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Audit Readiness Validation	Under Audit or Sustainment	Under Audit or Sustainment	Under Audit or Sustainment	Full Financial Statements Audits				
Wave 4 - Full Financial Statements					Corrective Actions/Assert	Audit Readiness Validation	Audit Readiness Validation	Audit Readiness Validation	Full Financial Statements Audits												

STATEMENT OF BUDGETARY RESOURCES

The SBA audit will be a valuable learning experience by providing a comprehensive review of the Navy's business processes, documentation, and internal controls. The feedback and lessons learned during the audit will help build a more comprehensive picture of the existing capabilities and capacity to undergo a full audit in FY 2018.

Management Assertion

The DON is confident the Navy General Fund SBA for FY 2015 and related notes will be prepared and fairly presented in all material respects and in accordance with GAAP. The Navy General Fund SBA for FY 2015 will include financial transactions directly related to appropriations received by the Navy in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years.

The assertion is based on the results of the multi-year effort to document, test, and remediate control deficiencies related to procedures, processes, and controls. However, Navy SBA audit readiness is subject to its reliance on service providers, including DFAS, which is responsible for preparing the FY 2015 SBA based on the associated financial transactions recorded in the DON's three General Fund general ledger systems.

Risks to Successful SBA Audits

The DON continues to demonstrate progress toward achieving full financial statements audit readiness through the successful assertion of the SBA. However, challenges remain to successfully obtaining an IPA audit opinion, including:

- Engaging stakeholders and coordinating the auditor requirements across an expansive enterprise and with service providers

- Demonstrating completeness of financial transactions, extracting feeder system data, and compiling the evidential matter to support the transactions
- Using IT systems that were not designed or deployed with audit standards in mind and requiring assessments and corrective actions
- Explaining to the auditors the complex business processes in order for the auditor to perform an audit of a financial statement

The activities and plans necessary to mitigate these challenges require commitment and engagement across the DON, including:

- Coordinating with external stakeholders, such as service providers, to ensure they are achieving audit readiness goals and required timelines. Additionally, the DON continues to coordinate and rely on functional leadership to advocate for audit readiness. The functional leads were established by the VCNO for several business processes. For example, the majority of the expenditures for the Military Standard Requisitioning and Issues Procedures (MILSTRIP) used for supply requisitioning by the Fleets is being led by the Naval Supply Systems Command (NAVSUP). NAVSUP is working with the logistics community to identify internal controls, supporting documentation, and corrective actions that led to the successful MILSTRIP assertion. NAVSUP is continuing to work with the logistics community in preparation for the upcoming SBA audit.
- Providing complete and accurate data and supporting documentation are critical to demonstrating audit readiness from the general ledger down to individual transaction-level details. To accomplish this, the DON completed data reconciliations from more than 30 feeder IT systems and coordinated extensively with the commands and service providers to extract data and identify and remediate variances. The DON also developed 13 standard operating procedures that document and describe the complex systems and data environment. Additionally, the DON tested the supporting documentation for

FIAR Plan Status Report

all SBA assessable units. For all assessable units, except for Financial Statement Compilation and Reporting, transaction supporting documents were produced in a timely manner and included in the individual assertions. For Financial Statement Compilation and Reporting and those assessable units still undergoing an examination, the DON will continue to test and implement corrective actions to ensure timely and accurate document retrieval while undergoing an audit.

- Continuing plans to assess the internal controls of material financial IT systems through the use of Federal Information System Controls Audit Manual (FISCAM) assessments and self-assessments by system owners. Deficiencies are prioritized by the importance to the financial statements and being addressed. For IT deficiencies requiring long-term corrective actions or system improvements, the DON developed manual workarounds to ensure auditability of the underlying transactions.
- Orienting the auditors on how the Navy executes and accounts for transactions. The DON has developed a number of process cycle memoranda and standard operating procedures (e.g., data reconciliation procedures, Manual Journal Voucher policy) to help with the orientation.

Audit Support Infrastructure

The DON is establishing an audit support infrastructure to ensure audit readiness gains are sustained for future audits. The Audit Response Center Tool, the centerpiece of the DON audit response strategy and initiatives, is a gateway to a suite of tools that provide an integrated workspace for audit readiness activities. It also delivers customized workspaces to support specific work processes and initiatives across the DON.

The Audit Response and Evaluation Division provides strategic guidance and technical expertise to consolidate the audit response, communication, and training and education functions across the DON for audit and attestation engagement requirements. Examples

of the support provided to the auditors during SBR assessable unit examinations include:

- **Military Pay.** An IPA examined the Military Pay process and conducted control and substantive testing procedures. During the examination, the DON responded to 145 Provided by Client (PBC) requests and delivered supporting documentation for 1,388 samples, totaling approximately 6,500 documents. As a result, the DON successfully obtained an unqualified opinion on Military Pay.
- **Reimbursable Work Order – Grantor and Performer.** An IPA examined the Reimbursable Work Order – Grantor and Performer business processes and performed both controls and substantive testing procedures. The DON responded to 191 PBC requests and delivered supporting documentation for 4,884 samples, totaling 8,649 documents. The IPA concluded the examination and rendered an opinion in September 2014 with Notification of Findings and Recommendations.
- **Fund Balance with Treasury.** The DoD OIG performed an audit related to the Fund Balance with Treasury reconciliation business process, and the DON responded to 24 PBC requests and delivered approximately 1,487 supporting documents. The audit concluded in October 2014 with a Notice of Findings and Recommendations. The GAO is now performing an examination under their mandate by Congress to audit the U.S. Government’s Consolidated Financial Statements. The DON has responded to 42 PBC requests and delivered approximately 155 supporting documents. GAO is in the fieldwork phase of the examination and reviewing PBC responses.
- **Contract/Vendor Pay.** The DoD OIG is performing an audit readiness examination related to management’s assertion of the Contract/Vendor Pay business processes. The Navy supported the DoD OIG by conducting end-to-end process walkthroughs at the Naval Facilities Engineering Command (NAVFAC), Naval Systems Air Command (NAVAIR), and Office of Naval Research to review documentation substantiating commitments,

FIAR Plan Status Report

obligations, receipt and acceptance, and disbursements. Additionally, the Navy is validating the completeness of the transaction population by executing 15 feeder system reconciliations including the Command Financial Management System, Naval Research Information System, and the Defense Cash Accountability System.

The DON is also developing and conducting various training activities to ensure effective engagement and coordination to achieve FY 2015 SBA audit success:

- **Audit Response Center Tool Demonstration.** The tool displays real time business intelligence through dashboards and metrics to present the overall health of an examination or audit and help decision-making.
- **FMO Audit Response Strategic Simulation.** The FMO Audit Response Strategic Simulation will be a unique opportunity for stakeholders to examine challenges and assess risk within the end-to-end audit lifecycle. A strategic simulation will provide the opportunity to leverage the “as is” and “to be” infrastructures for FIAR strategy implementation and will result in action items that can be used to refine the business rules and processes in the upcoming FY 2015 SBA audit.
- **FY 2015 SBA Audit Roadshow.** DON financial management leadership will visit all major commands to promote awareness of audit response processes and infrastructure. In-depth

discussions with DON FIAR points of contact will provide insight into stakeholders audit preparation, existing command-level communications channels, and audit training requirements.

- **Auditor Onboarding and Indoctrination.** Auditors are responsible for rendering an opinion as to whether an entity’s financial statements are presented fairly and in accordance with the reporting framework. The onboarding and indoctrination activity will provide an overview of what the auditor will require in order to obtain evidence needed to obtain an opinion.

Evaluation Program

The DON’s evaluation program fosters a culture of self-assessment by facilitating budget submitting office ownership of audit sustainment to ensure the DON is audit ready. In support of this mission, the evaluation program includes second-level reviews of assertion packages, independent reviews of financial transactions and processes, and rapid-deployment mobile audit support teams to regions to retrieve auditor-requested data, documents, supporting schedules, and reconciliations.

Figure II-2 provides the DON SBR audit readiness plans. As shown, Wave 2 FIAR activity was completed in FY 2014, and SBA audits begin in FY 2015 and continue through FY 2017, when SBR audits begin as part of full financial statements audits in FY 2018.

Figure II-2. DON SBR Audit Readiness Plans

Department of the Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Wave 1 - Appropriations Received																					<ul style="list-style-type: none"> Corrective Actions/Assert Under Audit or Sustainment SBA Audits Full Financial Statements Audits
Wave 2 - Statement of Budgetary Resources																					

MISSION CRITICAL ASSET EXISTENCE AND COMPLETENESS

The DON continues to make progress in achieving mission critical asset existence and completeness audit readiness. According to the DoD FIAR Guidance, mission critical assets are those “assets deemed necessary to perform the primary missions of the Department.” The DON assessable units for mission critical assets are:

- General Equipment (e.g., ships, aircraft, combat vehicles, support equipment)
- Real Property (e.g., land, buildings, structures, utilities)
- Inventory (e.g., rations, supplies, spare parts, fuel, rations)
- Operating Materials and Supplies (e.g., ordnance)

Similar to SBR efforts, the existence and completeness strategy is dependent on cooperation and collaboration of responsible operational personnel, leadership support and buy-in, and the development of compliant procedures to achieve audit readiness of these globally deployed assets.

Accomplishments

In FY 2014, the DON asserted existence and completeness audit readiness of Inventory. Previous, successful assertions include:

- Ships and Submarines
- Aircraft
- Satellites
- Trident Missiles
- Navy Small Boats
- Ordnance
- Uninstalled Aircraft Engines

These assessable units represent approximately 83 percent of the General Property, Plant, and Equipment, 61 percent of Materials and Related Property, and 100 percent of Inventory. Demonstrating accurate property records and audit readiness was a considerable achievement. Knowing the quantity and location of mission critical assets has always been a mission priority, and the improvements will enhance the DON’s warfighting capability.

Other FY 2014 accomplishments include initiating discovery for Internal Use Software and Government Furnished Property. Through these efforts, the identified financial and operational internal control gaps that, without an effective mitigation strategy, may prevent successful assertions. As a result, the DON developed corrective actions to mitigate the identified risks.

Remaining Activity to Be Completed by June 2016

To achieve existence and completeness audit readiness by June 30, 2016, the DON plans to continue its discovery and corrective action work for General Equipment, OM&S, and Real Property. The DON will validate completed corrective actions by testing internal controls and supporting documentation.

The DON is also determining what corrective actions are needed for full financial statements audit readiness. As existence and completeness audit readiness assertions are made, the DON will focus on developing and executing a sustainment strategy.

Challenges and Risks

The DON identified enterprise-wide challenges and risks to achieving existence and completeness audit readiness. Specifically, there is a need for well-defined financial management and functional roles and responsibilities to support execution of business processes, IT controls, and financial reporting internal controls. Additionally, the DON identified a financial and operational requirement to transition asset data from legacy systems and micro-applications into the Navy ERP environment, the Defense Property Accountability System, and other accountable property systems of record for

FIAR Plan Status Report

existence and completeness tracking and reporting purposes. Disparate systems and applications present accountability and audit readiness challenges due to a lack of standardization and centralized property data. These enterprise-wide challenges and risks affect multiple assessable units, including General Equipment and OM&S. Furthermore, the DON identified supporting documentation access and retention challenges. Supporting documents that predate Wide Area Work Flow were not required to be retained for longer than six years and three months (per National Archives and Records Administration requirements) and may not be available. Even with the centralized repository of Wide Area Work Flow, access by DON

personnel is limited to the organization that performed receipt and acceptance for the relevant asset. The DON is developing a document retention strategy and updated policy to resolve this issue.

Figure II-3 provides the DON audit readiness plans for mission critical asset existence and completeness audit readiness by assessable unit. As shown, the DON will complete mission critical asset existence and completeness audit readiness in FY 2016.

Figure II-3. DON Mission Critical Assets Existence and Completeness Audit Readiness Plans

Department of the Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Equipment																					
General Equipment (Navy)			○																		<ul style="list-style-type: none"> Discovery Corrective Action/Assert Audit Readiness Validation Under Audit or Sustainment Full Financial Statements Audits Audit Readiness Validation Baseline or When First Reported
General Equipment (USMC)																					
Real Property																					
Real Property - Phase I																					
Real Property - Phase II																					
Real Property (USMC)																					
Internal Use Software																					
Internal Use Software (Navy)																					
Internal Use Software (USMC)																					
Operating Materials and Supplies (OM&S)																					
OM&S - Ordnance (DON)																					
OM&S - Uninstalled Aircraft Engines (DON)																					
OM&S - Remainder (Navy)																					
OM&S (USMC)																					
Inventory																					
Inventory (DON)																					
Government Furnished Property																					
Government Furnished Property (Navy)																					
Government Furnished Property (USMC)																					

General Equipment – Remainder (Navy)

Remaining Audit Readiness Actions and Challenges

- Conduct additional testing to validate existence and completeness audit readiness.
- Integrate valuation discovery into existence and completeness audit readiness work efforts.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	12/2014
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	12/2014
Corrective Actions/Assert	06/2015
Audit Readiness Validated	12/2015

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy BSOs	03/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy BSOs	03/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy BSOs	03/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy BSOs	03/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	Navy BSOs	03/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	Navy BSOs	03/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS, FMS-NSMA, STARS-FL, STARS-HCM ERP: Navy ERP)	DON, OUSD(AT&L)	03/2015

General Equipment (USMC)

Remaining Audit Readiness Actions and Challenges

- Perform a follow-on assessment and identify assets requiring an alternative valuation method.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	03/2015
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	03/2015
Corrective Actions/Assert	09/2015
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	USMC	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	USMC	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (DPAS)	OUSD(AT&L)	09/2016

General Equipment (Military Equipment) (USMC)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for Receipt and Acceptance by the Defense Contract and Management Agency and timely recording of equipment after receipt by the Marine Corps.
- Mitigate risk of equipment off property records and properly report assets.
- Reconcile the accountable property system of record to the general ledger and complete secondary review of add/delete and transfer-in/out transactions process.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	12/2015
Process Documentation	03/2015
Test Plans	03/2015
Control and Supporting Documentation Testing	12/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	USMC	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	USMC	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (DPAS)	USMC	12/2016

Internal Use Software (Navy & USMC)

Remaining Audit Readiness Actions and Challenges

- Complete discovery to include process and control documentation, data flow diagrams, and process flow memorandums.
- Coordinate data collection with Navy and Marine Corps CIOs to define transaction universe.
- Develop a test strategy and plan to perform Round I testing on transaction universe using DON CIO's application database.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	04/2016
Process Documentation	06/2015
Test Plans	11/2015
Control and Supporting Documentation Testing	04/2016
Corrective Actions/Assert	06/2016
Audit Readiness Validated	12/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	DON CIO	06/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	DON CIO	06/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	DON CIO	06/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	DON CIO	06/2016
Changes (e.g., functionalities, capabilities) are recorded timely in the APSR.	DON CIO	06/2016
Changes (e.g., functionalities, capabilities) are recorded accurately in the APSR.	DON CIO	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	DON CIO	06/2016

Operating Materials and Supplies – Ordnance (Navy)

Audit Ready and in Sustainment

- Asserted in FY 2013; DoD OIG completed examination (Ashore in 03/2014 and Afloat in 09/2014), and no material weaknesses were identified.
- Develop sustainment testing strategy to maintain audit readiness.
- Develop a valuation strategy and corrective actions.
- Due to materiality, OM&S – Ordnance is at the forefront of OM&S valuation work.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	✓

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy	✓
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy	✓
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy	✓
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy	✓
Changes (e.g., condition, location) are recorded timely in the APSR.	Navy	✓
Changes (e.g., condition, location) are recorded accurately in the APSR.	Navy	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	DON	✓

Operating Materials and Supplies – Remainder (Navy)

Remaining Audit Readiness Actions and Challenges

- Conduct internal control gaps discovery and develop a control matrix in preparation for Round I Testing.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	01/2015
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	01/2015
Corrective Actions/Assert	03/2015
Audit Readiness Validated	09/2015

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy	03/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy	03/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy	03/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy	03/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	Navy	03/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	Navy	03/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: ILSMIS, STARS-FL, STARS-HCM ERP: Navy ERP)	DON	03/2015

Operating Materials and Supplies (USMC)

Remaining Audit Readiness Actions and Challenges

- Develop process documentation for OM&S in the possession of DLA.
- Continue to develop and implement corrective actions and conduct supporting documentation and internal controls retesting to validate remediation work.
- Address accountable property system of record to general ledger reconciliation challenges resulting from multiple systems and inconsistent recording of OM&S held at contractor sites.
- Develop a centralized reporting capability to report consumable and repairable OM&S.
- Validate the corrective actions to record set assemblies in the accountable property systems of record; test controls and documentation; and record set assemblies centrally for semi-annual OM&S report.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	12/2015
Process Documentation	03/2015
Test Plans	03/2015
Control and Supporting Documentation Testing	12/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger.	USMC	09/2015
Acquisitions are recorded accurately in the APSR and general ledger.	USMC	09/2015
Disposals are recorded timely in the APSR and general ledger.	USMC	09/2015
Disposals are recorded accurately in the APSR and general ledger.	USMC	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	USMC	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	USMC	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	USMC	12/2016

Real Property Phase I (Navy)

Remaining Audit Readiness Actions and Challenges

- Compile Phase I, Round II internal controls and substantive test results.
- Develop and implement additional guidance based on corrective actions resulting from Phase I, Round II testing.
- Develop additional training for all field sites based on corrective actions and from Phase I, Round II testing.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	✓
Corrective Actions/Assert	12/2014
Audit Readiness Validated	08/2015

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Completed acquisitions, and transfers-in are recorded timely in the APSR and general ledger.	NAVFAC	12/2014
Completed acquisitions, and transfers-in are recorded accurately in the APSR and general ledger.	NAVFAC	12/2014
Disposals and transfers-out are recorded timely in the APSR and general ledger.	NAVFAC	12/2014
Disposals and transfers-out are recorded accurately in the APSR and general ledger.	NAVFAC	12/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: FIS, INFADS, FMS-NSMA, STARS-FL, STARS-HCM)	DON FMO	12/2014

Real Property Phase II (Navy)

Remaining Audit Readiness Actions and Challenges

- Develop and implement sustainable to-be processes and internal controls for: (1) Non-MILCON Transfer and Acceptance, (2) MILCON and Non-MILCON Construction in Progress (CIP), (3) Inventory (Linear Structures), and (4) real property financial reporting.
- Deliver BSO-wide training on the updated NAVFAC real property processes and systems.
- Test internal controls and transactions.
- As a service provider, NAVFAC is pursuing an SSAE No. 16 examination to support customer assertions.
- Develop and implement a plan to support valuation of real property assets.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	09/2015
Process Documentation	06/2015
Test Plans	07/2015
Control and Supporting Documentation Testing	09/2015
Corrective Actions/Assert	06/2016
Audit Readiness Validated	02/2017

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
CIP is recorded timely in the general ledger.	NAVFAC	06/2016
CIP is recorded accurately in the general ledger.	NAVFAC	06/2016
Completed CIP, other acquisitions, and transfers-in are recorded timely in the APSR and general ledger.	NAVFAC	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: FIS; INFADS; FMS-NSMA; STARS-FL; STARS-HCM)	DON FMO	06/2016

Real Property (USMC)

Remaining Audit Readiness Actions and Challenges

- Complete corrective actions for Class 1 real property centrally managed by Headquarters Marine Corps.
- Service-level processes complete. Complete development of Service-level controls.
- Implementation of corrective actions may present a moderate risk depending on the affected installation’s ability to set controls in place by the assertion date. Risks will be further defined and quantified as corrective actions are developed at the installation-level.
- Reconcile accountable property system of record to General Ledger balances. Quarterly General Ledger actions reconciliation to be developed.
- Conduct service-wide training of installation-level procedures and controls.
- Implement valuation and other policy changes.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	09/2015
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	09/2015
Corrective Actions/Assert	03/2016
Audit Readiness Validated	09/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Completed acquisitions and transfers-in are recorded timely in the APSR and general ledger.	USMC	12/2014
Completed acquisitions and transfers-in are recorded accurately in the APSR and general ledger.	USMC	12/2014
Disposals and transfers-out are recorded timely in the APSR and general ledger.	USMC	12/2014
Disposals and transfers-out are recorded accurately in the APSR and general ledger.	USMC	12/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: FIS, INFADS, FMS-NSMA, STARS-FL, STARS-HCM)	Navy	12/2014

Inventory (Navy)

Remaining Audit Readiness Actions and Challenges

- Prepare for existence and completeness sustainment.
- Develop valuation plan of action and milestones.
- Monitor and support DLA SSAE No. 16 examinations.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Control and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	05/2015

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Changes (e.g., condition, location) are recorded timely in the APSR.	DON, DLA	✓
Changes (e.g., condition, location) are recorded accurately in the APSR.	DON, DLA	✓
Acquisitions and disposals are recorded timely in the general ledger (or DDRS-AFS).	DON, DLA	✓
Acquisitions and disposals are recorded accurately in the general ledger (or DDRS-AFS).	DON, DLA	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: N/A (only NAVSUP, a Navy ERP NWCF Command, procures Inventory) ERP: Navy ERP)	DON	✓

Government Furnished Property (Navy)

Remaining Audit Readiness Actions and Challenges

- Identify Government Furnished Property contracts and populating the Item Unique Identification (IUID) Registry or an accountable property system of record.
- Address DON IUID Registry shortfalls to support discovery
- Identify or establish an alternate accountable property system of record to support audit readiness and assertion. Navy ERP is not configured to track equipment.
- Scope Government Furnished Property assertion and begin test plans for internal controls and transactions.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	04/2015
Process Documentation	✓
Test Plans	03/2015
Control and Supporting Documentation Testing	04/2015
Corrective Actions/Assert	09/2015
Audit Readiness Validated	05/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	Navy	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Navy	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	Navy	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	Navy	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS, FMS-NSMA, STARS-FL, STARS-HCM ERP: Navy ERP)	Navy, SSP	09/2015

Government Furnished Property (USMC)

Remaining Audit Readiness Actions and Challenges

- Identify universe of contracts that contain Government Furnished Property.
- Mandate use of Wide Area Work Flow property transfers to track transfer and receipt of Government Furnished Property to third parties.
- Establish oversight of contractors with requisitioning authority for Government Furnished Material accountability.
- Ensure acquisition contracts are compliant with mandated Federal Acquisition Regulations/Defense Federal Acquisition Regulations Supplement property accountability clauses and that Government Furnished Property is properly included in acquisition contracts.
- Establish visibility of transfers to a third party.
- Modify GCSS-MC with necessary data fields to support Government Furnished Property.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	12/2015
Process Documentation	03/2015
Test Plans	03/2015
Control and Supporting Documentation Testing	12/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	USMC	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	USMC	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	USMC	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	USMC	06/2016

FULL FINANCIAL STATEMENTS

The DON continues to make progress in achieving full financial statements audit readiness, including the Navy Working Capital Fund, and is developing plans for addressing valuation and the remaining financial statements. The lessons learned and best practices from previous FIAR Strategy waves and examinations have been applied to develop a phased audit readiness approach for full audit readiness that can be supported by the commands and by the DON's service providers while simultaneously supporting the audit of the SBA.

Accomplishments

The ASN (FM&C) approved the DON approach for the Working Capital Fund assertion, and it has been communicated with the commands. The DON is developing an audit readiness strategy for the Balance Sheet based on knowledge of the DON's business processes, internal controls, and supporting documentation from SBA audit readiness work. This incremental approach will use the budgetary controls and supporting documentation as a starting point but will be expanded, as needed, to cover proprietary general ledger entries.

Status and Plans

The DON continues to refine the plan for the Working Capital Fund assertion through frequent senior leader engagements with the commands. Also, the DON is developing a communications plan specifically for the Working Capital Fund community to increase dialogue and buy-in from the commands.

The DON is in the process of conducting a risk-based approach and materiality analysis to prioritize and focus audit readiness efforts for the Balance Sheet. In conjunction with the commands, the DON will conduct pre-discovery efforts to identify stakeholders, processes, and IT systems for the material general ledger accounts. The DON recognizes the General Fund Balance Sheet as the backbone of the remaining financial statements, and it will be prioritized accordingly to support achieving full financial statements audit readiness by September 30, 2017.

DON AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure II-4 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

- Designing, developing, and deploying audit-ready compliant systems as well as cost-effective changes to legacy systems that will be part of the systems environment
- Converting and validating data, implementing and testing controls, and documenting systems and processes

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure II-4. ERP costs are reported in Section VI.

Figure II-4. Department of the Navy Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	93	103	86	82	90	91
Financial Systems	20	20	20	20	10	10
Total Resources	113	123	106	102	100	101

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Message from the Department of the Air Force Chief Management Officer

The Department of the Air Force asserted audit readiness for our Schedule of Budgetary Activity in July of this year. This important milestone establishes a solid foundation for continual financial management improvement while demonstrating fiscal stewardship to Congress.

Over the past six months, we have used a disciplined approach to financial improvement, balancing cost-effective investments in systems with process reengineering and workforce development. We received a favorable operational assessment of our Defense Enterprise Accounting Management System (DEAMS) and completed deployments to Air Mobility Command, Air Force Global Strike Command, and most of Air Combat Command. In the next several months, approximately half of our total budget will be executed in this new system. We continue to enhance process controls, conduct management reviews, and implement our new financial management personnel certification program.

We expect to learn many lessons as we simultaneously conduct audits on our budgetary reports and implement corrective actions necessary to audit the remaining financial statements. We look forward to working with the Department of Defense Office of the Inspector General and an independent public accounting firm in the coming year to achieve our 2017 audit readiness goals for all of our financial statements.



Eric K. Fanning
Eric K. Fanning
Chief Management Officer
Department of the Air Force

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III. Air Force Audit Readiness Plans

The vision for the Air Force is “The World’s Greatest Air Force— Powered by Airmen, Fueled by Innovation.” For generations, the allure of airpower has attracted outstanding Americans to serve their country. One of the Air Force’s greatest strengths is its ability to recruit, develop, and retain innovative patriots with strong character, a belief in respect for others, and a commitment to high standards and our core values of Integrity First, Service Before Self, and Excellence In All We Do.

To excel as stewards of its resources, the Air Force is executing a strategy to modernize legacy systems, transforming business and financial management processes to improve combat support for the nation’s warfighting forces. Providing reliable, accurate, and timely



A U.S. Air Force F-22 Raptor aircraft taxis out at Joint Base Pearl Harbor-Hickam, Hawaii, September 21, 2011. (U.S. Air Force photo by Staff Sgt. Lee O. Tucker)

information to decision-makers at all levels is essential. This strategy is important to achieving CFO Act compliance and audit readiness goals as well as adhering to the vision and mission of the Air Force.

In FY 2014, the Air Force asserted audit readiness on the Air Force General Fund SBA. The Air Force General Fund SBA for FY 2015 will include financial transactions directly related to appropriations received by the Air Force in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years.

Leadership and Accountability

Air Force senior leadership continues to support the Department’s near- and long-term audit readiness goals and remains fully committed to measuring progress and maintaining audit readiness. The strategy includes communication protocols and training to adequately prepare the Air Force to support the audit.

FIAR updates and statuses are reported in a number of forums. Air Staff functional leads report progress biweekly to the Air Force Deputy Chief Management Officer. Senior Executive Service members continue to include financial improvement and audit readiness goals and measures in their performance plans. Governance structures and organizations hold senior military and civilian officials accountable for meeting FIAR milestones. This is monitored through the Enterprise Senior Working Group, Executive Steering Committee, and Senior Assessment Team, as well as quarterly briefings to the Chief Management Officer on open material weaknesses.

The Major Commands (MAJCOMs) are leading the audit readiness efforts and established a FIAR governance process to review progress. The MAJCOMs hold weekly meetings for sharing lessons learned and addressing deficiencies, and continue to self-test monthly across assessable units and processes. These efforts have laid the groundwork for initial assertions and a sustainable path for maintaining audit readiness.

FIAR Plan Status Report

Accomplishments and Progress

The Air Force executed an accelerated strategy to ensure critical areas are ready for the SBA audit in FY 2015. The Air Force has established a comprehensive strategy to stand up an enterprise-wide audit infrastructure consisting of subject matter experts from the MAJCOMs, functional process owners, and service providers. Focused Tiger Teams were formed to quickly address deal breakers. The Air Force documented processes and completed testing and is in the process of implementing corrective actions.

Through ongoing engagement with the MAJCOMs and functional process owners (e.g., Acquisition (SAF/AQ), Personnel (AF/A1), Logistics (AF/A4)), significant progress was made in implementing sustainable corrective actions for SBR assessable units and financial systems, and addressing deficiencies, such as a lack of audit evidence or non-compliance with existing policies. As an example, the Air Force centralized signed contractual documents and contracting officer warrants to make it faster and easier to validate and provide source documents during the audit.

The Defense Enterprise Accounting Management System (DEAMS), which establishes a foundation for sustainable audit readiness beyond FY 2017, is now deployed to the Air Mobility Command, Air Force Global Strike Command, and Air Combat Command.

DEAMS will be deployed to Air Education and Training Command, Air Force Reserve Command, and the Air National Guard by the end of FY 2015. At that time, approximately half of Air Force's total direct budget authority will be processed through DEAMS.

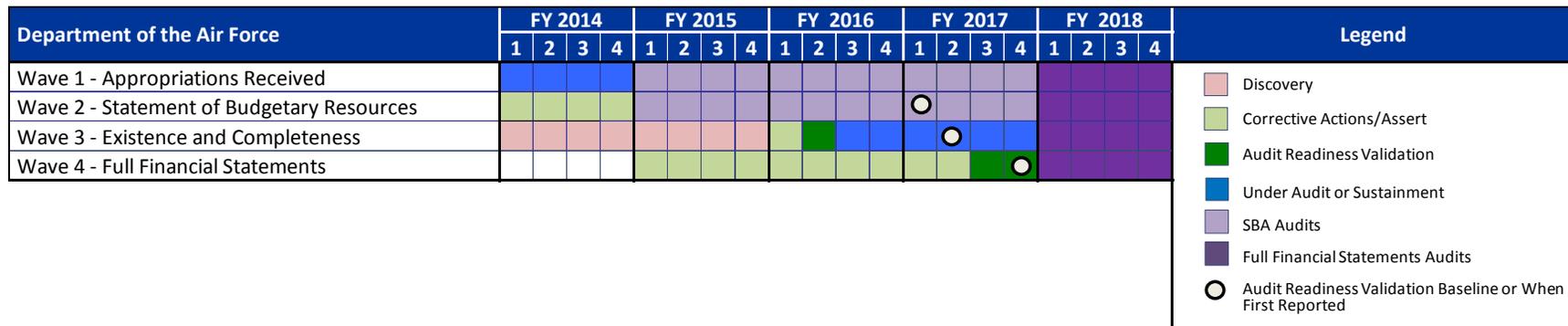
Further, the Air Force completed testing and asserted to the existence and completeness of the munitions it has in its possession as of July 31, 2014. This represents approximately 50 percent of total munitions owned by the Air Force.

Challenges and Risks

The legacy system environment and the sustainability of remediation efforts in such an environment remain primary concerns. Although the Air Force is aggressively working to address deficiencies, the extent of the corrective actions is significant and further complicated by legacy environment limitations. The Air Force continues to assess its strategy to support the audit of the SBA in FY 2015 and prepare for full financial statement audits. Maintaining sufficient resources for corrective actions while preparing remaining areas for full audit in FY 2018 also presents challenges.

Figure III-1 provides the Air Force audit readiness and audit plans by FIAR Strategy wave. As shown, FIAR activity will be completed in FY 2017, and audits of full financial statements will begin in FY 2018.

Figure III-1 Air Force Summary Audit Readiness Plans by FIAR Strategy Wave



STATEMENT OF BUDGETARY RESOURCES

On July 8, 2014, the Air Force asserted audit readiness on the Air Force General Fund SBA for FY 2015. The Air Force General Fund SBA for FY 2015 will include financial transactions directly related to appropriations received by the Air Force in FY 2015 and will not include financial transactions related to appropriations received in prior fiscal years. The Air Force is now focusing its resources on remediating critical deficiencies prior to the start of the FY 2015 audit and sustaining audit readiness.

Management Assertion

The Air Force has sustained an audit ready Fund Balance with Treasury reconciliation, a critical step in preparing for SBA audits, since October 2011. In July 2014, the Air Force asserted that the SBA representing current year budgetary activities will be ready for the FY 2015 audit. To assert, the Air Force assessed whether supporting documentation and internal controls exist and are properly designed to meet the audit readiness objectives. The scope of this assertion includes all Air Force programs, processes, and systems related to receipt and execution of current year General Fund appropriations presented in the SBA and related footnotes.

Risks to Successful SBA Audits

The Air Force identified potential challenges and risks to audit including the need to reconcile transaction details to the source systems. The current Air Force legacy system environment was not designed to provide this audit trail, and numerous manual controls were created to reconcile transactions and create an audit trail. Risk still remains that such compensating controls may not be sustainable to provide the audit trails repeatedly and timely. Additionally, the accelerated SBR strategy reduced the time available to identify, develop, and implement corrective actions, thus not all corrective actions may be completed prior to the start of the audit. Remediation work continues on five capabilities:

- Completeness of Population (Universe of Transactions) – Ability to reconcile 100 percent of the transactions to the source systems
- Journal Voucher Support – Ability to adequately support or eliminate journal vouchers
- Service Provider Integration – Comprehensive memoranda of agreement with service providers that outline controls, supporting documentation, and associated roles and responsibilities
- Audit Support Infrastructure – Establish infrastructure and training to support the audit
- Self-Identified Deficiencies – Address root causes and enhance policies and procedures to establish and maintain an effective internal control environment

The Air Force is aware of these risks and challenges and focused its efforts on remediating the most critical deficiencies. To mitigate these risks, the Air Force developed a long-term strategy and corrective actions for strengthening the IT control environment and eliminating the need for manual controls.

Audit Support Infrastructure

The Air Force established a comprehensive strategy and framework for an audit support infrastructure that will be in place for future examinations and audits. The goal of the infrastructure is to streamline the documentation retrieval processes and provide ongoing support and communication to the Air Force leadership and auditors. The framework consists of two work streams:

- Audit Response Process and Tool – Establish a repository and workflow tool that centralizes Provided by Client documents to and from the auditor, and establish a process for identifying all pertinent evidential data, responsible organizations, and associated roles and responsibilities.

The Audit Response Process will drive the establishment of the Audit Support Team and set the parameters around quality

FIAR Plan Status Report

assurance process and training requirements specific to each group. The Audit Support Team is the core group responsible for coordinating and completing the audit. It consists of dedicated resources from the Assistant Secretary of the Air Force for Financial Management and Comptroller (SAF/FM), MAJCOMs, Functional Owners, and Service Providers. Additionally, the Air Force has established a Concepts of Operations with DFAS and is working with the other service providers to develop memoranda of agreement that define the activities required from both the Air Force and service providers.

- Training and Communication to Auditee and Auditor – Develop and provide training to the Audit Support Team at various levels of the organization (Audit Liaison Team at Headquarters, MAJCOMs and Bases, Functional Process Owners, System Owners). The training focuses on the audit process and communication protocols for all audit participants.

Further, the Air Force has developed training materials for the auditors to provide an overview of the Air Force environment, strategic vision, management structure, and operations.

Additional guidance (Desk Guide) to complement the Commander's Checklist has been developed to provide a quick and easy list of critical management controls and documentation by base-level organizational units to support communication and sustain audit readiness.

Figure III-2 provides the Air Force SBR audit readiness plans. As shown, Wave 2 FIAR activity was completed in FY 2014, and SBA audits will begin in FY 2015 and continue through FY 2017, when SBR audits begin as part of full financial statements audits in FY 2018.

Figure III-2 Air Force SBR Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Wave 1 - Appropriations Received																					<ul style="list-style-type: none"> Corrective Actions/Assert Audit Readiness Validation Under Audit or Sustainment SBA Audits Full Financial Statements Audits Audit Readiness Validation Baseline or When First Reported
Wave 2 - Statement of Budgetary Resources																					

EXISTENCE AND COMPLETENESS OF MISSION CRITICAL ASSETS

Assessable units examined and validated as audit ready by the DoD OIG include:

- Military Equipment – Unqualified Opinion in June 2012
- OM&S (Cruise Missiles) – Unqualified Opinion in June 2012
- OM&S (Aerial Targets/Drones) – Unqualified Opinion in June 2012
- OM&S (Uninstalled Missile Motors) – Unmodified Opinion in January 2013
- OM&S (Spare Engines) – Modified Opinion in January 2013

The Air Force completed 73 percent of the book-to-floor and floor-to-book inventory of all equipment accounts for General Equipment. The discrepancies found are not expected to prevent the Air Force from achieving its audit readiness goals, and on-going sustainment assessments are being performed. The Air Force asserted audit readiness on Capitalized Medical Equipment in March 2014. Because this assessable unit is immaterial to the Balance Sheet, the DoD OIG did not perform an evaluation, and the assessable unit is now in sustainment. The DoD OIG is also preparing to examine Munitions.

Remaining Activity to Achieve FY 2016 Goal

The Air Force is focused on testing internal controls and supporting documentation and overcoming challenges and risks. The Air Force is also working with its service providers to understand and document their processes, risks, and internal controls. A Memorandum of Agreement is being developed with each service provider to document roles and responsibilities. Reconciliations between the accountable property system of record to the General Accounting and Finance System–Reengineered (GAFS-R) are being

developed to ensure the general ledger captures all financial transactions.

Challenges and Risks

The Air Force identified potential challenges and risks to achieving existence and completeness audit readiness by June 30, 2016. Challenges include legacy systems and no accountable property system of record for OM&S.

The Air Force legacy systems infrastructure was not designed with the financial reporting controls needed for successful financial statements audits. As such, process controls in these legacy systems environments may not provide sufficient audit trails, including preparing reconciliations. Discrepancies are noted during inventory counts. Discrepancies include assets found that were not in an accountable record and assets that were on record but were not found. The Air Force is aware of these challenges and risks and developed a strategy to assist in developing corrective actions for manual processes and financially significant legacy systems.

There is no accountable property system of record for OM&S managed and possessed by contractors. Identifying items in the possession of contractors has been difficult. The Air Force is using the Service Development and Delivery Process to identify a suitable accountable property system of record, and an auditable interim solution is being developed to meet FIAR objectives in the short-term. A long-term system solution will be implemented after assertion. There is a lack of accountability over Government Furnished Equipment because the universe of contracts and the population of Government Furnished Equipment associated with the contracts in the system of record have not been determined. Activities are in place to improve accountability over Government Furnished Equipment. Processes and controls are also being put in place for General Equipment – Information Technology to improve accountability over these assets (hardware and software).

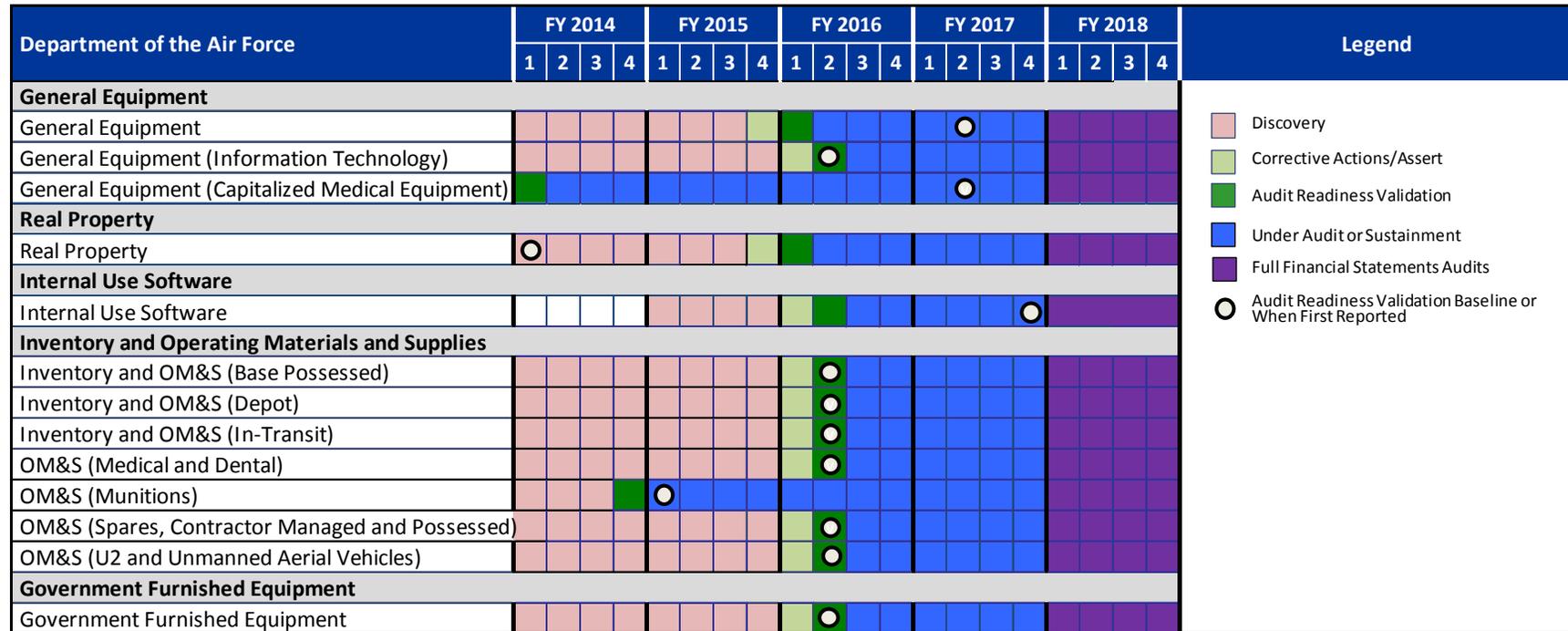
Many Air Force assessable units, such as Munitions and Real Property, depend heavily on the role of service providers. Conflicting

FIAR Plan Status Report

priorities and timelines of the service providers may affect achieving existence and completeness audit readiness. Assessable unit teams are working closely with the service providers to mitigate these risks as much as possible by identifying corrective actions early and providing enough time for implementation.

Figure III-3 provides the Air Force audit readiness plans for mission critical asset existence and completeness audit readiness by assessable unit. As shown, the Air Force will complete mission critical asset existence and completeness audit readiness activity in FY 2016.

Figure III-3. Air Force Existence and Completeness Audit Readiness Plans



General Equipment

Remaining Audit Readiness Actions and Challenges

- Test internal controls and physical inventory procedures to validate existence and completeness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the accountable property system of record are posted accurately and timely to the general ledger.
- Document the processes surrounding the Air Force Equipment Management System (AFEMS) and strategize how to achieve legacy system audit readiness.
- Develop and monitor corrective actions related to internal control gaps to ensure reporting objectives are met.
- Incorporate valuation objectives into the assertion.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	06/2015
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	06/2015
Corrective Actions/Assert	08/2015
Audit Readiness Validated	10/2015

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	06/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	06/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	06/2015
Disposals recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	06/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AF/A4LR	06/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AF/A4LR	06/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4P	06/2015

General Equipment (Information Technology)

Remaining Audit Readiness Actions and Challenges

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct a physical inventory to validate existence and completeness.
- Document the processes surrounding the AFEMS and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in AFEMS are properly posted to GAFS-R.
- Develop and monitor corrective actions related to internal control gaps to ensure reporting objectives are met.
- Incorporate valuation objectives into the assertion.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	11/2015
Process Documentation	03/2015
Test Plans	03/2015
Controls and Supporting Documentation Testing	11/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	SAF/A6	01/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	SAF/A6	01/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4P	01/2016

General Equipment (Capitalized Medical Equipment)

Remaining Audit Readiness Actions and Challenges

- Capitalized Medical Equipment was asserted in 03/2014 and approved by OUSD(C).
- Perform annual sustainment assessments.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	N/A*

* Capitalized Medical Equipment is immaterial to the Balance Sheet, and the DoD OIG did not perform an examination to validate audit readiness.

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	SG, AFMOA, DFAS	✓
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	SG, AFMOA, DFAS	✓
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	SG, AFMOA, DFAS	✓
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	SG, AFMOA, DFAS	✓
Changes (e.g., condition, location) are recorded timely in the APSR.	SG, AFMOA, DFAS	✓
Changes (e.g., condition, location) are recorded accurately in the APSR.	SG, AFMOA, DFAS	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	SG, AFMOA, DFAS	✓

Real Property

Remaining Audit Readiness Actions and Challenges

- Test internal controls and conduct a physical inventory to validate existence and completeness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the Automated Civil Engineers System – Real Property (ACES-RP) are posted accurately and timely to GAFS-R.
- Work with service providers to gain an understanding of their processes, risks, and controls over cost accumulation and financial reporting of construction-in-progress amounts.
- Develop and monitor corrective actions related to internal control gaps to ensure objectives are met.
- Incorporate valuation objectives into the assertion.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2015
Process Documentation	02/2015
Test Plans	02/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions/Assert	09/2015
Audit Readiness Validated	11/2015

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
CIP is recorded timely the general ledger.	HAF/A4C	07/2015
CIP is recorded accurately in the general ledger.	HAF/A4C	07/2015
Completed CIP, other acquisitions, and transfers-in are recorded timely in the APSR and general ledger.	HAF/A4C	07/2015
Completed CIP, other acquisition, and transfers-in are recorded accurately in the APSR and general ledger.	HAF/A4C	07/2015
Disposals and transfers-out are recorded timely in the APSR and general ledger.	HAF/A4C	07/2015
Disposals and transfers-out are recorded accurately in the APSR and general ledger.	HAF/A4C	07/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	HAF/A4C	07/2015

Internal Use Software

Remaining Audit Readiness Actions and Challenges

- Develop processes, controls, and system functionality for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct a physical inventory to validate existence and completeness.
- Document the processes surrounding the AFEMS and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in AFEMS are posted accurately and timely to GAFS-R.
- Develop new and monitor existing corrective actions related to internal control gaps to ensure financial reporting objectives are met.
- Incorporate valuation objectives into the assertion.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	11/2015
Process Documentation	03/2015
Test Plans	03/2015
Controls and Supporting Documentation Testing	11/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	SAF/A6, DFAS	01/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	SAF/A6	01/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	SAF/A6	01/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4P	01/2016

Inventory and Operating Materials and Supplies (Base Possessed)

Remaining Audit Readiness Actions and Challenges

- Test internal controls and conduct a physical inventory to validate existence and completeness.
- Develop a reconciliation process with DFAS to ensure that transactions and property recorded in the accountable property system of record are posted accurately and timely to the general ledger.
- Continue to assess the general and application controls of the material, financially significant systems.
- Develop and monitor corrective actions related to internal control gaps to ensure objectives are met.
- Incorporate valuation objectives into the assertion.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	10/2015
Process Documentation	12/2014
Test Plans	12/2014
Controls and Supporting Documentation Testing	10/2015
Corrective Actions/Assert	11/2015
Audit Readiness Validated	01/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	11/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	11/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	11/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	11/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AF/A4LR	11/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AF/A4LR	11/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4P	11/2015

Inventory and Operating Materials and Supplies (Depot)

Remaining Audit Readiness Actions and Challenges

- Inventory and OM&S (Depot) is a subassessable unit under Working Capital Fund Inventory and General Fund OM&S Spare Parts.
- Air Force Inventory and OM&S spare parts housed at a DLA facility create a service provider relationship.
- An updated Memorandum of Understanding was signed in 03/2014 defining service provider audit support for Air Force owned items in DLA custody.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2015
Process Documentation	05/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions/Assert	12/2015
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AFMC/A4	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AFMC/A4	09/2015

Inventory and Operating Materials and Supplies (In-Transit)

Remaining Audit Readiness Actions and Challenges

- Inventory and OM&S In-Transit is a subassessable unit under Working Capital Fund Inventory and General Fund OM&S Spare Parts.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Update and execute corrective actions to eliminate material weakness.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the accountable property system of record is posted accurately and timely to the general ledger.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2015
Process Documentation	05/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions/Assert	12/2015
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AFMC/A4	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AFMC/A4	09/2015

Operating Materials and Supplies (Medical and Dental)

Remaining Audit Readiness Actions and Challenges

- Inventory and OM&S (Medical and Dental) is a subassessable unit under Working Capital Fund Inventory and General Fund OM&S Spare Parts.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Conduct a physical inventory to validate existence and completeness.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the accountable property system of record is posted accurately and timely to the general ledger.
- Assess the general and application controls of the material financially significant items.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2015
Process Documentation	05/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions/Assert	12/2015
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AFMC/A4	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AFMC/A4	09/2015

Operating Materials and Supplies (Munitions)

Remaining Audit Readiness Actions and Challenges

- Air Force possessed munitions completed existence and completeness discovery activities in 07/2014.
- Assertion (with self-identified deficiencies) prepared and signed by AF/A4/7 in 08/2014.
- Full assertion for Air Force owned munitions is pending the service provider's (Army) existence and completeness assertion.
- Examination for Munitions is being coordinated with the DoD OIG.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions/Assert	✓
Audit Readiness Validated	*

* Examination pending availability of DoD OIG.

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	Army, SAF/AQ, DFAS, AF/A4LW	06/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Army, SAF/AQ, DFAS, AF/A4LW	06/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	Army, AF/A4LW, DFAS	06/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Army, AF/A4LW, DFAS	06/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	AF/A4LW	06/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	AF/A4LW	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4P	06/2016

Operating Materials and Supplies (Spares, Contractor Managed and Contractor Possessed)

Remaining Audit Readiness Actions and Challenges

- Develop an interim solution for accountability and financial reporting.
- Conduct a physical inventory to validate existence and completeness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the contractor’s accountable property system of record are posted accurately and timely to the general ledger.
- Continue using the Service Development and Delivery process to identify a government accountable property system of record.
- Develop and monitor corrective action plans related to internal control gaps to ensure objectives are met.
- Incorporate valuation objectives into the assertion.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	10/2015
Process Documentation	03/2015
Test Plans	03/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	10/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	10/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	10/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	10/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AF/A4LR	10/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AF/A4LR	10/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4P	10/2015

Operating Materials and Supplies (U2 and Unmanned Aerial Vehicles)

Remaining Audit Readiness Actions and Challenges

- OM&S (U2 and Unmanned Aerial Vehicles) is a subassessable unit under General Fund OM&S Spare Parts.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Conduct a physical inventory to validate existence and completeness.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the accountable property system of record are posted accurately and timely to the general ledger.
- Continue to assess the general and application controls of the material, financially significant items.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2015
Process Documentation	05/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions/Assert	12/2015
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded timely in the APSR.	AFMC/A4	09/2015
Changes (e.g., condition, location) are recorded accurately in the APSR.	AFMC/A4	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AFMC/A4	09/2015

Government Furnished Equipment

Remaining Audit Readiness Actions and Challenges

- Determine the universe of contracts and population of assets to record in the accountable property system of record.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Develop reconciliation with DFAS to confirm transactions and property recorded in accountable property system of record are posted accurately and timely to the general ledger.
- Develop and monitor corrective action plans related to internal control gaps to ensure objectives are met.
- Incorporate valuation objectives into assessable unit strategy.
- Continue to assess the general and application controls of financially significant systems.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	11/2015
Process Documentation	03/2015
Test Plans	03/2015
Controls and Supporting Documentation Testing	11/2015
Corrective Actions/Assert	01/2016
Audit Readiness Validated	03/2016

Accountable Entities and Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Accountable Entity	Completion
Acquisitions are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	01/2016
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	01/2016
Disposals are recorded timely in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	01/2016
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LR, DFAS	01/2016
Changes (e.g., condition, location) are recorded timely in the APSR.	AF/A4LR	01/2016
Changes (e.g., condition, location) are recorded accurately in the APSR.	AF/A4LR	01/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (AFEMS, SCS)	AF/A4P	01/2016

FULL FINANCIAL STATEMENTS

The Air Force is developing a comprehensive plan for addressing remaining challenges for full financial statements audit readiness. The Air Force will build on progress made while focusing most of its efforts going forward on DoD-wide challenges, such as the valuation of General Property, Plant, and Equipment; Inventory; and OM&S. Additionally, many of the remediation efforts to establish a sustainable control environment and retain supporting documentation contribute to achieving audit readiness on all of the financial statements, including:

- Completing valuation of aircraft, Intercontinental Ballistic Missiles, and satellites
- Establishing corrective actions to address valuation where feasible while working toward achieving existence and completeness of assets
- Reconciling proprietary and budgetary accounts in the target accounting system to ensure all corrective actions on the budgetary statements are reflected in the account balances presented on the remaining financial statements
- Asserting audit readiness on Restoration and Base Realignment and Closure related Environmental Liabilities

AIR FORCE AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure III-4 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

- Designing, developing, and deploying audit-ready compliant systems as well as cost-effective changes to legacy systems that will be part of the systems environment
- Converting and validating data, implementing and testing controls, and documenting systems and processes

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure III-4. ERP costs are reported in Section VI.

Figure III-4. Department of the Air Force Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	124	169	183	218	220	221
Financial Systems	18	22	22	15	15	15
Total Resources	142	191	205	233	235	236

IV. Other Defense Organizations Audit Readiness Plans

Six ODOs have achieved the FIAR goals and received audit opinions on their FY 2013 financial statements. These ODOs, shown in Figure IV-1, are working to sustain the unmodified opinions, or correct deficiencies and strengthen controls with the goal of receiving unmodified opinions.

Figure IV-1. FY 2013 Financial Statement Audit Opinions

Unmodified Audit Opinions
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Health Agency – Contract Resource Management
Military Retirement Fund
Modified Audit Opinion
Medicare-Eligible Retiree Health Care Fund

For purposes of the FIAR Plan, the ODOs include:

- U.S. Special Operations Command
- Defense Agencies
- Intelligence Community Defense Agencies
- Field Activities
- Chemical Biological Defense Program
- Medicare-Eligible Retiree Health Care Fund
- Military Retirement Fund
- Military Department Working Capital Funds (TI-97)

- Other organizations and accounts that receive Defense-wide appropriated funds

The Defense Intelligence Agencies are on an accelerated audit schedule to meet a congressionally-mandated deadline of achieving an unmodified audit opinion on their full financial statements by 2016. All of the Defense Intelligence Agencies have certified to the Director of National Intelligence and Congress that auditability is a priority and dedicated the resources necessary to achieve this objective.

An IPA audited the National Security Agency’s (NSA) and the National Geospatial-Intelligence Agency’s (NGA) FY 2014 financial statements. Due to a delay in contract award, the Defense Intelligence Agency deferred its financial statement audit until FY 2015.

Preliminary findings from the NSA audit relate to Property, Plant, and Equipment; Fund Balance with Treasury; and General Ledger remediation. Preliminary findings from the NGA audit relate to Property, Plant, and Equipment; Information Technology; and Fund Balance with Treasury. Auditor-identified internal control deficiencies and material weaknesses will be incorporated in the respective agency’s corrective action plans in accordance with the National Intelligence Program Financial Management guideline. The Inspector General report, addressing the audits, will be released with the Agency Financial Reports in November 2014.

STATEMENT OF BUDGETARY RESOURCES

In August 2012, the Department modified the FIAR Guidance to limit the scope of first year SBR audits to current year appropriation activity and transactions reported in a Schedule of Budgetary Activity. With the change in guidance, the ODOs’ FIAR activity excluded work on beginning balances.

In FY 2013, the USD(C)/CFO directed the ODOs material to the DoD Consolidated Financial Statements that had not already

FIAR Plan Status Report

achieved audit readiness to accelerate improvement activities and assert SBA audit readiness. By June 30, 2014, the following ODOs asserted audit readiness on SBR assessable units, such as Civilian Pay or Contract Pay, or on SBR line items, such as Obligations:

- U.S. Special Operations Command (USSOCOM)
- Missile Defense Agency (MDA)
- Defense Advanced Research Projects Agency (DARPA)
- Defense Contract Management Agency (DCMA)
- Defense Health Agency (DHA) - Comptroller
- Defense Logistics Agency (DLA)
- Defense Security Cooperation Agency (DSCA)
- Defense Security Service (DSS)
- Defense Technical Information Center (DTIC)
- Defense Threat Reduction Agency (DTRA)
- Service Medical Activities (SMA) (Army, Navy, Air Force, National Capital Region Medical Directorate)
- DoD Education Activity (DoDEA)
- Washington Headquarters Services (WHS)
- Chemical Biological Defense Program (CBDP)

Although the ODOs asserted audit readiness, critical capabilities needed to achieve successful audits will continue to be addressed in FY 2015. The capabilities include the ability to:

- Produce a complete universe of transactions reconciled to accounting and feeder systems
- Reconcile Fund Balance with Treasury
- Provide fully supported journal vouchers
- Produce transaction-level supporting documentation

Financial Statement Audit Strategy

In August 2014, the Deputy Secretary of Defense convened over 250 representatives of the offices of the Secretary of Defense, Military Departments, ODOs, and DoD OIG to initiate the development of a strategy for auditing the DoD Consolidated Financial Statements. Since then, much progress has been made to complete the strategy. The draft audit strategy is being coordinated across the Department. When fully coordinated, the audit strategy will be discussed with the DoD OIG and Government Accountability Office.

The audit strategy groups the Military Departments and ODOs into categories based on OMB reporting requirements, current ODO financial statement audits, and materiality. The strategy also identifies which ODOs will undergo mock audits, IPA examinations, and full financial statement audits, as well as when they will take place between FY 2015 – FY 2017. As prescribed in the draft audit strategy, ODO audits will be grouped as follows:

OMB-Designated Audits includes the Military Departments and one ODO, the Military Retirement Fund (MRF), and account for 74 percent of DoD budgetary resources. Annual MRF financial statements are presently prepared and audited, and are receiving unmodified audit opinions.

DoD-Designated Audits includes material ODOs and funds, which account for 22 percent of budgetary resources. ODOs currently under audit (e.g., DFAS) will continue undergoing audits of their full financial statements. ODOs not currently under audit will undergo audits of select financial statements and IPA examinations to move progressively toward full financial statements audits that will continue into FY 2018. The ODOs in this category are listed in order of their percent of total budgetary resources.

- Military Retirement Trust Fund Payment
- Defense Logistics Agency
- Defense Health Agency

FIAR Plan Status Report

- DoD Component Level Accounts
- Medicare-Eligible Retiree Health Care Fund
- U.S. Special Operations Command
- U.S. Transportation Command
- Defense Information Systems Agency
- Defense Commissary Agency
- Defense Finance and Accounting Service
- Defense Contract Audit Agency

DoD-Designated Examinations includes other material ODOs and funds, which account for 4 percent of DoD budgetary resources. From FY 2015 – FY 2017, these ODOs will undergo examinations of select financial statements performed by IPAs or undergo mock audits performed by the OUSD(C). Those ODOs under IPA examination will continue financial statement examinations in FY 2018. The ODOs in this category are listed in order of their percent of total budgetary resources.

- Washington Headquarters Services
- Missile Defense Agency
- Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense
- Defense Security Cooperation Agency
- DoD Education Activity
- Defense Research Projects Agency
- Chemical Biological Defense Program
- Defense Threat Reduction Agency
- Defense Contract Management Agency
- Office of the Chairman of the Joint Chiefs of Staff

Defense Agencies and Funds Not Material encompasses the 26 ODOs not included in the other categories and which together account for less than 1 percent of DoD budgetary resources. These ODOs (e.g., Defense Media Activity, Defense Acquisition University, DoD Education Benefits Fund) will continue audit readiness efforts and strengthen internal controls but will only be audited as part of the FY 2018 DoD Consolidated Financial Statements audit.

This phased approach ensures all ODOs' SBR is audit ready when the Department begins the audit of the FY 2018 DoD Consolidated Financial Statements. The strategy also allows for growing an effective ODO audit support infrastructure as the Department progresses to full financial statements audit readiness.

Accomplishments

Since the May 2014 report, the ODOs have achieved many accomplishments while working to assert SBA audit readiness:

- DARPA implemented a process for reconciling trading partner information with its accounting system to improve the accuracy of intergovernmental eliminations. By receiving a daily query of executed contracts to compare to its accounting system, the process also supports more timely recording of obligations.
- DISA replaced its legacy accounting system (Financial Accounting Management Information System – Computing Services (FAMIS-CS)) with a core solution, providing a unified and integrated financial management system that is U.S. Standard General Ledger and Standard Line of Accounting compliant.
- DoDEA received a commendable report of its formal Procurement Management Review conducted by the Director of Defense Procurement and Acquisition Policy, helping to ensure proper and effective procurement management procedures, a key enabler for audit readiness.

FIAR Plan Status Report

- DSCA deployed the Comprehensive Cost and Requirement (CCAR) system centralizing accounting activities, automating segregation of duties, and increasing document retention practices which are important to audit readiness.
- DTIC is establishing an audit infrastructure to support a routine control testing program to ensure internal controls are effective and audit readiness can be sustained.
- SMA completed FISCAM assessments for key medical financial management systems not included in the scope of service provider examination reports.
- WHS will complete a FISCAM audit in December 2014 of Enterprise Business Accounting System to confirm system controls are in place, and designed and operating effectively.

EXISTENCE AND COMPLETENESS OF MISSION CRITICAL ASSETS

ODOs that have a material dollar value of mission critical assets and that are preparing for existence and completeness audits by improving mission critical asset information are:

- Defense Health Agency – Comptroller
- Defense Information Services Agency
- Defense Logistics Agency
- Missile Defense Agency
- Service Medical Activities
- U.S. Special Operations Command
- Washington Headquarters Services

The ODO milestones for achieving mission critical asset existence and completeness audit readiness are provided in Figure IV-2. As shown, all of the ODOs will assert audit readiness by June 30, 2016, as required by the USD(C)/CFO.

Following Figure IV-2 are individual charts for each ODO that is working to achieve existence and completeness audit readiness. The charts provide an overview describing FIAR status, remaining audit readiness actions and challenges, and milestones by the assessable units in their financial improvement plans and planned dates for completing testing and corrective actions.

Figure IV-2. Other Defense Organizations Mission Critical Assets Existence and Completeness Audit Readiness Plans

Other Defense Organization	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Equipment																					
Defense Health Agency - Comptroller		○																			<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Audit Readiness Validation Under Audit or Sustainment Full Financial Statements Audits Audit Readiness Validation Baseline or When First Reported
Defense Information Services Agency			○																		
Defense Logistics Agency - Capitalized Assets				○																	
Defense Logistics Agency - All Accountable Assets				○																	
Missile Defense Agency																					
Service Medical Activities																					
U.S. Special Operations Command																					
Washington Headquarters Services																					
Real Property																					
Defense Logistics Agency - Hosted Sites																					
Defense Logistics Agency - Non-Hosted Sites																					
Missile Defense Agency																					
Service Medical Activities																					
U.S. Special Operations Command																					
Washington Headquarters Services																					
Operating Materials and Supplies																					
Missile Defense Agency																					
U.S. Special Operations Command																					
Inventory																					
Defense Logistics Agency																					

Defense Health Agency – Comptroller (General Fund)

Overview

- Effective October 1, 2013, DoD established DHA to manage the activities of the Military Health System. These activities include those previously managed by TRICARE Management Activity, which was disestablished on the same date.
- DHA provides health benefits for military personnel, military retirees, and their dependents, including some members of the Reserve Component.
- DHA – Comptroller controls DHA financial operations, manages allotment of the Defense Health Program Appropriation and DoD Unified Medical Program, and supports the Uniform Services in DHA Program implementation.
- Working collaboratively with stakeholders to assess current state and to ensure completeness of end-to-end process of mission critical assets.
- PP&E under an internal mock audit to support the existence and completeness assertion.
- Extensive work is being performed to document the value of General Property, Plant and Equipment as part of the internal mock audit.

Remaining Audit Readiness Actions and Challenges

- Internal DHA – Comptroller mock audit that started in 05/2014 will be completed in Quarter 4 of FY 2015.
- Corrective actions will be developed based on mock audit results to remediate any identified issues.
- Standard operating procedures to address acquisition through the disposal process will be finalized.
- Reconciling the Defense Property Accountability System (the accountable property system of record) to the general ledger continues to be a challenge due to multiple systems and inconsistency in recording accountable property.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	09/2015	03/2016

Defense Information Systems Agency (General Fund)

Overview

- DISA, a combat support agency, engineers and provides command and control capabilities and enterprise infrastructure to continuously operate and assure a global net-centric enterprise in support to joint warfighters, national leaders, and other mission and coalition partners.

Remaining Audit Readiness Actions and Challenges

- DISA is implementing a corrective action plan that is organized into six categories: 1) agency awareness and preparation, 2) documentation enhancements, 3) policy considerations, 4) DISA Enterprise Asset Management Supplement updates, and 5) training requirements, and 6) testing and monitoring progress.
- DISA Inspector General is establishing an internal review office to perform testing of internal controls to confirm financial statement accuracy.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	05/2015	06/2015

Defense Logistics Agency (General Fund & Working Capital Fund)

Overview

- DLA provides worldwide logistics support to the Military Services, as well as other federal agencies and foreign countries.
- Asserted to the existence, completeness, rights and obligations, and presentation and disclosure of DLA-owned inventory (not inventory owned by Military Services but in DLA custody, where DLA acts as a service provider.)
- DLA has a number of host sites where DLA maintains responsibility for real property (buildings, structures, and linear structures) assets regardless of whether those using the property are DLA or other Component personnel.
- Asserted existence, completeness, and rights of DLA host site real property assets, excluding improvements, at Richmond, Virginia; New Cumberland, Pennsylvania; Columbus, Ohio; and San Joaquin, California.

Remaining Audit Readiness Actions and Challenges

- Continuing to resolve manual and automated control deficiencies for Inventory. Completion is expected by 06/2015.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Inventory	✓	06/2015
General Equipment – All Accountable Assets	03/2015	09/2015
General Equipment – Capitalized Assets	✓	✓
Real Property – DLA Hosted Sites	✓	✓
Real Property – Non-DLA Hosted Sites	✓	✓

Missile Defense Agency (General Fund)

Overview

- MDA is a research, development, and acquisition agency that develops, tests, and fields an integrated Ballistic Missile Defense System to protect the U.S., DoD forward-deployed forces, and friends and allies from hostile ballistic missile attack.
- Asserted existence and completeness audit readiness for Military Equipment-Sensors in Quarter 2 of FY 2012.
- Standard processes were developed for all MDA business processes (Acquire to Retire, Plan to Stock, and Budget to Report). The corresponding narratives and flowcharts for each assessable unit within these processes are updated, as needed.
- Monitoring corrective actions for property accountability and for General Equipment, OM&S, and Real Property.
- Completed risk assessments for General Equipment, OM&S, and Real Property.

Remaining Audit Readiness Actions and Challenges

- Conducting training for functional organizations to enable reviewing all active and inactive contracts and government property furnished to contractors to baseline existence and completeness and valuation.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	✓	09/2015
Operating Materials and Supplies	✓	09/2015
Real Property	✓	09/2015

Service Medical Activities (General Fund)

Overview

- SMA provides healthcare services to DHA beneficiaries worldwide and comprises Army Medical Command, Navy Bureau of Medicine and Surgery, Air Force Medical Service, and National Capital Region Medical Directorate.
- Established an SMA real property work group focused on identifying and valuing real property assets.
- Memorandum policies between SMA Components, Military Services, and DFAS have been established to coordinate mission critical asset existence and completeness audit readiness work.

Remaining Audit Readiness Actions and Challenges

- FIAR activity to identify and value medical real property has three phases.
 - Phase 1 – identification of medical real property with an estimated completion date in FY 2015.
 - Phase 2 – valuation will start after identification.
 - Phase 3 – transfer asset financial values via DFAS from Military Service financial statements to the SMA Component financial statements. The target date for this initiative is FY 2016.
- SMA Components are using a combination of RPAD, DMLSS, and financial system data to validate real property assets.
- Reconcile real property between hosts and tenants located primarily on military installations. SMA Components will continue working with their respective Military Service counterparts.
- Validate Construction in Progress values and supporting documentation from USACE and NAVFAC.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	09/2015	03/2016
Real Property	09/2015	03/2016

U.S. Special Operations Command (General Fund)

Overview

- USSOCOM is a Combatant Command providing fully capable Special Operations Forces to defend the U.S. and its interests.
- USSOCOM comprises a headquarters organization; Army, Navy, Air Force, Marines, and Joint Components; and Theatre Special Operations Commands that are aligned with Geographic Combatant Commands.
- USSOCOM assets are recorded and reported in the systems of the Military Services. USSOCOM does not have property systems of its own.

Remaining Audit Readiness Actions and Challenges

- Reliance on Military Service systems and processes.
- Capital asset reporting policy inconsistently applied across Military Services.
- Many Military Service accountable property systems of record do not support financial reporting requirements.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	12/2015	06/2016
Operating Materials and Supplies	12/2015	06/2016
Real Property	12/2015	06/2016

Washington Headquarters Services (General Fund)

Overview

- WHS provides administrative and operational support to the Office of the Secretary of Defense, Military Departments, Defense Agencies, and Field Activities.
- WHS is responsible for real property and general equipment associated with the Pentagon Reservation, National Capital Region, and the supported WHS activities.

Remaining Audit Readiness Actions and Challenges

- Coordinating efforts to ensure financial, operational, and system processes are documented and implemented in alignment with DoD process improvement requirements.
- Validation of existence and completeness of General Equipment accountable property systems of record.
- Validation of General Equipment depreciation and software amortization.

Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	12/2015	06/2016
Real Property	12/2015	06/2016

ODO AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure IV-3 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

- Designing, developing, and deploying audit-ready compliant systems as well as cost-effective changes to legacy systems that will be part of the systems environment
- Converting and validating data, implementing and testing controls, and documenting systems and processes

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure IV-3. ERP costs are reported in Section VI.

Figure IV-3. Other Defense Agencies Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	252	225	136	136	145	147
Financial Systems	9	9	9	9	9	9
Total Resources	261	234	145	145	154	156

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V. Service Providers Audit Readiness Plans

Service providers perform a variety of functions and services for the DoD Components, including:

- Accounting and Finance
- Civilian Personnel Management System Support
- Military and Civilian Pay
- Contract Management
- Real Property Construction
- Asset Acquisition, Storage, and Issuance
- Information Technology System Operations and Hosting Support

As a result, Component audit readiness often relies on service provider audit readiness. To support the Components' audit readiness efforts, service providers are working to achieve audit readiness and obtain reasonable assurance that their controls over operations and systems are designed and operating effectively. In addition, service provider information technology systems must be interoperable and effectively functioning to provide Component systems with the information needed for accounting transactions and supporting documentation.

SERVICE PROVIDER SUPPORT OF FY 2015 SBA AUDITS

Upon completing financial improvement work, service providers undergo examinations conducted in accordance with SSAE No. 16, "Reporting on Controls at a Service Organization." To improve Department-wide efficiency, service providers that provide services to three or more Component-customers must obtain an SSAE No. 16 examination on controls. The results of the SSAE No. 16

examinations can then be used by Component customer financial statement auditors, saving time and money.

Service providers that are not required to produce an SSAE No. 16 examination must work with their Component customers to determine how they will support their audit readiness efforts. Service providers are responsible for executing key tasks and activities in the Discovery and Corrective Action phases of the FIAR Methodology for the processes, controls, and systems that affect a Component's financial reporting objectives. Specifically, service providers must achieve financial reporting objectives by implementing control activities and providing supporting documentation that will be audited as part of a Component's financial statement audits.

The service providers that will be supporting the Military Department SBA audits that will begin in January 2015 include:

- Defense Civilian Personnel Advisory Service (DCPAS)
- Defense Contract Management Agency (DCMA)
- Defense Finance and Accounting Service (DFAS)
- Defense Information Systems Agency (DISA)
- Defense Logistics Agency (DLA)

The above service providers' roles and responsibilities in supporting their customers during the SBA audits follow.

Defense Civilian Personnel Advisory Service

DCPAS maintains the Defense Civilian Personnel Data System (DCPDS), the Department's civilian personnel system used to initiate, approve, and process personnel actions for civilian employees. Additionally, and for most Components other than the Military Services, DCPAS hosts the personnel system at a DCPAS-managed data center. Accordingly, the Components rely on DCPDS (including relevant system controls) to ensure the completeness, accuracy, validity, and restricted access to civilian personnel actions. DCPAS has successfully achieved unqualified opinions on SSAE

FIAR Plan Status Report

No. 16 examinations and prepared to fully support their customers' SBA audits.

Defense Contract Management Agency

DCMA, in coordination with DFAS, maintains one of the Department's contract management systems used to manage the largest contracts from obligation to closeout. The Components rely on this system, including relevant system controls, to ensure the completeness, accuracy, validity, and restricted access to prevent unauthorized recording of information on contract management activity. In addition to maintaining Department systems, DCMA monitors contractor performance and business systems to ensure cost, product performance, and delivery schedules comply with the terms and conditions of the contracts.

DCMA has implemented corrective actions, developed compensating controls, and is preparing to support its customers' SBA audits by undergoing an SSAE No. 16 examination of controls and select financial data by an IPA in FY 2015.

Defense Finance and Accounting Service

DFAS calculates and disburses civilian pay and military pay using information obtained from the Components. DFAS is also responsible for the entitlement and disbursement of contract payments for the components; processing disbursements; and cross-walking, reconciling, validating, and adjusting trial balances in the financial reporting process. SSAE No. 16 results include:

- Civilian Pay – Unmodified opinion for the period 10/2013 through 06/2014
- Contract Pay – Unmodified opinion for the period 11/2013 through 04/2014
- Financial Reporting – Opinion pending
- Military Pay – Unmodified opinion for the period 10/2013 through 06/2014

- Standard Disbursing – Unmodified opinion for the period 10/2013 through 06/2014

In addition to examinations, DFAS is conducting self-reviews to clarify roles and responsibilities and uncover challenges in advance of Component customer SBA audits. Critical areas of focus include:

- Universe of Transactions and their Supporting Documentation
- Reconciliations
- Journal Vouchers
- Information Technology Systems

Defense Information Systems Agency

DISA provides application hosting services for the Department's service providers and the Components. As a result, DISA is responsible for most of the Information Technology General Controls over the computing environment in which many financial, personnel, and logistics applications reside. In order for the service providers and Components to rely on the automated controls and documentation within these applications, it is essential that the controls be appropriately designed and operating effectively. DISA and the Components have entered into agreements to support audits. The agreements ensure services are documented and describe any non-standard controls or functions.

For the third consecutive year, DISA received an unmodified opinion on its SSAE No. 16 examination for the period 10/2013 through 06/2014. In FY 2015, DISA will expand the scope of its SSAE No. 16 examination.

FIAR Plan Status Report

Defense Logistics Agency

DLA maintains many information technology systems used by the Components for business and financial operations to include contract pay, disbursing, and financial reporting. DLA has completed discovery and corrective actions and strengthened controls for the systems it maintains in support of its customers' audit readiness.

DLA SSAE No. 16 results include:

- Defense Automatic Addressing System (DAAS) – Qualified opinion issued 04/2014
- Defense Agencies Initiative (DAI) – Qualified opinion issued 08/2014
- Wide Area Workflow (WAWF) – Under examination

Examinations are planned for DAAS, DAI, Defense Travel System (DTS), and WAWF in FY 2015. Additionally, DLA completed 2014 annual self-compliance FISCAM reviews of DAAS, DAI, DTS, Electronic Document Access (EDA), and WAWF and identified deficiencies and is working corrective actions. EDA will also undergo a self-compliance FISCAM review in FY 2015.

SERVICE PROVIDER SUPPORT OF EXISTENCE AND COMPLETENESS AUDIT READINESS

Four service providers support the Components in the acquisition or construction, storage, issue, and disposal of Component owned mission critical assets:

- Department of the Army
- U.S. Army Corps of Engineers
- Naval Facilities Engineering Command
- Defense Logistics Agency

The processes, controls, and systems used by these service providers are integral to their customers' ability to achieve existence and completeness audit readiness. In some instances, the services provided also affect the customers' Statement of Budgetary Resources and reporting of assets on the Balance Sheet.

Figure V-1 shows the audit readiness plans of the service providers supporting mission critical assets existence and completeness audit readiness. As show, the service providers will complete financial improvement work in FY 2016 consistent with the Department's June 30, 2016, goal.

Figure V-1. Service Provider Audit Readiness Plans

Service Provider / Assessable Unit	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Department of the Army – OM&S (Ammunition)																					<ul style="list-style-type: none"> Discovery Corrective Action Audit Readiness Assertion SSAE No. 16 Examination or Sustainment
U.S. Army Corps of Engineers – Real Property																					
Navy Facilities Engineering Command – Real Property																					
DLA – Military Service-Owned Items in DLA Custody																					

Department of the Army – OM&S (Ammunition)

Overview

- Army has acquisition authority and custodial accountability for conventional ammunition for the Military Services, and as such:
 - Executes a single set of audit readiness activities for the Army and other Military Services.
 - Performs monthly internal controls testing of business processes to identify deficiencies for mitigation.
 - Uses the Army’s existence and completeness assertion of Army-owned OM&S as discovery for the larger set of mission critical assets.

Remaining Audit Readiness Actions and Challenges

- Complete FISCAM assessment of LMP and implement corrective actions.
- Provide process documentation and test results to customers for use when asserting audit readiness.
- Provide a description of internal controls to customers that allow auditors to assess the risk of material misstatement.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	✓
Reporting Entity Assertion Support	✓
Assertion	✓

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All transactions are recorded (physical inventory reconciles to APSR records) and properly classified (individual item identifier, where applicable, asset type, controlling organization) within the APSR.	✓
Physical inventories are conducted to validate the existence (APSR records reconcile to physical inventory).	✓
Physical inventories are conducted to validate transactions recorded in the APSR pertain to the Component (identification number where applicable, asset marked with Components name).	✓
All transactions are consistently categorized by type in APSR, summarized, or reported from period to period.	✓
All transactions are recorded (physical inventory reconciles to APSR records) and properly classified (individual item identifier where applicable, asset type, controlling organization) within the APSR.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	12/2015

U.S. Army Corps of Engineers – Real Property

Overview

- Army Civil Works Fund, managed by USACE, has received an unmodified financial statement audit opinion since FY 2008.
- USACE uses the same financial system, CEFMS with its associated controls, to manage military construction funds regardless of source (i.e., customer provided funds).
- With minor enhancements, USACE customers can rely on the Civil Works audit opinion as the basis for asserting SBR audit readiness, real property existence and completeness, and Construction in Progress reporting.
- Army tests internal controls monthly for real property business processes, including USACE processes, to identify deficiencies.

Remaining Audit Readiness Actions and Challenges

- On track to meet the 12/2014 milestones for validation of the Construction in Progress balances and the timely transfer of CIP amounts to the Components.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	✓
Reporting Entity Assertion Support	✓
Assertion	12/2014

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All project related transactions are recorded.	✓
Recorded projects exist at a given date and are supported by appropriate detailed records that are accurately summarized and reconciled.	✓
All construction in progress transactions are consistently and accurately categorized, summarized or reported from period to period.	12/2014
Appropriate construction in progress amounts are transferred to the DoD Component in a timely manner upon completion of the project.	12/2014
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Navy Facilities Engineering Command – Real Property

Overview

- NAVFAC uses the same financial system, Facilities Information System with its associated controls, to manage military construction funds, regardless of source (i.e., customer provided funds).
- Developed draft non-Navy military construction transfer and acceptance processes in coordination with Air Force and DLA. The processes address identification of real property unique identifiers and completion of draft and final DD Form 1354, Transfer and Acceptance of DoD Real Property.

Remaining Audit Readiness Actions and Challenges

- Navy and USMC have approached Real Property corrective actions differently and are developing a Memorandum of Understanding to define roles and responsibilities.
- Pursue a SSAE No. 16 examination to support customer assertions.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	01/2015
Controls Tested	09/2015
Corrective Actions	03/2016
Reporting Entity Assertion Support	09/2016
Assertion	09/2016

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All project related transactions are recorded.	09/2016
Recorded projects exist at a given date and are supported by appropriate detailed records that are accurately summarized and reconciled.	09/2016
All construction in progress transactions are consistently and accurately categorized, summarized or reported from period to period.	09/2016
Appropriate construction in progress amounts are transferred to the DoD Component in a timely manner upon completion of the project.	09/2016
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	TBD

Defense Logistics Agency – Military Service-Owned Items in DLA Custody

Overview

- DLA stores Military Service-owned items and issues them to the Military Services, as requested. Because DLA stores the items in its facilities and uses a DLA system, the Distribution Standard System (DSS) as the accountable property system of record, it is responsible for achieving existence and completeness audit readiness for the Military Service-owned items in its custody.
- DLA uses the same processes and policies for Military Service-owned items as used by the Military Services.
- DLA support affects multiple Military Service assertions.
- FISCAM review was completed 10/2013 on DSS. Retesting was performed in FY 2014.

Remaining Audit Readiness Actions and Challenges

- Complete corrective actions to enable the ability to track by unique item identifier, where applicable. Requires DLA and owning Military Services to develop and implement a DoD-wide solution.
- Complete corrective actions to ensure transactions recorded in DSS pertain to the identified owning Military Service.
- Complete corrective actions to address DSS process and systems controls deficiencies.
- Engage IPA to perform SSAE No. 16 examination.
- Ensure corrective actions or recommendations from the SSAE No. 16 examination are implemented and mitigated.

SSAE No. 16 Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	09/2015*
DoD Component Assertion Support	✓
Assertion	✓*

* Asserted 09/2014 with additional corrective actions to be completed by 09/2015.

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All transactions are recorded (physical inventory reconciles to APSR records) and properly classified (individual item identifier where applicable, asset type, controlling organization) within the APSR.	09/2015
Physical inventories are conducted to validate the existence (APSR records reconcile to physical inventory).	✓
Physical inventories are conducted to validate transactions recorded in the APSR pertain to the DoD Component.	09/2015
All material systems achieve the relevant FISCAM IT general and application-level general control objectives. (DSS)	✓

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General Fund Enterprise Business System (GFEBS)

Overview

- GFEBS is the Army’s General Fund web-enabled accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS serves as the source for consolidated Army General Fund financial reporting.
- The deployment schedule for GFEBS included eight waves to thousands of financial users across the globe. Releases were deployed by functionality.
- In 07/2012, the Army completed GFEBS deployment. More than 53,000 users have been trained on GFEBS, and there are now more than 35,000 active users at 227 locations in 71 countries, and it affects every Army organization and function.
- Internal assessments are ensuring GFEBS meets all audit readiness requirements.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$379.8	\$379.8
Procurement	\$243.1	\$284.6
Operations and Maintenance	\$280.6	\$849.4

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	44
Legacy Systems Scheduled for Sunset	66
Legacy Systems Interfaced to Date	47
Legacy Systems to Be Interfaced	0

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

GFEBs Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B		✓	20
Release/Wave 1	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	Captured in Milestone B
Milestone C	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	29
Release/Wave 2	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	Captured in Milestone C
Release/Wave 3	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	Captured in Milestone C
Full Deployment Decision	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	51
Full Deployment	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	61

GFEBs Financial Reporting Impact

GFEBs serves as a key source for consolidated Army General Fund financial reporting.

FIAR Plan Status Report

GFEB Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	23	12	✓	✓
Supplies (MILSTRIP)	23	12	✓	✓
Reimbursable Work Order – Grantor	23	12	✓	✓
Vendor Pay	23	12	✓	✓
Fund Balance with Treasury	28	7	✓	✓
Appropriations Received	13	2	✓	✓
Military Pay	18	6	✓	✓
Civilian Pay	11	4	✓	✓
Reimbursable Work Order – Acceptor	7	4	✓	✓
Other Budgetary Activity	8	0	✓	✓
Financial Reporting	4	1	✓	✓
Mission Critical Assets Existence and Completeness				
General Equipment	10	TBD	TBD	TBD
Real Property	10	TBD	TBD	TBD
OM&S	10	TBD	TBD	TBD
Inventory	10	N/A	N/A	N/A

Logistics Modernization Program (LMP)

Overview

- LMP is one of the world’s largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. It is designed to sustain, monitor, measure, and improve modernized, national-level logistics support solution.
- LMP handles 2 million transactions daily and \$22 billion in inventory. It is deployed to 21,000 users in more than 50 locations around the world, interfaces with more than 70 DoD systems, and exceeds industry standards with a system response time of less than 2 seconds per transaction in 97 percent of cases.
- LMP Increment 2 will add 9,000 new users and give 5,000 users additional functionality, and will provide new and expanded capabilities that address business transformation for the Army and the DoD Directive for IUID.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
AWCF – CIP	\$1,035.2	\$1,361.7
AWCF – OPS	\$793.1	\$2,508.5
OMA	\$100.6	\$184.5
BRAC	\$3.1	\$3.1

Note: To Date as of August 20, 2014 – Program Cost is for Increments 1 and 2. Completion cost (total lifecycle cost) as reflected in Milestone B Army Cost Position.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	2 (8 CCSS, 42 SDS) ¹
Legacy Systems Scheduled for Sunset	16
Legacy Systems Interfaced to Date	72
Legacy Systems to Be Interfaced	5

¹ 8 CCSS and 42 SDS refer to the number of instances of these legacy systems.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	12/2015
Access	✓	12/2015
Configuration Management	✓	12/2015
Segregation of Duties	✓	12/2015
Contingency Planning	✓	12/2015
Completeness	✓	12/2015
Accuracy	✓	12/2015
Validity	✓	12/2015
Confidentiality	✓	12/2015
Availability	✓	12/2015

FIAR Plan Status Report

LMP Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
CECOM Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
AMCOM Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
FFMIA Compliance (Blue Book ver 6.0)	Demonstration of LMP FFMIA Compliance with the Army Audit Agency – LMP determined to be “Substantially Compliant”	✓	N/A
SAP Upgrade from 4.6c to ECC 6.0	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
TACOM/JM&L/ASC Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
BEA Compliance (ver 8.0)	Program Compliance	✓	N/A
03/2011 Functional Release	SFIS 8.0 Historical Financial Records Update	✓	N/A
12/2011 Functional Release	GFEBs Interfaces , SFIS Compliance Capability, OSD Functional Financial Requirements, Constructive Receipts, improved Fed/Non Fed determination	✓	N/A
SFIS Compliance (ver 8.0)	Demonstrate compliance with remaining SFIS 8.0 Business Rules with ODCMO	✓	N/A
SFIS Compliance (ver 9.0)	Demonstrate compliance with remaining SFIS 9.0 Business Rules with ODCMO	✓	N/A
BEA Compliance (ver 10.0)	Program Compliance	✓	N/A
FFMIA Compliance (Blue Book ver Jan 2011)	Demonstrate LMP FFMIA Compliance with the Army Audit Agency	✓	N/A
Implement Governance, Risk, and Compliance capability	Enhanced Access Controls and Segregation of Duties Management	✓	N/A
BEA Compliance (ver 10.0)	Program Compliance with FY 2015 OEP cycle	✓	N/A
11/2014 Functional Release	Auditability SCR Implementation	11/2014	N/A
GTAS Compliance	Implement the functional changes to support GTAS reporting	11/2014 ¹	N/A
SFIS Compliance (ver 10.0)	Demonstrate remaining SFIS Business Rules with DCMO	11/2014 ²	N/A
SLOA Capability	LMP configured to accept, store, and transmit all SLOA data elements	11/2014	N/A

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
AWCF Audit Readiness Corrective Action Plans	Complete FISCAM Corrective Actions Plan to enable ASA(FM&C) FO to assert audit readiness	12/2014	N/A
05/2015 Functional Release	Auditability SCR Implementation	05/2015	N/A
AWCF Inventory Existence and Completeness Validation	Validation of Management Assertion of Internal Controls Design and Effectiveness	09/2015	N/A
05/2016 Functional Release	Auditability SCR Implementation	05/2016	N/A
AWCF Audit Readiness Assertion	Complete validation of FISCAM controls for ASA(FM&C) FO to assert audit readiness	06/2016	N/A

¹ LMP accelerated the implementation date from May 2015 to November 2014 for GTAS.

² LMP accelerated the implementation date from May 2015 to November 2014 for SFIS 10.0. LMP is coordinating with DCMO to demonstrate configuration and business rules compliance

LMP Financial Reporting Impact

System compliance reviews are an important step toward relying on controls within LMP. Integration between LMP and GFEBS consists of budget execution and obligation transactions that are reported on the SBR. Additionally, LMP is an accountable property system of

record for a portion of Army OM&S. Given the volume of assets and transactions, future Army audit readiness assertions must rely on system controls. Army is on track for reviewing GRC, SFIS, and FFMIA compliance for LMP.

FIAR Plan Status Report

LMP Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	22	21	✓	12/2015
Supplies (MILSTRIP)	22	21	✓	12/2015
Vendor Pay	22	21	✓	12/2015
Reimbursable Work Order – Grantor	22	21	✓	12/2015
Fund Balance with Treasury	29	2	✓	12/2015
Appropriations Received	13	0	✓	12/2015
Military Pay	N/A	N/A	N/A	N/A
Civilian Pay	11	7	✓	12/2015
Reimbursable Work Order – Acceptor	7	7	✓	12/2015
Other Budgetary Activity	8	0	✓	12/2015
Financial Reporting	4	4	✓	12/2015
Government Purchase Card	22	21	✓	12/2015
Temporary Duty Travel	22	TBD	TBD	TBD
Mission Critical Assets Existence and Completeness				
General Equipment	10	1	✓	12/2015
Real Property	10	1	✓	12/2015
OM&S	10	9	✓	12/2015
Inventory	10	9	✓	12/2015

Global Combat Support System – Army (GCSS-A)

Overview

- GCSS-A provides enterprise-wide supply chain logistics capability at the tactical and installation levels and enables the Army to achieve full audit readiness.
- GCSS-A is being deployed in two waves. Wave 1 will provide Army-wide supply and financial capabilities at the tactical unit and installation warehouse levels, and Wave 2 will deploy maintenance, property book accountability, and additional financial capabilities to every tactical and installation level unit in the Army.
- GCSS-A completed Initial Operational Test and Evaluation with 2nd Brigade, 1st Armored Division, in Quarter 1 of FY 2012, and received a Full Deployment Decision in Quarter 1 of FY 2013. As of 09/2014, GCSS-A Fielding effort for Wave 1 was approximately 46 percent complete and was fielded to 20 Fielding Groups including 144 Units (out of a projected 315) and 5,469 users.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset	7
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	2

Note: GCSS-A will sunset SARSS-1 and SARSS-2AC/B with its Wave 1 deployment completion in FY 2015. With the completion of Wave 2 Deployment, GCSS-A will sunset PBUSE, SAMS-E, SAMS-IE, FCM, and STANFINS (Partial) in Quarter 4 of FY 2017. Wave 2 will also include interfaces for two legacy systems – SAAS-Mod and ULLS-AE.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$1,015.0	\$1,062.9
Procurement	\$388.2	\$891.1
Operations and Maintenance	\$232.9	\$1,977.7

Note: To Date as of September 2014. Total Cost (Total Lifecycle Costs) as reflected in Full Deployment Decision Army Cost Position.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	06/2015
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

GCSS-A Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A/B		✓	10
Milestone C		✓	22
Full Deployment Decision	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	31
Initial Deployment/Initial Operating Capability	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	32
Wave 1	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	03/2016	48
Wave 2	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	09/2017	65
Full Deployment	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	09/2017	65

GCSS-A Financial Reporting Impact

GCSS-A Wave 1 enables an initial capability in achieving financial audit readiness for supply transactions at the tactical unit and installation levels. When Wave 2 is complete, financial audit

readiness also will include maintenance and property book accountability financial transactions at these same levels.

FIAR Plan Status Report

GCSS-A Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Fund Balance with Treasury	29	7	TBD	
Supplies (MILSTRIP)	22	21	TBD	
Financial Reporting	4	4	TBD	
Other Budgetary Activity	18	TBD	TBD	
Appropriations Received	13	2	TBD	
Reimbursable Work Order – Grantor	22	12	TBD	
Reimbursable Work Order – Acceptor	7	4	TBD	
Mission Critical Assets Existence and Completeness				
General Equipment	10	9	10/2016	
OM&S	10	9	10/2016	
Inventory	10	9	10/2016	

Integrated Personnel and Pay System – Army (IPPS-A) – Increment I

Overview

- Provides multi-Component, standardized reports with conditional displays by grade (Enlisted, Officer, and Warrant Officer) and Component.
- Establishes a total Army relational database that standardizes data as it is loaded from the 15 current legacy systems.
- Supports data accuracy by requiring Soldiers to review and correct erroneous information in legacy systems after reviewing this consolidated data on their Soldier Record Brief.
- Provides human resources professionals and Commanders with data on all Components in one system for the first time.
- Becomes the critical foundation for all future releases.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$178.8	\$190.9
Procurement	\$0.5	\$0.5
Operations and Maintenance	\$0.5	\$177.3

Note: All costs as of September 30, 2014.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset*	0
Legacy Systems Interfaced to Date (Increment I)	15
Legacy Systems to Be Interfaced (Increments I and II)	81

* The 43 systems previously reported will be sunset after deployment of IPPS-A, Increment II.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	11/2014	12/2014
Segregation of Duties	✓	✓
Contingency Planning	11/2014	12/2014
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

IPPS-A Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Material Development Decision (MDD)	Provided strategic direction for the program and detailed acquisition requirements; Increment I entered the DoD acquisition lifecycle in the Engineering and Manufacturing Development Phase (post-Milestone B).	✓	TBD
Contract Award	IPPS-A Increment I System Integrator awarded; development underway.	✓	TBD
Release 1.0 Milestone C	Authorizes IPPS-A to enter the Production and Deployment Phase of the Acquisition Lifecycle; prepare for Full Deployment Decision.	✓	TBD
Release 1.0 Full Deployment Decision	Authorizes IPPS-A Increment I to enter Operations and Support Phase of the Acquisition Lifecycle and proceed to Full Deployment of the trusted database to the Army National Guard, Active Army and United States Army Reserve. Increment I provides the foundational database for additional functionality provided in future releases.	✓	TBD
Increment II Milestone B	Authorizes the Army to begin the Engineering Development Phase for IPPS-A Increment II in accordance with the Interim Department of Defense Instruction (DoDI) 5000.02 signed by the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) on November 26, 2013.	11/2014	0

IPPS-A Financial Reporting Impact

IPPS-A will meet the requirements of the FIAR program as it is deployed. The PeopleSoft ERP was selected for the Army's integrated personnel and pay system in part due its native functionality being in compliance with FIAR requiring only configuration of existing capabilities to meet the FIAR standards. IPPS-A will ultimately feed SFIS-compliant data to GFEBS for Military Personnel Appropriation payroll and funded orders. IPPS-A will replace over 40 legacy personnel systems and off-ramp from 5 DoD pay systems. Although IPPS-A is required to meet auditability standards and will be audit ready at each release, it will

not deploy in time to support Army's FY 2015 audit readiness assertion for the SBR or for the full financial statement audit readiness assertion for FY 2018. Lessons learned from the FY 2014 SBR audit will ensure that the design and development of IPPS-A is in line with the requirements for a full financial statement audit assertion. IPPS-A is being designed and developed to be compliant with FISCAM, FFMIA, SFIS, and BEA standards and will eliminate or assist in eliminating a number of the Army's material weaknesses. Current Army systems will continue to provide information for audit readiness until IPPS-A is ready to deploy.

FIAR Plan Status Report

IPSS-A Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	22	0		
Supplies (MILSTRIP)	22	0		
Vendor Pay	22	0		
Reimbursable Work Order – Grantor	22	0		
Fund Balance with Treasury	29	0		
Appropriations Received	13	0		
Military Pay	18	TBD	TBD	TBD
Civilian Pay	11	0		
Reimbursable Work Order – Acceptor	7	0		
Other Budgetary Activity	18	0		
Financial Reporting	4	0		
Mission Critical Assets Existence and Completeness				
General Equipment	10	0		
Real Property	10	0		
OM&S	10	0		
Inventory	10	0		

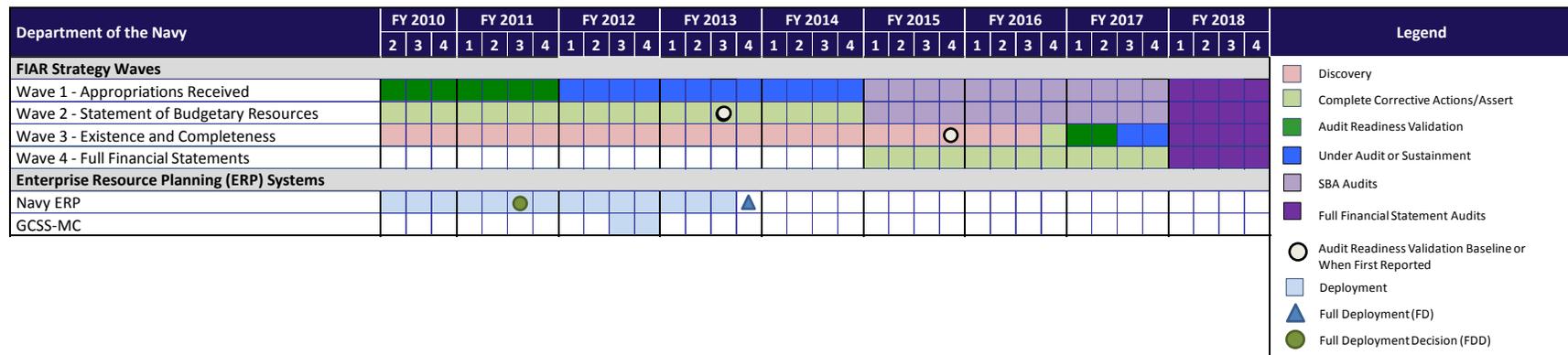
DEPARTMENT OF THE NAVY

Figure VI-2 shows the DON audit readiness plans by wave as compared to its ERPs deployment schedule.

The DON is deploying two ERPs:

- Navy ERP is the DON financial system of record and streamlines the Navy’s business operations, namely financial and supply chain management.
- Global Combat Support System - Marine Corps (GCSS-MC) provides the core of a modern, web-enabled, centrally managed, ERP software system to the Marine Corps.

Figure VI-2. DON Audit Readiness and ERP Plans



Navy ERP

Overview

- Navy ERP was deployed in a single increment with two capability releases: (1) Financial and Acquisition Management, and (2) Wholesale and Retail Supply. As of 10/2012, deployments were complete, and the system is now in the Operations and Support phase of the Acquisition Lifecycle. To date, there are approximately 72,000 Navy ERP users.
- Navy ERP FISCAM Assessment Phase 1 was completed 12/2012. Corrective actions are being completed for high-risk IT control deficiencies. Assessment Phase 2 was completed 02/2014. Assessment Phase 3 began 03/2014 and is still in progress. Corrective actions will be determined for any identified low risk IT control deficiencies.
- Current challenges include skilled workforce work capacity and program budget constraints.
- Navy ERP implemented a change management strategy including user training, communications, and on-site user support. Additionally, data conversion risks were mitigated through legacy data cleansing, data conversions, and use of advanced data conversion tools.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date ¹	80
Legacy Systems Scheduled for Sunset ²	8
Legacy Systems Interfaced to Date	58
Legacy Systems to Be Interfaced ³	5

¹ As of 06/2014.

² Remaining FY 2014 – FY 2016 planned system requirements.

³ New interfaces required to support grants management.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$316.3	\$316.3
Procurement	\$73.1	\$73.1
Operations and Maintenance	\$430.1	\$430.1

Note: Cost includes investment costs only. No additional investment costs after FY 2013.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	TBD
Access	✓	TBD
Configuration Management	✓	✓
Segregation of Duties	✓	TBD
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

Navy ERP Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B		✓	0
Initial Operating Capability /Initial Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	0
Milestone C	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	0
Full Deployment Decision	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	~47
Full Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	~50

Navy ERP Financial Reporting Impact

The DON made a strategic decision to not deploy Navy ERP across the entire Navy command structure due to expectations and challenges associated with deployment to its ships and Fleet

activities. As a result, some efficiencies and cost savings in audit readiness and execution may not be achieved, due to managing multiple business processes and disparate financial systems. Regardless, the Navy intends to achieve auditability using multiple financial systems.

FIAR Plan Status Report

Navy ERP Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	# of Financial Reporting Activities Tested for ERP	Tested	Corrected
Statement of Budgetary Resources					
Contract Pay	29	20	20	TBD	✓
Supplies (MILSTRIP)	29	20	7	✓	✓
Vendor Pay	29	20	20	TBD	✓
Reimbursable Work Order – Grantor	29	29	5	✓	✓
Fund Balance with Treasury	14	12	12	✓	✓
Appropriations Received	5	4	4	✓	✓
Military Pay	13	0 ¹	0 ¹	N/A	N/A
Civilian Pay	13	12	9	✓	✓
Reimbursable Work Order – Acceptor	12	12	8	✓	✓
Other Budgetary Activity	8	0	0	TBD* ²	✓
Financial Reporting	10	TBD ³	TBD ³	✓*	12/2014
Mission Critical Assets Existence and Completeness					
Real Property	0 ⁴	0 ⁴	N/A	N/A	N/A
Inventory	10	10	10	✓	✓
OM&S	10	10	10	✓	03/2015
General Equipment	10	10	10	✓	06/2015

¹ Military Pay transactions are not processed within Navy ERP.

² The DON is developing the strategy and testing timeline for Other Budgetary Activity as part of the SBA assertion.

³ The Financial Statement Compilation and Reporting team and the ERP team are identifying Navy ERP FROs.

⁴ iNFADS is the Accountable Property System Record for Real Property. NAVFAC does not plan to move Real Property to Navy ERP.

Global Combat Support System – Marine Corps (GCSS-MC)

Overview

- GCSS-MC provides the core of a modern, web-enabled, centrally managed, ERP software system.
- GCSS-MC supports the Global Combat Support Systems - Marine Corps/Logistics Chain Management and the Logistics Information Systems Portfolio and is the primary technology enabler for the Marine Corps Logistics Modernization strategy providing the backbone for all logistics information.
- GCSS-MC is being fielded through a series of cutover strategies with Increment 1 being fielded in two releases. Release 1.1 (Enterprise) has been fielded to the entire Marine Corps, with Release 1.2 still in the Development and Test phase.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$305.1	\$344.7
Procurement	\$80.5	\$99.5
Operations and Maintenance	\$429	\$1,143.6

Note: Increment 1 cost at completion extends through FY 2025.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset	4
Legacy Systems Interfaced to Date	13
Legacy Systems to Be Interfaced	0

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

GCSS-MC Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	6
Milestone B		✓	16
Milestone C	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1 – Limited Fielding Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1 – Continued Fielding Release 1.1	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1.1 – Limited Release for FOT&E	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Full Deployment Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	12/2014	30
Full Deployment	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	06/2015	0
Sustainment (FY25)	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	FY 2025	49

Note: GCSS-MC is not fully fielded and is not audit ready, as of the date of this report.

GCSS-MC Financial Reporting Impact

GCSS-MC R1.1 has been fully fielded. The remaining R1.1.1 capability is scheduled for completion by December 2014. This will complete Increment 1. The system is upgrading to the Oracle 12.2 e-Business Suite in FY 2015. The USMC uses the Defense Property Accountability System (DPAS) for military equipment valuation and reporting of military equipment capitalized assets in USMC financial statements.

Inventory balance and valuation of OM&S is transferred from GCSS-MC to the Standard Accounting, Budgeting and Reporting System (SABRS) via the General Ledger Journal Funds Check interface. It is envisioned that the GCSS-MC Logistics System will

be the inventory reporting system to the Marine Corps financial system for OM&S reporting.

SABRS is the financial system used for managing budgetary resources and recording financial transactions. Inventory balances and valuation of OM&S is transferred to SABRS via the General Ledger Journal General Ledger Funds Check interfaces.

DPAS will account for General Property, Plant and Equipment. It is envisioned that GCSS-MC Logistics System will report military equipment capitalized assets. This capability will be satisfied with the development of Inventory Valuation for fixed assets. The GCSS-MC enterprise-wide visibility of data allows logistics planners and operators to make decisions about the logistics chain based on

FIAR Plan Status Report

reliable, timely information. GCSS-MC seeks to address several key challenges enabling enterprise-wide standard processes, and enterprise equipment and inventory accountability and auditability.

Root causes of these challenges include process reengineering and an aging portfolio of stove-piped IT assets. Symptoms of these causes can be seen in USMC's capability gap analyses, lessons learned from

Operation Iraqi Freedom, Operation Enduring Freedom, and ongoing field operations.

The GCSS-MC/LCM Increment 1 represents a significant step forward, both in terms of its capability to address the spectrum of logistics chain functionality and its organizational impact, across the Marine Air Ground Task Forces and USMC supporting establishment.

FIAR Plan Status Report

GCSS-MC Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	29	0		
Supplies (MILSTRIP)	29	10	✓	TBD
Vendor Pay	29	0		
Reimbursable Work Order – Grantor	29	0		
Fund Balance with Treasury	14	0		
Appropriations Received	17	17	✓	TBD
Military Pay	13	0		
Civilian Pay	13	0		
Reimbursable Work Order – Acceptor	12	1	✓	TBD
Other Budgetary Activity	8	3	✓	TBD
Financial Reporting	10	9	✓	TBD
Mission Critical Assets Existence and Completeness				
Military Equipment	10	N/A	N/A	N/A
Real Property	10	N/A		
Inventory	10	TBD	TBD	TBD
OM&S	10	TBD	TBD	TBD
General Equipment	10	N/A		

Note: The Corrective Action Plans and associated Plan of Action and Milestones for noted deficiencies have been developed for OM&S and are being developed for FISCAM.

Defense Enterprise Accounting and Management System (DEAMS) Increment 1

Overview

- DEAMS is an automated accounting and financial management execution system for USTRANSCOM and Air Force.
- The deployment strategy is phased by Major Command and command location.
- Delivered capability for procure-to-pay; order-to-cash; billing and project accounting including transaction-based general ledger to three Air Force Major Commands and USTRANSCOM as of 10/2014.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$358.4	\$604.3
Procurement	\$17.2	\$37.4
Operations and Maintenance	\$49.7	\$49.9
Transportation Working Capital Fund – Capital	\$115.3	\$137.8
Transportation Working Capital Fund – Operating	\$12.7	\$32.2

Note: Program acquisition costs by appropriation for Increment 1. At Completion does not include 10 years of sustainment costs. Based on SBE June 2014.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	5*
Legacy Systems Interfaced to Date	37
Legacy Systems to Be Interfaced	42

Source: Systems Requirements Document version 1.10 (05/2014).

*DEAMS will subsume functionality for Air Force General Funds and Transportation Working Capital Fund transactions. Actual system sunset is dependent on legacy transaction burn-down/conversion and additional enterprise solutions.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	TBD
Access	✓	12/2014
Configuration Management	✓	TBD
Segregation of Duties	✓	01/2015
Contingency Planning	✓	TBD
Completeness	TBD	TBD
Accuracy	TBD	TBD
Validity	TBD	TBD
Confidentiality	TBD	TBD
Availability	TBD	TBD

DEAMS Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		04/2005	7
Milestone B	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management, Property Management	01/2012	42
Milestone C	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management, Property Management, Fund Balance with Treasury (General Fund) Management	08/2014	78
Full Deployment Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management, Property Management, Fund Balance with Treasury (General Fund) Management	02/2015	86
Full Deployment	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management, Property Management, Fund Balance with Treasury (General Fund) Management	TBD	100

DEAMS Financial Reporting Impact

DEAMS is a financial management system using standardized, transaction-based, Standard Financial Information Structure compliant data. DEAMS will serve as the core accounting system for the Air Force General Fund and elements of the Transportation Working Capital Fund (TWCF). It will pass USSGL compliant trial balance data directly to DDRS for financial reporting. DEAMS

addresses current financial management challenges, including system capability to enable resolving material weaknesses; improving timeliness and accuracy of financial management information; supporting consistent financial reporting to the Department while enabling Business Process Reengineering.

FIAR Plan Status Report

DEAMS Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	30	30	06/2015	
Supplies (MILSTRIP)	29	29	06/2015	
Vendor Pay	30	30	06/2015	TBD
Reimbursable Work Order – Grantor	29	29	06/2015	TBD
Fund Balance with Treasury	22	22	06/2015	TBD
Appropriations Received	17	17	06/2015	TBD
Military Pay	13	0	N/A	N/A
Civilian Pay	13	10*	06/2015	TBD
Reimbursable Work Order – Acceptor	12	12	06/2015	TBD
Other Budgetary Activity	8	8	06/2015	TBD
Financial Reporting	10	8	06/2015	TBD
Mission Critical Assets Existence and Completeness				
Military Equipment	0	0	N/A	N/A
Real Property *	10	3	TBD	TBD
Inventory	10	0	N/A	N/A
OM&S	10	0	N/A	N/A
General Equipment **	10	3	09/2016	TBD

Note: Military Equipment assessable unit has been replaced by General Equipment assessable unit.

* Dependent on planned interface partners.

** Applies to Transportation Working Capital Fund only.

Air Force – Integrated Personnel and Pay System (AF-IPPS)

Overview

- AF-IPPS is an FFMIA compliant system, supporting Military Pay auditability. Functionality will support audit readiness general and application controls, but it will not be deployed in time to support financial statements audit readiness by September 30, 2017. Full Deployment estimated to be in Quarter 3 of FY 2019.
- Comprehensive 24/7 self-service, web-based solution enabling transformation of military personnel and pay processing by integrating personnel and pay processes into one COTS, self-service system and maintaining an authoritative member record throughout the persons career.
- Supports AF Human Resource Management Total Force Integration initiative to implement a common personnel management process across all 3 Air Force components.
- Releases: (1) Leave Request Management, (2) Air Reserve Component Active Duty and Inactive Duty, (3) Total Force (TF) Officer Career Management, (4) TF Enlisted Career Management and Cadets Payroll.
- Contract 1 awarded in 08/2013. A protest was received 09/2013; Contractor directed to stop work until protest resolution. GAO denied the protest (111-day period); contract restarted 12/2013.
- Challenges include network and processor monitoring and performance, legacy data management, common-infrastructure governance, synchronization between AF-IPPS implementation and other Air Force systems modernization.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$139.6	\$521.1
Procurement	--	\$30.8

Note: Completion costs (through FY 2029) based on AF-IPPS Program Office Estimate, dated May 30, 2014.

FIAR Plan Status Report

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset	23
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	94

Source: Systems Requirements Document version 1.6 (May 3, 2012).

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	TBD	TBD
Access	TBD	TBD
Configuration Management	TBD	TBD
Segregation of Duties	TBD	TBD
Contingency Planning	TBD	TBD
Completeness	TBD	TBD
Accuracy	TBD	TBD
Validity	TBD	TBD
Confidentiality	TBD	TBD
Availability	TBD	TBD

Note: AF-IPPS is an unbaselined MAIS program. Information Technology Controls will be tested post contract award.

FIAR Plan Status Report

AF-IPPS Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone B/Initial Operating Capability	Delivers Blueprinting of the entire AF-IPPS system (Releases 1-4), and deploys the Leave Request Management (Release 1) capability for the entire AF population except Cadets. Includes foundational infrastructure for Production and Continuity of Operations (COOP) environments, the framework for self-service, workflow to include civilian approval officials, security to manage leave requests, and conversion of all required data.	12/2016	TBD
Milestone C/Full Deployment Decision	<p><u>Deploys the following capability:</u></p> <ul style="list-style-type: none"> • Release 2 – ARC Active Duty/Inactive Duty Management: Manage mobilization and volunteers for contingency, call to active duty orders, inactive duty training, retirement point accounting, leave accrual; eligibility and computation of pay, debts, garnishments, allotments and tax withholding. • Release 3 – TF Officer Career Management: Accessions, Assignments, Promotions, Retirements/Separations. • Release 4 – TF Enlisted Career Management and Cadets Payroll: Accessions, Assignments, Promotions, Re-enlistments/Extensions, Retirements/Separations; Compute pay for ROTC and AF Academy cadets. 	06/2019	TBD

Note: AF-IPPS is an unbaselined MAIS program. Implementation milestones and audit readiness information will be baselined at Milestone B.

AF-IPPS Financial Reporting Impact

AF-IPPS will be a financial feeder system to DEAMS that will produce SFIS-compliant data. AF-IPPS will replace two major legacy systems, DJMS and MilPDS, along with 20 other personnel and pay legacy systems. All legacy systems related to personnel and pay will be audited under the SBR audit. Lessons learned from the audit of legacy systems will be incorporated into the development of AF-IPPS requirements. AF-IPPS is an Air Force Total Force application and is connected to the overall Air Force FIAR Plan.

FIAR Plan Status Report

AF-IPPS Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	0	0		
Supplies (MILSTRIP)	0	0		
Vendor Pay	0	0		
Reimbursable Work Order – Grantor	0	0		
Fund Balance with Treasury	0	0		
Appropriations Received	0	0		
Military Pay	13	6	TBD	TBD
Civilian Pay	0	0		
Reimbursable Work Order – Acceptor	0	0		
Other Budgetary Activity	0	0		
Financial Reporting	0	0		
Mission Critical Assets Existence and Completeness				
Military Equipment	0	0		
Real Property	0	0		
Inventory	0	0		
OM&S	0	0		
General Equipment	0	0		

Note: Testing dates will be determined as the AF-IPPS schedule matures.

OTHER DEFENSE ORGANIZATIONS

The Defense Agencies Initiative (DAI) is modernizing the business environment at many of the Defense Agencies and other Defense organizations. The DAI objective is to achieve and sustain an auditable business environment with accurate, timely, authoritative financial data. The primary goal is to deploy a standardized system to improve cost of ownership, financial management capability, and achieve and maintain compliance with the Department's Business Enterprise Architecture and Standard Financial Information Structure.

To date, 12 Defense organizations have implemented DAI:

- Chemical Biological Defense Program (CBDP)
- Defense Applied Research Projects Agency (DARPA)
- Defense Health Agency (DHA)
- Defense Media Activity (DMA)
- Defense Prisoner of War/Missing Personnel Office (DPMO)
- Defense Security Service (DSS)
- Defense Technical Information Center (DTIC)
- Defense Technology Security Administration (DTSA)
- Defense Threat Reduction Agency (DTRA)
- Missile Defense Agency (MDA)
- Office of Economic Adjustment (OEA)
- Uniformed Services University of the Health Sciences (USU)

An additional 10 Defense organizations will deploy DAI:

- FY 2015:
 - Defense Acquisition University (DAU)
 - Defense Contract Management Agency (DCMA)
 - Defense Micro Electronics Agency (DMEA)
 - DoD Educational Activity (DoDEA)
- FY 2016:
 - Defense Human Resources Activity (DHRA)
 - Defense Information Systems Agency (DISA) – General Fund only
 - Defense Security Cooperation Agency (DSCA)
 - DoD Office of the Inspector General (DoD OIG)
- FY 2017:
 - Defense Commissary Agency (DeCA)
 - Defense Contract Audit Agency (DCAA)

Defense Agency Initiative (DAI)

Overview

- DAI conducted an end-to-end FFMIA assessment that included an external auditor assessment of results. DAI is now 96 percent compliant with applicable requirements and will achieve 100 percent compliance with the deployment of Increment 2, Release 1.
- By full deployment in 2018, DAI’s Enterprise Global Model will also include Grants Financial Management, Governance Risk and Compliance tool, Treasury Disbursing, Budget Formulation, Resale Accounting and Working Capital Fund.
- An IPA issued a qualified opinion on an SSAE No. 16 audit of DAI’s computing processes and key controls for the reporting period January 1, 2014, to June 30, 2014. Identified issues will be corrected prior to the next SSAE No. 16 audit for the reporting period October 1, 2014, to June 30, 2015.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	3
Legacy Systems Interfaced to Date	21
Legacy Systems to Be Interfaced	

Note: DAI replaces, interfaces with, or subsumes functionality of ODO legacy systems. Complete shutdown of an ODO legacy system is determined by the system owner.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$248.8	\$403.7
Procurement	\$1.5	\$1.5
Operations and Maintenance	\$4.3	\$763.4
Total		

Note: Previous reports only included program costs for Increment 1. Program costs now include both DAI Increment 1 and Increment 2.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

DAI Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A ACAT III		✓	N/A ¹
Deployment	Deployed to Business Transformation Agency as a pilot with several capabilities: Procure to Pay, Budget to Report, Cost Accounting, Order to Cash, Acquire to Retire; as well as Time and Labor*	✓	N/A ¹
Deployment	Deployed to Defense Technology Information Center as a pilot with a maturation of these capabilities	✓	N/A ¹
Milestone B ACAT III		✓	N/A ¹
Deployment	Deployed to Missile Defense Agency and Uniformed Services University of the Health Sciences with a further maturation of these capabilities	✓	N/A ¹
Initial Operating Capability	Includes maturation of the pilot Agencies' initial capabilities: Procure to Pay, Budget to Report, Cost Accounting, Order to Cash, Acquire to Retire; Time and Labor	✓	N/A ¹
Deployment	Deploy to four Agencies with maturation of Initial Operating Capabilities and Agency requirements	✓	N/A ¹
Deployment	Deploy to four Agencies with additional maturation of Initial Operating Capabilities and Agency requirements	✓	N/A ¹
Increment 2 Materiel Development Decision / Authorization to Proceed	Designated DAI as an MAIS program comprised of Increments 1 and 2; placed Increment 1 into sustainment and determined Increment 2 would provide at least the following new or enhanced capabilities: working capital fund accounting, budget formulation, grants financial management, resale accounting, time and labor process automation, and procure-to-pay efficiency through contract lifecycle management	✓	N/A
Milestone B	Authorized development of Increment 2, Release 1, the technology upgrade of existing DAI Agencies to Oracle Release 12	✓	N/A
Release 1	Upgrade Oracle Release 11.5.10 to Release 12 to existing Agencies	01/2015	55 ²
Limited Fielding Decision / Release 2	Deploy to four additional Agencies with the following additional capabilities: grants financial management and governance, risk and compliance automation	10/2015	74 ²

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
Release 3	Deploy to four Agencies with additional capabilities: budget formulation and treasury disbursing	10/2016	97 ²
Release 4	Deploy to two additional Agencies with additional capabilities: resale accounting and defense working capital fund	10/2017	100 ²
Full Deployment Decision	Represents full production readiness of DAI Increment 2 capability to include grants financial management, GRC automation, treasury disbursing, budget formulation, resale accounting and defense working capital fund. Other functional improvements will include expanded integration of time and labor and enterprise funds distribution processes.	10/2017	100 ²
Full Deployment	There are no more capabilities to deploy; DAI Increment 2 will go into sustainment.	09/2018	100 ²

¹ – N/A as Increment 1 will be subsumed when Increment 2, Release 1 deploys in January 2015. Increment 1 was an unbaselined program.

² – Release 1 is a technology upgrade of existing Increment 1 agencies and will represent over half of total budget authority when deployment is complete as it is based on the budgetary resources established in the Increment 1 program. In addition, there are no deployments after Release 4, which will represent 100% of the total budget authority of the DAI agencies.

FIAR Plan Status Report

DAI Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	29	29	TBD	TBD
Supplies (MILSTRIP)	29	1	N/A	N/A
Vendor Pay	29	29	TBD	TBD
Reimbursable Work Order – Grantor	29	29	TBD	TBD
Fund Balance with Treasury	14	14	TBD	TBD
Appropriations Received	5	5	TBD	TBD
Military Pay	13	02	N/A	N/A
Civilian Pay	13	13	TBD	TBD
Reimbursable Work Order – Acceptor	12	12	TBD	TBD
Other Budgetary Activity	8	8	TBD	TBD
Financial Reporting	10	83	TBD	TBD
Mission Critical Assets Existence and Completeness				
Military Equipment	10	6	TBD	TBD
Real Property	10	6	TBD	TBD
Inventory	10	0		
OM&S	10	0		
General Equipment	10	6	TBD	TBD

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Appendix 1. Acronyms

Acronym	Definition
ACES-RP	Automated Civil Engineers System – Real Property
AF/A1	Air Force/Deputy Chief of Staff, Manpower, Personnel & Services
AF/A4	Air Force/Logistics, Installations, and Mission Support
AF/A4LR	Air Force/Logistics Readiness Division
AF/A4P	Air Force/Logistics, Installations, and Mission Support/ Resource Integration
AF/A4LW	Air Force/Nuclear Weapons, Missiles, and Munitions Division
AFEMS	Air Force Equipment Management System
AF-IPPS	Air Force Integrated Personnel Pay System
AFMC	Air Force Materiel Command
AFMC/A4	Air Force Material Command/Logistics
AFMOA	Air Force Medical Operations Agency
AKO	Army Knowledge Online
ALC	Agency Location Code
AMC	Air Mobility Command
AMCOM	Aviation and Missile Command

Acronym	Definition
APSR	Accountable Property System of Record
ARC	Audit Response Center
ARNG	Army National Guard
ASC	Army Sustainment Command
ASN(FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
AT&L	Acquisition Technology and Logistics
AWCF	Army Working Capital Fund
AWCF-CIP	Army Working Capital Fund – Capital Investment Program
AWCF-OPS	Army Working Capital Fund – Operations
BRM	Budget Resource Management
BSO	Budget Submitting Office
CBDP	Chemical Biological Defense Program
CCAR	Comprehensive Cost and Requirement
CCSS	Commodity Command Standard System
CECOM	Communications Electronics Command

FIAR Plan Status Report

Acronym	Definition
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CM	Cost Management
DAAS	Defense Automatic Addressing System
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCPAS	Defense Civilian Personnel Advisory Service
DCPDS	Defense Civilian Personnel Data System
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DEAMS	Defense Enterprise Accounting and Management System

Acronym	Definition
DECA	Defense Commissary Agency
DEXCOM	Defense Executive Committee
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHRA	Defense Human Resources Activity
DIA	Defense Intelligence Agency
DISA	Defense Information Systems Agency
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DMA	Defense Medical Activity
DMAP-TAAS	Data Management and Analysis Plan – Textile Aircraft Arresting Systems
DMEA	Defense Micro-Electronics Agency
DMLSS	Defense Medical Logistics Standard Support
DNI	Director for National Intelligence
DoD	Department of Defense
DoDI	Department of Defense Instruction
DoD OIG	Department of Defense, Office of the Inspector General

FIAR Plan Status Report

Acronym	Definition
DON	Department of the Navy
DPAS	Defense Property Accountability System
DPMO	Defense Prisoner of War/Missing Personnel Office
DSCA	Defense Security Cooperation Agency
DSS	Defense Security Service (Also: Distribution Standard System)
DTIC	Defense Technical Information Center
DTRA	Defense Threat Reduction Agency
DTS	Defense Travel System
DTSA	Defense Technology Security Administration
ECC	Enterprise Central Component
EDA	Electronic Document Access
ERP	Enterprise Resource Planning System
ES	Executive Summary
FAMIS-CS	Financial Accounting Management Information System – Computing Services
FBWT	Fund Balance with Treasury
FBWTM	Fund Balance with Treasury Management
FCM	Funds Control Module

Acronym	Definition
FDD	Full Deployment Decision
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness
FIP	Financial Improvement Plan
FIS	Facilities Information System
FISCAM	Federal Information System Controls Audit Manual
FISWG	Financial Information Systems Working Group
FMO	Office of Financial Operations
FMS-NSMA	Financial Management System – Navy Systems Management Activity
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAFS-R	General Accounting and Finance System – Reengineered
GAO	Government Accountability Office
GCSS-A	Global Combat Support System – Army
GCSS-MC	Global Combat Support System – Marine Corps
GF	General Fund
GFE	Government Furnished Equipment

FIAR Plan Status Report

Acronym	Definition
GFEBBS	General Fund Enterprise Business System
GFP	Government Furnished Property
GLM	General Ledger Module (Also: General Ledger Management)
GRC	Governance, Risk, and Compliance
GTAS	Government-wide Treasury Account Symbol
HAF/A4C	Air Force/Logistics, Installations, and Mission Support/ Civil Engineer
ILSMIS	Industrial Logistics Support Management Information System
IMCOM	Installation Management Command
INFADS	Internet Naval Facilities Assets Data Store
IPA	Independent Public Accountant (or Accounting Firm)
IPPS-A	Integrated Personnel Pay System – Army
IT	Information Technology
IUID	Item Unique Identification
JM&L	Joint Munitions and Lethality Life Cycle Management Command
LMP	Logistics Modernization Program
MAJCOM	Major Command

Acronym	Definition
MAIS	Major Automated Information System
MDA	Missile Defense Agency
MDD	Material Development Decision
MILPDS	Military Personnel Data System
MILSTRIP	Military Standard Requisitioning and Issue Procedures
N/A	Not Applicable
NAVAIR	Naval Systems Air Command
NAVFAC	Naval Facilities Engineering Command
NAVSUP	Naval Supply Systems Command
NGA	National Geospatial-Intelligence Agency
NSA	National Security Agency
NWCF	Navy Working Capital Fund
OACSIM	Office of the Assistant Chief of Staff for Installation Management
OASA(FM&C)	Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
ODCMO	Office of the Deputy Chief Management Officer
ODNI	Office of the Director for National Intelligence
ODO	Other Defense Organization

FIAR Plan Status Report

Acronym	Definition
OEA	Office of Economic Adjustment
OEP	Organization Executive Plan
OIG	Office of the Inspector General
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
ONR	Office of Naval Research
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
OUSD(P&R)	Office of the Under Secretary of Defense (Personnel and Readiness)
PAYM	Pay Management
PBC	Provided by Client
PBUSE	Property Book Unit Supply Enhanced
PEO-EIS	Program Executive Office Enterprise Information Systems
PP&E	Property, Plant, and Equipment

Acronym	Definition
PROPM	Property Management
RDT&E	Research, Development, Test, and Evaluation
RECM	Receivables Management
ROTC	Reserve Officers' Training Corps
RPAD	
RWO	Reimbursable Work Orders
SAAS-Mod	Standard Army Ammunition System – Modernization
SABRS	Standard Accounting, Budgeting and Reporting System
SAF/A6	Information Dominance and CIO
SAF/AQ	Headquarters Air Force: Acquisition
SAF/FM	Headquarters Air Force: Financial Management and Comptroller
SAMS	Standard Army Maintenance System
SAMS-E	Standard Army Maintenance System – Enhanced
SAMS-IE	Standard Army Maintenance System – Installation Enhanced
SARSS	Standard Army Retail Supply System
SBA	Schedule of Budgetary Activity
SBIRS	Space Based Infrared Radar System

FIAR Plan Status Report

Acronym	Definition
SBR	Statement of Budgetary Resources
SCS	Stock Control System
SCR	System Change Request
SDS	Standard Depot System
SES	Senior Executive Service
SFIS	Standard Financial Information Structure
SG	Surgeon General
SLOA	Standard Line of Accounting
SMA	Service Medical Activity
SSAE	Statement on Standards for Attestation Engagements
STANFINS	Standard Financial System
STARS	Standardized Accounting and Reporting System
STARS-FL	Standard Accounting and Reporting System – Field Level Accounting
STARS-HCM	Standard Accounting and Reporting System – Headquarters Claimant Module
TACOM	Tank-Automotive and Armaments Command
TBD	To Be Determined
TI	Treasury Index

Acronym	Definition
TOW	Tube-launched, Optically-tracked, Wire Command-link Guided Missile System
TWCF	Transportation Working Capital Fund
ULLS-AE	Unit Level Logistics System-Aviation Enhanced
US	United States
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USARC	United States Army Reserve Command
USD	Under Secretary of Defense
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)
USD(C)	Under Secretary of Defense (Comptroller)
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USMC	United States Marine Corps
USSGL	U.S. Standard General Ledger
USSOCOM	U.S. Special Operations Command
USTRANSCOM	U.S. Transportation Command
USU	Uniformed Services University of the Health Sciences
VCNO	Vice Chief of Naval Operations

FIAR Plan Status Report

Acronym	Definition
WAWF	Wide Area Workflow
WCF	Working Capital Fund

Acronym	Definition
WHS	Washington Headquarters Services

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FINANCIAL IMPROVEMENT AND AUDIT READINESS

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