# Financial Improvement and Audit Readiness (FIAR) Guidance

## April 2017

## Office Of The Under Secretary Of Defense (Comptroller) / Chief Financial Officer

# TABLE OF CONTENTS

***Note: The blue bolded text throughout this document indicates key requirements.***

# PREFACE

## Message from the Deputy Chief Financial Officer

April 3, 2017

I am pleased to present the April 2017 update to the Financial Improvement and Audit Readiness (FIAR) Guidance. The FIAR Guidance provides the Department of Defense (DoD) roadmap to achieving audit ready financial statements and was first published in 2010. Over the last seven years, the Department has made substantial progress and learned many lessons. Several components are already undergoing independent audits or examinations of their standalone financial statements, and the Military Departments and others are auditing a significant portion of their financial statements, most beginning with the Schedule of Budgetary Activity (SBA). To capture lessons learned and ensure momentum continues, the FIAR Directorate updated the guidance to better support an annual regimen of full financial statement audit readiness and sustainment.

The April 2017 FIAR Guidance incorporates recent policy updates related to sub-allotments, risk management, and property. It also includes updates to the FIAR methodology which more accurately reflect the FIAR Directorate's oversight role in audit readiness.

Specifically, the April 2017 FIAR Guidance:

- Incorporates guidance on the appropriate use of sub-allotments;
- Aligns the FIAR methodology to the revised requirements of OMB Circular No. 123, Management's Responsibility for Enterprise Risk Management and Internal Control;
- Incorporates updates to the FIAR Directorate's role in audit readiness and provides a clear and concise definition of what it means to be audit ready;
- Incorporates guidance on additional requirements of Statement on Standards for Attestation Engagements (SSAE) No. 18 relating to service provider controls;
- Clarifies the difference between service providers and trading partners; and
- References updated property policy and implementation guidance.

As components transition from working to achieve audit readiness to an annual audit regimen, compliance with the FIAR Guidance helps ensure improvements are sustained and remaining work is completed efficiently and effectively. Although it may take many more years to achieve a positive opinion, I am confident we have a credible plan in place and are devoting the effort necessary to enter into a full financial statement audit in fiscal year 2018.

Mark E. Easton
Deputy Chief Financial Officer

# SIGNIFICANT CHANGES

The following table highlights significant changes and updates made since the April 2016 issuance of the FIAR Guidance. Please note that the red text throughout the document highlights significant, new language from the April 2016 edition (note that certain new tables and figures may not be shown in red to improve readability).

| SIGNIFICANT CHANGES | REFERENCE |
|---|---|
| • Included definition of audit readiness. | Section 1.A<br>Section 4.A |
| • Expanded guidance for the appropriate use of sub-allotments, incorporating DCFO Memorandum: *Financial Management Requirements for Using Sub-Allotments* by reference. | Section 2.C |
| • Updated guidance to align to the revised requirements per OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. | Section 2.E<br>Section 3.C |
| • Updated Reporting Entity FIAR Methodology to reflect changes to the FIAR Directorate's oversight role. | Section 2.D<br>Section 4.A |
| • Updated guidance to note additional requirements of Statement on Standards for Attestation Engagements (SSAE) No. 18 which superseded SSAE No. 16.<br>○ Incorporated Complementary Subservice Organization Control Identification Template by reference | Section 3.D<br>Section 4<br>Section 5.A<br>Appendix E<br>Appendix F |
| • Updated the Service Provider FIAR Methodology to reflect changes to the FIAR Directorate's oversight role. | Section 4.B |
| • Added clarifying guidance to differentiate Service Provider relationships from Trading Partner/Vendor relationships.<br>○ Incorporated Service Organization vs Trading Partner Assessment Template by reference | Section 4.B |
| • Incorporated *General Equipment Environmental & Disposal Liabilities (E&DL) Audit Readiness Checklist* by reference to assist in identifying and supporting E&DL. | Section 5.D |

# EXECUTIVE SUMMARY

The Department of Defense (DoD or the Department) is the largest and most complex organization in the world. Each of the Military Departments is larger than most American companies. The Department's annual budget represents almost half of the Federal Government's discretionary budget and it holds more than 70 percent of the Federal government's assets, as reported on the Federal Government's Consolidated Financial Statements.

With over $1 trillion in combined budgetary resources, producing auditable financial statements requires a strategic, long-term plan that addresses issues in an organized, prioritized, and incremental manner.

## PURPOSE OF THIS GUIDANCE

This guidance provides instructions for implementing a consistent, Department-wide plan[1] for achieving the Department's financial improvement and audit readiness objectives. In accordance with the National Defense Authorization Act (NDAA) for Fiscal Year 2010, Section 1003, the Financial Improvement and Audit Readiness (FIAR) Directorate developed this guidance for reporting entities and service providers working toward the goal of audit readiness.[2]

The FIAR Guidance defines the Department's goals, priorities, strategy, and methodology for becoming audit ready. Furthermore, this guidance details the roles and responsibilities of reporting entities and service providers, as well as the processes they should follow to achieve audit readiness.

## KEY TASKS

As reporting entities and service providers execute their audit readiness strategies and prepare for audits or examinations', completing key tasks is a critical element of success. ***Accordingly, all Components should refer to Appendix F for tables that specify the critical tasks that Components must perform to ensure the Department remains on track.***

[1] The following intelligence agencies are exempt from the FIAR Guidance in accordance with Section 509 of the FY 2014 Intelligence Authorization Act: National Reconnaissance Office, Defense Intelligence Agency, National Geospatial-Intelligence Agency, and National Security Agency.

[2] Among the provisions of the legislation is the requirement that the Department "…develop standardized guidance for financial improvement plans by components of the Department."

# 1. INTRODUCTION

This FIAR Guidance is a handbook that serves as a standard reference guide for existing and new users involved in all audit readiness initiatives across the Department. It will be updated periodically to ensure it remains current with the Department's priorities and aligns with all applicable Federal and Departmental financial management requirements. This update fully incorporates the requirements of the Chief Financial Officer (CFO) Act and Office of Management and Budget (OMB) Circular A-123, Appendix A, driving efficiency in the integration of the Department's resources to meet the Department's objective of achieving audit readiness by September 30, 2017 (for full financial statements audits). This updated guidance supersedes the Department's guidance on internal controls over financial reporting (ICOFR) previously issued under the title Fiscal Year 2011 Guidance for Implementing OMB Circular A-123, Appendix A: ICOFR, dated October 5, 2010. Any future updates to ICOFR requirements will be included as part of updates to the FIAR Guidance.

## 1.A FIAR PRIORITIES AND STRATEGY

**The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) priorities require reporting entities and service providers to focus on improving controls and processes supporting information that is most often used to manage the Department, while continuing to work toward financial, information technology, and supporting documentation improvements that facilitate the achievement of unmodified audit opinions on their financial statements.** To support these overarching objectives, the FIAR Strategy was developed to define focus areas, set priorities and ultimately serve as the Department's roadmap for becoming audit ready.

Initially, the OUSD(C) designated two priorities, budgetary information and mission critical asset information, to kick-start audit readiness efforts. However, while some progress has been made, the Department is lagging in its efforts to achieve auditability of its full financial statements as of fiscal year-end 2017. Accordingly, in April 2015 the OUSD(C) expanded its priorities in support of its audit readiness goals for both General Funds (GF) and Working Capital Funds (WCF) as follows:

- Budgetary information
- Proprietary accounting data and information
- Mission critical asset information
- Valuation

Furthermore, critical capabilities have been identified that must be achieved by DoD Components in order to assert audit readiness. Audit readiness is defined as having the capabilities in place to allow an auditor to scope and perform a full financial statement audit that results in actionable feedback. Assertion of audit readiness is based on overall progress against the critical capabilities as defined by OUSD(C). Time is of the essence and accomplishing these critical tasks, which are listed in Appendix F, gives the Department its best chance to succeed.

As shown in **Figure 1-1**, the FIAR Strategy has been honed over the past few years and is now updated to reflect upcoming audits and examinations leading to fiscal year-end 2017; the FIAR Strategy continues to provide a critical path for the Department. The FIAR Strategy first sought to balance the need for short-term accomplishments (Wave 1) against the long-term goal of achieving an unmodified opinion on the Department's financial statements (Wave 4). Currently however, the FIAR Strategy has evolved to remain consistent with and focus improvement work on the expanded OUSD(C) priorities. The first three waves have been performed concurrently because they focus on the OUSD(C)'s initial priorities, that is, budgetary information and mission critical asset information. At this stage however, DoD Components have begun incorporating the expanded priorities, proprietary information and valuation, into their audit readiness efforts and are focusing on full financial statement audits (Wave 4).

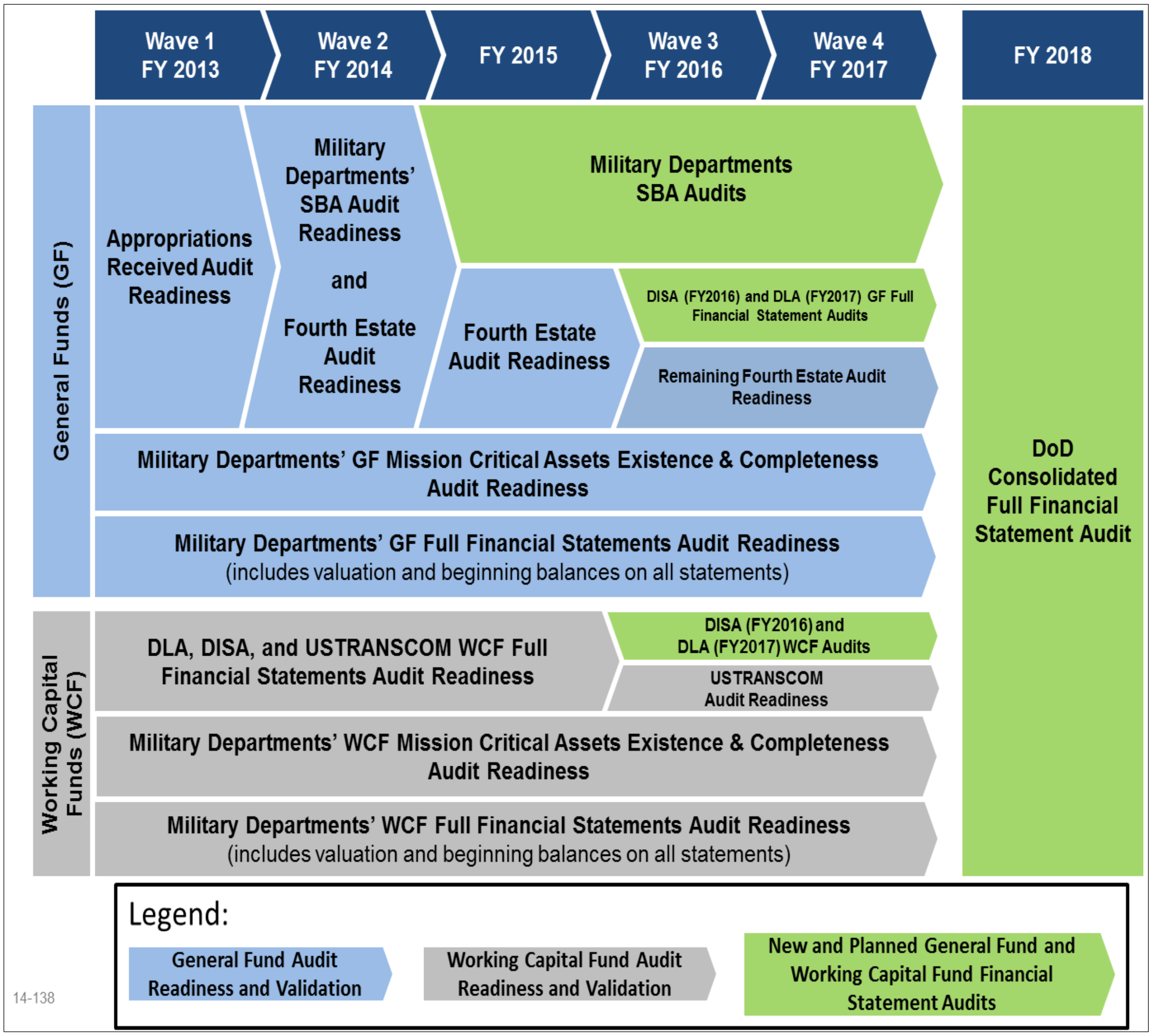



**Figure 1-1. FIAR Strategy includes Four Prioritized Waves to Achieve Full Financial Statement Audit[3]**

[3] Note: This figure does not present DoD Reporting Entities that are currently under full financial statement audit.

## 1.B PURPOSE OF THE FIAR METHODOLOGY

The FIAR Methodology defines the key tasks, underlying detailed activities and resulting work products that all reporting entities should follow to become audit ready. The FIAR Methodology maximizes the potential for successful financial statement audits by considering the methods financial statement auditors use to assess financial statement accuracy in accordance with auditing standards. This guidance draws on the definitions, criteria and requirements that financial statement auditors use to help reporting entities adequately prepare for their first-time financial statement audits. This section of the FIAR Guidance focuses on explaining the concepts of financial statement assertions and financial reporting objectives (FROs), and the tests of internal controls and key supporting documents (KSDs) needed to demonstrate audit readiness. Auditors are required to apply professional judgment when determining whether they have obtained sufficient appropriate evidence (through tests of internal controls and key supporting documents) to form an opinion on the financial statements. Reporting entity management must perform a similar assessment to determine whether it has sufficient evidence to demonstrate the organization is audit ready.

Auditing standards codified by the American Institute of Certified Public Accountants (AICPA) define both auditor and management responsibility during a financial statement audit. By engaging an auditor to perform a financial statement audit, reporting entities are required to make an assertion that the financial statements they prepare are complete and accurate. Specifically, "[t]he preparation and fair presentation of the financial statements require management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as in selecting and applying appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework." [AU-C 200.A3]

In rendering an opinion on the financial statements taken as a whole, the auditor is required to assess and test transactions and balances summarized in individual line items reported on the financial statements. To accomplish this, the auditing standards require auditors to evaluate material or significant line items using financial statement assertions. Furthermore, auditors "should design and perform… audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level." [AU-C 330.06] Auditors obtain and draw conclusions from audit evidence on which to base the audit opinion by performing audit procedures to (a) assess risks of material misstatement **at the relevant assertion level**; (b) test the operating effectiveness of **relevant** controls in preventing or detecting material misstatements; and (c) perform substantive tests and procedures for **all relevant assertions** related to each material class of transactions, account balance, and disclosure. [Adapted from AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*][4]

Auditors generally start by obtaining an understanding of the entity and its controls, assessing risk and analyzing the financial statement line items; then, the individual line items are further broken down to underlying financial statement assertions. While auditors have the discretion to combine or disaggregate financial statement assertions, the five commonly accepted financial statement assertions are existence, completeness, valuation, presentation & disclosure and rights & obligations. **Figure 1-2** demonstrates an example of how the Investments line of the Balance Sheet can be broken down into the five financial statement assertions supporting the one line item. Additional information on these financial statement assertions is included in **Section 3**, *Internal Controls*.

[4] Descriptions of individual financial statement assertions are provided in the FIAR Guidance in Section 5 – Auditing the Financial Statements

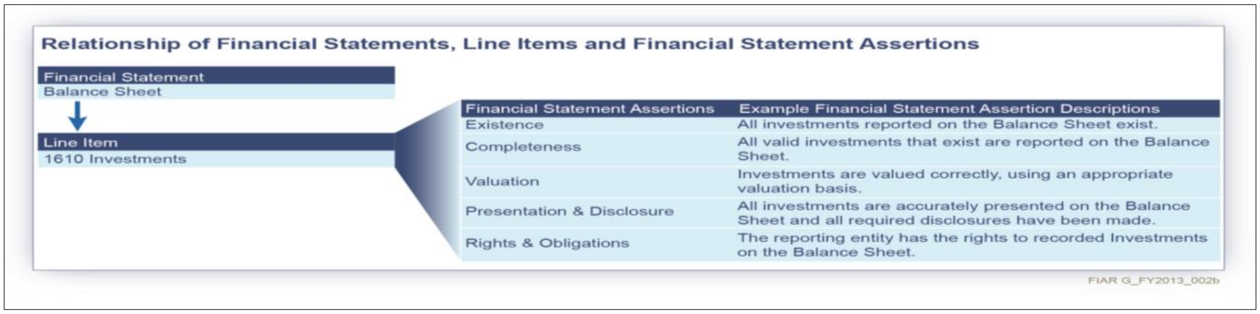



**Figure 1-2 Relationship of Financial Statements, Line Items and Financial Statement Assertions**

**When preparing for audit or examination, reporting entities must fully analyze the financial statement line items included in the scope of its assessable units, identifying all applicable financial statement assertions relative to the line items. The FIAR Methodology defines the specific steps reporting entities must take to perform this analysis (key activities 1.3.1 for internal controls and 1.4.3 for key supporting documents). See section 4.A.3 for a discussion of assessable units.**

### *Relationship of Financial Reporting Objectives to Financial Statement Assertions*

Financial Reporting Objectives

The FIAR Directorate compiled a list of FROs mapped to applicable financial statement assertions to assist reporting entities preparing for audit or examination (see Appendix B). FROs are defined as objectives that capture the outcomes needed to achieve proper financial reporting and serve as a point against which the effectiveness of financial controls can be evaluated. In other words, FROs are a further disaggregation of financial statement assertions at the line item level, and are provided in the FIAR Guidance to help reporting entities ensure they have appropriately considered and assessed all relevant risks/assertions.

These FROs were obtained from the Government Accountability Office's (GAO) *Financial Audit Manual* (FAM). Utilizing FROs derived from auditor guidance helps reporting entities ensure they have addressed all significant risks and financial statement assertions that will likely be evaluated during financial statement audits.

### *Relationship of Key Supporting Documentation to Financial Reporting Objectives*

**To succeed in an audit, reporting entities need to demonstrate they have achieved all FROs relevant to an assessable unit. Reporting entities demonstrate achievement of a FRO through internal control and KSD testing. Reporting entities, in accordance with the FIAR Methodology, are required to perform both internal control testing (FIAR Methodology key task 1.3.3) and KSD testing (FIAR Methodology key task 1.4.5). It is through the combination of internal controls testing and key supporting document testing that reporting entities will be able to demonstrate achievement of relevant FROs. Reporting entity management must decide how it will demonstrate audit readiness. The reporting entity must rely on internal controls to some extent, but has flexibility with regard to the extent to which it relies on internal controls to achieve FROs.**

**In general, areas with large transaction volumes or numerous individual assets (e.g., supply, contracts, Fund Balance with Treasury (FBWT), Inventory, Operating Materiel & Supplies (OM&S), General Equipment (GE), etc.) require management and the auditor to rely more on effective internal controls to provide assurance that balances are properly stated at any given date. Management's determination that effective controls are not in place to mitigate risk for specific FROs does not necessarily preclude an assertion of audit readiness. For example, management may decide that it is more efficient to rely on supporting documentation and limit internal controls reliance for specific FROs for low volume items, such as satellites. However, for populations with a large number of items or with a high volume of transaction activity, such as OM&S, it is more effective and efficient to place more reliance on internal controls, which requires detailed control documentation, including risk assessments, FROs, and internal control assessments. Information**

**technology general controls (ITGCs) and application controls must be designed effectively and tested for operating effectiveness in order for management to rely on the automated controls and system generated reports (i.e., KSDs).** Supporting documentation testing (i.e., substantive testing) cannot overcome ineffective or missing ITGCs and application controls when transaction evidence is electronic and only maintained within a system, or the key supporting evidence is system-generated reports.

Reporting entities should focus their audit readiness efforts on improving their processes, controls, systems and related documentation based on the results of the application of the FIAR Methodology. Adherence to the FIAR Methodology will also enable the Department to comply with the most relevant laws and regulations that have a direct and material impact on the Department's consolidated financial statements. Any standalone efforts to comply with direct and material laws and regulations affecting the reporting entity's financial statements should be completed after achieving audit readiness. The phases and key tasks of the FIAR Methodology can be seen in **Figure 1-3**.

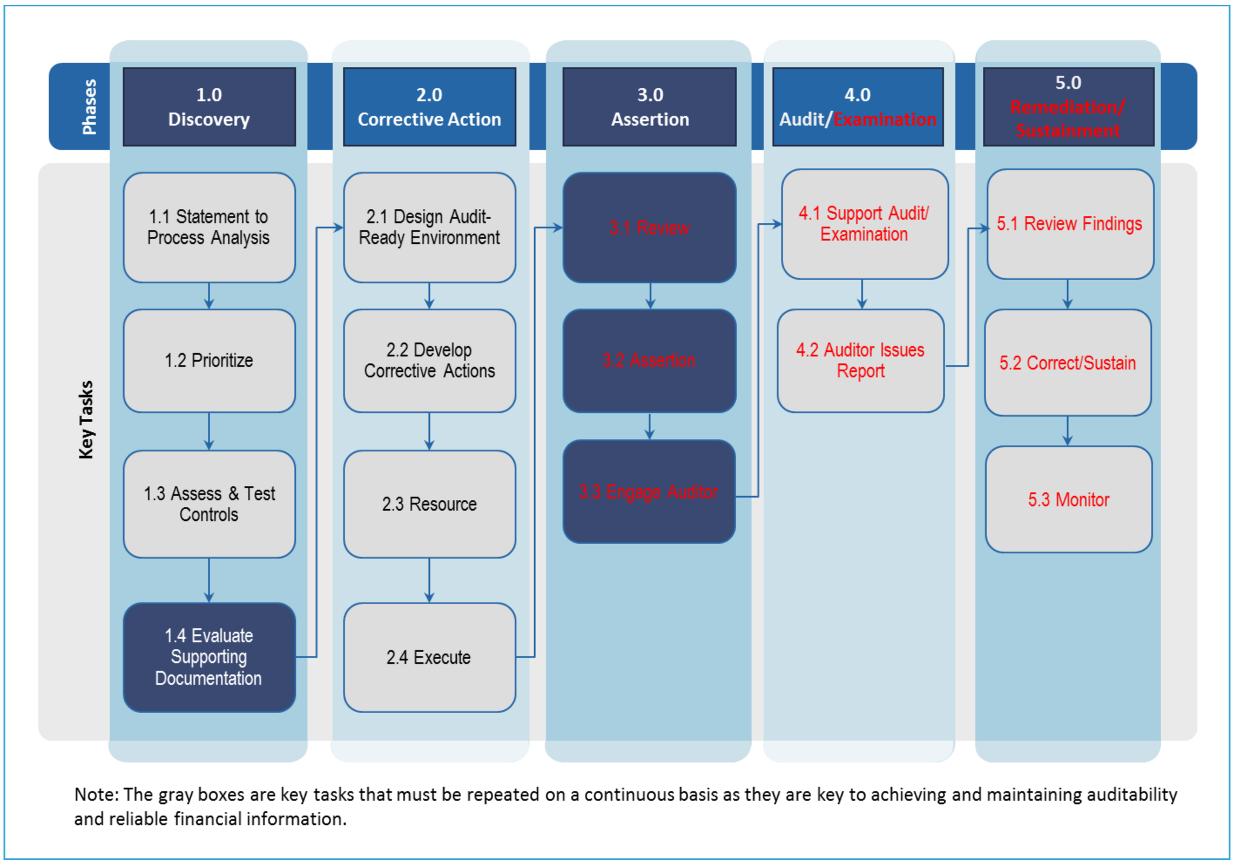



**Figure 1-3. FIAR Methodology Phases and Key Tasks to Achieve Auditability and Reliable Financial Information**

# 2. FIAR GOAL, PRIORITIES, AND STRATEGY

## 2.A FIAR GOAL

The Financial Improvement and Audit Readiness goal is to improve the Department's financial management operations, helping provide America's Service men and women with the resources they need to carry out their mission and improving our stewardship of the resources entrusted to us by the taxpayers. Success will be demonstrated through a financial statement audit performed by independent auditors resulting in an unmodified audit opinion on the Department's financial statements.

## 2.B PRIORITIES

The OUSD(C) established the initial FIAR priorities on August 11, 2009. Before establishing the Department's priorities, the OUSD(C) coordinated them with the Deputy Secretary of Defense, reporting entities, Department of Defense Office of the Inspector General (DoD OIG), Office of Management and Budget (OMB), Government Accountability Office (GAO), and Congress, who approved, endorsed or acknowledged these priorities.

**The Department has made significant progress in recent years with regard to its audit readiness efforts for General Fund budgetary data (Statement of Budgetary Resources). In January 2015, approximately 91 percent of Fiscal Year (FY) 2015 DoD General Fund budgetary data was under independent audit.**

**To achieve full financial statement audit readiness, the OUSD(C) has increased the level of urgency by expanding the FIAR priorities and establishing critical capabilities (see Appendix F) that Components must achieve to demonstrate audit readiness.**

The OUSD(C) expanded priorities are designed to accelerate achievement of the FIAR objectives. The current priorities are:

- Budgetary information;
- Proprietary accounting and information;
- Mission critical asset information; and
- Valuation.

The OUSD(C) directed the reporting entities to modify and regularly update their Financial Improvement Plans (FIPs) to achieve these objectives and priorities, and this remains an important requirement. OUSD(C) leadership is regularly updated on progress through reporting entity Interim Milestone Charts which summarize FIP (and/or CAP[5]) data[6]. Reporting entities should update FIPs regularly and provide assertion documentation to reporting entity management as each work product is completed, so management can assess and monitor interim progress and address impediments early in the process. To reflect the expanded priorities, Appendix F, which aligns with the FIAR Methodology (see Section 4), emphasizes critical assertion tasks and related work products.

Furthermore, as the auditability deadline approaches, it is critical that the Military Departments and the Other Defense Organizations begin addressing both GF and WCF in the scope of audit readiness activities.

### 2.B.1 BUDGETARY INFORMATION

The Department's major financial decisions are based on budgetary data (e.g., status of funds received, obligated, and expended). As a result, the initial OUSD(C) priority focused on process improvements, controls, and systems that produce budgetary information. The starting point for achieving auditable financial statements was the Statement of Budgetary Resources (SBR), specifically the Appropriations

[5] As some Departments and Agencies have progressed through the audit readiness waves, they now use Corrective Action Plans to track remediation.

[6] Progress updates are briefed at a variety of governance forums. See section 2.D for specific details.

(discretionary and mandatory) line item. By focusing improvement efforts on budgetary information and the SBR, the Department sought to:

- Improve the visibility of budgetary transactions resulting in more effective use of resources;
- Provide for operational efficiencies through more readily available financial information;
- Improve fiscal stewardship (ensures that funds appropriated, expended and recorded are reported accurately, reliably and timely); and
- Improve budget processes and controls (precludes Anti-deficiency Act violations).

While these objectives have been met to some degree, much work remains with respect to prior year activity. Accordingly, SBR Balances Brought Forward is now a mandated Wave 2 assessable unit for all GF and WCF entities (see Section 5 for more information).

### 2.B.2 PROPRIETARY ACCOUNTING AND INFORMATION

The second of the expanded priorities focuses improvement and audit readiness efforts on the remaining financial statements. For purposes of this priority, reporting entities should execute the FIAR methodology for material line items in the following financial statements:

- Balance sheet (including related footnotes),
- Statement of Net Cost (and related footnotes), and
- Statement of Changes in Net Position.

Reporting entities should not need to “reinvent the wheel” to address proprietary information. Due to the interrelationship between budgetary and proprietary accounting, reporting entities should have documented and tested many of the processes, controls and transactions affecting the proprietary statements. See section 2.C.4.3 for more information about budgetary and proprietary inter-dependencies.

### 2.B.3 MISSION CRITICAL ASSET INFORMATION

This priority focuses improvement and audit readiness efforts on information that is essential to the effective management of the Department’s mission critical assets. For purposes of this priority, mission critical assets are:

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

Financial management information necessary for the management of the Department’s mission critical assets is also required to support future financial statement audits. This financial management information includes:

- Individual Item Identifier (e.g., unique item identifier, aircraft bureau number, ship number, and real property unique identifier),
- Category/Asset Type (e.g., aircraft – airlift fixed-wing),
- Location (e.g., military installation/organization),
- Operational Status (e.g., active, closed, disposed),
- Item Description (e.g., building headquarters, base library), and

- Controlling/Financial Reporting Organization (e.g., Air Force, Defense Logistics Agency).

This information, as well as other management and financial information, is recorded in official systems of record, which are referred to as "Accountable Property Systems of Record" (APSRs)[7]. Ensuring that asset accountability and important management information relevant to mission critical assets is accurately recorded in each reporting entity's APSRs is the objective of this priority. Please see the FIAR Guidance website for the ***Existence and Completeness Financial Management Data Fields Definitions and Supporting Documentation requirements*** document.

Accomplishing this priority will improve important management information about mission critical assets and move the Department closer to achieving financial statement auditability and reliable financial information. The existence and completeness (E&C) of assets are two of the four financial statement assertions that financial statement auditors will test in Wave 3. **Reporting entities must ensure that all accountable assets recorded in their APSRs, general ledgers and financial statements exist (Existence), all of the reporting entities' accountable assets are recorded in their APSRs, general ledgers and financial statements (Completeness), reporting entities have the right to report these assets (Rights) and assets are consistently categorized, summarized and reported period to period (Presentation and Disclosure).** The fifth financial statement assertion (and final priority), Valuation is addressed in Wave 4, but reporting entities should commence efforts in this area concurrently.

### 2.B.4 Valuation

The final priority focuses on valuation of assets, liabilities, revenues and costs reported in the financial statements. The amounts reported in each reporting entities' financial statements must be accurate and supportable. Valuation methodologies (e.g., in calculating environmental liabilities or valuing cost of historical assets) should be appropriate, reasonable and well-documented. Management estimates should be justifiable in the circumstances, supportable, and thoroughly documented as well. Effectively designed processes and controls should be documented and implemented to ensure all transactions are recorded in the appropriate amounts.

### 2.B.5 Working Capital Funds

DoD Working Capital Funds (WCFs) operate under a different business model than DoD general funds. WCFs operate similar to commercial businesses, charging customers in exchange for providing goods and services. In recognition of this different operating model, the Department has established a different audit readiness prioritization for the WCFs. While the same FIAR Methodology activities must be executed, resulting in the preparation of the same FIAR Methodology work products, the prioritization of efforts should center on WCF's proprietary view of business operations.

In determining how to support SBR balances brought forward line items as well as Fund Balance with Treasury (FBWT) balances, WCFs must analyze their universe of transactions. WCFs must determine gaps in documentation for transactions occurring several years in the past, including the original appropriation that established the corpus of the WCF. Because WCF spending authority is not appropriated and thus, does not expire, it is likely that a significant portion of activity will not be adequately supported; WCFs (as well as reporting entities receiving no-year appropriations) must determine at what point sufficient documentation is not available to support historical transactions, and coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy for asserting audit readiness with respect to the unsupported activity.

As WCFs are primarily financed by exchange revenue (instead of appropriations for general funds), WCFs typically use proprietary (rather than budgetary) information to manage their operations. Since the Department's audit readiness strategy includes focusing on improving information most used by decision makers managing the Department's operations and executing the mission, WCFs should prioritize their audit readiness efforts on proprietary information first. Specifically, WCFs should identify and define their

[7] APSRs are further defined within DoD Instructions and Manuals by asset class. See DoDI 5000.64 for Equipment, DoDI 5000.76 for Internal Use Software, DoDI 4165.14 for Real Property, and DoD Manual 4140.01 for Inventory. APSR data is a significant factor in accounting for DoD assets accurately. Suggested test procedures to enhance APSR data reliability are included within Section 5.D.

assessable units using the balance sheet or statement of net cost (revenue and/or expenses). For example, a WCF typically has various “lines of service”, or “lines of business” so it likely would want to align its business model to form assessable units along those same lines of service/business.

In recognition of this proprietary focus, WCFs are not subject to the examination of the Schedule of Budgetary Activity deadline that applies to general funds. WCFs should work toward asserting full financial statement audit readiness by the Department-wide FY 2017 deadline. However, in instances where a WCF activity supports or impacts the financial reporting or control environment of a general fund reporting entity, the WCF must ensure that it provides requisite audit readiness support to the general fund enabling it to meet its applicable audit readiness deadlines. The following guidance provides further details supporting WCF financial improvement and audit readiness goals within the time constraints prescribed by the Department for material reporting entities.

As a WCF executes the FIAR Methodology to complete the key tasks of the Discovery[8] phase, its work products will be similar to those of a general fund, but should maintain an emphasis on revenue, expense and balance sheet accounts that are material to the reporting entity. **A WCF reporting entity is subject to the same FIAR requirements as a general fund reporting entity, including the same risks of material misstatement and financial reporting objectives as a general fund reporting entity**. Variations however, will occur in the approach and work products of a WCF that center around the proprietary nature of its operations. A representative Statement to Process Analysis has been presented in **Figure 2-1** to illustrate how a WCF can structure a key FIAR work product in a manner that will be valuable to stakeholders involved in its audit readiness initiatives. The table below provides examples of assessable units and related accounts that a WCF may utilize in developing its own Statement to Process Analysis. This model can be customized to address the particular aspects of a WCF reporting entity.

| WCF Assessable Unit Examples | | |
|---|---|---|
| **Assessable Units** | **Financial Statement Line Item or Accounts** | |
| | **Proprietary** | **Budgetary** |
| **Revenue** | | |
| Line of Business No. 1 | Revenue, Accounts Receivable, Fund Balance with Treasury | Unfilled Customer Orders, Anticipated Reimbursements & Other Income, Collections, Uncollected Payments |
| Line of Business No. 2 | Revenue, Accounts Receivable, Fund Balance with Treasury | Unfilled Customer Orders, Anticipated Reimbursements & Other Income, Collections, Uncollected Payments |
| Line of Business No. 3 | Revenue, Accounts Receivable, Fund Balance with Treasury | Unfilled Customer Orders, Anticipated Reimbursements & Other Income, Collections, Uncollected Payments |
| **Expense** | | |
| Contract Pay | Operating Expenses, Accounts Payable, Fund Balance with Treasury | Undelivered Orders, Delivered Orders, Disbursements |
| Vendor Pay | Operating Expenses, Accounts Payable, Fund Balance with Treasury | Undelivered Orders, Delivered Orders, Disbursements |
| Requisitioning (informally known as MILSTRIP) | Operating Expenses, Accounts Payable, Fund Balance with Treasury | Undelivered Orders, Delivered Orders, Disbursements |

[8] See Section 4.A for explanation of the Discovery Phase and all other Phases of the FIAR Methodology.

| WCF Assessable Unit Examples | | |
|---|---|---|
| Assessable Units | Financial Statement Line Item or Accounts | |
| | Proprietary | Budgetary |
| Reimbursable Work Order – Grantor | Operating Expenses, Accounts Payable, Fund Balance with Treasury | Undelivered Orders, Delivered Orders, Disbursements |
| Civilian Pay | Operating Expenses, Fund Balance with Treasury, Accrued Funded Payroll and Leave | Undelivered Orders, Delivered Orders, Disbursements |
| Military Pay | Operating Expenses, Fund Balance with Treasury | Undelivered Orders, Delivered Orders, Disbursements |
| **Balance Sheet** | | |
| Fund Balance with Treasury | Fund Balance with Treasury | Unobligated Account Balances, Obligated Account Balances - Unpaid, Collections, Disbursements |
| Inventory and Related Property | Inventory, Operating Materiel and Supplies | Undelivered Orders, Delivered Orders, Disbursements, Unfilled Customer Orders, Anticipated Reimbursements & Other Income, Collections, Uncollected Payments |
| General Property, Plant and Equipment | Land, Buildings, General Equipment, Internal Use Software, Depreciation Expense, Accumulated Depreciation | Undelivered Orders, Delivered Orders, Disbursements |

**Figure 2-1. WCF Assessable Unit Examples**

In conjunction with the strategy outlined above, WCFs will need to assess their cost accumulation processes and ensure that the underlying processes, controls and documentation are audit ready within the timeframes reported in the FPSR. WCFs routinely review their direct and indirect costs to determine the rate (e.g., revenue) for the services and goods being provided to other entities. SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts,* as well as Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4,* detail the requirements for identification and reporting of full cost on a reporting entity's financial statements. Risks of material misstatement (ROMMs) and financial reporting objectives (FROs) specific to cost accumulation have been included in Wave 4 in Appendix B of the Guidance. Accordingly, each WCF needs to ensure that it has documented its direct and indirect cost accumulation methodology and subsequent rate setting process (e.g., the rate charged for goods and services) so that it can achieve these FROs and demonstrate audit readiness.

## 2.C Strategy

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

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

A clear, comprehensive strategy for achieving audit readiness is critical to ensuring that limited resources are assigned effectively to facilitate sustained and measurable progress. The FIAR Strategy has provided a critical path for the Department, attempting to balance short-term accomplishments with the long-term goal of achieving an unmodified opinion on the Department's financial statements. While progress has been made, time is of the essence; therefore, the FIAR Strategy has been updated and re-aligned to stress the urgency necessary to achieve full financial statement audits within the Congressionally-mandated timeframe.

Each of the Department's material financial statement line items is affected by unique and complex accounting and auditing challenges that must be overcome to achieve auditability and reliable financial information. **The FIAR Strategy has now shifted focus to SBR balances brought forward, material financial statement line items and financial reporting, and includes proprietary information and valuation as additional priorities for GF and WCF reporting entities. The steps each reporting entity must take to assert audit readiness have not changed.** However, all reporting entities must accelerate their efforts to achieve assertion tasks in Appendix F that represent the Department's critical path to accomplishing its audit readiness objectives. The updated FIAR Strategy "waves" representing the significant levels of effort and accomplishments are noted on **Figure 2-2**.

### Consolidated Audit Strategy

In conjunction with the re-focused FIAR Strategy, the FIAR Directorate has evaluated several considerations that will affect the Department's initial audit of its consolidated financial statements beginning in fiscal year (FY) 2018. This analysis has resulted in the development of a consolidated audit strategy to address these considerations. The consolidated audit strategy facilitates a combination of individual Reporting Entity audits and examinations, which are presently occurring, with OUSD(C) infrastructure and support to sustain a consolidated DoD audit. The consolidated audit strategy has been updated to better reflect the roles and responsibilities for the FY 2018 audit and is incorporated by reference as a supplement to this FIAR Guidance. It is available at the following website (CAC restricted): https://guidanceweb.ousdc.osd.mil/Audit_Strategy.aspx.

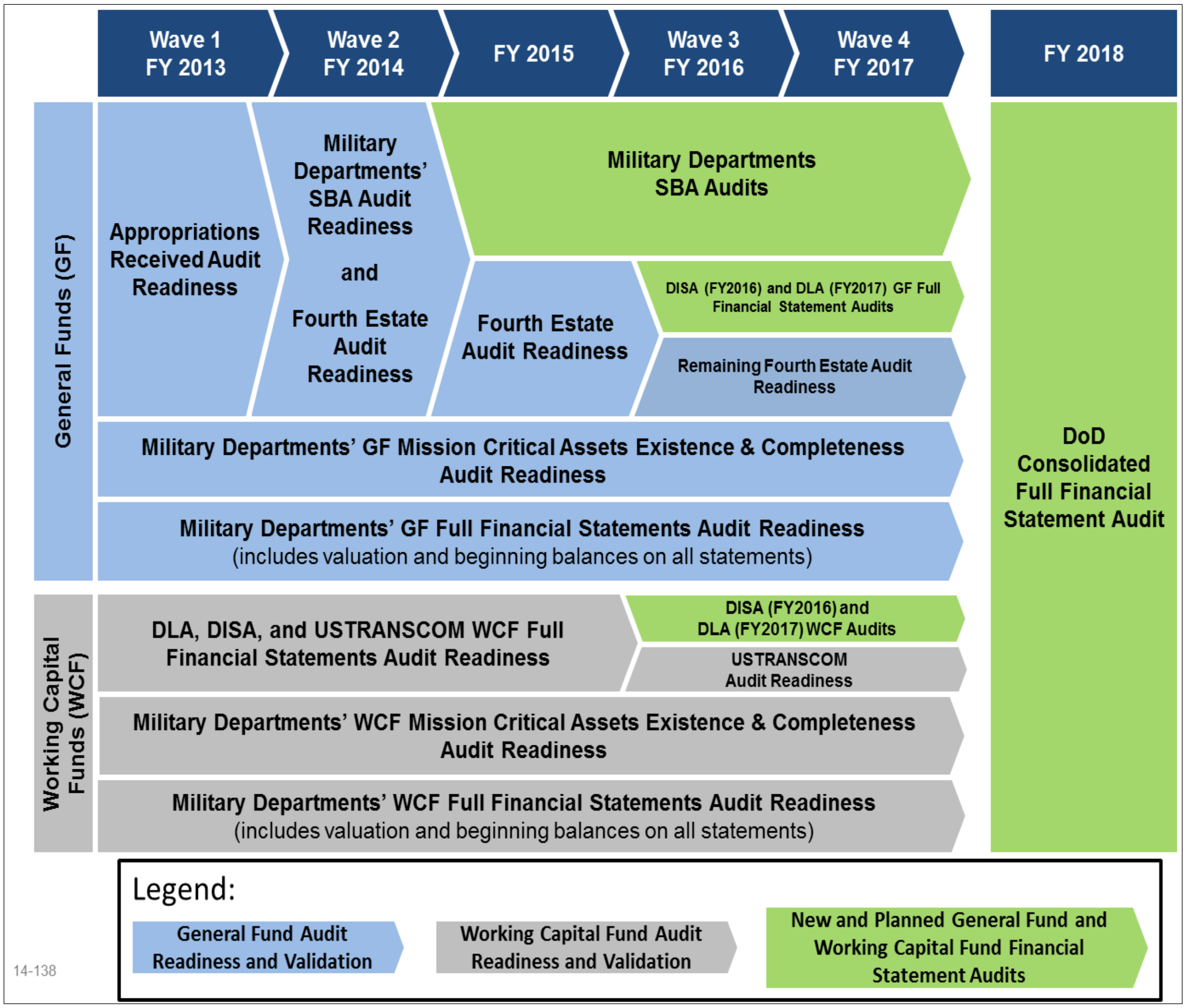



**Figure 2-2. FIAR Strategy includes Four Prioritized Waves to Achieve Full Financial Statement Audit**[9]

During its initial development, the Department's FIAR Strategy drew from the strengths of several alternative approaches, and grouped individual end-to-end processes into one or more waves. It sought to provide coverage of all financial statements, while prioritizing and improving information most often used by DoD management and the warfighter. Furthermore, as depicted in **Figure 2-2**, the four waves created interim audit-ready milestones, while moving the Department toward a full-scope financial statement audit. As the Department approaches the Congressionally-mandated deadline, reporting entities must intensify their efforts to identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs relevant to the subject matter, assertion, processes (e.g., financial reporting) or line item have been achieved. At this stage of the audit readiness process, Waves 1 and 2 should be substantially complete as the Services prepare for their initial SBA audits, which do not include SBR balances brought forward. The FIAR Guidance continues to emphasize urgency, and focuses on critical capabilities that must be demonstrated in order to achieve the ultimate goal of full auditability.

The following sections discuss critical aspects of the remaining waves.

### 2.C.1 Wave 1 – Appropriations Received Audit

This wave is substantially completed.

[9] Note: This figure does not present DoD Reporting Entities that are currently under full financial statement audit.

### 2.C.2 Wave 2 – SBA/SBR Audit

The SBR presents all budgetary resources that a reporting entity has available, the status of those resources at period end, a reconciliation of changes in obligated balances from the beginning to the end of the period, and cash collections and disbursements for the period reported. Wave 2 SBR audit readiness efforts should include all processes, internal controls, systems and supporting documentation that will be within the scope of an SBR audit. The November 2013 edition of the FIAR Guidance shifted the focus of Wave 2 to the Schedule of Budgetary Activity, which reports only current year budgetary funding and execution. As a result of the FY 2015 SBA examinations, the SBA Instructions have been updated for FY 2016 – FY 2018 to better inform the Components about the form and content of the schedule. For example, non-BRAC no-year funds are excluded from the SBA. The updated SBA instructions are located on the FIAR website at http://comptroller.defense.gov/Portals/45/documents/fiar/workproducts/SBA_Instructions.pdf.

**To achieve auditability of the full SBR, GF and WCF reporting entities must also demonstrate audit readiness for SBR Balances Brought Forward. Accordingly, reporting entities must now prepare and submit to management assertion supporting documentation packages for SBR Balances Brought Forward and the Fund Balance with Treasury (FBWT) line item in accordance with the FIAR methodology and assertion tasks shown in Appendix F.**

**To successfully complete Wave 2: Statement of Budgetary Resources, reporting entities must assert on SBR balances brought forward, all open appropriations on the SBR, and any remaining budgetary resources on the SBR not previously asserted.**

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

#### Key Capabilities and Capability Measures

**The FIAR Directorate has defined key capabilities that reporting entities must achieve to complete Wave 2 with respect to SBR balances brought forward. These are capabilities that reporting entities must achieve and sustain to demonstrate full SBR audit readiness.** The key capabilities are aligned with the capability measures, as shown in **Figure 2-3**. These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress in achieving these capabilities.

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| 1. Identify a complete beginning balance population, which is reconciled to the general ledger and financial statements | **Reporting entities must prepare a detail listing supporting the balances brought forward line items on the SBR and demonstrate that the sum of the detail agrees to the general ledger, trial balance, and/or financial statement balance for the assertion period. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries.** |
| 2. Effective controls over recording and maintaining open obligations | **Reporting entities must be able to demonstrate that control activities for maintaining open obligations were suitability designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved.** See Wave 2 SBR Balances Brought Forward Table in Section 5 for a complete listing of FROs relevant to the obligations incurred.<br>• % of obligation financial reporting objectives assessed<br>• % of obligation control activities determined effective |
| 3. Retain and make available supporting documentation to meet audit standards | Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all balances brought forward line items. See Wave 2 SBR Balances Brought Forward Table in Section 5 for minimum documentation requirements.<br>• % of supporting documents assessed<br>• % of supporting documents determined sufficient (adequately retained and readily available) |

**Figure 2-3. SBR Balances Brought Forward Key Capabilities**

### SUCCESS CRITERIA

**To achieve full SBR audit readiness, a reporting entity, in coordination with its service provider(s) must demonstrate an effective combination of control activities and supporting documentation that limits the risk of material misstatements by meeting the FROs defined in Section 5 for the SBR Balances Brought Forward line items. Reporting entities must address the following:**

- **For FROs where control activities are used to achieve audit readiness, reporting entities must be able to demonstrate that the control activities were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved.**
- **Reporting entities must be able to support balances brought forward with sufficient, relevant and accurate audit evidence defined as KSDs in Section 5, supplemented with the reporting entity's own documentation requirements.**

### 2.C.2.2 SBR COMMON CHALLENGES

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

- **Account balances brought forward for SBR line numbers 1000, 3000 and 3060[10]. Given the long life of Federal appropriations, reporting entities are required to support affected material unobligated balances, undelivered orders and uncollected Federal payments for as long as they are reported on the SBR**
- **Documentation supporting the SBR Balances Brought Forward line items may not be available. Reporting entities should test these line items to determine gaps, and design and implement corrective action plans**
- **Lack of control over sub-allotted funding resulting in an inability to reconcile detail transactions to financial statements and provide documentary evidence of execution of sub-allotted funds**
- **Lack of invoices, receiving reports and other supplemental documentation backing transactions supported by Military Interdepartmental Purchase Requests (MIPRs) or other interagency agreements. While MIPRs or other interagency agreements might be available to support aged obligations, other documentation is necessary from an audit perspective to support the account transaction**
- **Dependencies on service provider(s) processes and controls for efficient and effective execution of its end-to-end business processes**

Reporting entities need to consider the longevity of beginning balance transactions and how far back the reporting entity must go in order to provide transactional support. An initial analysis of beginning balance transactions is critical to making this determination. While appropriated funds generally have limited periods of availability, "no-year" and working capital funds must consider whether supporting documentation is readily available for all transactions. As reporting entities identify documentation gaps, they should coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy for coverage of significantly aged transactions and balances.

As reporting entities continue to work on SBR Balances Brought Forward, additional accounting and auditing issues may be identified. Reporting entities should report issues in their FIPs as they are identified, allowing them (and FIAR) to track progress for resolution and assign resources and dependencies based on related key tasks.

[10] These line numbers correspond to unobligated balance, unpaid obligations balance and uncollected payments brought forward; see SBR Balances Brought Forward table in Section 5 for details.

### 2.C.3 Wave 3 – Mission Critical Asset Existence & Completeness (E&C) Audit

Mission Critical Asset E&C Audit focuses primarily on the E&C financial statement assertions, but also includes the rights assertion and portions of the presentation and disclosure assertion. That is, **reporting entities must ensure that all assets recorded in their APSR or equivalent exist (existence), all of the reporting entities' assets are recorded in their system (completeness), reporting entities have the right to report all assets (rights)**, and assets are consistently categorized, summarized, and reported period to period (presentation and disclosure). **The asset categories included in this wave are INV, OM&S, RP, IUS and GE. Due to the shortness of time, reporting entities should incorporate asset valuation for these categories concurrently within this wave. Wave 3 assertion tasks should be completed in accordance with due dates reported in the FIAR Plan Status Report (FPSR).**

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

#### Key Capabilities and Capability Measures

**The FIAR Directorate has defined key capabilities that reporting entities must achieve to demonstrate E&C audit readiness and successfully complete Wave 3.** The key capabilities are aligned with the capability measures, as shown in **Figure 2-4**. These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress towards achieving these capabilities.

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| 1. Identify a complete transaction population, which is reconciled to the general ledger and financial statements | **Reporting entities must prepare a listing of transactions for the assessable unit for the assertion period and demonstrate that the sum of the transactions agrees to the general ledger, trial balance, and/or financial statement balance for the assertion period. For example, if a reporting entity is asserting audit readiness of its General Equipment for FY 2015, the reporting entity must complete a reconciliation of the General Equipment assets recorded in its APSR to its general ledger and amounts reported in the financial statements. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries.** |
| 2. Effective physical inventories that meet audit standards | **Reporting entities must design and implement physical inventory count procedures and documentation that will withstand audit scrutiny.** See DoDM 4140.01, 4000.25-M, 4000.25-2M, 5100.76-M, DoDI 4165.14, 5000.64, and 5000.76 for the Department's instructions for physical inventory counts.<br>• % of assets subject to physical inventory within the required time span |
| 3. Effective controls over recording asset acquisitions, disposals and transfers | **Reporting entities must demonstrate that control activities for recording asset acquisitions, disposals, and transfers were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved.** Adjustments to physical inventory counts are an indication of the effectiveness of controls over recording acquisitions, disposals, and transfers of assets.<br>• % of physical inventory adjustments |
| 4. Retain and make available supporting documentation to meet audit standards | **Reporting entities must ensure that sufficient, relevant and accurate supporting documentation is readily available for an E&C audit.** See KSD requirements in the INV, OM&S, RP, IUS and GE tables in Section 5 for minimum documentation requirements.<br>• % of supporting documents assessed<br>• % of supporting documents determined sufficient (adequately retained and readily available) |
| 5. Effective controls over financial and management data in the APSR | **Reporting entities must ensure the sufficiency and accuracy of Financial and Management data in preparation for an E&C audit.** See sub-section 2.C.3.3, Financial Management Data, below for more information.<br>• # of data fields "blanked" out of total data fields |

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| 6. Effective processes, controls and system improvements | **Reporting entities must design and implement corrective actions to remediate weaknesses in processes, internal controls, and supporting financial related systems.**<br>• % of corrective actions complete (per FIPs)<br>• % of assessable units validated |

**Figure 2-4. Mission Critical Asset E&C Key Capabilities**

### SUCCESS CRITERIA

**To achieve E&C audit readiness, a reporting entity, in coordination with its service provider(s) must demonstrate that an effective combination of control activities and supporting documentation exists to limit the risk of material misstatements by meeting the FROs defined in Section 5. Reporting entities must address the following:**

- **For FROs where control activities are used to achieve audit readiness, reporting entities must be able to demonstrate that the control activities were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved.**
- **Reporting entities must be able to support account transactions, and balances with sufficient, relevant and accurate audit evidence, defined as KSDs in Section 5, supplemented with the reporting entity's own documentation requirements.**

### 2.C.3.2 E&C COMMON CHALLENGES

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

- **Units of Measure – Implementing standard definitions for units of inventory and assets to ensure that item counts are accurate (e.g., will one kit be counted as one asset record or will each separate item within the kit be counted one asset record within the APSR?)**
- **Rights to Assets – Working with leading OSD offices to implement business rules around co-located facilities (joint basing) and assets purchased by others (e.g., contractor-acquired property)**
- **Reworked Assets – Implementing a standard and consistent method for tracking and reporting assets that are removed from a larger asset, reworked or otherwise modified and then integrated into a different asset (e.g., aircraft engines)**
- **Physically Isolated Assets – Implementing techniques and methods for demonstrating the existence of assets that are not easily inspected (e.g., assets located in space or underwater)**
- **Government Furnished Property (GFP) – Implementing a strategy for tracking and reporting assets in the possession of, or directly acquired by, the Government and subsequently furnished to a contractor for the performance of a contract[11]**
- **Dependencies – Consideration of dependencies on service provider(s) processes and controls for efficient and effective execution of end-to-end business processes**

[11] USD Acquisition, Technology and Logistics (AT&L) issued a memorandum, "Standard Equipment Data Elements for Government Furnished Property Baseline Establishment", dated January 7, 2012, which provides a methodology to be used by all Components in establishing a validated GFP baseline. See also DoDI 5000.64, *Accountability and Management of DoD Equipment and Other Accountable Property* issued May 19, 2011, DoDI 4161.02, *Accountability and Management of Government Contract Property*, and DCFO policy memorandum *Strategy and Implementation Guidance for General Equipment Valuation,* issued March 14, 2016*.*

### 2.C.3.3 Financial Management Data

**During physical inventory counts, reporting entities must support and verify key data fields in the APSR to ensure that all information required for financial statement and management reporting is recorded and accurate.** As part of the physical inventory counts, data should be recorded and testing performed for all selected items to confirm that the information in these data fields is accurate. The specific data fields that will be reviewed during an existence and completeness specified elements audit are summarized in the E&C Financial Management Data Fields table, which can be viewed and downloaded from the FIAR Guidance website at ***Existence & Completeness Financial Management Data Fields definitions and supporting documentation***). The table separates data fields according to those that relate to financial statements, referred to as Financial Statement Data, and those that are primarily used as important management information, referred to as Management and Budget Data.

**Both categories of data are mandatory and must be validated in the APSR, because their reliability and accuracy are important for decision making. Prior to an assertion of audit readiness, management must ensure that the data is accurate in the APSR.** Note that some data fields may not apply to all asset types within the categories.

## 2.C.4 Wave 4 – Full Financial Statements Audit

Assertions for this wave include all material reporting entity line items, account balances and financial transactions impacting the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position not covered by the previous waves (e.g., Environmental and Disposal Liabilities, Accounts Receivable- Intragovernmental, Investments, Other Liabilities, etc.). To-date, FIAR priorities have required reporting entities to devote their resources and efforts towards completing Waves 1 through 3 before beginning work on Wave 4. However, much of the work required to complete Waves 1 through 3 impacts the requirements and objectives for Wave 4. **For example, the following interdependencies should be leveraged to accelerate progress in Wave 4:**

- **Delivered Orders, reported on the SBR (covered in Wave 2), equate to a portion of Accounts Payable reported on the Balance Sheet**
- **Spending Authority from Offsetting Collections, reported on the SBR (covered in Wave 2), includes some of the amounts reported in Accounts Receivable – Intragovernmental on the Balance Sheet**
- **Unobligated Balances and Unpaid Obligations, reported on the SBR (covered in Wave 2), correlate to FBWT reported on the Balance Sheet**
- **Obligations Incurred, reported on the SBR (covered in Wave 2), equates to a substantial portion of Gross Costs reported on the Statement of Net Cost**

See subsection 2.C.4.3 for additional information about budgetary/proprietary interrelationships and leveraging previous audit readiness efforts.

Wave 4 requires that the valuation assertion for material financial statement lines items, including property and inventory/OM&S, be achieved. Additionally, presentation and disclosure should be considered in this wave (if not previously covered – see also the Financial Reporting assessable unit table in Section 5). One significant and potentially very costly challenge in Wave 4 is obtaining auditable values for the significant amount of existing DoD assets located worldwide and procured many years ago, well before passage of the CFO Act and other legislation mandating auditability. To address and overcome this impediment to achieving auditability, OUSD (Comptroller) has undertaken several initiatives over the past few years including:

- Joint issuance with Acquisition, Technology and Logistics (AT&L) of a memorandum on September 20, 2013, which eliminated the definition of military equipment and increased capitalization thresholds;
- Petitioning the FASAB for consideration of revisions to authoritative federal accounting pronouncements covering the valuation of General Property, Plant and Equipment (G-PP&E); and

- Issuance of the following additional policy memoranda and guidance to assist reporting entities in valuing and documenting G-PP&E:
    - *Accounting Policy Update for Financial Statement Reporting for Real Property Assets* issued September 30, 2015
    - *Strategy for Internal Use Software Audit Readiness* issued September 30, 2015
    - *Alternative Valuation Methodology for Establishing Opening Balances for Buildings, Structures and Linear Structures* issued January 19, 2016
    - *Strategy and Implementation Guidance for General Equipment Valuation* issued March 14, 2016

Reporting entities must value their assets in accordance with the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard Number 6 (SFFAS No. 6), *Accounting for Property, Plant and Equipment* and SFFAS No. 10, *Accounting for Internal Use Software*. If existing business processes or systems limit full compliance with SFFAS No. 6 and SFFAS No. 10, reporting entities must report their asset values in accordance with SFFAS No. 35, *Estimating the Historical Cost of Property, Plant and Equipment*, where applicable.

However, the Comptroller has issued these recent policy memoranda, particularly the March 14, 2016 general equipment valuation guidance, anticipating that FASAB will adopt its current exposure draft that rescinds SFFAS No. 35 and establishes "deemed cost" as a one-time alternative approach to general equipment valuation. DoD reporting entities should review the policy memoranda as they begin Wave 4 and develop execution strategies and methodologies to satisfy the reporting requirements and incorporate the activities into their Financial Improvement Plans. All policy memoranda can be found at http://comptroller.defense.gov/FMR/policymemos.aspx.

### 2.C.4.1 Wave 4 Key Capabilities, Capability Measures, and Success Criteria

#### Key Capabilities and Capability Measures

**Reporting entities must track and achieve the following key capabilities for the financial statement line items while working to complete Wave 4. These major capabilities demonstrate a reporting entity's full-scope audit readiness.** The key capabilities are aligned with the capability measures, as shown in **Figure 2-5**. These measures will be based on audit requirements to evaluate internal controls and supporting documentation and will be designed to measure reporting entity progress towards achieving these capabilities.

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| 1. To identify a complete transaction population, which is reconciled to the general ledger and financial statements | **Reporting entities must prepare a listing of transactions or detail balances for the line item for the assertion period and demonstrate that the sum of the transactions agrees to the general ledger, trial balance, and/or financial statement balance for the assertion period. For example, if a reporting entity is asserting audit readiness of its Environmental and Disposal Liabilities line item, the reporting entity must extract a detail listing of all Environmental and Disposal Liabilities balances as of fiscal year end, document which general ledger accounts make up the sum of these balances, and reconcile amounts reported in the general ledger and financial statements to the sum of the individual balances. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries.** |
| 2. To ensure that all key capabilities from Waves 1 through 3 have been met. | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to demonstrate that the FROs for Waves 1 through 3 have been achieved.** |

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| 3. To correctly manage, account for, and report Cash and Other Monetary Assets* | Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Cash and Other Monetary Assets. See Appendix B for a complete listing of relevant FROs.<br>• % of Cash and Other Monetary Assets financial reporting objectives assessed<br>• % of Cash and Other Monetary Assets control activities determined effective |
| 4. To correctly manage, account for, and report Investments, including investment purchases, earned interest, and redemptions from the Bureau of Public Debt | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Investments.** See Wave 4 Table in Section 5 for a complete listing of relevant FROs.<br>• % of Investment financial reporting objectives assessed<br>• % of Investment control activities determined effective |
| 5. To correctly manage, account for, and report Other Assets | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Other Assets.** See Wave 4 Table in Section 5 for a complete listing of relevant FROs.<br>• % of Other Assets financial reporting objectives assessed<br>• % of Other Asset control activities determined effective |
| 6. To correctly value, maintain accountability for, and report all General PP&E, Inventory and Related Property, including the correct recording and reporting of Depreciation and Amortization Expense | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs for valuation of General PP&E and Inventory and Related Property, including associated depreciation and amortization expense.** See Wave 4 Tables in Section 5 for a complete listing of relevant FROs.<br>• % of asset category financial reporting objectives assessed<br>• % of asset category control activities determined effective<br>• % of depreciation/amortization expense financial reporting objectives assessed<br>• % of depreciation /amortization expense control activities determined effective |
| 7. To effectively manage, estimate, classify, and report Military Retirement and other Federal Employee Benefits | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Military Retirement and Other Federal Employee Benefits.** See Wave 4 Table in Section 5 for a complete listing of relevant FROs.<br>• % of Military Retirement and Other Federal Employee Benefits financial reporting objectives assessed<br>• % of Military Retirement and Other Federal Employee Benefits control activities determined effective |
| 8. To accurately estimate, disburse and report Environmental and Disposal Liabilities | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Environmental and Disposal Liabilities.** See Wave 4 Table in Section 5 for a complete listing of relevant FROs.<br>• % of Environmental and Disposal Liabilities financial reporting objectives assessed<br>• % of Environmental and Disposal Liabilities control activities determined effective |
| 9. To correctly estimate, record, and report Other Liabilities* | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Other Liabilities.** See Wave 4 Table in Section 5 for a complete listing of relevant FROs.<br>• % of Other Liabilities financial reporting objectives assessed<br>• % of Other Liabilities control activities determined effective |

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| 10. To correctly record, classify and report Accounts Receivable / Revenue-Non-Intragovernmental | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Receivable / Revenue-Non-intragovernmental.** See Wave 4 Tables in Section 5 for a complete listing of relevant FROs.<br>• % of Accounts Receivable/Revenue-Non-Intragovernmental financial reporting objectives assessed<br>• % of Accounts Receivable/Revenue-Non-Intragovernmental control activities determined effective |
| 11. To correctly record, classify and report Accounts Receivable/Revenue-Intragovernmental | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Receivable / Revenue-Intragovernmental.** See Wave 4 Tables in Section 5 for a complete listing of relevant FROs.<br>• % of Accounts Receivable/Revenue-Intragovernmental financial reporting objectives assessed<br>• % of Accounts Receivable / Revenue-Intragovernmental control activities determined effective |
| 12. To correctly record, classify and report Accounts Payable-Non-Intragovernmental / Expenses | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Payable-Non-intragovernmental/Expenses.** See Wave 4 Tables in Section 5 for a complete listing of relevant FROs.<br>• % of Accounts Payable-Non-Intragovernmental/Expenses financial reporting objectives assessed<br>• % of Accounts Payable-Non-Intragovernmental/Expenses control activities determined effective |
| 13. To correctly record, classify and report Accounts Payable-Intragovernmental / Expenses | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Payable-Intragovernmental/Expenses.** See Wave 4 Tables in Section 5 for a complete listing of relevant FROs.<br>• % of Accounts Payable-Intragovernmental/Expenses financial reporting objectives assessed<br>• % of Accounts Payable-Intragovernmental/Expenses control activities determined effective |
| 14. To correctly record, classify and report Loans Receivable, Guarantees and Related Debt** | Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Loans Receivable, Guarantees and Related Debt. See Appendix B for a complete listing of relevant FROs.<br>• % of Loans Receivable, Guarantees and Related Debt financial reporting objectives assessed<br>• % of Loans Receivable, Guarantees and Related Debt control activities determined effective |
| 15. To correctly record, classify and report Imputed Financing Costs | **Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Imputed Financing Costs.** See Wave 4 Table in Section 5 for a complete listing of relevant FROs.<br>• % of imputed financing costs financial reporting objectives assessed<br>• % of imputed financing costs control activities determined effective |
| 16. To retain and make readily available supporting documentation to meet audit standards | Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all line items. See Wave 4 Tables in Section 5 for minimum documentation requirements.<br>• % of supporting documents assessed<br>• % of supporting documents determined sufficient (adequately retained and readily available) |
| * Other Liabilities includes Advances from Others, Accrued Unfunded Annual Leave, Contingent Liabilities, Custodial Liabilities, Contract Holdbacks, Disbursing Officer Cash, Deposit Funds and Suspense Accounts, and Other Payroll Related Liabilities. | |

| Key Capabilities | Definitions/Capability Measures |
|---|---|
| ** These line items are immaterial at the consolidated level; reporting entities should consider these line items only if they are material to the reporting entity. | |

**Figure 2-5. Full Financial Statement Audit Key Capabilities**

### SUCCESS CRITERIA

**To achieve audit readiness for Wave 4, a reporting entity must demonstrate that an effective combination of control activities and supporting documentation exists to limit the risk of material misstatements by meeting the FROs defined in the tables in Section 5. Reporting entities must address the following:**

- **Reporting entities must be able to demonstrate that the control activities are suitably designed and operating effectively to provide reasonable assurance that the FROs are achieved, for FROs where control activities are used to achieve audit readiness.**
- **Reporting entities must be able to support business transactions and account balances by maintaining sufficient, relevant and accurate audit evidence, defined as KSDs in the Section 5 tables, supplemented with the reporting entity's own documentation requirements.**

### 2.C.4.2 WAVE 4 COMMON CHALLENGES

**During Wave 4 execution, reporting entities are required to properly value and report new asset acquisitions, accepted and placed into service effective October 1, 2013, as well as properly value existing assets that will have a positive net book value on or after September 30, 2017.** Establishing historical acquisition costs for existing assets poses a difficult challenge as existing DoD systems and processes were not designed to record, process and report financial transactions accurately and in accordance with GAAP. In addition, the ability to successfully value new asset acquisitions requires the implementation of effective business processes and controls for recording, processing and reporting new asset acquisitions.

**Other challenges that must be addressed in coordination with leading OSD offices are:**

- **Valuing reworked G-PP&E – implementing an appropriate approach to value re-worked and improved assets**
- **Rights to Assets – work with leading OSD offices to implement business rules around co-located facilities (joint basing) and assets purchased by others (e.g., contractor-acquired property)**
- **Trading partner data – proper identification of federal and non-federal transactions and capturing correct trading partner codes. This will be critical to summarization and reconciliation of activity between trading partners and elimination of trading partner activity in consolidation**
- **Imputed costs – implementing a reasonable methodology for calculating and recording imputed costs (e.g., occupancy costs for office space on a MilDep facility)**
- **Lack of control over sub-allotted funding resulting in an inability to reconcile detail transactions to financial statements and provide documentary evidence of execution of sub-allotted funds**
- **Determining environmental liabilities – ensuring completeness and documenting cost-to-complete factors, assumptions and amounts**
- **Dependencies on service provider(s) processes and controls for efficient and effective execution of its end-to-end business processes**
- **Establishing an infrastructure to support a full-scope financial statement audit. This will be important to ensure that resources are available to support auditor requests for**

**information, and to support and resolve audit issues that arise during the course of the audit. As a general rule, reporting entities must ensure they are prepared to respond to audit team provided by client (PBC) requests within 5 business days. Expected response times may vary depending on the nature, timing and extent of the request**

Section 6 discusses audit infrastructure and provides guidance for reporting entities to address issues and challenges related to supporting a full-scope audit and achieving sustainability.

### 2.C.4.3 Leveraging Previous Audit Readiness Efforts

As reporting entities progress through each wave of the FIAR Methodology, there is an expectation that audit readiness efforts from previous waves should be leveraged in succeeding waves. This in part is due to the interrelationships that exist between financial statements. Through SBA/SBR audit readiness efforts, other financial statements have been addressed indirectly.

Before starting new assertion work, reporting entities should consider audit readiness efforts that have been performed in prior waves. Specifically this should include reviewing process documentation, systems information, internal controls testing and KSD testing and determining how this information could be updated, to incorporate the full end-to-end process from both a budgetary and proprietary perspective, into one set of consolidated audit readiness work products.  This planning will enable reporting entities to focus on financial statement line items that have yet to be addressed. A depiction of audit readiness assertions by wave of the FIAR Methodology is presented in **Figure 2-6**.

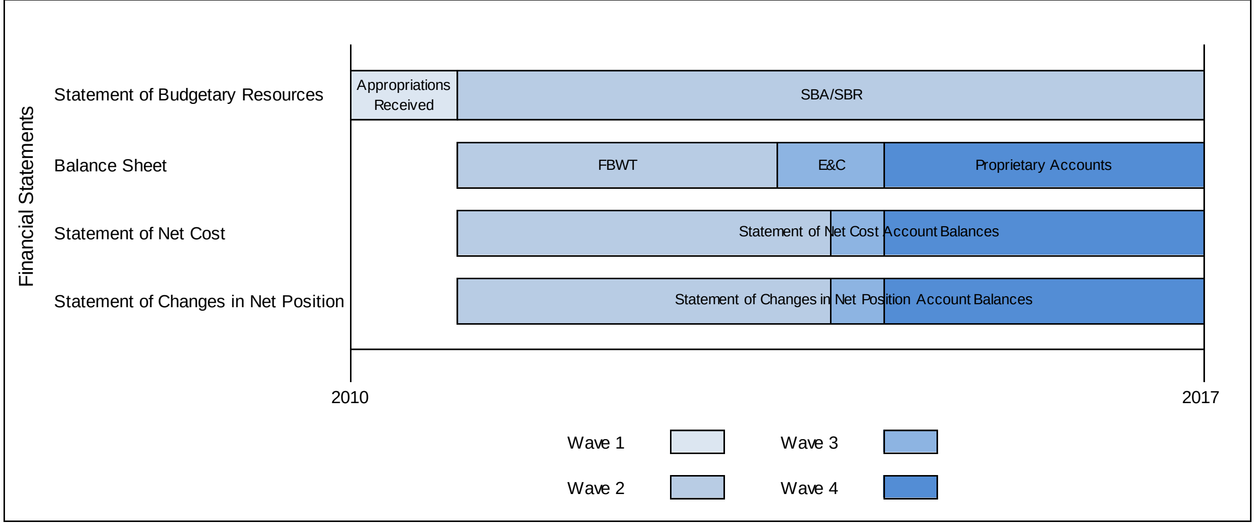



**Figure 2-6. Full Financial Statement Audit Key Capabilities**

Examples of audit readiness tasks that can be leveraged during subsequent efforts are presented for each principal financial statement:

1. For the **Statement of Budgetary Resources**, a reporting entity would be expected to leverage audit readiness work performed for its Appropriations Received assessable unit during Wave 1, to assert audit readiness for its Appropriations line on the SBR.
2. For the **Balance Sheet**, a reporting entity would be able to leverage Wave 2 work performed for its vendor pay assessable unit to assert to the audit readiness of Accounts Payable on the Balance Sheet. During Wave 4, the reporting entity would be expected to extend its prior efforts to include accruals that are recorded in the Accounts Payable accounts, as well as, reviewing the posting of proprietary accounts (in addition to the budgetary accounts reviewed during Wave 2).
3. A reporting entity would be expected to draw upon work performed for its FBWT assessable unit from Wave 2 during Wave 4. As the reporting entity prepares to assert to the audit

readiness of Accounts Receivable on the Balance Sheet, it should consider whether documentation obtained pertaining to collections for FBWT can be leveraged when evaluating the liquidation of Accounts Receivable as collections are processed.

4. For the **Balance Sheet**, a reporting entity should leverage Wave 3 work completed for E&C to assert to the audit readiness of G-PP&E valuation. During Wave 4, the reporting entity would focus on ensuring the accuracy any asset condition information when verifying the correct valuation of G-PP&E.
5. For the **Statement of Net Cost**, a reporting entity could leverage Wave 2 work performed for its contract pay assessable unit. Wave 2 Contract Pay work, which contributed to asserting the audit readiness of Outlays on the SBR, would also contribute towards establishing the assertion of audit readiness for Gross Costs on the Statement of Net Cost.
6. For the **Statement of Changes in Net Position**, a reporting entity could leverage audit readiness work performed for its civilian pay assessable unit from Wave 2. This civilian pay audit readiness effort would contribute to the reporting entity being able to assert to the audit readiness of its Net Cost of Operations line item on the Statement of Changes in Net Position.

Additional examples of how reporting entities can leverage previous efforts, **on a line by line basis**, are available in the ***Crosswalk of Financial Statements to Assessable Units*** document available on the FIAR Guidance website.

### 2.C.4.4 Sub-Allotment Activity

#### Sub-Allotments Defined

An allotment is defined as a subdivision of an apportionment that is made by heads of Components or their designees to incur obligations within a prescribed amount. A sub-allotment is a subdivision of an allotment that contains at least the same legal restrictions as the original allotment.

A sub-allotment occurs when funds are distributed to a source external to the reporting entity, such as MILCON funds being sent to a Construction Agent to fund the construction of real property. Note that funds distribution between the Services and their Commands within other reporting entities (e.g., Service Medical Activities, Special Operations Commands, etc.) are considered allocations. As such, allocations are not subject to the same requirements and restrictions as sub-allotments. For additional guidance on accounting for internal funds distributions, refer to http://comptroller.defense.gov/Portals/45/documents/fiar/workproducts/Signed_Memo_Accounting_for_Internal_Funds_Distributions.pdf.

#### Restrictions on Use

The DCFO issued a policy memorandum in May 2016, entitled *Financial Management Requirements for Using Sub-Allotments.* The policy discourages the use of sub-allotments for funding between DoD entities. The memo does allow for exceptions and requires demonstration of specific capabilities by both the sending entity and receiving entity to ensure execution of sub-allotted funds is properly reported and supported. The policy memo is available on the OUSD(C) website (CAC restricted) at https://guidanceweb.ousdc.osd.mil/Sub_Allotments.aspx. OUSD(C) is in the process of providing additional guidance on the use of sub-allotments. Once complete this guidance will be available at http://comptroller.defense.gov/Portals/45/documents/fiar/workproducts/DoD_Guidance_on_Sub-Allotments.pdf.

#### Appropriate Uses

Sub-allotments are used to move funding appropriated to one Reporting Entity to another Reporting Entity for execution. The use of sub-allotments should be limited, if possible. OUSD(C) is currently assessing the option to allocate funds directly to component headquarters. This would help to streamline the funds distribution process by providing greater transparency and oversight.

Frequently, sub-allotments occur when appropriations are granted to one Component to centrally monitor a program with the anticipation that one or more other Components execute it. An example of this type of sub-allotment is Family Advocacy Program funding. This funding is appropriated to OSD and centrally managed by Military Community and Family Policy. It is executed by the Services; however, it is appropriated to OSD so that it is administered centrally to ensure “that funds are used for the purposes intended.” Sub-allotments for this transaction type are allowable if business need justifies it.

In the past, sub-allotments have been used to record buy/sell transactions. An example occurs when Components sub-allot funds to a Construction Agent in exchange for the construction of real property. Going forward, sub-allotments of this transaction type should be discontinued except for transactions which meet all requirements of the DCFO policy memoranda and their attachments. For transactions processed as buy/sell activity which do not meet the exception requirements per DCFO policy, Components must use reimbursable agreements. As opposed to a sub-allotment, Components must record and support these agreements in accordance with the intragovernmental transaction requirements of the DoD Financial Management Regulation.

### CONSOLIDATION INTO REPORTING ENTITY'S FINANCIAL STATEMENTS

When using sub-allotments, the receiving entity sends a trial balance of all sub-allotted activity from its general ledger to DDRS. This trial balance is combined with the trial balance of all other funding from the reporting (sending) entity to create a consolidated trial balance for the reporting entity. DFAS then uses the consolidated trial balance in the preparation of the reporting entity’s financial statements. For this reason, it is imperative that receiving entities meet the support requirements as detailed in the attachment to the DCFO policy memorandum.

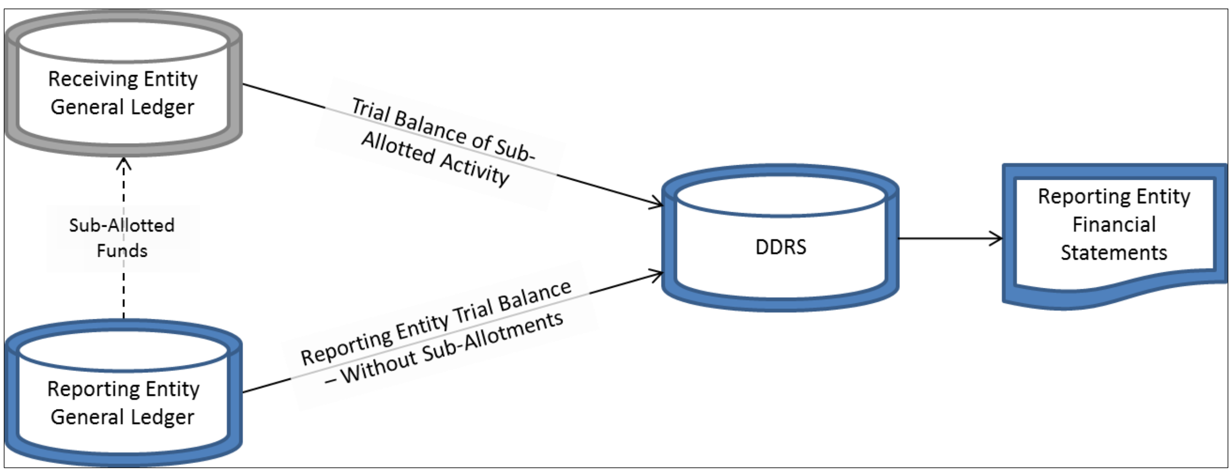



**Figure 2-7. Consolidation Into Reporting Entity’s Financial Statements**

### AUDIT READINESS CONSIDERATIONS

The practice of sub-allotting funds to other Components for execution without proper controls contributes to several material weaknesses. A key example is a weakness associated with the ability to produce detailed financial transactions that reconcile to financial statements (and provide evidence supporting the execution of these funds).

Because sub-allotments represent the execution of funding outside of the reporting entity’s process and control environment, reporting entities and their partner components must take additional steps to help the reporting entity’s audit readiness posture. Specifically, the receiving entity must provide evidence regarding the systems the sub-allotted funding will be executed in; universes of transactions, trial balances and key reconciliations to support the reporting entity’s monthly oversight duties; and must provide transaction-level supporting documentation as requested in the financial statement audit, exam, or audit readiness activities of the reporting entity. These requirements are detailed in Attachment 1 to the DCFO policy memorandum - Customer Support Requirements for Sub-Allotted Funding. The Attachment is available on the OUSD(C) website (CAC restricted) at https://guidanceweb.ousdc.osd.mil/Sub_Allotments.aspx.

## 2.D FIAR OVERSIGHT

The FIAR Directorate has provided audit readiness guidance, training and oversight since its creation more than five years ago. Since that time, the Department has made incremental progress toward achieving auditability of its financial statements; progress to-date, however, has not been sufficient. With the audit readiness deadline looming, FIAR must take additional steps to keep the Department on track. Accordingly, a DoD-wide audit strategy has been developed to address the complexity of a consolidated DoD financial statement audit. The consolidated audit strategy is a supplement to this Guidance and can be found at https://guidanceweb.ousdc.osd.mil/Audit_Strategy.aspx. Note that this link is restricted to those with a valid Common Access Card (CAC).

To ensure alignment between the guidance and DoD-wide strategy, the FIAR Directorate has expanded its oversight role for audit readiness efforts.

### 2.D.1 FIAR Directorate Monitoring

The FIAR Directorate oversees reporting entity audit readiness progress via the National Defense Authorization Act (NDAA) Scorecard and Interim Milestone Charts monitoring process. The military services report summary level Corrective Action Plan (CAP) status to the FIAR Directorate via the FIAR Governance Board. Additionally, the FIAR Directorate monitors NFRs and CAP status of the Other Defense Organizations (ODOs) as NFRs are identified. All data elements collected to report and monitor CAP progress are in accordance with the OMB A-123 Implementation Guide. See Section 3.F for additional detail.

#### NFR/CAP Monitoring

The FIAR Directorate developed the NFR Tracking tool to facilitate monitoring and tracking of ODO NFRs and corrective actions. The tool is also a medium for sharing lessons learned across Fourth Estate components. Fourth Estate reporting entities are required to update the SharePoint-based tool with NFRs received from Examinations, Mock Audits, and other readiness assessments. The tool captures detailed information on each CAP (including milestones and validation procedures -- yielding measurable indicators of progress). On a monthly basis, ODOs input updated CAP implementation data into the tool. By capturing this information via the NFR Tracking tool, the FIAR Directorate:

- Monitors the progress of remediation activities,
- Gains increased visibility into the Department's audit readiness progress and overall risk, and
- Prioritizes risk areas to align with the Departments' audit readiness goals

Military Services categorize and track their own NFRs and are responsible for developing and implementing CAPs that include interim milestones. Material Weakness NFRs that relate to critical capabilities are reported to ODCFO via CAP Tracker and Interim Milestone Charts. For NFRs that relate to a DoD-wide material weakness, the Military Services provide the NFR to ODCFO for action as identified. NFRs are mapped to agency wide material weaknesses in conjunction with the NFR/CAP reporting process. ODCFO reviews for reasonableness and requests updates as needed.

For additional information regarding the NFR/CAP monitoring process, refer to the flowchart within Section 6.B.4.

#### NDAA Scorecard

In response to a requirement in the NDAA for Fiscal Year 2016, the FIAR Directorate produced the "NDAA Scorecard" in late 2015. The NDAA Scorecard is an excel-based model that tracks reporting entity progress on audit readiness deal breakers (critical capabilities). Each material reporting entity reports its percent complete for the critical capability sub-tasks defined by the FIAR Directorate[12]. Using the percentage complete reported by the entity and a weighted scale, the NDAA scorecard produces "scores"

[12] Note that for ODOs, the NDAA scorecard is not completely self-reported. Scores for those sub-tasks related to ODCFO and DFAS led initiatives (such as Journal Voucher Tiger Team efforts and are provided by ODCFO and DFAS.

for audit readiness. The FIAR Directorate requires that each material reporting entity update the NDAA scorecard every 60 days. Scorecard results are briefed to the FIAR Committee, the FIAR Governance Board, and the Deputy's Management Action Group (DMAG).[13] The FIAR Directorate uses this model as the criteria to evaluate reporting entity audit readiness progress.

**Interim Milestone Charts**

In addition to the analytical monitoring data provided by the NDAA Scorecard, the FIAR Directorate monitors material DoD reporting entity progress using Interim Milestone (IM) Charts. The IM Charts track reporting entity progress toward audit readiness by critical capability sub-task. The IM Charts paint a picture of Military Department and ODO audit readiness status. Key facts incorporated into the charts include:

- Projected completion date of each critical capability sub-task
- Interim Milestones that lead to the completion of each critical capability sub-task
- Past due milestones
- Outliers (i.e. milestones beyond the FIAR Directorate deadline)

For any items that are past due or outliers (tasks with completion dates that extend beyond the FIAR Directorate deadline) the reporting entity is required to provide rationale. Reporting entities update the Interim Milestone Chart every 60 days. The FIAR Directorate reviews the Interim Milestone Charts with the reporting entity to assess progress, understand impediments, and recommend solutions to enhance audit readiness achievements. Interim Milestone Charts are briefed to the FIAR Committee, the FIAR Governance Board, and the DMAG.

### 2.D.2 Management Assertion

Once a reporting entity completes corrective actions for its audit readiness efforts, the reporting entity must prepare an assertion supporting documentation package for management declaring that the subject matter (assessable unit/ financial statement/select element of the financial statement) is audit ready. For those reporting entities that are proceeding to an examination, management then prepares an assertion letter.

Please see the FIAR Guidance website for an example of a **Management Assertion letter** which reporting entities can leverage as they proceed to examination.

As management prepares the assertion letter, the FIAR Directorate must approve the scope, tasks, and deliverables for the examination of the assertion.[14] The independent public accountant (IPA) will perform tests of internal controls and supporting documentation, against audit readiness criteria, to support their examination opinion. Management will be required to support its assertion with adequate documentation to demonstrate that it has adequate and effective internal controls and supporting documentation to achieve audit readiness. Management's audit readiness testing and the practitioner's examination testing to assess audit readiness are both less rigorous than testing that will be required under a financial statement audit. Therefore, management must accept the implications of sampling risk and understand that its test results will be assessed in light of more rigorous audit testing when the subject matter (assessable unit/line item) is subject to a financial statement audit. Refer to Section 3, *Internal Control*, for guidance on control and supporting documentation testing to support audit readiness.

**At the conclusion of the examination on this assertion the IPA issues its opinion in the *Audit/Examination Phase*. Please see the FIAR Guidance website for examples of modified and unmodified opinion reports.**

[13] For additional information regarding these governance forums, see Section 2.G. The DMAG was established by the Secretary of Defense in 2011 as a forum for making cross-cutting departmental management decisions.

[14] Note – FIAR Directorate involvement here applies only to ODOs. Military Departments are responsible for determining the scope of their assertion letters and audits.

## 2.E INTEGRATION OF FIAR METHODOLOGY AND OMB CIRCULAR A-123, APPENDIX A REQUIREMENTS

The FIAR Guidance has **fully merged the revised OMB Circular A-123, Appendix A requirements into the FIAR Methodology, resulting in compliance with both the CFO Act and OMB Circular A-123, Appendix A.** Entities already undergoing audit readiness activities in accordance with the FIAR Methodology can leverage these activities to demonstrate compliance with the revised Circular OMB A-123 - Enterprise Risk Management.

Section 3C provides more detailed information on the revised OMB Circular A-123 and the associated FIAR work products.

### 2.E.1 Correcting Internal Control Deficiencies

The revised Circular includes additional guidance on the resolution of control deficiencies. To emphasize the importance of correcting known control deficiencies, the revised Circular notes management must maintain more thoroughly detailed corrective action plans internally, which must be made available for OMB and audit review. In addition, the guidance notes that only the Senior Accountable Official can determine that a corrective action has been closed. The determination must be in writing, supported by the appropriate documentation.

### 2.E.2 Reporting on Internal Control

The revised Circular requires a single Statement of Assurance, reflecting a balanced emphasis between operations, reporting, and compliance internal control objectives. Entities should provide a detailed summary of management assurances in the "Other Information" section of the annual AFR, PAR, or other management report.

**Reporting entities should submit interim work products (e.g., process flowcharts and narratives, risk assessments, test plans, etc.) to reporting entity leadership (to include Senior Accountable Officials) upon completion of the key tasks and activities in the Discovery and Corrective Action phases and in accordance with their FIP milestone dates. Management will review all work products as they are submitted.** This ongoing review will allow the reporting entity management to monitor the audit readiness progress.

Section 3 provides more detailed information on internal controls.

## 2.F System Transformation Initiatives

The Department's strategic goals integrate key elements of the Enterprise Transition Plan (ETP), which organizes and prioritizes efforts to modernize DoD business and financial processes and systems. The ETP is the roadmap that implements the Business Enterprise Architecture (BEA) and defines specific implementation goals, milestones and measures for each fiscal year to reach the "to-be", or future, envisioned state. It is a cohesive plan that implements and modernizes business systems within and across each functional area of the Department, and in effect provides consistency across all reporting entities. The OUSD(C) Functional Strategy document further defines the "to-be" initiatives for financial management systems.

For most of the Department, success in financial management improvement depends on system modernization and business transformation initiatives. Additionally, FIAR and ETP efforts must also be aligned to comply with Federal Managers' Financial Integrity Act (FMFIA) requirements to maximize the effectiveness of limited resources and promote efficiency. The "to-be" dates in the ETP and the phasing out of existing systems must be considered in the development of reporting entity FIPs as reporting entities begin the Corrective Action Phase "Design Audit-Ready Environment" key task.

**Reporting entities must assess the target dates of their "to-be" environments against their audit ready assertion dates in order to determine whether the existing systems or "to-be" systems (or both) should be included in their current audit readiness efforts. For reporting entity business processes currently using existing systems that will be modernized or replaced with ERPs by their audit ready assertion date, the "to-be" must be included in their audit readiness efforts and reflected in the FIPs. In these situations, reporting entities need to (1) assess existing processes; (2) identify those processes that will change with the new implementation; and (3) map modernized system/ERP requirements to known weaknesses. In situations where a system implementation will replace a process, the reporting entity should build the system implementation date into its FIPs as a dependency for remediating the associated controls and processes. The reporting entity FIPs must demonstrate that system requirements and transformation initiatives map to FROs and control activities that will ensure that system controls will be properly designed and will operate effectively to remediate known weaknesses.**

**Figure 2-8** is an example of an audit ready environment for the Procure-to-Pay business process where the current "as-is," transitional, and target systems environments have been identified.

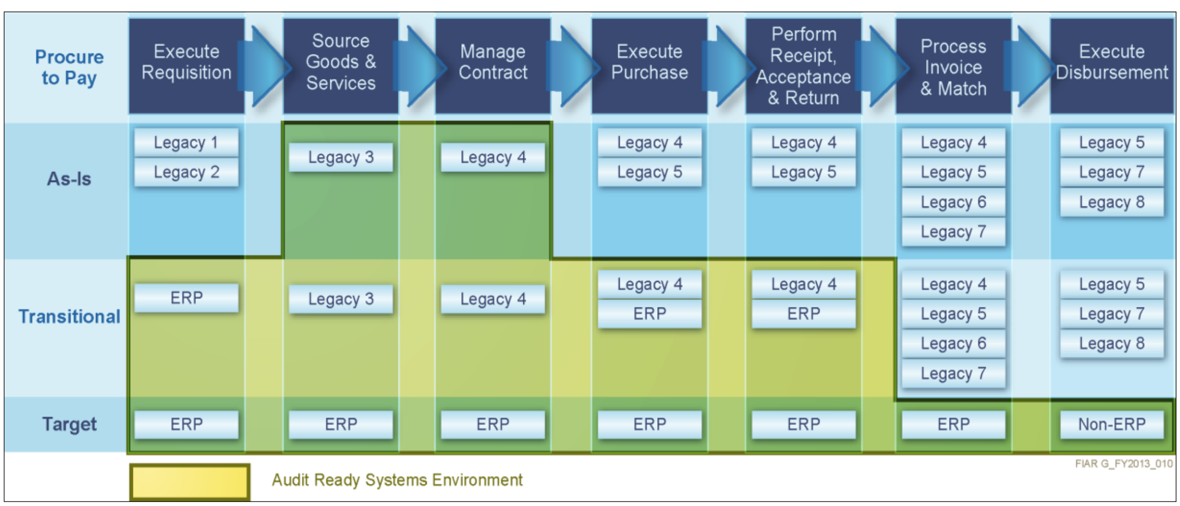



**Figure 2-8. Corrective Action Phase- Design Audit Readiness Environment**

It is important to note that auditability may be achieved before full system/ERP implementation; therefore not all existing systems can be scoped out of audit readiness efforts.

While reporting entities can evaluate the design of “to-be” system solutions, tests of operating effectiveness cannot be performed until the solution is implemented. Evaluating the design of these “to-be” solutions will help ensure that business processes and controls will be effective when the system solution is implemented and will help ensure that new processes and/or controls will meet FIAR objectives. Prior to the implementation of system solutions, reporting entities can implement compensating controls that mitigate identified risks and allow them to assert audit readiness.

## 2.G Roles and Responsibilities

The Department has implemented a governance structure that engages all of its key stakeholders. **Figure 2-9** provides a graphical representation of the structure, the participants, and their roles.

### 2.G.1 Deputy Chief Management Officer (DCMO)

The DoD Deputy Chief Management Officer (DCMO) provides direction and oversight of business and financial process transformation; improves defense business systems and performance management across the Department. In addition, the DCMO is responsible for the Department's development and execution of the financial improvement and audit readiness plans. Specifically the DCMO is responsible for ensuring financial management deficiencies that impair the ability of the Department of Defense to prepare timely, reliable, and complete financial management information are corrected and the financial statements of the Department of Defense are audit ready by September 2017.

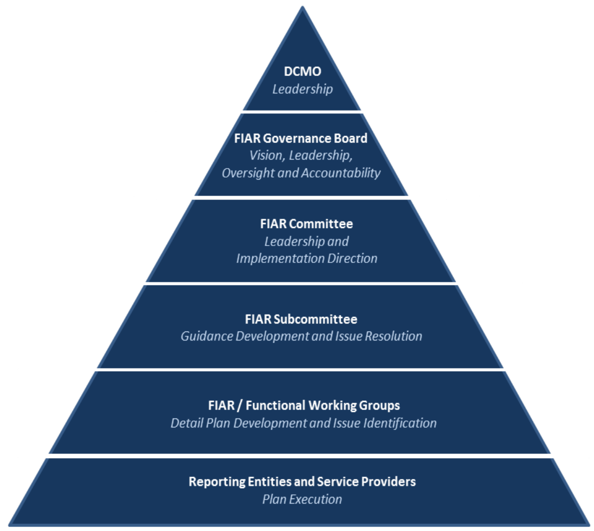



**Figure 2-9. FIAR Leadership spans from the CMO through Reporting Entities and Service Providers**

### 2.G.2 FIAR Governance Board

The FIAR Governance Board provides vision, leadership, oversight, and accountability for the Department of Defense's effort to achieve and sustain full financial auditability. The FIAR Governance Board is co-chaired by the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the DoD Deputy Chief Management Officer. The membership consists of executive-level representatives from the Principal Staff Assistants (PSAs) responsible for major business areas including OUSD (AT&L), OUSD (P&R), OUSD Policy, and the Chief Information Officer (CIO). The Governance Board also includes Military Department DCMOs and Asst. Secretaries for Financial Management and Comptrollers, and Comptrollers of other reporting entities. A representative from DoD Office of Inspector General acts as an adviser to the FIAR Governance Board.

| Leadership | Responsible Entities |
|---|---|
| **DCMO** | DoD Deputy Chief Management Officer |
| **FIAR Governance Board** | USD(C)/CFO, DoD DCMO, MILDEPs DCMOs, MILDEPs FM/C Asst. Secretaries, DCFO, DFAS Director, DLA Comptroller, Executive Members of PSAs (AT&L, Policy, CIO, P&R), DoD IG (Advisory Member) |
| **FIAR Committee** | DCFO, FIAR Director, MILDEPs FM/C Deputy Asst. Secretaries, ODOs, Executive Members of PSAs, DoD IG (Advisory Member) |
| **FIAR Sub-committee** | FIAR Director, Reporting Entities FM and Functional Offices, Senior Staff of PSAs, DoD IG (Advisory Member) |
| **FIAR/Functional Working Groups** | FIAR Staff, Staff of PSAs and Reporting Entities FM & Functional Offices |
| **Reporting Entities & Services Providers** | Military Departments, Combatant Commands, Defense Agencies, and Field Activities |

**Figure 2-10. Service providers are responsible for portions of the financial improvement elements of customer reporting entities**

### 2.G.3 FIAR Committee

The FIAR Committee provides oversight and accountability for DoD reporting entity Financial Improvement Plans (FIPs) (as summarized in Interim Milestone Charts) and execution of actions to achieve auditability as defined by DoD. The FIAR Committee is chaired by the Deputy Chief Financial Officer (DCFO) and vice-chaired by the FIAR Director. The membership consists of executive-level representatives from the PSAs, Military

Departments and other reporting entities. A representative from DoD Office of Inspector General acts as an adviser to the FIAR Committee.

### 2.G.4 FIAR Sub-committee

The FIAR Subcommittee provides advice and recommendations to the FIAR Committee on opportunities to prioritize, integrate and manage efforts to improve financial management and achieve audit readiness. The Sub-committee is chaired by the FIAR Director and vice-chaired by the Assistant FIAR Director. The membership consists of representatives from the PSAs, Military Departments and other reporting entities.

### 2.G.5 FIAR/Functional Working Groups

The FIAR/functional working groups provide awareness and solutions for issues related to business processes and policies that may impede auditability. The working groups are established and co-chaired by OUSD(C)/FIAR representative and PSA representatives as required. The working groups consist of representatives from reporting entities and service providers.

### 2.G.6 Reporting Entities and Service Providers

#### Reporting Entities

The Department, with its many reporting entities preparing stand-alone financial statements, has a complex reporting structure. Its reporting entities vary significantly from a financial statement perspective (e.g., the Military Departments are few in number but material to the Department, versus the other Defense Agencies, which are large in number but less material than the Military Departments). Therefore, it is not effective or efficient to perform financial statement audits on all stand-alone financial statements. To address the complexity of the Department's reporting structure; OUSD(C) has developed a DoD-wide audit strategy, which re-aligns the DoD's reporting entities into the following categories:

- **OMB Designated Audits** – includes the Military Departments (WCF and GF), Military Retirement Fund, and the U.S. Army Corps of Engineers Civil Works Program (in accordance with the requirements of OMB Bulletin 15-02, as amended). These reporting entities must perform all audit readiness efforts in accordance with the Financial Improvement and Audit Readiness (FIAR) Methodology and will undergo annual financial statement audits on their stand-alone financial statements.
- **DoD Designated Audits** – includes DeCA, DFAS-WCF, DISA, DLA, Defense Health, U.S. TRANSCOM and U.S. SOCOM. These reporting entities must perform all audit readiness efforts in accordance with the FIAR Methodology, and will undergo annual stand-alone financial statement audits. **Figures 5-4 and 5-5** in section 5 present all financially material reporting entities, and identify specific areas of the reporting entity that are material to the Department's consolidated financial statements.
- **Mid-Sized Defense Agencies** – includes Washington Headquarters Service, MDA, Other TI-97 Funds-Army, DSCA, DoDEA, DARPA, CBDP, DTRA, DCMA and JCS. These reporting entities will undergo annual examinations or other independent validations of their financial statement balances.
- **Remaining Defense Agencies and Funds** – includes other defense agencies, organizations and funds not material to the DoD consolidated financial statements. These entities must perform audit readiness efforts to improve their internal controls and they will be included in the DoD's consolidated financial statement audit. A complete list of these entities is included in Appendix F.

Reporting entities are responsible for completing audit readiness discovery, corrective action, assertion, validation, and sustainment in accordance with the FIAR Methodology, as defined in **Section 4** of this guidance.

#### Service Providers

The Department utilizes many service organizations, also referred to as service providers, to improve efficiency and standardize business operations.

Service providers are grouped into three categories:

- Defense agencies providing traditional support services in such areas as accounting, personnel, logistics, system development and operations/hosting. These agencies include the Defense Finance and Accounting Service (DFAS), Defense Information Systems Agency (DISA), Defense Logistics Agency (DLA), Defense Contract Management Agency (DCMA) and Defense Civilian Personnel Advisory Service (DCPAS).
- Military Departments (MilDeps) performing services on behalf of other MilDeps or other defense organizations. For example, the Army providing asset management services to the other MilDeps, and the MilDeps providing personnel, logistics and accounting services to the Defense Health Agency (DHA) and U.S. SOCOM.
- DoD Executive Agents – DoDD 5101.1 "DoD Executive Agent" section 3.1, defines an executive agent as "the head of a DoD Component to whom the Secretary of Defense or the Deputy Secretary of Defense has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operational missions, or administrative or other designated activities that involve two or more of the DoD Components." For example, the Army providing logistical/administrative support to a Combatant Command.

For DoD reporting entities to achieve auditability, it is critical that all service providers support their customers and execute audit readiness tasks, including documentation of processes and controls, testing, and remediation, as defined in **Section 4** of this guidance.

### 2.G.7 Accountability

As noted above, the FIAR Governance Board is tasked with providing accountability for achieving audit readiness; specifically "…ensuring [the Department's FIAR plans] … include sufficient interim milestones to hold Components accountable for incremental achievement."[15]

Operationally, the DCMO and DCFO (and their respective staffs), oversee the Components' audit readiness progress and ensure the reporting entities and Service Providers are held accountable for their audit readiness plans and timelines. This includes comprehensive review of Component plans for adequacy and confirmation that milestone dates are realistic and in harmony with the Department's overall timeline for achieving its audit readiness objectives. Feedback regarding audit readiness plans and timelines is provided directly to the Components during the FIAR Plan Status Report compilation process, Interim Milestone Reporting process, and by DCFO's NDAA Audit Readiness scoring, which ranks Components' readiness based on their self-reported incremental achievement. DCMO and DCFO hold Components responsible via these methods of regular monitoring, reporting results to the FIAR Governance Board.

[15] FIAR Governance Board Charter, April 19, 2012, Responsibility 1 (page 2)

# 3. INTERNAL CONTROL

## 3.A INTRODUCTION

According to the GAO's September 2014 *Standards for Internal Control in the Federal Government* (GAO-14-704G, referred to as the Green Book)*,* **internal control** is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations - Effectiveness and efficiency of operations
- Reporting - Reliability of reporting for internal and external use
- Compliance - Compliance with applicable laws and regulations

Internal control includes the plans, methods, policies and procedures an organization uses to conduct its core mission, safeguard its assets and assure the accurate recording and reporting of financial data. Internal control is affected by the systems the entity has in place, the people involved and the attitude of management regarding internal control. An effective system of internal controls will only be useful if it is properly implemented.

Although internal controls do not provide absolute assurance that an agency can and will meet its operational goals or prevent fraud, waste and abuse from occurring, a strong system of internal controls will help management in identifying instances that could adversely affect the agency's ability to meet its objectives and prevent or detect fraud, waste, or abuse in a timely manner. Also, a strong system of internal controls assists management in the preparation of financial reports. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* states, "management is responsible for establishing and integrating internal control into its operations in a risk-based and cost beneficial manner, in order to provide reasonable assurance that the entity's internal control over operations, reporting, and compliance is operating effectively."

From an audit readiness perspective, internal controls that are properly designed, implemented and effective are important because of increased efficiency in the audit. With a robust internal control structure and effective controls, auditors will likely have to perform less substantive testing; this results in a more efficient audit and better use of Departmental resources. This section includes guidance for documenting and testing internal controls for reporting entities and service providers.

## 3.B Laws, Regulations and Guidance

To assist reporting entities in establishing a robust system of internal controls, management should review applicable regulations and guidance summarized below.

### Laws

**Federal Managers' Financial Integrity Act of 1982 (FMFIA).** FMFIA established overall requirements for management's responsibilities with respect to internal controls. The FMFIA amended the Accounting and Auditing Act of 1950 and directed agencies to complete ongoing self-assessments regarding the adequacy of operational, administrative, systems and financial controls. The agency must establish a system of internal controls that ensures that obligations and costs are in compliance with applicable laws; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. In addition, FMFIA requires agencies to provide a Statement of Assurance on the effectiveness of its internal controls to the President and Congress annually. A complete copy of FMFIA is available at Federal Managers Financial Integrity Act of 1982.

**The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576).** The CFO Act was government's attempt to improve its financial management and outlined standards of performance and disclosure. It granted greater authority over federal financial management to the Office of Management and Budget (OMB) and created the position within OMB of the Deputy Director for Management, and the Office of Federal Financial Management (OFFM). The Deputy Director for Management serves as the government's Chief Financial Officer. It also created the position of Chief Financial Officer within 24 individual federal agencies.

The CFO Act directed that financial management system policies "make the best use of financial management systems to: initiate, record, process and report transactions to support agency mission in making business decisions and to provide transparency to the public." To that end each agency shall implement and maintain financial management systems following the policies prescribed in OMB Circular A-130 such as:

- Use of cost-effective intra-agency and inter-agency sharing to meet technology needs,
- The use of off-the-shelf technology.

**Federal Financial Management Improvement Act of 1996 (FFMIA).** FFMIA focuses on financial management systems and other systems that impact financial reporting. The Act requires agencies to incorporate applicable federal accounting standards into their financial management systems and report on whether or not their financial systems routinely provide reliable financial information. FFMIA also requires agency Chief Financial Officers to implement and maintain financial management systems that comply substantially with federal financial management systems requirements determined in OMB A-123 Appendix D, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Agency heads must annually assess and report via their audit report whether the agency's financial management systems comply with the law and if not, provide a remediation plan to address any deficiencies. Please refer to the following link for more information on FFMIA requirements: Federal Financial Management Improvement Act.

**Federal Information Security Modernization Act of 2014 (FISMA 2014) and Federal Information Security Management Act of 2002 (FISMA).** FISMA 2014 and its predecessor, FISMA, require the head of each agency to implement policies and procedures to cost-effectively reduce information technology security risks to an acceptable level, and emphasize cybersecurity. Federal agencies must develop, document and implement agency-wide programs to provide information security for the information and information systems that support its operations and assets in compliance with standards, guidelines, and methods promulgated by the National Institute of Standards and Technology. Please refer to: https://www.dhs.gov/fisma (FISMA 2014) for more information on current FISMA requirements; FISMA 2002 can be accessed at http://csrc.nist.gov/drivers/documents/FISMA-final.pdf.

## Regulations and Guidance

**GAO Standards for Internal Control in the Federal Government (Green Book).** The Green Book is intended to provide managers with criteria related to internal control that will assist them in their design, implementation, and operation to help ensure the control system developed and implemented is effective. In response to the 2013 update of COSO's internal control framework, the GAO published an updated Green Book in September 2014, which is now the required standard for FMFIA compliance. The Green Book is available at Standards for Internal Control in the Federal Government.

**Office of Management and Budget (OMB) Circular A-123.** OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control is a revised Circular that reflects the dramatic changes in government operations which are becoming increasingly complex and driven by changes in technology. In the past, most A-123 programs primarily focused on controls related to material misstatements of financial statements, with an emphasis on identifying and mitigating financial and appropriate compliance-oriented risks. The revised Circular extends the concept of risk management into a much broader realm, encompassing additional types of risks (such as mission-oriented operational risks, strategic risks, and reputational risks) and calling on agencies to implement an Enterprise Risk Management (ERM) capability that encompasses both internal controls and traditional risk management. A complete copy of the revised OMB Circular A-123 is available at OMB Circular No. A-123.

**Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework 2013.** The COSO framework was updated in 2013 to better assist management in controlling their organization, and to provide directors the ability to oversee internal control. COSO states that a system of internal control allows management to stay focused on the organization's pursuit of its operation and financial performance goals and deal more effectively with changing economic and competitive environment, leadership, priorities, and evolving business models. The 2013 Framework retains all five components of internal control and formalizes additional requirements for a system of internal control to be effective as follows:

- Each of the five components of internal control and *relevant principles* is present and functioning,
- The five components of internal *control operate together in an integrated manner*.

For more information on COSO, please refer to http://www.coso.org/ic.htm

**Federal Information System Controls Audit Manual (FISCAM).** The FISCAM provides a methodology for performing information system (IS) control audits of federal and other governmental entities in accordance with professional standards. It is designed to be used primarily on financial and performance audits and attestation engagements performed in accordance with Generally Accepted Government Auditing Standards (GAGAS), as presented in Government Auditing Standards (also known as the "Yellow Book"). The FISCAM is the basis on which DoD information systems (IS) are to be assessed in accordance with the FIAR Guidance. For more information on FISCAM, please refer to http://www.gao.gov/special.pubs/fiscam.html

**Managers' Internal Control Program Procedures (MICPP).** The Managers' Internal Control Program Procedures (MICPP) prescribes policies and procedures to be followed by DoD and Component Heads to create a Senior Management Council and Senior Assessment Team to establish and oversee a Managers' Internal Control Program. The specific requirements/attributes of an effective Managers' Internal Control Program are defined in DoD Instruction 5010.40, which also includes the requirement for Components to submit an annual Statement of Assurance to OSD. The MICPP procedures are found at http://www.dtic.mil/MICPP. Note that an updated version of DoDI 5010.40 reflecting reporting requirements aligned to the revised OMB Circular A-123 will be published in FY2018.

**Defense Finance and Accounting Service – Financial Management Systems Requirements Manual General and Administrative Information DFAS 7900.4-M (Blue Book).** The Blue Book's purpose is to ensure operational excellence and audit readiness by developing and maintaining the financial management systems requirements between entities and service providers to enable compliance with FFMIA. FFMIA requires that Federal agencies' financial management systems comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the

United States Standard General Ledger (USSGL) at the transactional level. To achieve these goals the Blue Book Standardize Financial Management systems requirements into a single repository for legacy and DoD enterprise finance and accounting systems' development and provide assistance with FFMIA compliancy reviews. A complete copy of DF 7900.4-M (Blue Book) can be found at http://www.dfas.mil/dfasffmia/bluebook.html

**Risk Management Framework (RMF) for DoD Information Technology (IT).** Risk Management Framework (RMF) for DoD Information Technology (IT)" replaced (DIACAP) DoD Information Assurance Certification and Accreditation Process, which was the means the DoD used to ensure that risk management is applied to information systems from an enterprise view.

RMF directed DoD to establish and use an integrated enterprise-decision structure for cybersecurity risk management that includes and integrates DoD mission areas. It also set forth that cybersecurity requirements for DoD IT will be managed through the RMF consistent with the principles set forth in National Institute of standards and Technology Special Publication (SP) 800-37. The DoD RMF also satisfies FISMA 2002 requirements. A complete copy of RMF can be found at DoD Instruction Number 8510.01.

**Standard Financial Information Structure (SFIS).** The CFO Act of 1990 requires the DoD (and other federal agencies) to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which

- complies with applicable accounting principles, standards, and requirements, and internal control standards;
- complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;
- complies with any other requirements applicable to such systems; and
- provides for complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management.

SFIS establishes common/uniform standards across the Department. The SFIS Resource website is at: http://dcmo.defense.gov/productsandservices/standardfinancialinformationstructure.aspx

The following table, **Figure 3-1**, summarizes significant laws and their implementing regulations and policies pertaining to internal controls.


**Figure 3-1. Laws and Corresponding Implementation Guidance**

Other sources of information related to internal controls and compliance with related laws and regulations include:[16]

- Management documentation of its internal control system, policies, procedures, and knowledge gained from the daily operation of Agency programs and systems.
- Management reviews conducted (1) expressly for the purpose of assessing internal control, or (2) for other purposes with an assessment of internal control as a by-product of the review.
- Annual performance plans, reports, strategic reviews and program evaluations relevant to internal control pursuant to the GPRA Modernization Act and OMB Circular No. A-11, Section 200, Federal Performance Framework.
- Acquisition Assessments pursuant to OMB Memorandum: Conducting Acquisition Assessments under OMB Circular No. A-123, May 21, 2008.
- Management reviews and annual evaluations and reports related to information technology, information security, and information resources pursuant to the Federal Information Security Modernization Act of 2014 and OMB Circular No. A-130, Responsibilities for Protecting Federal Information Resources.
- Annual reviews and reports pursuant to the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012.
- Single Audit Act Reports and program reviews conducted pursuant to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards for grant-making agencies.
- Antideficiency Act Reviews and Investigations.
- Independent audit reports including Office of Inspectors General Management Challenges and GAO High Risk Reports.
- Assessments of internal control over financial reporting and reviews of financial management systems pursuant to Appendix A of OMB Circular No. A-123, Internal Control Over Reporting, Appendix B to OMB Circular No. A-123, Improving the Management of Government Charge Card Program, Appendix C to OMB Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments, or Appendix D to OMB Circular No. A-123, Compliance with the Federal Financial Management Improvement Act.

[16] OMB Circular A-123, p. 29.

## 3.C Reporting Requirements

**The integration of the FIAR Guidance and OMB Circular A-123, Appendix A drives efficiency in the utilization of the Department's resources to meet the objective of achieving an audit ready state, as the objectives, key tasks and activities, and resulting work products of the two initiatives are essentially the same. The July 2016 OMB Circular A-123 revision did not affect these work products. Appendix A requirements remain in effect. However, the OMB Circular A-123 revision does require agencies to prepare additional work products to better integrate risk management and control functions.** By taking a risk-based approach to maintaining an effective system of internal control, an entity can obtain reasonable assurance over its internal control over operations, reporting and compliance in a cost beneficial manner. Reporting entities must continue to report assessment results in accordance with DoD Instruction 5010.40 - Managers' Internal Control Program Procedures and the Statement of Assurance Guidance (see Section 3.C.3).

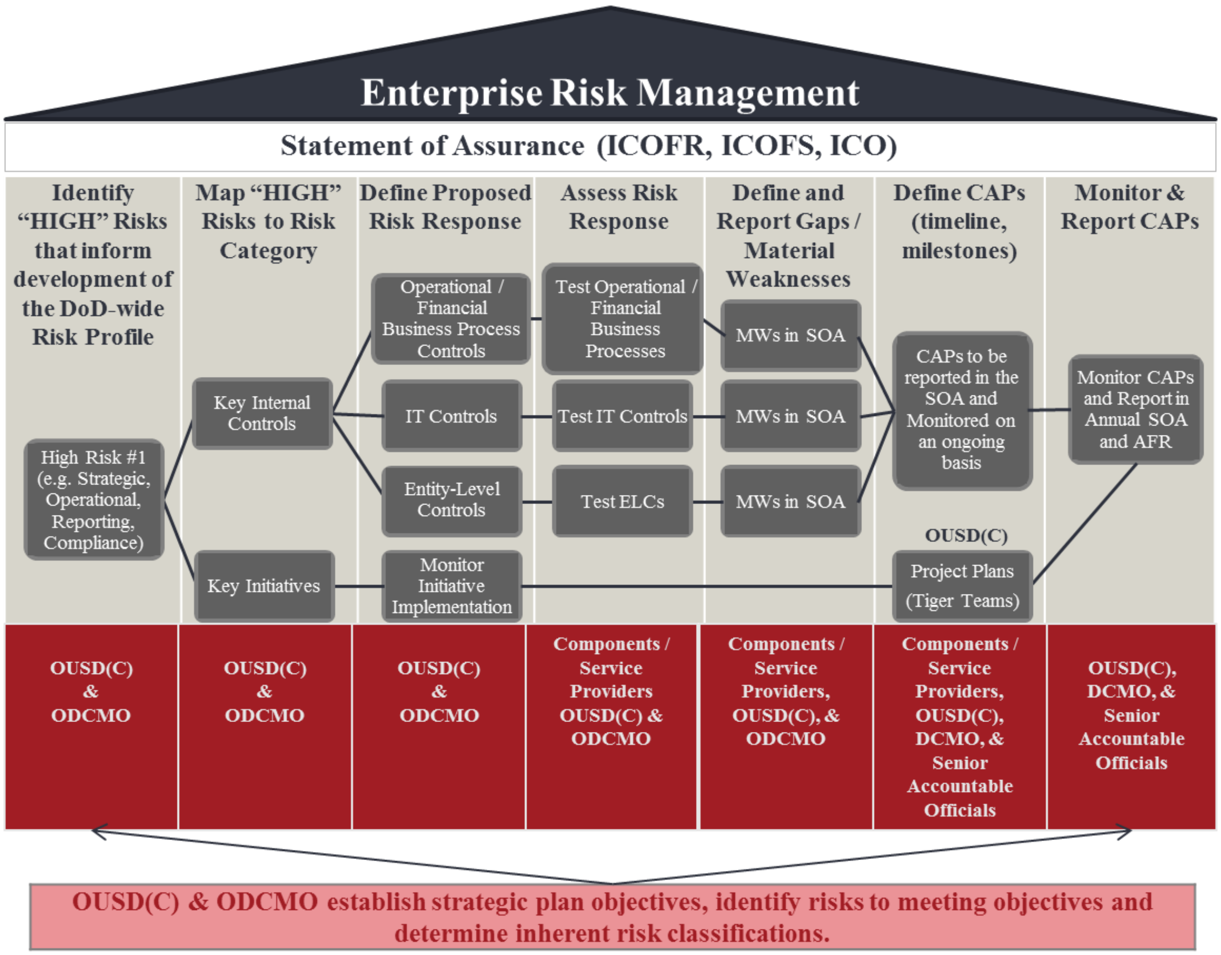



**Figure 3-2. Risk Profile: Statement of Assurance Reporting Process**

OMB has established a baseline set of expectations over the course of the next year to track progress in the establishment of ERM programs. The four key milestones for implementing the requirements are:

- **Prior to June 2017**: DoD should begin to develop an approach to implement ERM, including a general implementation timeline, for discussion with OMB.
- **By June 2, 2017**: DoD must develop an ERM initial risk profile, which is a prioritized inventory of the most significant risks identified and assessed through the risk assessment process.

- **By September 1, 2017**: DoD must present assurances on internal control processes in their annual Statement of Assurance for elements of the initial risk profile in FY 2017 for which formal internal controls have been identified.[17]

- **Annually by June 3**: DoD must prepare an updated and complete risk profile.

**A summary of the expanded OMB Circular A-123 requirements (including their relationship to FIAR methodology work products where applicable) is included within the table below:**

| OMB A-123 (July 2016) and Related Deliverables | Newly Expanded A-123 Requirements | FIAR Methodology Key Task and Work Product[18] |
|---|---|---|
| ***Initial Risk Profile***<br><br>Section II – Establishing Enterprise Risk Management in Management Practices | DoD is required to develop an initial risk profile, due to OMB by June 2, 2017 and updated annually thereafter by June 3. The ODCMO will gather the most significant risks from across Principal Staff Assistant (PSA) portfolios to develop the Department-wide risk profile. PSAs will appoint POC(s) for Action Officer (AO) level working groups to discuss/assess the draft risk profile at the DMAG. The ODCMO, in working with the DMAG, will define the governance structure to ensure that these risks are managed from the top-down.<br><br>While the Department-wide risk profile supplements the Components' individually identified risks through the Component-level entity-level control risk assessment process (see Figure 3-2) as well as the Risk Control Matrix, many of the risks identified in the risk profile will likely have similar mitigation strategies as those identified at the Component-level. | Key Tasks 1.2.4, 1.3.1, 1.3.2<br>• Assessable unit prioritization and audit readiness strategy document<br>• Process and system documentation (e.g. Risk and Control Matrix)<br>• Financial Reporting Objectives |
| ***Internal Controls***<br><br>Section III – Establishing and Operating an Effective System of Internal Control<br><br>Section IV – Assessing Internal Control<br><br>Section V – Correcting | Components should demonstrate internal controls are in place that provide reasonable assurance that the objectives of the entity are achieved. These objectives (and related risks) are identified as part of the Department-wide risk profile as well as those risks identified in their financial audit/audit readiness efforts. | Key Tasks 1.3.1, 1.3.2, 1.3.3, 1.3.4, 1.3.5<br>• Process and system documentation (e.g. flowcharts)<br>• Financial Reporting Objectives and control activities<br>• Internal Controls Assessment<br>• Test Plans<br>• Test Results<br>• Updated Internal Controls Assessment |

[17] Note: The OMB A-123 required date is September 15, 2017. However, in order to allow for consolidated DoD reporting, DoD components should submit their annual Statement of Assurance to OUSD no later than September 1, 2017.
[18] Preparation of these work products does not constitute full compliance with the revised Circular OMB A-123. The table above demonstrates how FIAR work products should be leveraged to meet some of the new requirements of OMB Circular A-123.

| | | |
|---|---|---|
| Internal Control Deficiencies | | |
| ***Entity-Level Control***<br><br>***Service Organizations***<br><br>***Fraud Risks***<br><br>Section III – Establishing and Operating an Effective System of Internal Control | ***Entity-Level Controls.*** OMB A-123 defines the minimum level of quality acceptable for internal control in government and provides the basis against which internal control is to be evaluated. Reporting entities and service providers should begin their controls assessments with an evaluation of entity-level controls, which will then serve as a basis for the reporting entities' financial improvement and audit readiness plans.<br><br>***Service Providers.*** OMB A-123 provides considerations for management's responsibility in overseeing the performance of the third party service organizations, to include Complementary User Entity Controls (CUECs).<br><br>***Fraud Risks.*** Fraud risks should be evaluated as part of the planning phase of establishing internal controls as well as evaluating the root causes of identified deficiencies. | Key Task 1.2.4; see also Section 3.C.2 and Figure 3-4<br><br>Key Task 1.3.1<br>• Process and system documentation (e.g. CUEC descriptions)<br><br>Key Tasks 1.2.4, 1.3.1, 1.3.2, 1.3.3, 1.3.4, 1.3.5 |
| ***Statement of Assurance***<br><br>Section VI – Reporting on Internal Controls | The components must provide detailed assurance statements on internal controls over reporting, internal controls over operations, and internal controls over compliance.<br><br>For 2017, revised SoA reporting guidance will be issued in 2017 to reflect the updated SoA guidance issued in the July 2016 version of A-123. See section 3.C.3. | Key Task 1.3.6<br>• Annual ICOFR SoA memorandum and material weakness CAP summary |
| ***Privacy Risks, Acquisition Assessments, Grant Risks***<br><br>Section VII – Additional Considerations | The DoD must develop, implement, document, maintain, and oversee agency-wide privacy programs that include people, processes, and technologies. DoD must establish an approach for assessing acquisition and grant activities, integrate these activities into internal control processes and consider potential fraud in the processes uses in planning for, reviewing, awarding, and managing contracts and grants. | While these additional considerations are requirements under the revised A-123 (likely for internal controls over operations and compliance with laws and regulations), they do not have a direct impact on the financial reporting objectives (ICOFR). To the extent audit readiness activities impacts those risks (such as maintaining privacy over PII), these considerations would be included in the entity's internal controls over operations. |

**Figure 3-3. Expanded OMB Circular A-123 Requirements**

It is important to note that by performing the FIAR Methodology key tasks noted in the table above (with respect to internal controls over external financial reporting and financial systems), entities are only addressing a portion of the requirements and objectives of the revised Circular A-123. OMB requires that entities analyze risks to their agency as a whole toward achieving their strategic, operational, non-financial and compliance objectives (not just objectives related to financial reporting and financial systems).

In conjunction with the requirements noted above, the Department is required to assess the FFMIA compliance of relevant systems on an annual basis. OMB Circular A-123 Appendix D (Compliance with the Federal Financial Management Improvement Act of 1996) defines system requirements for determining FFMIA compliance summarized as follows:

- Federal Financial Management System Requirements (FFMSRs) consisting of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. The FFMSRs are defined in Chapter 9500 of the Treasury Financial Manual (Appendix 1). DFAS 7900.4-M (Financial Management Systems Requirements Manual) https://www.dfas.mil/dfasffmia/bluebook.html also provides a compendium of FFMSRs and applicable laws and regulations.
- Applicable Federal Accounting Standards which requires systems maintain accounting data to permit reporting in accordance with Generally Accepted Accounting Principles (GAAP).
- The United States Standard General Ledger at the transaction level which requires that each approved transaction is recorded in the financial management system, it will generate appropriate general ledger accounts for posting the transaction in accordance with USSGL guidance.

The steps to be completed in assessing FFMIA systems compliance consist of the following and should be performed in a manner that concurrently addresses OMB Circular A-123 Appendix A, FIAR Guidance, and FFMIA compliance requirements:

- Identify the relevant financial management systems, financial systems, and mixed / feeder systems that are relevant to financial management.
- Based on the function(s) performed by each system identify the relevant FFMIA compliance requirements.
- Document the system functionality in place to meet the relevant FFMIA system requirements.
- Complete a test of design to determine if the system functionality (as designed) satisfies the relevant FFMIA system requirements and addresses relevant financial reporting risks. Where there is no automated system functionality that specifically addresses a requirement, identify and document manual control procedures or functions performed by another automated system that otherwise satisfies the requirement.
- Where the design of the system addresses relevant FFMIA requirements, develop and perform tests of operating effectiveness.
- Utilizing OMB Circular A-123 Appendix D Attachment 1 (FFMIA Compliance Determination Framework), review the tests of operating effectiveness for individual FFMIA compliance requirements and the results of testing in the aggregate to determine if the system is substantially compliant. The FIAR Guidance should also be utilized when assessing the results of testing and determining if a corrective action is required.
- For those testing exceptions for which there is no acceptable mitigating controls to reduce the risk of a material misstatement, a system non-compliance, and/or a material weakness, corrective action plans should be developed and implemented. Any required corrective action plans must meet the requirements of the Implementation Guide for OMB Circular A-123.

For those entities that rely on systems owned by other organizations (ex., Service Organizations), the results of FFMIA compliance testing by the system owner should be requested and reviewed to evaluate the impact on the reporting entity's FFMIA compliance.

More detailed guidance for each of the FFMIA systems compliance assessment steps summarized above can be found in the **FIAR Guidance Tools, Templates and Work Products**.

**ODCFO tracks material weaknesses and remediation progress using the NFR/CAP Reporting processes noted within Section 2.D and Section 6.B. The Office of Deputy Chief Management Officer (ODCMO) will provide direction and oversight for the business and financial process transformation required to implement OMB's revised requirements. ODCMO will release additional guidance and requirements for DoD reporting entities to aid in compliance over the coming months.**

### 3.C.1 Assessing Internal Controls

**Reporting entities must assess internal controls on a regular, consistent basis in accordance with DoD Instruction 5010.40 - Managers' Internal Control Program Procedures. Periodic, well-designed**

**internal control assessments allow reporting entities to determine the stability of their control environments. They also enable reporting entities to evaluate year-to-year changes in their control environments, identify new risks, and develop and implement corrective action plans.** The current Manager's Internal Control Program emphasizes:

- Importance of director/commander support (aka "tone-at-the-top", the overall control environment, or organizational culture)
- Reliance upon a "risk-based framework"
- Implementation of a "self-reporting concept"

To complete these ongoing assessments, reporting entities **must** obtain and evaluate findings from available sources to identify the potential impact on internal controls over financial reporting. Relevant available sources include but are not limited to the following:

- FIAR Self-Assessments
- ICOFR and ICONO Self-Assessments
- FMFIA/FFMIA Self-Assessments
- FISMA Self-Assessments
- Assessment & Authorization (DoD Risk Management Framework)
- DFAS 7900.4-M ("Blue Book") Self-Assessments
- Financial Statement Audits
- Service Organization Control (SOC) Examination Reports, Note: SSAE 16 will be superseded by SSAE 18 (AT-C 320) for SOC reports dated after April 30, 2017.
- Assessable Unit Examinations
- Mock Audits
- GAO, DoD OIG, and Agency Auditor Reports
- DOT&E/JITC System Testing
- JITC's DoD Standard Financial Information Structure Compliance Assessment (SFIS-CA)

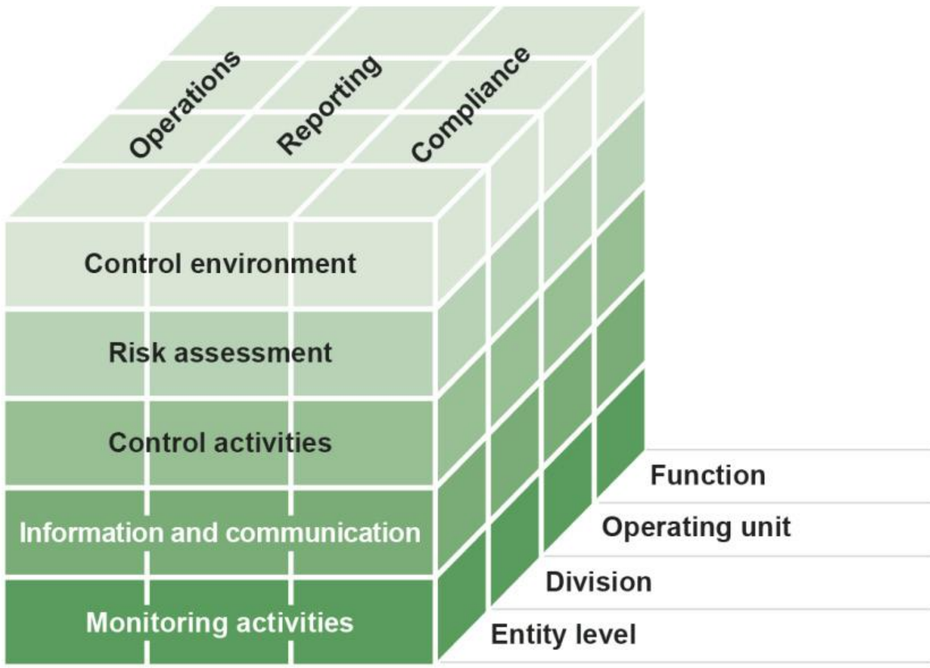
In instances where these activities are being completed by organizations other than the reporting entity (e.g. service providers), the results from the assessments **must** be provided **by the service provider** to the reporting entities that are users of the system and/or service. The service provider should also provide the results of these self-assessments to the FIAR office.

Internal control assessments should be performed on an annual basis in accordance with ICOFR requirements.

### 3.C.2 Assessing Entity-Level Controls

The standards promulgated by GAO's Green Book, and internal control guidance provided by GAO's Management and Evaluation Tool and OMB Circular A-123 Appendix A collectively define the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated. However, they are not intended to limit or interfere with duly granted authority related to developing legislation, rulemaking, or other discretionary policy-making in an agency. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and are an integral part of operations. The five components of the standard, as noted on below in **Figure 3-4**, represent the entity-level controls of an organization. Weaknesses or deficiencies within these foundational controls weaken other internal controls, such as control activities at the assessable unit level. **Therefore, reporting entities and service providers should begin their controls assessments with an evaluation of entity-level controls, which will then serve as a basis for the reporting entities' financial improvement and audit readiness plans. To assist DoD Components with their assessments of entity-level controls, reporting entities can utilize assessment tools developed by**

**the FIAR office and available on the FIAR Tools, Templates and Workproducts website in task 1.3.2; also, reporting entities should contact their FIAR liaisons for additional information.**




Source: COSO.

**Figure 3-4. Standards for Internal Control in the Federal Government – Entity-Level Controls**

The five components of entity-level controls are defined as:

- Control Environment – Structure and culture created by DoD management and employees to sustain organizational support for effective internal control. The control environment is often called the "tone at the top" and is critical to the success of all the other pieces of the internal control framework.

- Risk Assessment – Management's identification of internal and external risks that may prevent the Department from meeting its objectives. The risk assessment is the basis for all other control activities. The identification should include risks related to new or revamped information systems implemented by the reporting entity or its service provider. For example, the service provider may implement a client-server version of its software that was previously run on a mainframe. Although the new software may perform similar functions, it may operate so differently that it affects the reporting entity's operations.

- Control Activities – Policies, procedures, and mechanisms in place to help ensure that the Department's objectives are met. Control activities, both manual and automated, are the day-to-day actions that are at the core of internal controls. These control activities include information technology general controls (ITGCs) over all financially significant computer applications, automated application controls over financial transaction balances within computer applications, and manual application controls performed outside of computer applications.

- Information and Communication – Relevant, reliable, and timely information is communicated to appropriate personnel at all levels within the Department. Information and communication ensures that internal controls are flexible enough to respond to changes in the control environment.

- Monitoring – Periodic reviews, reconciliations, or comparisons of data should be part of the regular assigned duties of personnel. Monitoring is the process that ensures the control structure is operating as planned and fills all gaps that may exist in the internal control structure. Monitoring the effectiveness of internal controls is part of the normal course of business.

Addressing entity-level controls requires a well-planned approach. **Figure 3-5** articulates the seventeen relevant principles underlying the five components of effective internal control, per the GAO's current Green Book and the COSO internal Control – Integrated Framework 2013. These relevant principles provide clarity for understanding requirements for effective internal control when evaluating entity-level controls within the Discovery Phase "Assess & Test Controls" task 1.3 (Reporting Entity) and 1.5 (Service Providers) of the Methodology.

**Control Environment**

**1.** The oversight body and management should demonstrate a commitment to integrity and ethical values.

**2.** The oversight body should oversee the entity's internal control system.

**3.** Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

**4.** Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

**5.** Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

**Risk Assessment**

**6.** Management should define objectives clearly to enable the identification of risks and define risk tolerances.

**7.** Management should identify, analyze, and respond to risks related to achieving the defined objectives.

**8.** Management should consider the potential for fraud when identifying, analyzing, and responding to risks.

**9.** Management should identify, analyze, and respond to significant changes that could impact the internal control system.

**Control Activities**

**10.** Management should design control activities to achieve objectives and respond to risks.

**11.** Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

**12.** Management should implement control activities through policies.

**Information and Communication**

**13.** Management should use quality information to achieve the entity's objectives.

**14.** Management should internally communicate the necessary quality information to achieve the entity's objectives.

**15.** Management should externally communicate the necessary quality information to achieve the entity's objectives.

**Monitoring**

**16.** Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

**17.** Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

**Figure 3.5 - Relevant Principles of Effective Internal Control**

## 3.C.3 Reporting Requirements

The revised Circular requires a single Statement of Assurance, reflecting a balanced emphasis between operations, reporting, and compliance internal control objectives. Entities should provide a detailed summary of management assurances in the "Other Information" section of the annual AFR, PAR, or other management report.

### Statement of Assurance

To ensure compliance with FMFIA and the MICP, the Department issues guidance for each DoD Component that governs the required submission of an annual Statement of Assurance (SoA). The SoA is a certification of the level of assurance regarding overall adequacy and effectiveness of the Component's internal controls. The SoA must be signed by the Component Head or Principal Deputy and should include a signed statement reporting on the:

1. Component's financial management systems' compliance with FFMIA; and

2. Component's level of assurance over internal controls over reporting, internal controls over operations, and internal controls over compliance. The SoA must take one of the following forms:

- Unmodified (no material weaknesses)
- Modified (one or more material weaknesses identified)
- Statement of no assurance

In April 2016, FIAR issued revised reporting guidance to reporting entities on the expanded requirements for their annual SoA reporting. Reporting entities are required to submit their annual SoAs to FIAR in early September. The SoAs should be signed by the component head, and include the results of assessments from assessable unit managers and service/component MICP coordinators. FIAR has implemented a top down approach to review component submissions to ensure alignment with DoD critical path areas, process improvement initiatives and identification of the appropriate Senior Accountable Official (SAO) based on area of responsibility. The OSD SAOs take ownership of reportable material control deficiencies and associated remediation strategies, SAOs also serve as members of the FIAR Governance Board, and meet regularly with Components that have reported material weaknesses. These efforts promote communication of the Department's expectations and help ensure progress is monitored while holding the Components accountable for completing corrective actions. Each OSD SAO briefs the Department's summary-level internal control material weaknesses to the OSD FIAR.

For additional information on the current SoA reporting requirements, including specific content, effective dates and a sample SoA, please refer to the **SoA FY 2016 Guidance**. ODCFO will issue fiscal year 2017 revised SoA reporting guidance in the coming months to reflect the revisions to OMB Circular A-123.

## 3.D Business Process and Information Technology (IT or System) Controls

### 3.D.1 Business Process Control Activities

Control activities are the specific individual tasks incorporated into the business processes and sub-processes, and are documented and tested separately from the entity-level control components. They are broadly categorized as manual controls and system controls. Examples of system controls include edit checks to validate data entry, accounting for transactions in numerical sequences, and passwords, which restrict access to information based on responsibility. Certain control activities are a combination of both manual and system controls and are categorized as semi-automated system controls. Examples of control activities include reviews, approvals and authorizations, segregation of duties, reconciliations and safeguarding of assets. Manual controls can be best described as controls performed by a person without the use of an automated system. Examples of manual include physical inventory counts performed using system generated count sheets, periodic reconciliation of information flowing through or interfaced through numerous systems to ensure completeness and accuracy of data, and manual investigation and correction of transaction errors based on system generated exception reports.

#### Key Controls

Key controls provide the most effective evidence for one or more relevant financial statement assertions, or significant account or disclosures. Key controls allow management to prevent or detect misstatements or errors and allow the auditor to reduce the extent of testing performed by focusing his/her efforts on key controls. The organization may be able to correct identified misstatements before they affect the financial statements. Examples of key controls include restricting access to systems based on a valid business need, reconciling various reports with supporting documentation, and performing physical inventories. Both manual and system key controls must be identified and tested.

#### Preventive vs. Detective Controls

Controls may be further categorized as either preventive or detective. A preventive control works to prevent errors or fraud from occurring before a business process transaction is executed. Preventive control activities prevent an entity from failing to achieve an objective or address a risk. An example of a preventive control is segregating the responsibility for approving a transaction from the responsibility for recording a transaction. Detective controls are designed to find errors or irregularities after they have occurred and correct the error. Examples of detective controls include comparison of budgeted amounts to actual results, reconciliations and proper resolution of accounting differences.

### 3.D.2 Information Technology (IT or System) Controls

There are two major categories of IT controls as defined below.

A. Information Technology General Controls (ITGCs), include controls that apply to system components, processes, data, and the overall IT environment, e.g., requiring a password to access a system. They ensure the proper development and implementation of applications, as well as integrity of programs, data files, and computer operations, e.g., changes to program/applications are restricted to authorized users. ITGCs are categorized as:

- Entity-Level: these ITGCs consist of: Security Management, Access Controls, Configuration Management, Segregation of Duties, and Contingency Planning. Entity-Level ITGCs are pervasive across platforms and affect the entire organization.
- Business Application Level: these ITGCs cover the same basic control objectives as Entity-Level ITGCs, but are unique to individual business processes within a system or application.

B. Automated Application Controls use a different set of control categories (Application Security, Business Process Controls, Interface and Conversion Controls, and Data Management System Controls) and focus on a specific application (e.g., Defense Departmental Reporting System (DDRS), Defense Civilian Pay System (DCPS), etc.)

### 3.D.3 Identify IT Systems and Micro-Applications

Prior to evaluating internal controls, **the reporting entity must identify and provide a description of all key automated systems and technology tools used to support its financial processes related to the assessable unit, including financial systems, mixed-systems, non-financial systems, and micro-applications (i.e., spreadsheets, databases, and/or other automated tools used to perform reconciliations, calculations, or other business functions). The purpose of each IT system or micro-application must be documented. These key systems should be evaluated and IT controls identified and tested if the reporting entity or service provider:**

- **Controls within the system are identified as key controls in the internal controls assessment;**
- **Systems are used to generate or store original key supporting documentation;**
- **Reports generated by the system are utilized in the execution of key controls; or**
- **Systems are relied upon to perform material calculations (e.g., to compute payroll).**

There are a variety of systems that must be considered in audit readiness efforts, including but not limited to: general ledger systems, source/feeder systems, system interfaces, disbursing systems, reporting systems, and property management systems.

#### MICRO-APPLICATIONS

It is important to note that financial systems may not be limited to traditional, large/complex legacy or enterprise resource planning (ERP) systems. There may be instances where end user computing tools such as spreadsheets, databases, or other software tools impact key controls or calculations that are relevant to financial reporting. These end user computing tools are sometimes referred to as micro-applications.

The reporting entity, service provider as well as any departments utilizing micro-applications must also be able to identify its population of micro-applications in use and describe how its micro-applications support all significant accounts and financial statement disclosures and their relationship to relevant financial statement assertions.

The inventory should contain the following elements:

- Name of the micro-application.
- Description of the micro-application including its function (e.g., significant calculations performed) and use of outputs (e.g., entry of calculated results into financially relevant systems).
- Department(s) within the reporting entity and/or service provider responsible for the development as well as any other departments that utilize the micro-application.
- Frequency and extent of modifications to the micro-application.

Micro-applications require control techniques that are aligned to the IT general and application control objectives. Reporting entities and service providers must evaluate the risk of micro-applications on the associated financial processing. For example, risk to the financial process can increase when the number of transactions and dollar value processed by the micro application increases. Implemented control techniques for these micro-applications should be commensurate with the relative sophistication of the software tool and its impact on internal controls over financial reporting. Examples of control techniques include restricted access to shared directories, password protection of files, locking cells and formulas, enabling edit macros, enforcing segregation of duties, and creating a change management process.

## System View Diagram

A system view diagram should be completed as part of FIAR Activity 1.3.1 to include all systems and automated tools used during the execution of the processes related to the assessable unit, Please see **Figure 3-6** below for an example of a system view diagram. As illustrated in the diagram below, in some cases, a reporting entity's financial systems may be owned and/or operated by executive agents and the transactions that flow through those systems may be processed by a service provider. In such situations, the reporting entity still has the ultimate responsibility for information technology controls over those systems through which its financial transactions flow, and will need to communicate and coordinate audit readiness efforts with the executive agent and service provider.

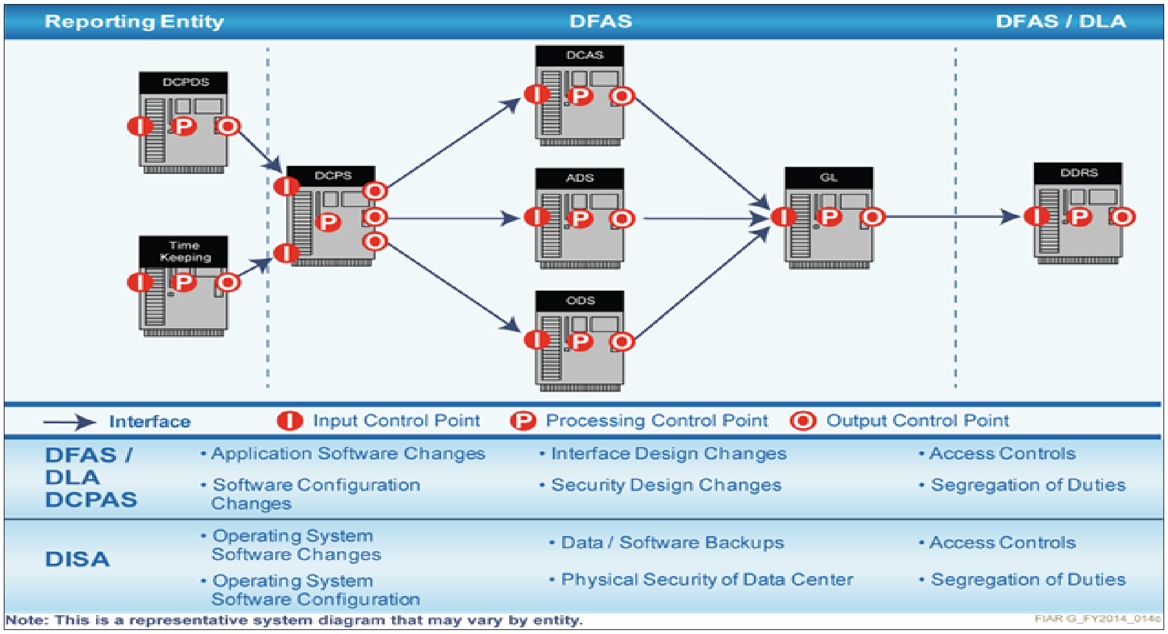



**Figure 3-6. System View Diagram: Reporting entities must consider information technology input, process, output and general computer controls for all relevant reporting entity and service provider systems**

When identifying information technology applications that are relevant to audit readiness assertions, reporting entities and service providers should also ensure they identify the specific "instances" of the application upon which their data resides, and ensure appropriate IT general and application control testing is performed on their specific instances. For example, some reporting entities use the Automated Time Attendance and Production System (ATAAPS) as their time and attendance system. The Defense Information Systems Agency (DISA), the Department of the Army and the Defense Contract Management Agency (DCMA) each host their own ATAAPS. The DISA-hosted ATAAPS includes multiple instances owned by various DoD reporting entities, including Army, Air Force and Defense Agencies. Therefore, reporting entities who are on a DISA-hosted Army instance of ATAAPS would need to coordinate with both the Army (for certain IT general controls) and DISA (for certain IT general and application controls), while an Army component using an Army-hosted Army instance of ATAAPS would only need to coordinate with Army.

Financial system controls are important to a reporting entity's and service provider's audit readiness because system outputs (e.g., system reports) and electronic evidence (e.g., electronic invoices) may serve as KSDs for both the operating effectiveness of controls and transactions/balances.

### 3.D.4 Internal Control Assessment

Once the inventory of IT systems and both key IT and manual controls have been identified, the reporting entity or service provider **must evaluate the control activities to determine if they have been designed effectively (i.e., designed to meet the financial reporting objectives and /or IT objectives).** The design effectiveness of control activities is based on the following criteria: (1) Directness (extent control activity relates to control objective), (2) selectivity (magnitude of amount of dollar activity not subject to the control), (3) manner of execution (frequency of control activity execution and skills/experience of personnel performing the control activity), and (4) follow-up (procedures performed when the control activity identifies an exception or reconciling item). The reporting entity will only test effectively designed control activities (i.e., those that achieve the applicable FROs) for operational effectiveness.

Reporting entities must specifically consider process or system changes when performing internal control assessments. In instances where a significant change has recently been implemented for an audit-relevant system or process, reporting entities should determine whether financial reporting risks, internal controls, testing populations or key supporting documentation have been impacted. If an impact is identified, internal controls documentation should be updated and testing performed.

#### AVOID DUPLICATION OF EFFORTS WITH OTHER SIMILAR ACTIVITIES

**The reporting entity and service provider should identify other assessments where controls have been identified for testing and coordinate the efforts to avoid duplication of efforts with other similar entities.** For example, agencies are required to perform reviews of financial systems under the FFMIA and the MIC Program, and information security under FISMA. Reviews performed by entities or at the entity's discretion may be used to help accomplish this assessment. This is not to suggest that the reporting entity can avoid sampling and testing control activities. Rather, an entity can use alternative sources of evidence (if available) in combination with detailed sample testing to achieve a high level of assurance.

The crosswalk in **Figure 3-7** has been developed to help facilitate the design of an integrated strategy for DoD reporting entities pursuing a state of audit readiness.

| FIAR Methodology Crosswalk to Systems Compliance Requirements | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FIAR Methodology | | | | Systems Compliance Requirements | | | | |
| Task No.[1] | Key Task | Detailed Activities | Resulting Work Product | OMB Circular A-123, Appendix A | FMFIA, FFMIA, and DoD MICP Procedures (DoD Instruction 5010.40) | DoD RMF/DIACAP | FISMA Self-Assessment (NIST SP 800.53) | DFAS Blue Book 7900.4-M |
| **1.1** | **Statement to Process Analysis** | | | | | | | |
| 1.1.1 | Overall Statement to Process Analysis | Develop process and system drill down analysis depicting asset/transaction classes, underlying processes, assessable units and sub-units and associated systems – including "as-is" and any planned "to-be" environments. | Statement to Process Analysis | ✓ | ✓ | P | P | ✓ |

| FIAR Methodology Crosswalk to Systems Compliance Requirements | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FIAR Methodology | | | | Systems Compliance Requirements | | | | |
| Task No.[1] | Key Task | Detailed Activities | Resulting Work Product | OMB Circular A-123, Appendix A | FMFIA, FFMIA, and DoD MICP Procedures (DoD Instruction 5010.40) | DoD RMF/DIACAP | FISMA Self-Assessment (NIST SP 800.53) | DFAS Blue Book 7900.4-M |
| **1.2** | **Prioritize** | | | | | | | |
| 1.2.3 | Planned Systems and Process Replacements | Develop a systems inventory list to include all current and future systems from the Statement to Process Analysis. For each system identified in the Statement to Process Analysis, identify the Operating System with version and patch level, Database Management software, Library Management software, Security Management software, Job Scheduling software, and any other audit relevant software. For ERP systems, also identify all in-scope business applications, modules, and industry solutions that reside within the ERP system boundary and collectively provide the full capabilities of the ERP. | Systems Inventory List | ✓ | ✓ | P | P | ✓ |
| 1.2.4 | Identify Financial Reporting Objectives | Identify and document entity-level controls. Identify all relevant financial statement assertion risks and corresponding Financial Reporting Objectives. | Assessable Unit Prioritization and Audit Readiness Strategy Document | ✓ | P | P | P | P |
| 1.2.5 | Document Strategy and Prioritization | Prepare an assessable unit strategy document listing all assessable units prioritized by quantitative rank and adjusted for significant qualitative factors and scoping out legacy systems and processes that will not be part of the audit ready environment. | Assessable Unit Prioritization and Audit Readiness Strategy Document | ✓ | P | P | P | P |
| **1.3** | **Assess & Test Controls** | | | | | | | |
| 1.3.1 | Prepare Process & System Documentation | Prepare systems documentation to include narratives, risk assessments and internal control worksheets documenting processes, risk control activities, IT general computer controls for significant systems, applications or micro-applications, system certifications/accreditations, system and end user locations, systems documentation location and | Process and System Documentation | ✓ | P | P | P | P |

| FIAR Methodology Crosswalk to Systems Compliance Requirements | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FIAR Methodology | | | | Systems Compliance Requirements | | | | |
| Task No.[1] | Key Task | Detailed Activities | Resulting Work Product | OMB Circular A-123, Appendix A | FMFIA, FFMIA, and DoD MICP Procedures (DoD Instruction 5010.40) | DoD RMF/DIACAP | FISMA Self-Assessment (NIST SP 800.53) | DFAS Blue Book 7900.4-M |
| | | descriptions of hardware/software interfaces. | | | | | | |
| 1.3.2 | Prepare internal control Assessment | Prepare internal control assessment document for entity-level controls and each assessable unit, summarizing control activities appropriately designed and in place. | Financial Reporting Objectives and Control Activities | ✓ | P | P | P | P |
| | | | Test Plans | ✓ | P | P | P | P |
| 1.3.3 | Execute Tests of Controls | Develop test plans and execute tests to assess the operating effectiveness of control activities for entity-level controls and assessable unit level control activities. | Test Plans | ✓ | P | P | P | P |
| 1.3.4 | Summarize Test Results | Update control assessments with the results of tests of control activities. | Test Results | ✓ | P | P | P | P |
| 1.3.5 | Identify, Evaluate & Classify Deficiencies | Determine if exceptions should be considered deficiencies in the design or operating effectiveness of control activities. Evaluate and classify deficiencies in control activities as a control deficiency, significant deficiency or material weakness. | Updated Control Assessments | ✓ | P | P | P | P |
| 1.3.6 | Submit Annual ICOFR SoA & Material Weakness CAP Summary | Submit annual ICOFR SoA memorandum and material weakness summary corrective action plans. | Annual ICOFR SoA Memorandum and Material Weakness CAP Summary | ✓ | P | P | P | P |
| **2.1** | **Design Audit Ready Environment** | | | | | | | |
| 2.1.1 | Mitigate Deficiencies in Control Activities | Define requirements and design solutions to mitigate control activities, processes and/or systems and policies. | "To-Be" Process Flows and Narratives, CONOPS, Systems Requirements, and Policies and Procedures | ✓ | P | P | P | P |
| 2.1.2 | Mitigate Deficiencies in Supporting Documentation | Define requirements and design solutions to mitigate deficiencies in supporting documentation. | Solution Document That Summarizes How Documentation Deficiencies Will Be Resolved Or Overcome | ✓ | P | P | P | P |

| FIAR Methodology Crosswalk to Systems Compliance Requirements | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| FIAR Methodology | | | | Systems Compliance Requirements | | | | |
| Task No.[1] | Key Task | Detailed Activities | Resulting Work Product | OMB Circular A-123, Appendix A | FMFIA, FFMIA, and DoD MICP Procedures (DoD Instruction 5010.40) | DoD RMF/DIACAP | FISMA Self-Assessment (NIST SP 800.53) | DFAS Blue Book 7900.4-M |
| **2.2** | **Develop Corrective Actions** | | | | | | | |
| 2.2.1 | Develop Plan and Update FIP | Develop corrective actions, or update existing corrective actions, in reporting entity FIPs that will execute the “to-be” solution. | Updated “Corrective Action” Section of FIP | ✓ | P | P | P | P |
| 2.4 | Execute | Execute systems, process, controls and documentation changes included in Corrective Action Plans. | Updated FIPs | ✓ | P | P | P | P |
| **5.1** | **Review Findings** | Respond to findings, categorize and track NFRs, develop Corrective Action Plans | NFRs, Corrective Action Plans | ✓ | P | P | P | P |
| ✓= FIAR Methodology Fully Satisfies Applicable Systems Compliance Requirements<br>P = FIAR Methodology Partially Satisfies Applicable Systems Compliance Requirements | | | | | | | | |
| [1] This crosswalk does not contain the complete listing of tasks from the FIAR Methodology. It only displays key tasks and detailed activities from the FIAR Methodology that have implications for systems compliance requirements. | | | | | | | | |

**Figure 3.7 - FIAR Methodology Crosswalk to Systems Compliance Requirements**

The tasks that have been recorded on the vertical axis of the crosswalk have been identified as FIAR Methodology activities with systems compliance implications. The laws, regulations and guidance to which these activities relate have been presented on the horizontal axis. Tasks from the FIAR Methodology that do not have systems compliance implications have not been included in the crosswalk. Within the crosswalk itself, a checkmark indicates that a FIAR activity can be performed in a manner that can also satisfy a corresponding systems compliance requirement. A “P” indicates that the completion of a FIAR activity will only partially satisfy a corresponding systems compliance requirement. In instances where a FIAR activity only partially satisfies a corresponding systems compliance requirement or vice versa, incremental documentation and testing may be required. The nature and extent of the incremental activity will be determined based upon the degree of the gap that exists between the FIAR work products and the systems compliance requirement. **Service providers as well as reporting entities should refer to applicable sources of systems compliance guidance to identify the additional procedures that may be required to fully satisfy each systems compliance objective.**

A representative approach for leveraging synergies and resolving gaps would be performed in the following sequence:

- Develop and execute an integrated FIAR and systems compliance testing strategy
- Evaluate FIAR and systems compliance work completed

- Identify gaps with FIAR or systems compliance requirements
- Design and perform incremental procedures to fully satisfy remaining requirements

A ***NIST 800-53 to FISCAM crosswalk*** and corresponding ***FISCAM to NIST 800-53 crosswalk*** can be found on the FIAR Guidance website. It can also be utilized by reporting entities to identify common requirements. However, documentation and testing must be performed in accordance with the FIAR Guidance where applicable.

In addition to the crosswalks referenced above, on April 21, 2016, OUSD(C) and OCIO jointly issued a policy memo entitled *Enhanced Integration of Financial Management Requirements with the Risk Management Framework*, which incorporates audit readiness requirements into the Department's RMF process. Reporting Entities and Service Providers should follow the guidance in this policy memo to address audit readiness and sustainment for systems that impact internal controls over financial reporting. The policy can be found at: http://comptroller.defense.gov/Portals/45/documents/fiar/workproducts/Integration_of_FM_Reqs_with_Risk_Mgmt.pdf.

### IT Control Documentation

Control documentation must include specific and accurate descriptions of the **actual** control in place for each relevant FISCAM control technique. The control description should identify the individual that performs the control (by job title), the frequency of the control, and evidence (hardcopy or electronic) demonstrating the control was performed as described. These elements of the control description will be factors in determining testing techniques, sample sizes, and evidence selected for testing. **However, note that simply citing or referencing a DoD policy or procedure number does not constitute adequate documentation of internal controls. Similarly, simply copying and pasting the FISCAM control technique or NIST SP 800-53 / CNSS 1253 security control does not constitute adequate documentation of internal controls. Examples of IT control descriptions are shown in Figure 3-8**.

| FISCAM Critical Element | CNSSI 1253 / NIST SP 800-53 Security Control | FISCAM Control Activity | FISCAM Control Technique | Representative IT Control Description |
|---|---|---|---|---|
| **IT General Control** | | | | |
| AS-2: Implement effective application access controls | AC-2: Account Management | AS-2.4: Access to the application is restricted to authorized users. | AS-2.4.1: Before a user obtains a user account and password for the application, the user's level of access has been authorized by a manager and the application administrator. | Each user must submit an access request form (DD2875) to their supervisor and Information Assurance Officer (IAO) / Information System Security Manager (ISSM) for review and approval. The Information System Security Officer (ISSO) also reviews and approves the request before they provision access to the system.<br><br>Requests for certain sensitive administrative profiles would also be reviewed and approved by Core Security before they provision the access to the system. |
| **IT Application Control** | | | | |
| BP-2: Transaction Data Processing is complete, accurate, valid, | SI-9: Information Input Restrictions<br><br>SI-10: Information Input Validation | BP-2.3.1: Transactions are executed in accordance with the pre-determined parameters and | BP-2.3.1: Document processing and posting conditions (parameters and tolerances) are configured, including | The system has 4,056 automated edit checks in place covering all material transaction types. These context sensitive edits check |

| FISCAM Critical Element | CNSSI 1253 / NIST SP 800-53 Security Control | FISCAM Control Activity | FISCAM Control Technique | Representative IT Control Description |
|---|---|---|---|---|
| and confidential. | SI-11: Error Handling | tolerances, specific to entity's risk management. | system errors and actions, if the conditions are not met. | for multiple criteria including duplicate batches and transactions, date and period checking, and entered amounts. The system has 395 standard reports available for use in analyzing the status of transactions processed.<br><br>The input sub-system performs many of the same edits and issues warning messages to alert users if they enter incorrect or incomplete data. The input sub-system also makes extensive use of drop-down selection lists to facilitate the entry and selection of valid input options. In the event that a user ignores input sub-system warning messages and the transaction is submitted, it would be subject to the standard system edits.<br><br>The input sub-system also uses pre-fill technology to automatically populate certain data fields once key identifier information is entered. |

**Figure 3-8. Representative Example IT Control Descriptions**

### Identify Who Will Perform The Testing

Once the reporting entity or service provider has determined what control activities have been assessed by other reviews, in full or in part, management must determine who will perform the remaining tests of control activities**.**

The entity may evaluate the operating effectiveness based on procedures such as:

- testing of control activities by quality control or internal control organizational units,
- testing of control activities by contractors under the direction of management,
- using service organization reports,
- inspecting evidence of the application of control activities, or
- testing by means of a self-assessment process that might occur as part of management's ongoing monitoring process.

In every case, reporting entities must take responsibility for the work including determining whether:

1. Persons who perform the work have the necessary competence and objectivity, (i.e., personnel performing the test should not be the person responsible for performing the control activity or report directly to the person performing the control activity), and

2. Procedures provide evidence sufficient to support management's assertion and annual Internal Controls over Financial Reporting (ICOFR) Statement of Assurance (SoA) memorandum.[19]

## Execute Tests of Controls

Reporting entities and service providers should develop formal test plans to facilitate review and approval of test procedures and results by interested parties. Refer to the FIAR Guidance website for an example of a completed *test plan*. The execution of the test plans should include consideration of the nature, extent (including sampling technique), and timing of the controls tests.

### Nature of Tests

Tests of controls can be classified into four categories: inquiry, observation, examination, and re-performance. These categories are described below:

- Inquiry tests are conducted by making either oral or written inquiries of reporting entity personnel involved in the execution of specific control activities to determine what they do or how they perform a specific control activity. The inquiries are typically open-ended. Evidence obtained through inquiry is the least reliable evidence and should be supplemented with other types of control tests (observation or inspection). Inquiry regarding a control's effectiveness does not, by itself, provide sufficient evidence about whether a control activity is operating effectively. The reliability of evidence obtained from inquiry depends on factors such as:
  - The competence, experience, knowledge, independence, and integrity of the person of whom the inquiry was made – evidential reliability is enhanced when the person possesses these attributes,
  - Whether the evidence was general or specific – specific evidence is usually more reliable than general,
  - The extent of corroborative evidence obtained – evidence obtained from several reporting entity personnel is usually more reliable than evidence obtained from only one, and
  - Whether the evidence was provided orally or in writing – evidence provided in writing is generally more reliable than evidence provided orally[20].
- Observation tests are conducted by observing reporting entity personnel performing control activities in the normal course of their duties. Observation generally provides highly reliable evidence that a control activity is properly applied during the period of observation; however, it provides no evidence that the control was in operation at any other time. Consequently, observation tests should be supplemented by corroborative evidence obtained from other tests (such as inquiry and inspection) about the operation of control activities at other times. However, observation of the control activity provides a higher degree of assurance than inquiries, and may be an acceptable technique for assessing automated controls[21].
- Examination of evidence is often used to determine whether manual control activities are being performed. Inspections are conducted by examining documents and records for evidence (such as the existence of initials or signatures) that a control activity was applied to those documents and records. When using examination to perform tests of controls, reporting entities should note the following:
  - System documentation, such as operations manuals, flow charts, and job descriptions, may provide evidence of control design but do not provide evidence that control activities are operating or applied consistently. To use system documentation as evidence of effective control activities, the reporting entity should obtain additional evidence to understand how the control activities were applied.

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[19] Derived from PCAOB AS 5

[20] Definition adapted from the FAM, Section 350.

[21] Ibid.

- Because documentary evidence generally does not provide evidence concerning how effectively the control was applied, the reporting entity should supplement inspection tests with observation or inquiry of persons applying the control. For example, the reporting entity generally should supplement inspection of initials on documents with observation or inquiry of the individuals who initialed the documents to understand the procedures they followed before initialing[22].

- Re-performance of the control activity is necessary for the reporting entity to obtain sufficient evidence of its operating effectiveness. For example, a signature on a voucher package to indicate approval does not necessarily mean the person carefully reviewed the package before signing. The package may have been signed based on only a cursory review (or without any review). As a result, the quality of the evidence regarding the effective operation of the control might not be sufficiently persuasive. If that is the case, the reporting entity should re-perform the control (e.g., by checking prices, extensions, and additions) as part of its testing. In addition, reporting entity personnel might inquire of the person responsible for approving voucher packages to understand what he or she looks for when approving packages, and how many errors have been found within voucher packages. Reporting entity personnel also might inquire of supervisors whether they have any knowledge of errors that the person responsible for approving the voucher packages failed to detect. Because reporting entity personnel are re-performing a control, it is not necessary to select high dollar value items for testing or to select different types of transactions.

Combining two or more of these test techniques provides greater assurance than using only one testing technique. The more significant the account, disclosure, or process and the greater the risk, the more important it is to ensure the evidence extends beyond one testing technique. The nature of the control also influences the nature of the tests of controls. Most manual control activities are tested through a combination of inquiry, observation, examination, or re-performance. This is illustrated in **Figure 3-9**.


**Figure 3-9. Relative Level of Assurance by Nature of Test**

## Extent of Testing

The extent of testing of a control activity will vary depending on a variety of factors, including whether a control activity is automated or manual.

### Testing of Manual Control Activities

Tests of manual control activities (control activities performed manually, not automated in the system) should include a mix of inquiry, observation, examination, or re-performance. Inquiry alone does not provide sufficient evidence to support the control activity's operating effectiveness. Effective testing generally requires examining the application of a control activity at a particular location many times (referred to as "sampling"). Inherent to sampling is the risk that the control is not operating effectively at all times, although the reporting entity may find nothing amiss in the samples (resulting in a conclusion that a control is operating effectively). Sampling risk should be minimized by selecting a sufficient number of items to test (e.g., using either statistical or judgmental sampling). Sampling risk increases with the frequency of the control's execution.

The CFO Council, Implementation Guide for OMB Circular A-123, Appendix A provides guidance for determining sample sizes, based on the frequency of a control activity, that will support a conclusion that a manual control activity is operating effectively. The CFO Council's guidance has been included in **Figure 3-10** along with an acceptable number of deviations that reporting entities can use only for audit readiness purposes (last column). The Department has determined that for certain sample sizes, a larger

[22] Ibid.

number of deviations from that accepted by the CFO Council's guidance will be acceptable for audit readiness purposes. However, management must accept the implications of sampling risk and understand that testing under a financial statement audit will be more rigorous and allow fewer or no deviations. Entities must document the justification of the sample size used for testing if it differs from the guidance provided in **Figure 3-10**.

| Frequency | Population Size | Total Sample Size | Acceptable Number of Deviations/ Tolerable Mis-statement (CFO Council)* | Acceptable Number of Deviations/Tolerable Misstatement (Audit Readiness Guidance) |
|---|---|---|---|---|
| Annual | 1 | 1 | 0 | 0 |
| Quarterly | 4 | 2 | 0 | 0 |
| Monthly | 12 | 3 | 0 | 0 |
| Weekly | 52 | 10 | 0 | 1 |
| Daily | 250 | 30 | 0 | 3 |
| Multiple Times per day | Over 250 | 45 | 0 | 5 |

*Represents acceptable number of deviations to most likely be used by an auditor when performing an audit.

**Figure 3.10 - Frequency of Control Activity Determines Sample Size**

For control activities that occur many times each day, the sample size noted in **Figure 3-10** is consistent with the sampling guidance included in the GAO/PCIE Financial Audit Manual (FAM), Section 450, *Sampling Control Tests,* Figure 450.1, Table 1 for populations over 2,000 items. Using this sample size will derive a 90 percent confidence level when zero deviations are identified.

For controls applied many times a day or ad hoc controls that are not over 2,000 items, consistent with guidance included within FAM section 450,[23] the reporting entity may consult a statistician (or personnel qualified to perform sample selections and interpret results) to calculate a reduced sample size and to evaluate the results. The effect is generally small unless the sample size per the table is more than 10 percent of the population.

### Testing of Automated Control Activities

The GAO has developed and published its Federal Information System Controls Audit Manual (FISCAM) to describe (1) an audit methodology for assessing the effectiveness of IT controls, and (2) the information technology (IT) controls that auditors evaluate when assessing the confidentiality, integrity, and availability of information and information systems. FISCAM includes testing of IT controls necessary for financial statement audits including select requirements from FMFIA, FFMIA and FISMA.

The following diagram in **Figure 3-11** illustrates the integration between the FIAR audit readiness strategy and applicable laws, regulations and policies.

[23] Refer to FAM, Section 450, footnote 2

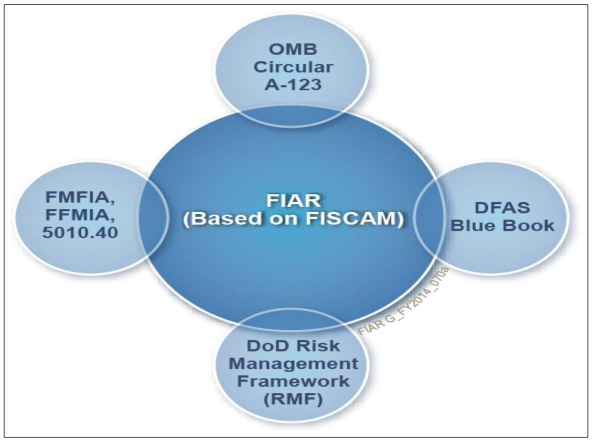


**Figure 3-11. Integrated Audit Readiness Strategy**

The FIAR Directorate has identified the specific FISCAM control activities and techniques needed to address the key internal controls over financial reporting for those risk areas most likely to impact financial reporting based on the Department's experience. **Reporting entities must ensure that the requirements set forth in GAO's FISCAM are met for the systems that are necessary to achieve financial improvement and audit readiness.** The remaining FISCAM control activities (identified as "Other Control Techniques for Consideration in a Financial Statement Audit") should be considered by reporting entities when evaluating federal financial systems' compliance with laws and regulations (outside of audit readiness). A summary listing of ***FISCAM control activities and techniques*** can be found on the FIAR Guidance website. While the FISCAM is typically applicable only to Federal financial statements audits, the Department is using this guidance to help predict and address potential key IT risks before the F/S audit commence.

When testing automated controls, the reporting entity or service provider: (1) ensures ITGCs are effective and (2) performs a detailed review of the control activities within the computer applications (e.g., a pre-implementation or a post-implementation review). It is management's responsibility to ensure that the automated control activities are working as designed and that there are alternative methods that may be used to accomplish this objective, such as reviewing program code, performing walkthroughs of transactions, observing and confirming that all relevant transaction types and error conditions are covered, etc. For third-party software solutions (e.g., enterprise resource planning systems), the reporting entity should validate that the solution has been configured to include expected automated controls and there is a control process over future changes to configurable parameters. For custom-developed or in-house applications, more extensive procedures may be required to validate the design of the control activity. However, if independent verification and validation (IV&V) testing of changes have been performed for custom- or in-house developed programs, management should evaluate the level of reliance, if any, that can be placed on these procedures.

For an automated control activity, the number of items tested can be minimal (one to a few items); assuming ITGCs have been tested and found to be operating effectively. A common example of an automated control is an edit check activated during data entry. For example, if a request is entered to pay an individual, the timekeeping and/or payroll system(s) would check to see if an SSN exists for the employee before processing the transaction. If the SSN is not in the system, an error message will be displayed and the pay request will not be processed. Each attribute of the automated control activity must be tested for design effectiveness and if determined to be designed effectively, the control activity will then need to be tested for operating effectiveness. In this example, a baseline understanding should be obtained that will determine whether the edit check controls are designed effectively to work under all circumstances. If the control activity is effectively designed, then the operating effectiveness should be tested by entering a few different invalid entries. In some cases, management override procedures may allow an automated control activity to be circumvented. The override capability should be evaluated to assess potential internal control deficiencies.

**Reporting entities must ensure adequate entity-level and application-level ITGCs and automated application controls are in place or appropriate corrective actions are developed and implemented.**

In addition, if reporting entities are implementing an Enterprise Resource Planning (ERP) system, or engaging in other system modernization efforts, and the system is a solution for resolving audit impediments, the reporting entity should map known process and control weaknesses to the new system's requirements to ensure that the new system will adequately address the impediment. For example, reporting entities with environmental liability material weaknesses should reference the Deputy Under Secretary of Defense Installations and Environment (DUSD (I&E)) Environmental Liability business process reengineering requirements for mapping to their ERP system and control objectives provided as FROs.

SSAE No. 16 will be superseded by SSAE No. 18 (AT-C 320) for SOC reports dated later than April 30, 2017. The illustrative control objective examples included in the AICPA SSAE No. 16 Implementation Guidance should continue to be used until SSAE No. 18 Implementation Guidance is published by the AICPA. Additional information on the types of SOC reports is provided in 4.B.3. When IT General and Application Controls are included in the scope of the SSAE No. 18 (AT-C 320) examination, use the FISCAM as a reference when defining control objectives. A recommended list of standardized control objectives for SOC examinations, aligned to the FISCAM, is presented in **Figure 3-12**.

| **IT General Control Objectives (CO)** |
|---|
| **Security Management** |
| Controls provide reasonable assurance that management has established, implemented, and monitors <***application***> security management programs. |
| **Access Controls** |
| Controls provide reasonable assurance that logical access to <***application***>, as well as logical and physical access to <***application***> (programs and data) is reasonable and restricted to authorized individuals. |
| **Configuration Management** |
| Controls provide reasonable assurance that changes to <***application***>, application programs and database structures are authorized, tested, implemented and documented. |
| **Segregation of Duties** |
| Controls provide reasonable assurance that management has identified, periodically reviewed, and mitigated risks of incompatible duties across <***business operations and IT operations***>. |
| **Contingency Planning** |
| Controls provide reasonable assurance that contingency planning, back-up and recovery procedures exist for <***application***> and are tested on a periodic basis. |
| **Business Process Control Objectives (CO)** |
| **Setup** |
| Controls provide reasonable assurance that <***assessable unit transaction / master data***> are authorized, set up, and updated completely, accurately, and timely. |
| **Input** |
| Controls provide reasonable assurance that <***assessable unit transactions***> are received from authorized sources and are input into the application completely, accurately and timely. |
| **Processing** |
| Controls provide reasonable assurance that <***assessable unit transactions***> are processed completely, accurately, and timely; deviations from the schedule |

| |
|---|
| are identified and resolved timely. |
| **Output** |
| Controls provide reasonable assurance that <***assessable unit outputs***> are authorized and transmitted completely and accurately, and are processed timely. |

**Figure 3-12. IT General and Business Process Control Objectives**

For additional information, refer to the FIAR Guidance website for FISCAM control activities and techniques that are highly relevant for addressing key financial reporting risk areas and other ***FISCAM control activities and techniques*** that should be considered by reporting entities and their service providers in their audit readiness efforts.

### Complementary User Entity Control Considerations

Complementary user entity controls are those controls that management of the service provider, in designing the service(s) provided, assumes are implemented by the user/reporting entity. The reporting entity must coordinate with the service provider to understand the service provider's user control assumptions and test those controls to ensure that they are operating effectively. Complementary user entity control considerations should relate to the control objectives specified in management's description of the service provider system.

Typical control activities the reporting entity should implement to complement the controls of the service provider include, but are not limited to:

- Control activities that provide reasonable assurance that any changes to processing options (parameters) requested by the reporting entity are appropriately authorized and approved.
- Control activities that provide reasonable assurance that output received from the service provider is routinely reconciled to relevant reporting entity control totals.
- Control activities that provide reasonable assurance over passwords needed to access the systems reside at the service provider through reporting entity controlled computer terminals of network or service provider.

### Sampling Technique

**Once the sample size has been determined, the entity or service provider should identify a sampling technique to select the items to be tested.** When applying the FIAR Methodology, the following two sampling techniques are recommended:

- Random: Provides a method to ensure that all items in the population have an equal chance of being selected.
- Haphazard[24]: Provides a method for selecting a representative sample without relying on a truly random process. Sample items should be selected without any conscious bias.

The reporting entity or service provider should make every effort to use random sampling. To select a random sample, the entity can use random number tables, random numbers generated in software such as Microsoft Excel, or random selection offered by sampling software. When using haphazard selection, be careful to avoid distorting the group of transactions picked for testing by purposely selecting certain types of transactions, such as unusual or large dollar transactions.

### Consideration of Locations

When selecting a sample, consideration should be given to the location of the control activity (where the control activity is in place), and how the control activity is implemented. The Statement to Process Analysis (Activity 1.1) performed during the *Discovery Phase* should assist the entity in determining which

[24] A haphazard sample is a sample consisting of sampling units selected without conscious bias, that is, without any special reason for including or excluding items from the sample. It does not consist of sampling units selected in an arbitrary manner; rather it is selected in a way the auditor expects to be representative of the population.

location should be included within the sample based on quantitative and qualitative considerations (i.e., individually important locations).

Where control activities are implemented across many locations in a standardized manner and are routine in nature, the reporting entity should consider selecting one sample across all of the individually important locations. However, if the entity determines that control activities in place to meet an assessable unit's FRO differ at each location or the method of implementation differs at each important location, separate samples should be selected for each location.

### Timing of Procedures

The time period over which the reporting entity or service provider tests its control activities must be sufficient to determine operating effectiveness as of the date of the assertions, (i.e., audit readiness assertion when applicable and/or ICOFR SoA). The entity should perform testing in increments throughout the period being asserted. **The period tested must be sufficient to enable the reporting entity or service provider to obtain adequate evidence about the control activities' operating effectiveness.** At a minimum, to make an assertion, the entity must have performed enough tests of control activities to meet the minimum sample sizes noted in **Figure 3-10**, (e.g., for a monthly control, at least three months be tested for the reporting entity to be able to conclude on the operating effectiveness of its control activity).

Various techniques are available to spread testing across a period. If attempting to obtain evidence of the effectiveness of control activities over a fiscal year, one method is to assess the sample over several quarters. For example, to reach a desired sample quantity of 45, the entity could test 15 instances in each of the first three quarters of the year.

#### Consideration of Timing for Reporting Entities or Service Provider in Sustainment

For reporting entities or service providers that have achieved audit readiness and are working to sustain their audit ready state for either one, multiple, or all assessable units, (i.e., full scale audit), the expected timing of the assessment should be at least the nine-month period covering October 1 to June 30. An entity may choose to design its assessment to cover the full fiscal year to evaluate whether corrective actions implemented earlier during the fiscal year had the desired effect, and therefore, conclude that the deficiency has been remediated and control activities are working effectively. However, entities should be mindful of the ICOFR SoA annual reporting requirements. Refer to FIAR Guidance Section 3.C for details of additional reporting requirements.

#### Testing Remediated Control Activities

If remediated or new control activities have been implemented during the year or there have been significant changes in the design or application of existing internal control activities during the year (e.g., internal control enhancements or changes addressing deficiencies detected during interim or prior year testing), the reporting entity or service provider must assess the control activity's design and test operating effectiveness of the remediated or new control activity between the time the new control activities were implemented and the end of the assertion period. This period must be sufficient to enable entity management to obtain adequate evidence to assess the operating effectiveness of the new or remediated control activity. For example, if an entity is asserting audit readiness for control activities over a fiscal year and a new monthly manual control is implemented in the middle of the fiscal year's last month, reporting entity management will not have sufficient opportunity to assess its operating effectiveness.

Once the tests of control activities are complete, the results must be documented. The testing should be sufficiently documented to allow an independent person to understand and re-perform the test. The documentation should describe the items tested (e.g., the title and date of the report, invoice numbers, check numbers), identify the person who performed the testing, and describe the test results. Please refer to the FIAR Guidance website for an example of a *test plan* with documented test results.

## Identification of Deficiencies

Management also has the responsibility to identify significant internal control deficiencies. **If an exception occurs during testing, the reporting entity or service provider must evaluate the exception to determine why it occurred.** After investigation of the exception, the entity may determine that the control activity is not operating effectively. When an exception occurs in a quarterly, monthly, or weekly control, there is a strong indication that a deficiency exists due to the small populations involved (e.g., four quarters, 12 months, or 52 weeks). Additionally, the existence of compensating controls does not affect whether an internal control deficiency exists. The factors considered when evaluating control deficiencies are *likelihood and magnitude*. These are defined as follows:

- ***Likelihood –*** Refers to the probability that a control activity, or combination of control activities, could have failed to prevent or detect a misstatement in the financial statements being audited. If it is at least reasonably possible that a misstatement could have occurred because of a missing control activity, or because of the failure of a control activity or combination of control activities, then the likelihood is more than remote. The existence of a design weakness, in and of itself, is sufficient to conclude that there is more than a remote likelihood that the control activity would not have been effective. Remote and reasonably possible are defined as follows:
    - Remote: The chance of the future event or events occurring is slight.
    - Reasonably Possible: The chance of the future event or events occurring is more than remote but less than likely to occur. Therefore, the likelihood of an event is “more than remote” when it is at least reasonably possible.

  When attempting to determine the likelihood of a misstatement the reporting entity should consider the following:
    - The nature of the financial statement accounts, disclosures, and assertions involved;
    - The susceptibility of the related assets or liability to loss or fraud, (i.e., greater susceptibility increases risk);
    - The subjectivity, complexity, or extent of judgment required to determine the amount involved (i.e., greater subjectivity, complexity, or judgment – like that related to an accounting estimate – increases risk);
    - The cause and frequency of known or detected exceptions for the control activity’s operating effectiveness;
    - The interaction or relationship of the control activity with the other control activities, (e.g., the interdependence or redundancy of the control activity);
    - The interaction of the deficiencies; and
    - The possible consequences of the deficiency.
- ***Magnitude –*** Refers to the extent of the misstatement that could have occurred, or that actually occurred, since misstatements include both potential and actual misstatements. The magnitude of a misstatement may be inconsequential, more than inconsequential but less than material, or material, as follows:
    - A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements. If a reasonable person would not reach such a conclusion regarding a particular misstatement, that misstatement is more than inconsequential.
    - The difference between a significant deficiency and a material weakness is the magnitude of the misstatement that could occur because of the failure of the control activity to prevent or detect a misstatement. If the magnitude of the actual or potential misstatement is less than material but more than inconsequential, the control deficiency is a significant deficiency. If the misstatement was material to the financial statements, the control deficiency is a material weakness. In this evaluation, it does not matter if a misstatement did not actually occur; what is relevant is the potential for misstatement.

In attempting to determine the magnitude of a misstatement, the following should be considered:

- The financial statement amounts or total of transactions exposed to the deficiency; and
- The volume of activity in the account balance or class of transactions exposed to the deficiency that has occurred in the current period or is expected to occur in future periods.

Deficiencies range from a control deficiency to significant deficiency to material weaknesses in internal control, as defined below:

- Control Deficiency – Exists when the design or operation of controls does not allow the agency's management or employees, in the normal course of business, to prevent or detect misstatements on a timely basis. (Control deficiencies are not reported externally.)
- Significant Deficiency – A control deficiency, or combination of control deficiencies, that adversely affects the reporting entity's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with Generally Accepted Accounting Principles (GAAP) such that there is more-than-remote[25] likelihood of not preventing or detecting a more-than-inconsequential misstatement of the reporting entity's financial statements (or other significant financial reports). (Significant deficiencies are not reported externally.)
- Material Weakness – A significant deficiency, or combination of significant deficiencies, resulting in a more-than-remote[26] likelihood that a material misstatement of the financial statements (or other significant financial reports) will not be prevented or detected. (Material weaknesses as well as a summary of corrective actions plans (CAPs) are reported externally in the agency financial report (AFR).

**Figure 3-13** below can be used to assess the classification of internal control deficiencies, individually or in the aggregate, after considering compensating control activities.

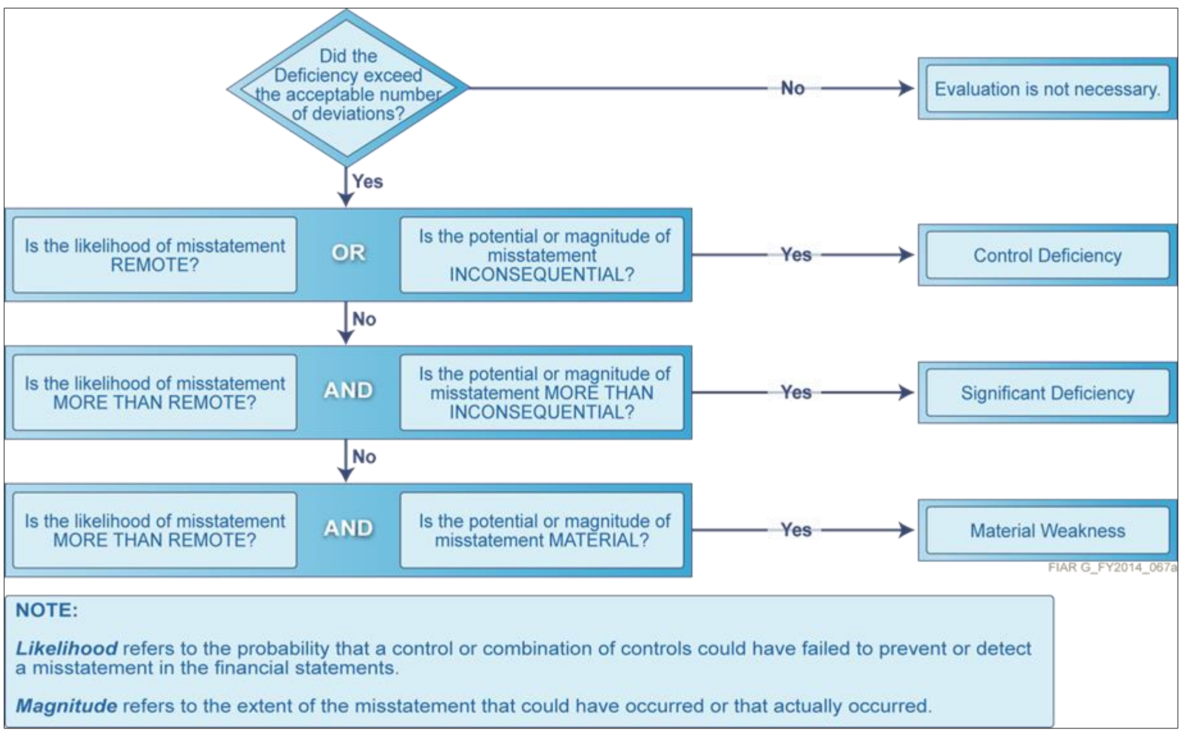


**Figure 3-13. Classification of an Internal Control Deficiency**

[25] The term "remote" is defined in Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as the chance of a future event, or events, occurring is slight.

[26] Ibid.

### Aggregation of Deficiencies and Consideration of Compensating Controls

**Reporting entities or service providers should first evaluate control deficiencies individually or in combination with other control deficiencies and then decide whether they are significant deficiencies or material weaknesses, after considering the effects of compensating controls.** A compensating control is a control activity that limits the severity of a control deficiency and prevents it from rising to the level of a significant deficiency or, in some cases, a material weakness. Compensating control activities can be preventive or detective. Its main objective is to prevent or detect errors that may not be prevented or detected by other control activities. For example, comparison of a receiving report to an approved purchase order allows the reporting entity to prevent the acceptance of an unapproved purchase. This control activity compensates for weaknesses in controls over purchases.

Compensating controls should be tested, documented, and taken into account when assessing the likelihood of a misstatement occurring and not being detected. However, the existence of a compensating control activity does not affect whether a control deficiency exists. If the reporting entity or service provider believes there are compensating controls in place that could address the financial statement assertion or risk resulting from the deficiency, it should consider and validate whether:

- the compensating control activity is effective; and
- the compensating control activity would identify an error and address the assertion.

Since a significant deficiency can be a combination of internal control deficiencies, and a material weakness can be a combination of significant deficiencies, the reporting entity must accumulate all internal control deficiencies for evaluation in the aggregate, considering whether there is a concentration of deficiencies over a particular assessable unit, or financial statement assertion. For example, assume a reporting entity or service provider has three internal control deficiencies in relation to the processing of civilian payroll. Although none of these deficiencies may individually be a significant deficiency, they could potentially rise to the level of a significant deficiency when aggregated together. The assessment of the interaction of deficiencies with each other is essentially a search for patterns (e.g., could the deficiencies affect the same financial statement accounts and assertions). The reporting entity or service provider should utilize the Summary of Aggregated Deficiency (SAD) Template to assess the likelihood and potential magnitude. Refer to the FIAR Guidance website to obtain the latest version of the *SAD Template*.

### Classification of Internal Control Material Weakness

Internal control material weaknesses previously identified by the reporting entities were classified in the Department's AFR by the financial statement line item or type of activity affected by the material weakness. In FY 2011, DoD began classifying material weaknesses by the end-to-end business processes affected by the control weakness reported in the AFR. **Therefore, reporting entities reclassified previously reported material weaknesses based on the end-to-end business processes affected by the material weakness.** Reclassifying the prior year material weaknesses provided a roll-forward in the AFR from the prior year material weakness to the material weaknesses reported in FY 2011.

**Figure 3-14** below provides a summary of the end-to-end business processes and must be used to ensure the classification is consistent among reporting entities.

| End-to-End Business Process | Process Description |
|---|---|
| Budget-to-Report | Budget-to-Report encompasses the business functions necessary to plan, formulate, create, execute, and report on the budget and business activities of the reporting entity. It includes updates to the general ledger. It also includes all activities associated with generating and managing the internal and external financial reporting requirements of the reporting entity, including pre- and post-closing entries related to adjustments, reconciliations, consolidations/eliminations, etc. |
| Hire-to-Retire | Hire-to-Retire encompasses the business functions necessary to plan for, hire, develop, assign, sustain, and separate personnel in the Department. |

| End-to-End Business Process | Process Description |
|---|---|
| Order-to-Cash | Order-to-Cash encompasses the business functions necessary to accept and process customer orders for services and/or inventory. This includes such functions as managing customers, accepting orders, prioritizing and fulfilling orders, performing distribution, managing receivables, and managing cash collections. |
| Procure-to-Pay | Procure-to-Pay encompasses the business functions necessary to obtain goods and services. This includes such functions as requirements identification, sourcing, contract management, purchasing, payment management, and receipt and debt management. |
| Acquire-to-Retire | Acquire-to-Retire encompasses the business functions necessary to obtain, manage, and dispose of DoD accountable and reportable property through the entire life-cycle. It includes such functions such as requirements identification, sourcing, contract management, purchasing, payment management, general property, plant & equipment management, and retirement. |
| Plan-to-Stock | Plan-to-Stock encompasses the business functions necessary to plan, procure, produce, inventory, and stock materiels used both in operations and maintenance (O&M) as well as for sale. |

**Figure 3-14. DoD End-to-End Business Processes**

## 3.E TESTING EXISTENCE OF SUPPORTING DOCUMENTATION (ACTIVITY 1.4.5)

**In addition to performing tests of internal control activities, reporting entities must perform tests to assess whether appropriate supporting documentation exists and is readily available to support transactions and balances.** When possible and effective, reporting entities are encouraged to select dual-purpose samples, whereby documentation demonstrating the effectiveness of internal control activities and supporting transactions and balances can be addressed with one sample. For example, a sample of invoices is selected and reviewed to determine whether the invoices:

- Contain evidence of review/approval control, and
- Support a transaction selected from the population.

Reporting entities may utilize a variety of sampling techniques to efficiently and effectively form conclusions about the entire population of transactions. Sampling techniques may be non-statistical or statistical. Non-statistical sampling is the Department's preferred sampling technique method. Non-statistical techniques for selecting samples of transactions for supporting documentation testing include:

1. Selecting a random sample from the entire population; and
2. Stratifying the population and then selecting random samples from each stratum (useful to ensure higher-risk transactions are isolated, tested and concluded upon separate from the general population).

The Department's non-statistical sampling size guidance has been included in **Figure 3-15** along with an acceptable number of deviations that reporting entities can use only for audit readiness purposes (last column). The Department has determined that for certain sample sizes, a larger number of deviations from that accepted by the CFO Council's guidance will be acceptable for audit readiness purposes. However, management must accept the implications of sampling risk and understand that testing under a financial statement audit will be more rigorous and allow fewer deviations. Reporting entities must document the justification of the sample size used for testing if it differs from the guidance provided below.

| Acceptable Number of Population Size | Total Sample Size | Deviations/Tolerable Misstatement* | Acceptable Number of Deviation/Tolerable Misstatement (Audit Readiness) |
|---|---|---|---|
| 200 or More | 55 | 0 | 5 |
| 100-199 | 44 | 0 | 4 |
| 50-99 | 22 | 0 | 2 |
| 20-49 | 11 | 0 | 1 |
| Less than 20 | 5 | 0 | 0 |

*Represents number of deviations to most likely be used by an auditor when performing an audit.

**Figure 3-15. Population Size Determines Sample Size for KSD Testing**

If the errors exceed the acceptable number of deviations, the reporting entities must design and implement corrective actions to remediate the documentation deficiency and then re- perform additional testing.

While non-statistical sampling is the preferred approach for testing transactions and/or population attributes, statistical sampling can be used when deemed more effective. Statistical sampling helps management (a) to design an efficient sample, (b) to measure the sufficiency of the audit evidence obtained, and (c) to evaluate the sample results and extrapolate the results to the population. By using statistical theory, management can quantify sampling risk to assist in limiting it to an acceptable level.

If considering the use of a statistical sample within its evaluation, the reporting entity must engage a statistician or other personnel qualified to perform the sample selection and interpret the results.

**When using statistical sampling for audit readiness purposes, reporting entities must design samples to provide a minimum level of assurance of 86 percent, consistent with a moderate risk of misstatement per FAM Table 470.1.** However, management must be aware of the implications of sampling risks associated with deriving sample sizes using a moderate risk of misstatement and understand that testing under a financial statement audit will be more rigorous as external auditors will strive to obtain a higher level of assurance (typically 95 percent).

When the testing of statistical samples is complete, reporting entities should extrapolate the results to the entire population. Reporting entities should then compare the estimated error to the materiality threshold. If the error is less than the materiality threshold, the reporting entities should consider the transactions or balances to be adequately supported. If the error is greater than the materiality threshold, the reporting entities must design and implement corrective actions to remediate the documentation deficiency, and perform additional procedures to verify that the corrective actions successfully remediated the deficiency.

**Regardless of the sampling technique utilized, reporting entities must ensure that:**

1. **The sampling technique, sample sizes, and tolerable errors are defined before selecting the sample,**
2. **All items in the population have an equal chance of being selected (through the use of random sampling), and**
3. **Samples are representative of the population; therefore, no material transactions or groups of transactions are excluded from the population.**

**When this testing is completed, as part of FIAR Methodology step 1.4.5, reporting entities must retain testing documentation to allow for review during the Assertion/Examination Phase.**

Reporting entities can refer to the GAO/PCIE FAM Section 480, *Substantive Detail Tests*, for additional information.

## 3.F DEVELOP AND IMPLEMENT CORRECTIVE ACTION PLANS

### Correcting Internal Control Deficiencies

Reporting entity and service provider managers are responsible for taking timely and effective action to correct deficiencies identified by the variety of sources discussed in 3.D.4, *Internal Control Assessment*. Upon receipt of findings from the auditors, management should perform root cause analysis and then prioritize corrective action, considering both short term and long term solutions. Management should assign corrective actions to the appropriate functional group within the organization. Assessment and correction of deficiencies are an integral part of management accountability and must be considered a priority by the reporting entity/service provider.

Corrective action plans should be comprehensive, listing the detailed actions that personnel must perform to resolve the weakness. Corrective action plans should include the following data elements at a minimum (per the Implementation Guide for OMB Circular A-123):

- A summary description of the deficiency,
- The year first identified,
- The targeted corrective action date (date of management follow-up)
- The agency official responsible for monitoring progress,
- The indicators, statistics or metrics used to gauge resolution progress to validate the resolution of the deficiency, and
- The quantifiable target or otherwise qualitative characteristic (e.g., milestone) that reports how resolution activities are progressing.

Both the military services and the ODOs should maintain CAP information at the level of detail noted above. The military services provide an update on their CAPs at summary level at the FIAR Governance Board. ODOs provide detailed updates to ODCFO monthly. For more information on CAP reporting to the FIAR Directorate, see section 2.D.

The extent to which corrective actions are tracked internally to the service/agency should be commensurate with the severity of the deficiency. CAPs should be developed for all material weaknesses and documentation gaps, and progress against plans should be periodically assessed and reported to management, who should track progress to ensure timely and effective results. For significant deficiencies, as well as simple deficiencies, not externally reported, corrective action plans should be developed and tracked internally at the appropriate level. An updated example of a corrective action plan is provided at: Summary CAP Example. In addition, a sample CAP Reporting template is provided at: CAP Reporting Template.

Management's process for resolution and corrective action of identified material weaknesses in internal control must:

- Provide for appointment of an overall corrective action accountability official from senior agency management. The corrective action accountability official should report to the agency's Senior Management Council, if applicable.
- Require prompt resolution and corrective actions.
- Maintain accurate records of the status of the identified material weaknesses through the entire process of resolution and corrective action.
- Assure that the corrective action plans are consistent with laws, regulations, and DoD policy.
- Assure that performance appraisals of appropriate officials reflect effectiveness in resolving or implementing corrective action for identified material weaknesses.

A determination that a deficiency has been corrected should be made only when sufficient corrective actions have been taken and the desired results achieved. This determination should be in writing, and along with other appropriate documentation supporting the determination, should be available for review by appropriate officials.

As managers consider Inspector General and GAO audit reports in identifying and correcting internal control deficiencies, they must be mindful of the requirements for audit follow-up included OMB Circular A-50, *Audit Follow-up*. Management has a responsibility to complete action, in a timely manner, on audit recommendations.

# 4. FIAR METHODOLOGY

## 4.A METHODOLOGY – REPORTING ENTITY

**The Methodology consists of a mandatory set of standardized phases and tasks that reporting entities must follow to achieve audit readiness.** The Methodology, shown in **Figure 4-1**, is discussed in the pages that follow.

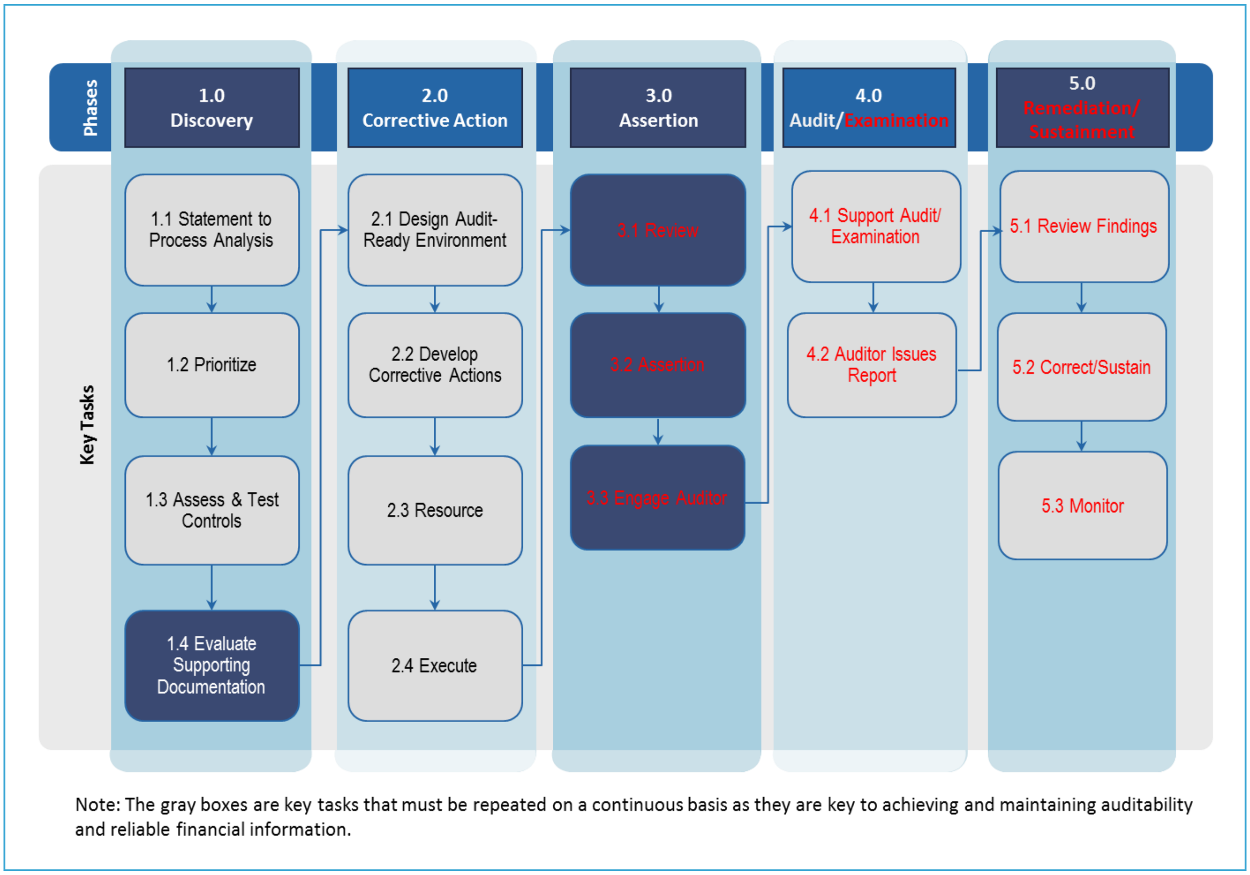


**Figure 4-1. Phases and Key Tasks to Achieve Auditability and Reliable Financial Information**

### 4.A.1 PHASES AND KEY TASKS

The Financial Improvement and Audit Readiness (FIAR) Methodology consists of a series of phases, key tasks and underlying detailed activities that reporting entities must follow to improve financial information and achieve audit readiness. **Figure 4-1** graphically depicts the phases and the key tasks within each phase.

#### Phases and Key Tasks

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

1. <u>Discovery:</u>
   a. Reporting entity documents business processes and its financial environment
   b. Reporting entity defines and prioritizes its processes into assessable units, and clearly defines the scope of its assertion and its strategy for achieving audit readiness
   c. Reporting entity identifies risks and financial reporting objectives and control activities, and tests the design and operational effectiveness of control activities

d. Reporting entity evaluates the sufficiency and accuracy of documentation to support financial transactions, account balances and financial statement line items

e. Reporting entity identifies and classifies any weaknesses and deficiencies in control activities and/or supporting documentation

f. Reporting entity submits work products to the reporting entity management for review in accordance with its Financial Improvement Plan (FIP) milestone dates; management reviews work products to ensure all audit readiness critical capabilities have been addressed, and provides feedback and recommendations on an ongoing basis

2. Corrective Action:

   a. Reporting entity defines and designs audit readiness environment, to include requirements for remediating deficiencies in internal controls and supporting documentation

   b. Reporting entity develops concrete corrective action plans (CAPs) to resolve each deficiency identified during the Discovery phase

   c. Reporting entity develops budget estimates of required resources (i.e., funding and staffing) to execute CAPs

   d. Reporting entity executes CAPs, updates its Financial Improvement Plans (FIPs), and confirms that all audit readiness critical capabilities have been addressed

3. Assertion:

   a. Management evaluates reporting entity's assertion documentation to determine audit readiness state

   b. Military Departments and Tier 2 ODOs draft their own management assertion letter; FIAR Directorate assists Tier 3 ODOs in drafting management assertion letters

   c. FIAR Directorate/DoD OIG and Reporting Entity engage auditor to perform an audit/examination of the reporting entity's financial statement/selected elements of the financial statement

4. Audit/Examination:

   a. Reporting entity supports audit or examination

   b. Auditor issues audit opinion and findings

5. Remediation/Sustainment:

   a. Reporting entities review findings

   b. Services: Report findings related to material weaknesses to FIAR Directorate[27]

   c. ODOs: Report all findings to FIAR Directorate

   d. Report audit readiness progress to FIAR Directorate via Interim Milestone Chart and NDAA scorecard

**Reporting entities are responsible for executing the key tasks and activities in the *Discovery* and *Corrective Action* phases, including developing all required assertion work products to support their audit readiness assertion for their assessable units or financial statements. Once reporting entity management validates that the reporting entity is audit ready, the FIAR Directorate or DoD OIG engages an independent auditor to perform the audit or examination of the reporting entity's financial statement(s)/selected elements of the financial statements in the *Audit Phase*.**

**Reporting entities are also required to annually prepare and submit a SoA over internal controls over financial reporting and internal control over financial systems. This is not a separate phase, but rather an annual requirement that must be performed regardless of the audit readiness status of the reporting entity. Requirements related to the submission of the annual statement of**

[27] Refer to section 6.B for further specifics regarding Services reporting responsibilities for NFRs.

**assurance, including the summary CAP, are described in Section 3.C. Please refer to the FIAR Guidance website to obtain the latest SoA FY 2016 Guidance and the *Corrective Action Plan* Template.** ODCFO will issue fiscal year 2017 revised SoA reporting guidance in the coming months to reflect the revisions to OMB Circular A-123.

The terms "audit," "examination," and "specified elements audit," used throughout this document are defined as:

- Financial statement audit (Audit) – The primary purpose of a financial statement audit is to provide reasonable assurance through an opinion (or disclaimer of an opinion) about whether a reporting entity's financial statements are presented fairly in all material respects in conformity with United States (U.S.) generally accepted accounting principles (GAAP). These audits are performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).
- Examination – Consists of obtaining sufficient, appropriate evidence to express an opinion, in accordance with GAGAS, on whether the subject matter is based on (or in conformity with) criteria[28] that are suitable (i.e., objective, measurable, complete and relevant) and available to users, in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria. See Section 2.D.2 for a discussion of management assertion and a link to a management assertion template to be used when engaging an auditor for an *Assertion/Examination Phase* audit readiness examination.
- Specified elements audit[29] – Consists of an independent auditor conducting an audit in accordance with GAGAS and AU-C Section 805 to obtain sufficient, appropriate evidence to express an opinion in connection with specific elements, accounts or items of a financial statement.

### 4.A.2 Consideration of Service Providers

Embedded within the Methodology's phases are the reporting entity's considerations of its service providers and how their activities affect its financial processes and related audit readiness.

**Reporting entities' management is responsible for the internal control over their financial information and, therefore, must ensure that they understand what financially significant activities are outsourced to service providers and the effectiveness of the service providers' related internal controls. In turn, service providers are responsible for providing a description of their controls that may affect their customer reporting entities' control environment, risk assessment, control activities, and information and communication systems.** The description of controls should be detailed enough to provide the reporting entity auditors with sufficient information to assess the risks of material misstatement. For a detailed discussion of service providers' role in the Methodology, see Section 4.B.

### 4.A.3 Assessable Units

**Reporting entities must follow the Methodology for each assessable unit.** Assessable units can vary between line items, processes, systems, or classes of assets. **As the Department moves closer to September 30, 2017, FIAR has begun to shift its focus to full financial statements audits. Accordingly, reporting entities must establish assessable units for all material financial statement line items, including SBR balances brought forward, as well as financial reporting.[30] Reporting entities should leverage work performed in previous phases to determine the extent of further testing required to assert audit readiness for all financial statement line items.** Established

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[28] "Criteria" are the standards or benchmarks used to measure or present the subject matter and against which the practitioner evaluates the subject matter. Management may establish criteria for an examination; however, practitioners will evaluate management's criteria to ensure that it is suitable, that is, relevant, measurable, complete and objective. (Source: http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00101.pdf)

[29] The SBR audit will initially be limited to a "Specified Elements Audit" since the scope will be limited to audits of "schedules" containing only current year appropriations and all related activity against those appropriations. Audits of schedules containing only current year activity will provide the opportunity to assess progress and identify any issues in a way that a disclaimer on full financial statements would not.

[30] A financial statement line item may be comprised of more than one assessable unit.

assessable units should not be duplicative or overlap. To ensure completeness of coverage, reporting entities should prepare quantitative drill downs depicting the dollar volume of activity flowing through each line item consistent with the tasks in the *Discovery Phase* key activity 1.1.2. (See also Section 2.C.4.3.) Wave-specific considerations when identifying assessable units are included in the following paragraphs.

#### *Waves 1 & 2*

The OUSD(C) pre-defined one assessable unit for the SBR, Appropriations Received, which represented Wave 1. Due to its limited scope, the OUSD(C) pre-defined this assessable unit for all reporting entities and directed them to prioritize this assessable unit to allow the Department to demonstrate immediate progress. At this time, Wave 1 should be substantially complete.

Beyond Wave 1, reporting entities had flexibility to determine their appropriate assessable units for the remainder of the SBR (Wave 2). Assessable units for the SBR may be subaccounts that make up the obligations line item, classes of financial transactions or processing systems. For example, the “Obligations Incurred” line item on the SBR is comprised of many types of financial transactions that are processed through many systems. Assessable units within the “Obligations Incurred” line item may be comprised of classes of financial transactions, such as contractor payments, military pay, and civilian pay. A Wave 2 assessable unit may be a class of transactions or it may also be all financial transactions that are processed through a particular system. Determining assessable units is a key task of preparing for auditability because the assessable units provide the focus for financial improvement efforts.

As the Wave 2 audit readiness focus has shifted to auditing the Schedule of Budgetary Activity, FIAR has developed a concern that SBR balances brought forward may present a future impediment to auditing the full SBR. Accordingly, all reporting entities must consider SBR Balances Brought Forward as a pre-defined assessable unit when executing assertion tasks.

#### *Waves 3 & 4*

For Waves 3 & 4, assessable units include the other material financial statement line items on the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position (e.g., Environmental and Disposal Liabilities, Military Retirement and Other Federal Employment Benefits, Other Liabilities, Investments, Cash and Other Monetary Assets, Other Assets, etc.) as well as Internal Use Software, a component of the G-PP&E line item on the Balance Sheet. Wave 4 assessable units may include line items, accounts or balances that were addressed in an earlier wave. Reporting entities can leverage readiness efforts performed in prior waves, but must determine whether sufficient testing was performed for both budgetary and proprietary accounts for those assessable units. It is important to note that additional testing may be required in Wave 4 to ensure complete coverage of all accounts (see Section 2.C.4 for more information on Wave 4).

### 4.A.4 Examination Scope

#### *Schedule of Budgetary Activity (SBA)*

The scope of the SBA during the first year examination will include the processes, manual and automated controls, and documentation related to funding approved for the current fiscal year only (e.g., current year funding from the related multi-year appropriation) and the related expenditure activity (e.g., obligations, outlays, etc.). Balances brought forward and prior year activities (i.e., all activities prior to October 1, 2014) are excluded from the scope of the first year SBA examination. In subsequent years, the SBA examination will include the funding for the current fiscal year as well as the expenditure activities during that year related to the funding approved on or after the start date of the first SBA fiscal year. Through each successive SBA examination, the ending audited balances carry forward to the subsequent year's “beginning balance”, thereby reducing the percentage of unaudited balances brought forward each year. This approach allows the reporting entities to focus their limited resources on mission critical tasks while continuing to demonstrate progress towards meeting the congressional mandate of achieving full financial statement auditability by Fiscal Year 2017. Please see the FIAR Guidance website for SBA Preparation Instructions.

### *Statement of Budgetary Resources (SBR) Beginning Balances Examination*

The scope of the SBR Beginning Balances examination will focus on the three "beginning balance" lines on the SBR, as follows and evaluate their state of audit readiness:

- Line 1000, "Unobligated balance brought forward, Oct. 1"
- Line 3000, "Unpaid obligations, brought forward, Oct. 1"
- Line 3060, "Uncollected pymts, Fed sources, brought forward, Oct. 1"

The examination will also evaluate the audit readiness of the complete Fund Balance with Treasury reconciliation, which should include all appropriations and all fund types for all years of appropriations included in the beginning balance SBR line items.

Testing performed during the examination will include obtaining detailed populations of items that make up each of the SBR beginning balance lines. For example, with regard to SBR line 3000, "Unpaid obligations, brought forward, Oct. 1," the detailed population would be a listing of all unpaid obligation amounts — at the contract line item level — that reconciles to the SBR line item. A sample of detail items will be selected and KSD testing will be performed to determine whether the reporting entity can support its transactions with appropriate supporting documentation.

### *Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position Examination*

The scope of the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position examination will focus on the following critical line items:

- General Property, Plant and Equipment, including Real Property, General Equipment and Internal-Use Software
- Inventory and Related Property, including Inventory and Operating Materiel & Supplies
- Environmental Liabilities
- Other line items material to the reporting entity

The examination will evaluate the processes, controls, and key supporting documentation supporting these line items. Testing performed during the examination will include evaluating the design and operating effectiveness of manual and automated internal controls over business processes, and accounting events affecting all in-scope line items. Additionally, the examination will include obtaining reconciled populations and testing a sample of transactions/balances against appropriate supporting documentation.

## 4.A.5 Detailed Activities

Key tasks are essential to accomplishing each of the five phases of the Methodology. The Methodology provides guidance to the reporting entities on the detailed activities that should be performed within key tasks that result in outcomes and work products that are essential to achieve audit readiness.

As the reporting entities prepare and execute their FIPs to accomplish the OUSD(C) priorities for budgetary and mission critical asset information, these detailed activities should be reflected in their FIPs as key tasks within the appropriate phase. See the Tools, Templates & Work Products section of the FIAR Guidance website for examples of required work products (described in **Figures 4-2 – 4-16 below**) necessary to achieving auditability and reliable financial information for the Department.

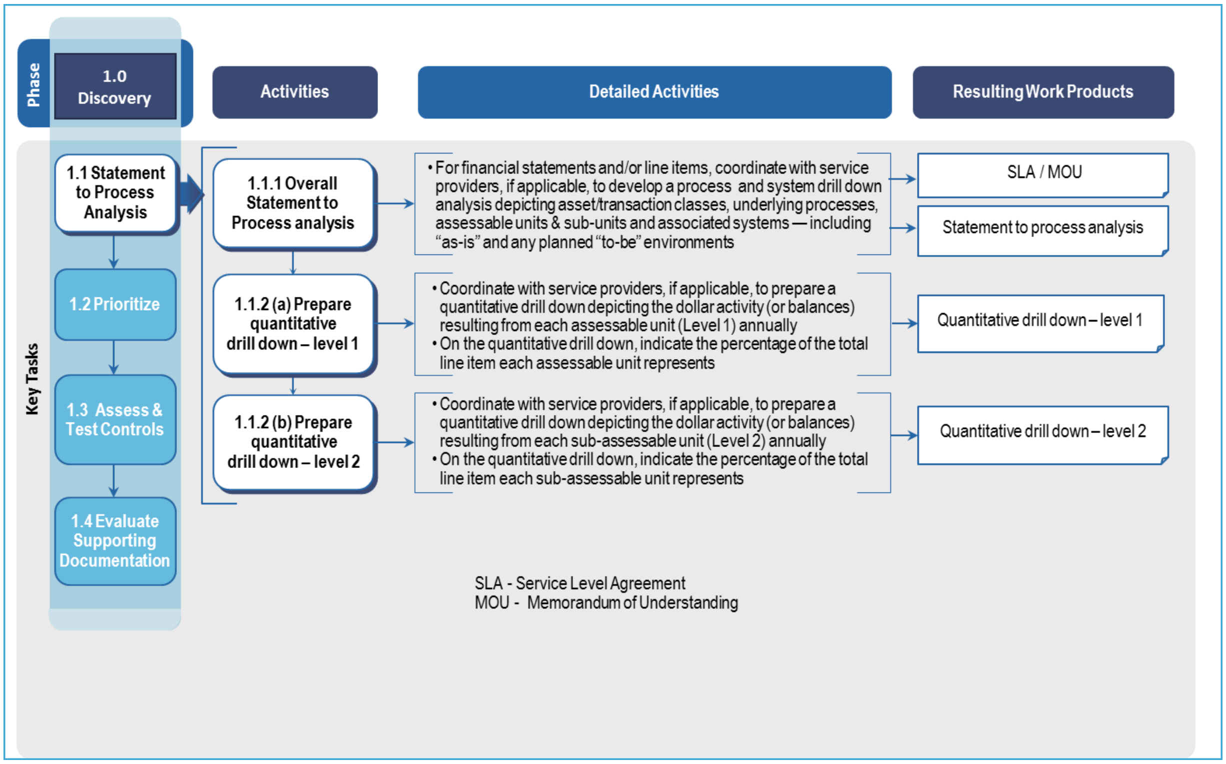


**Figure 4-2. Discovery Phase – Statement to Process Analysis**

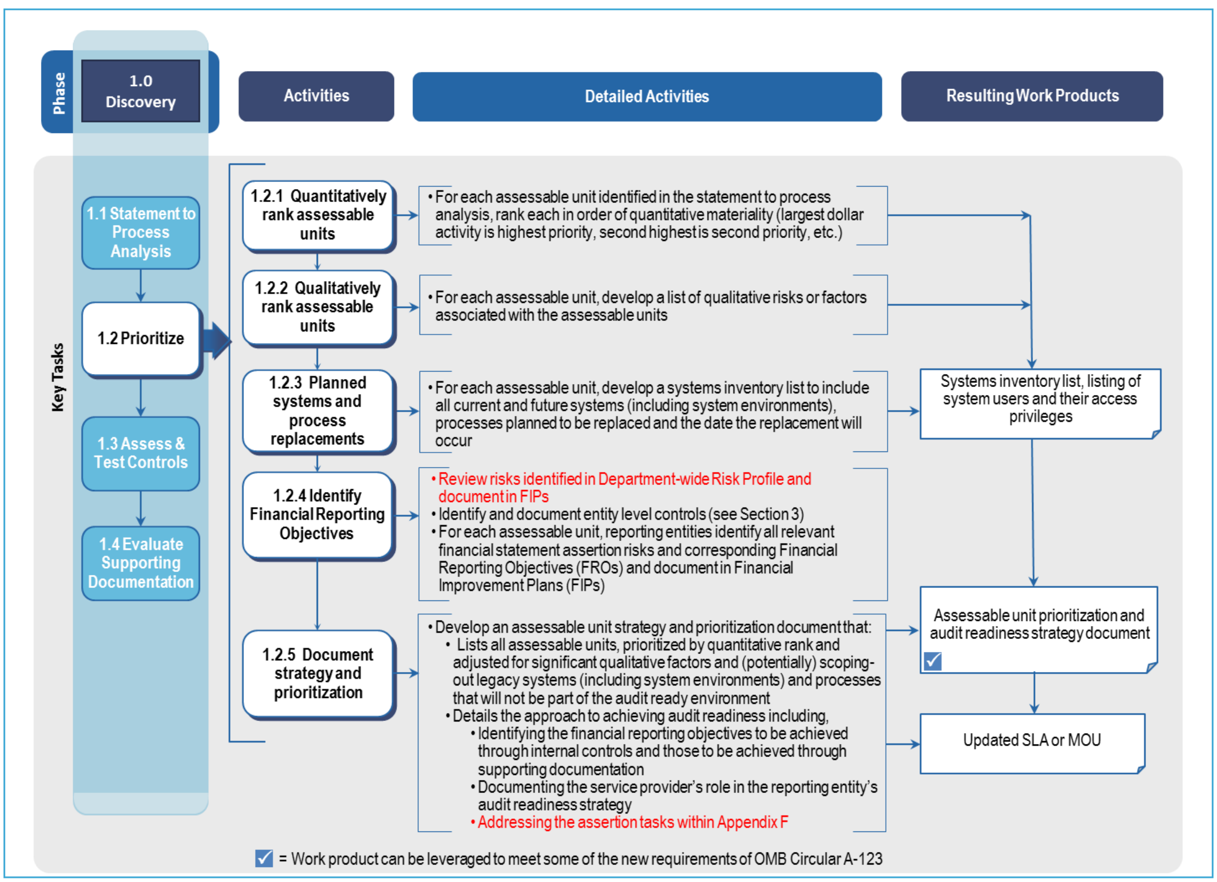


**Figure 4-3. Discovery Phase – Prioritize**

Reporting entities will be required to prepare an assessable unit prioritization and audit readiness strategy document that clearly defines the scope of their audit readiness assertion.

When defining the scope, reporting entities must:

- Provide an overall summary of the assertion
- Identify the "in-scope" processes and manual controls
- Identify the "in-scope" IT Applications, Micro-Applications and associated IT General and Application controls
- Identify the key supporting documents (KSDs) included in the assertion
- Identify the role of the service providers (including discussion of relevant SOC reports and self-review efforts)
- Identify any exclusions (processes, controls, systems) from the scope of the assertion

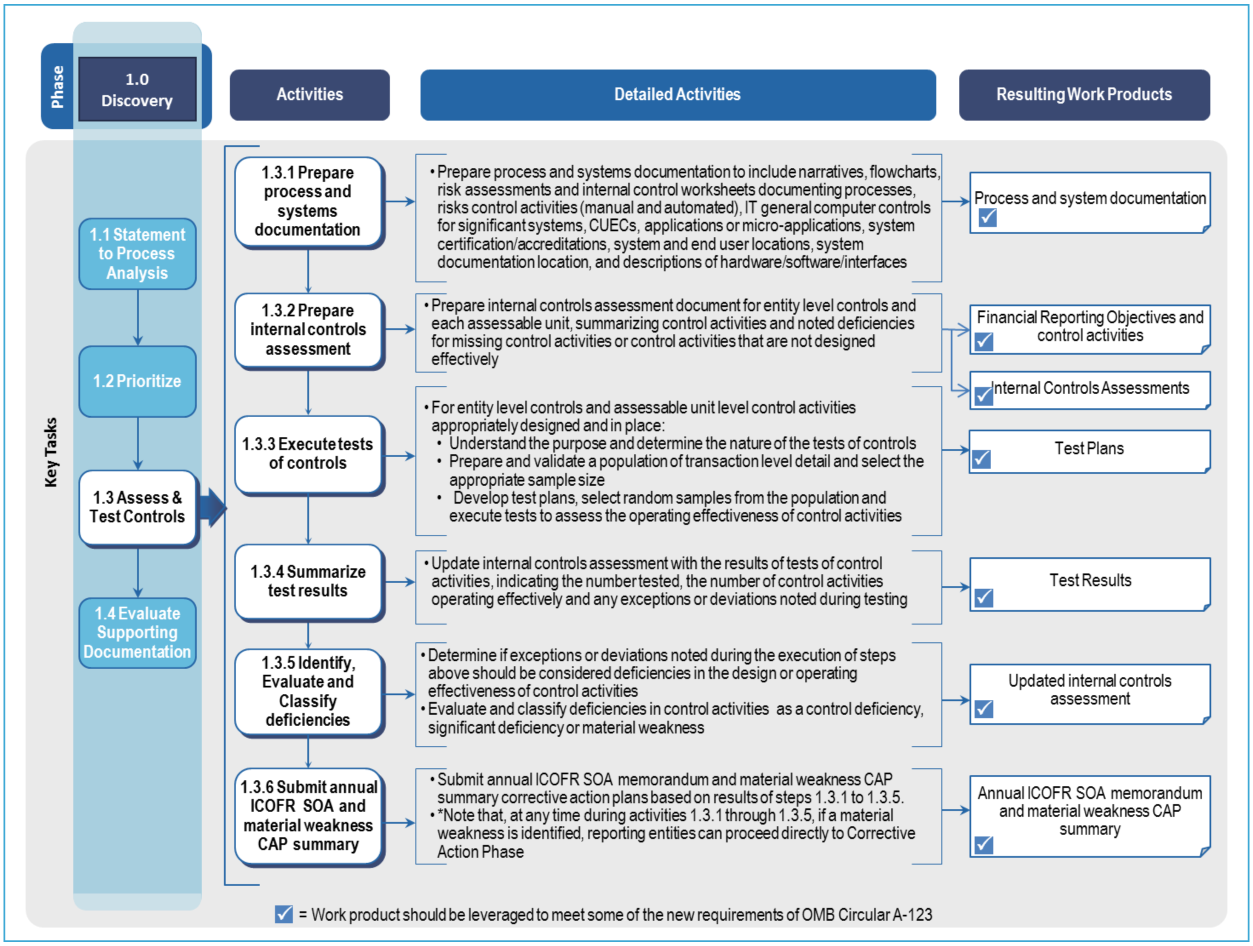


**Figure 4-4. Discovery Phase – Test Controls and Develop ICOFR Statement of Assurance**

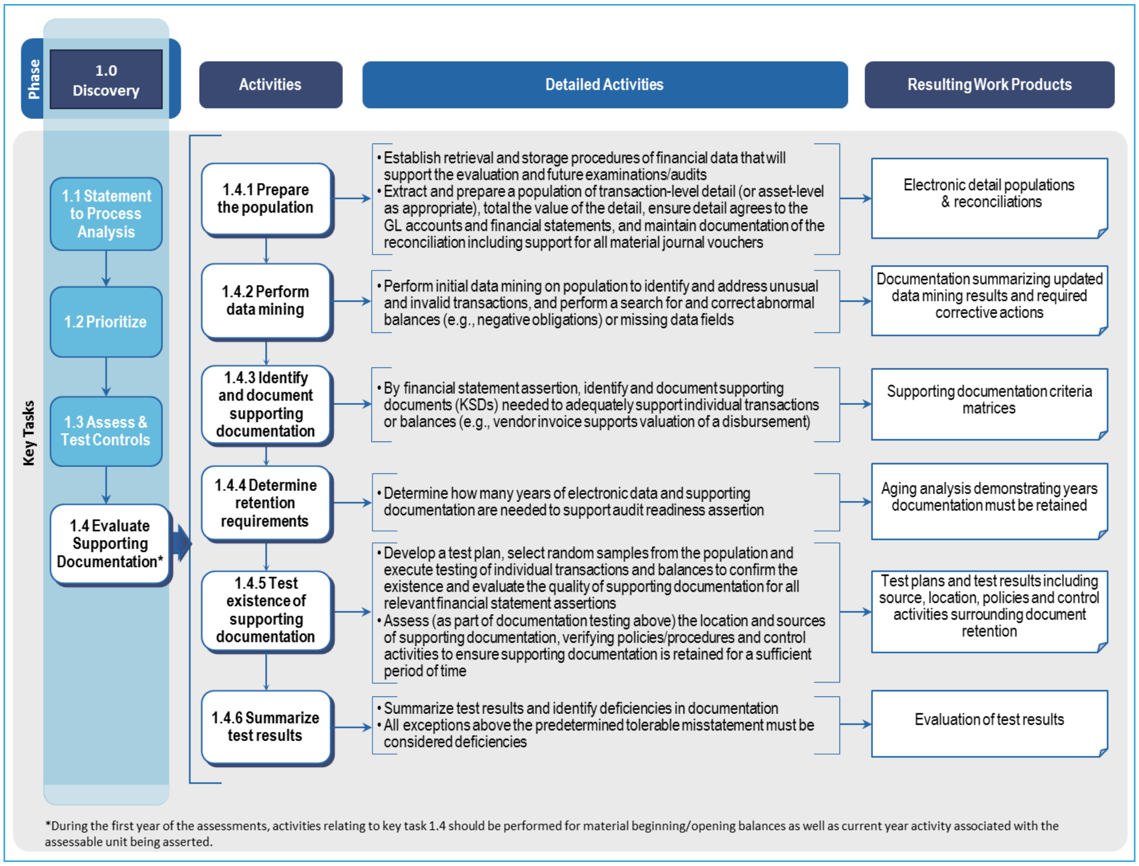


**Figure 4-5. Discovery Phase – Evaluate Supporting Documentation**

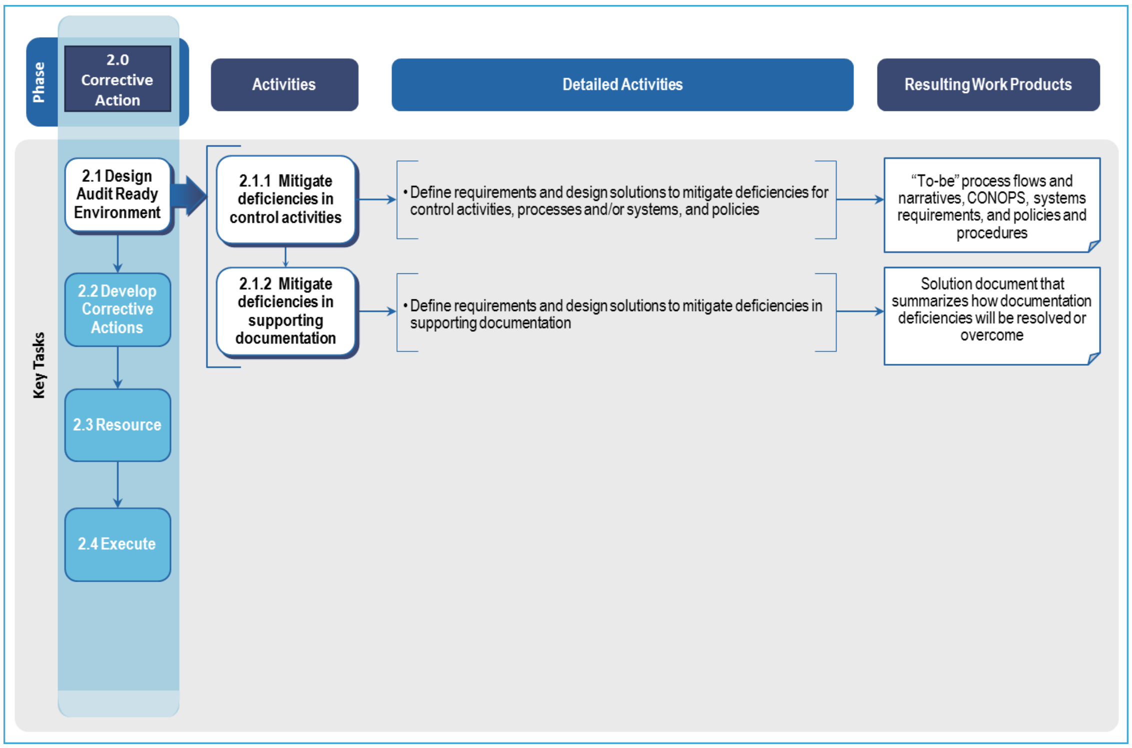


**Figure 4-6. Corrective Action Phase – Design Audit Ready Environment**

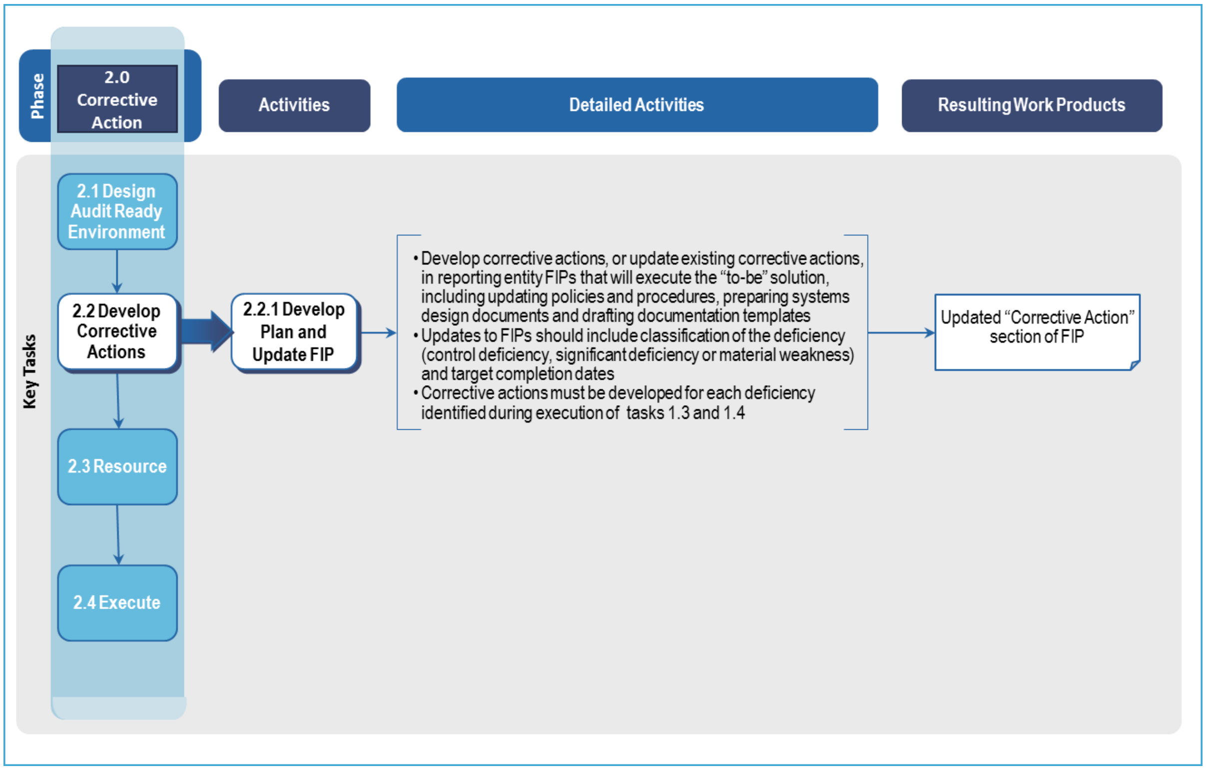


**Figure 4-7. Corrective Action Phase – Develop Corrective Actions**

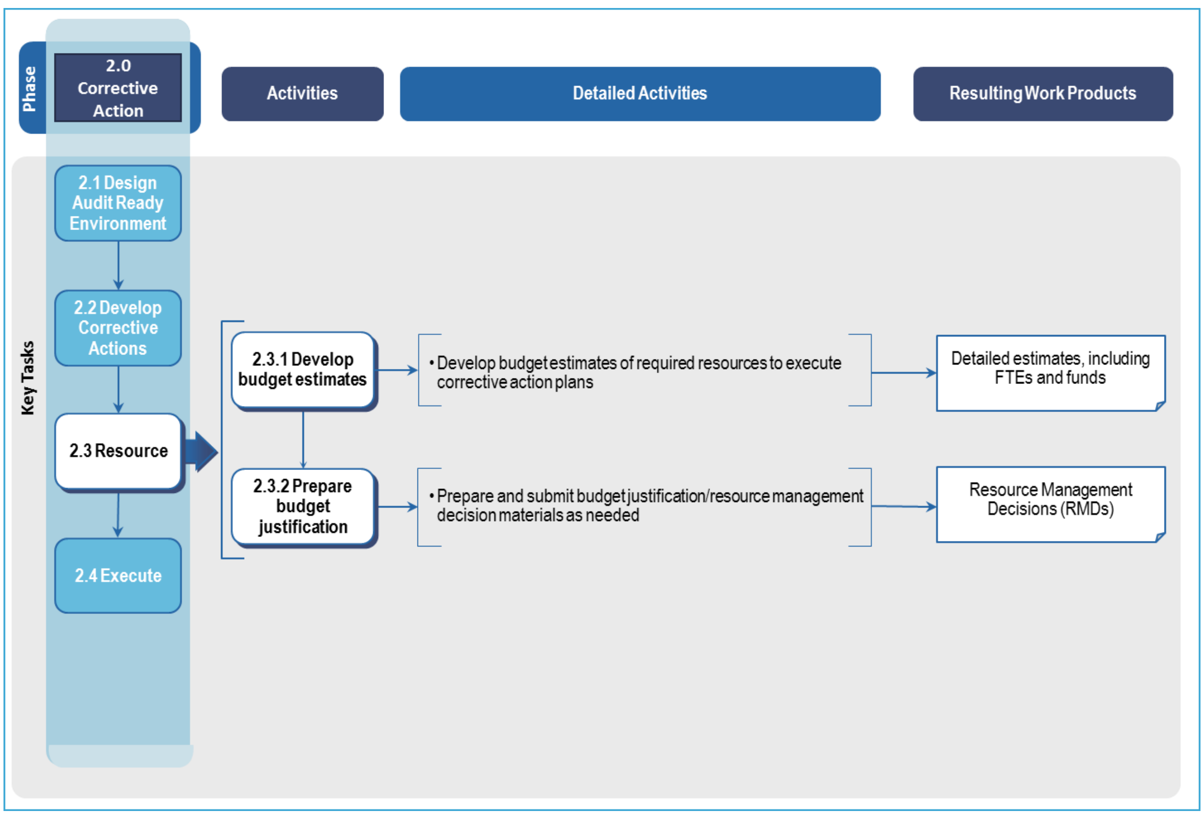


**Figure 4-8. Corrective Action Phase – Resource**

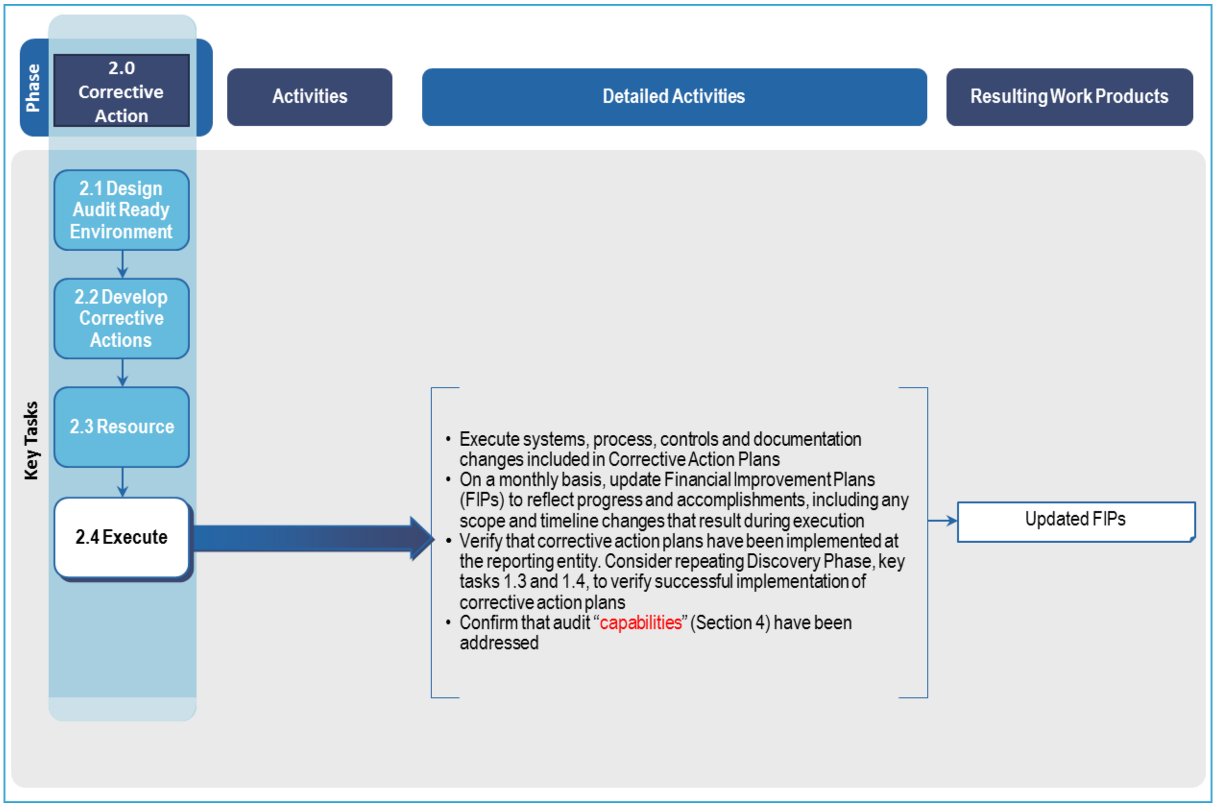


**Figure 4-9. Corrective Action Phase – Execute**

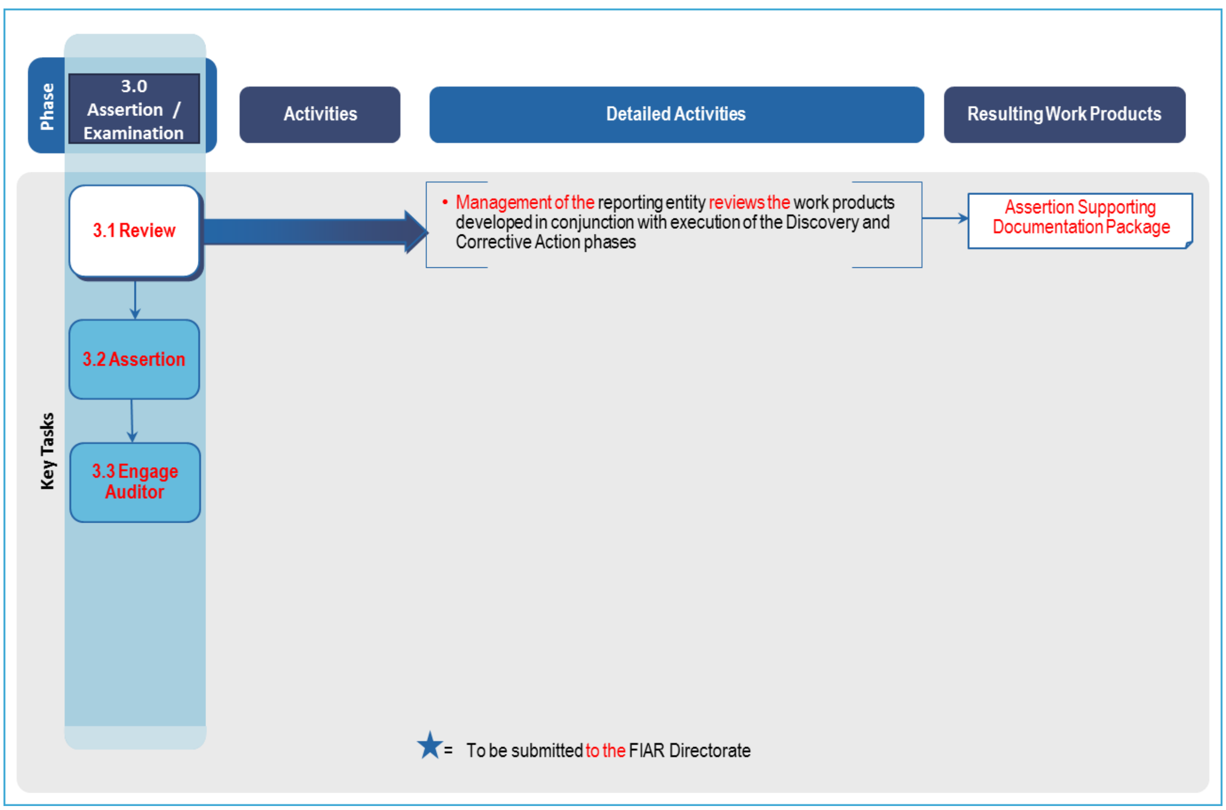


**Figure 4-10. Assertion Phase – Review**

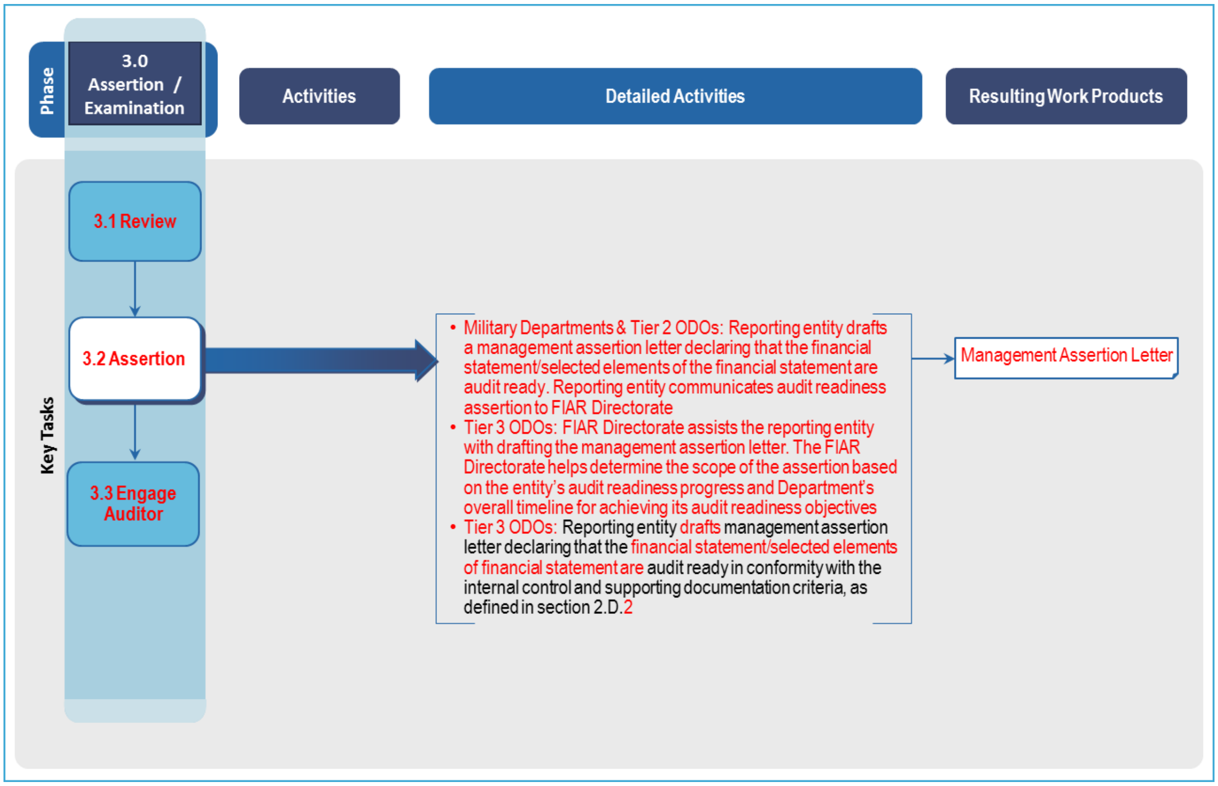


**Figure 4-11. Assertion Phase – Assertion**

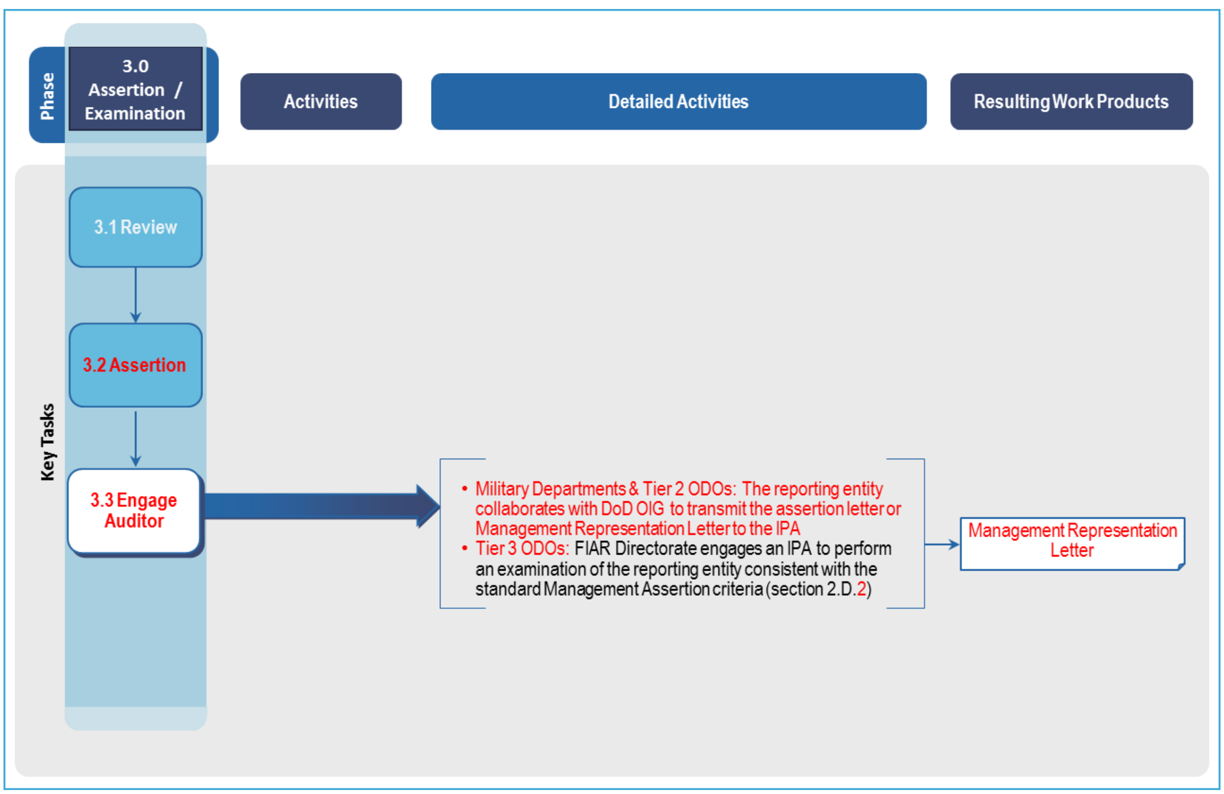


**Figure 4-12. Assertion Phase – Engage Auditor**

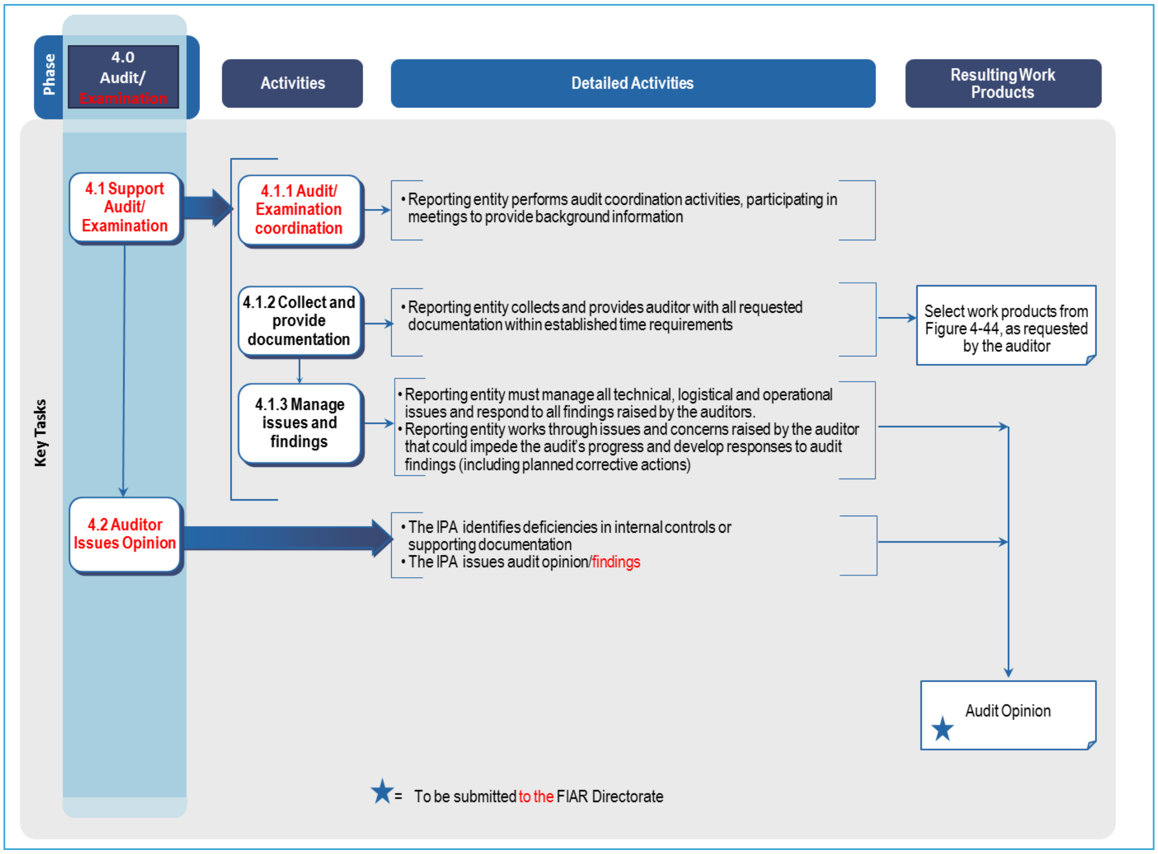


Figure 4-13. Audit / Examination Phase

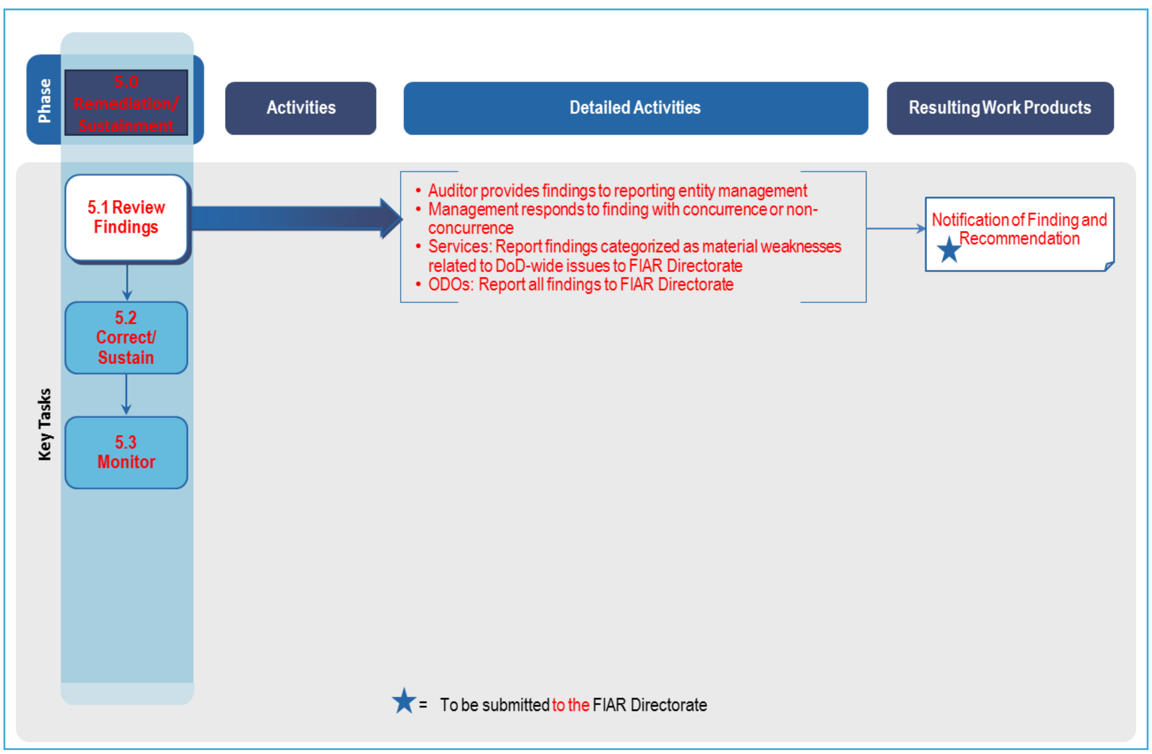


Figure 4-14. Remediation / Sustainment Phase – Review Findings

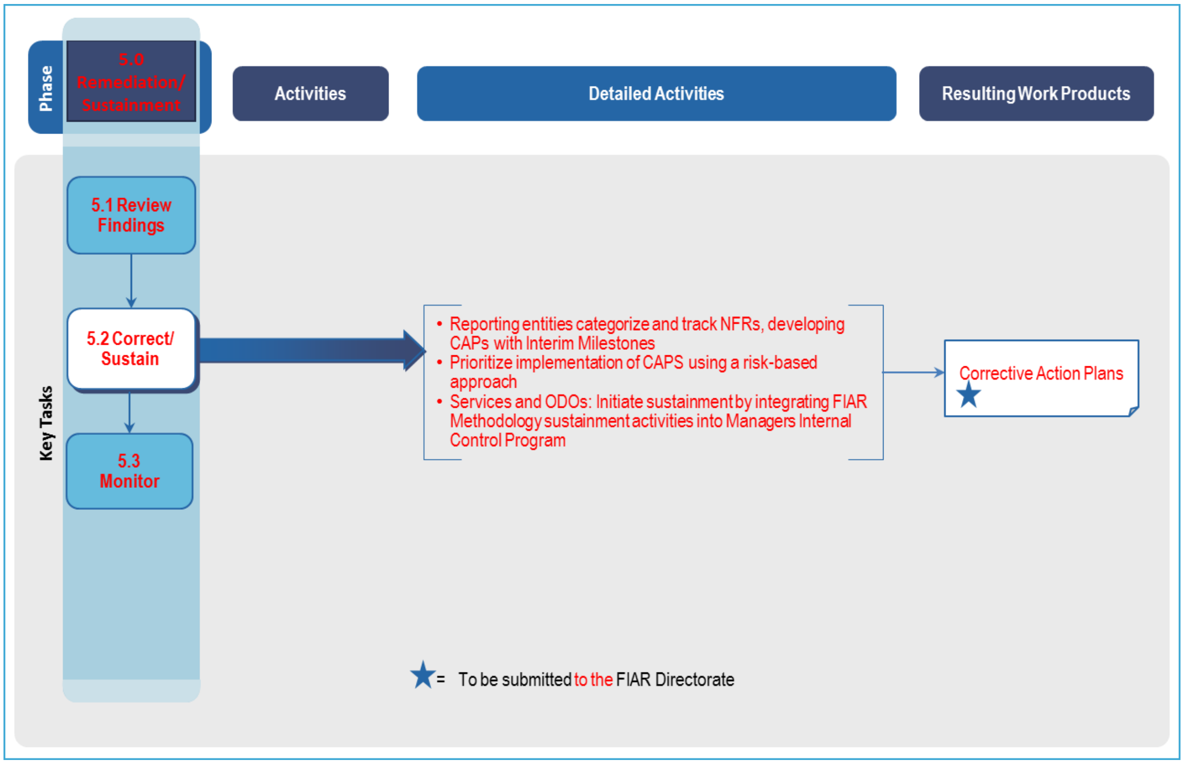


**Figure 4-15. Remediation / Sustainment Phase – Correct / Sustain**

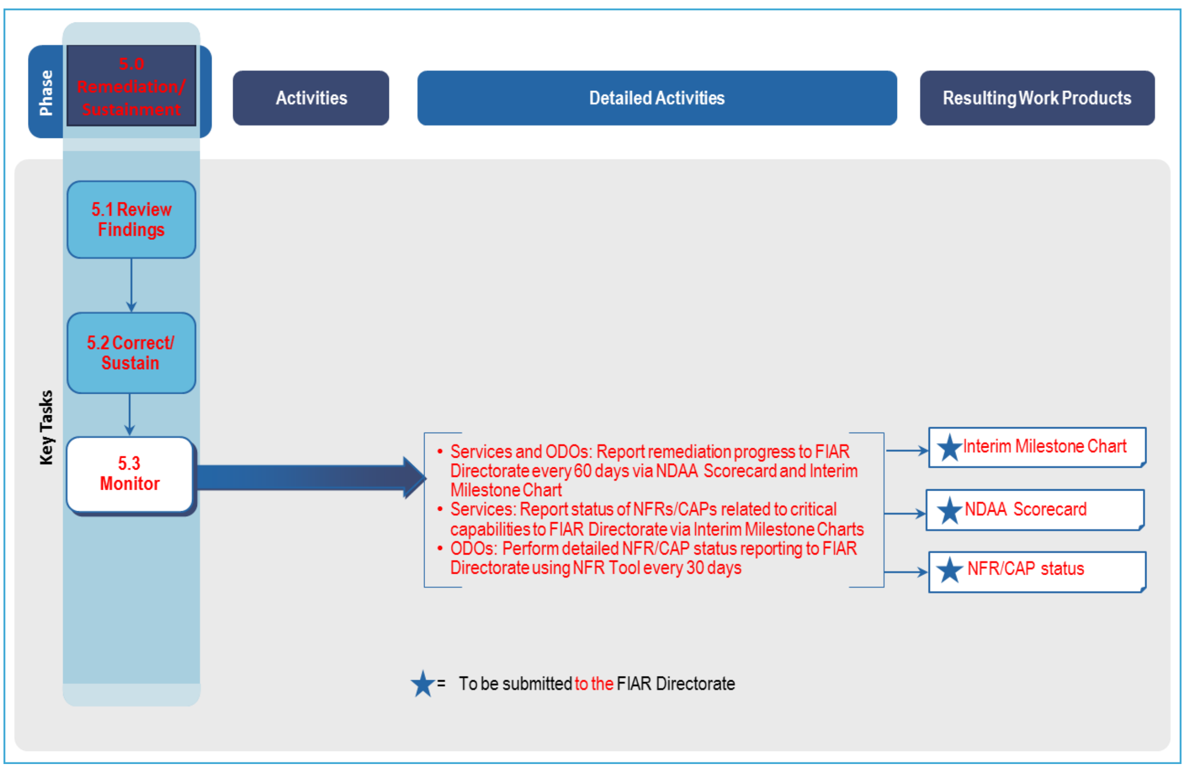


**Figure 4-16. Remediation / Sustainment Phase – Monitor**

## 4.A.6 Capabilities

**Audit readiness is defined as having the capabilities in place to allow an auditor to scope and perform a full financial statement audit that results in actionable feedback. Assertion of audit readiness is based on overall progress against the critical capabilities as defined by OUSD(C). These critical capabilities are presented below.**

To maximize the efficiency and effectiveness of audit readiness efforts, the Department has identified relevant financial reporting risks, FROs and KSDs that substantiate financial transactions and balances for waves 3 and 4; these requirements are addressed in **Section 5**.

### *Financial Reporting Objectives*

**FROs are the outcomes needed to achieve proper financial reporting and serve as a point of reference to evaluate the effectiveness of control activities, and the accuracy and sufficiency of documentation supporting transactions and account balances. Reporting entities and service providers must include and address all FROs in their FIPs by focusing on:**

#### Internal Controls

Effective internal controls mitigate risks and provide assurance that financial information is properly and accurately recorded and reported. They are critical to successful financial statement audits. Effective internal controls ensure that:

- Key risks are mitigated; and
- Financial statement assertions are achieved.

During the *Discovery Phase*, identifying and assessing the design and operational effectiveness of internal controls is necessary to understand and evaluate the effectiveness of operational business processes. Internal controls must be documented and the documentation must be readily available to evidence execution of the control activity. The documentation should be properly managed and maintained. The *Discovery Phase* includes assessments to identify inherent risks[31] and testing control activities to identify weaknesses. CAPs are developed and implemented to remediate noted weaknesses, and additional procedures are performed (i.e., repetition of key tasks 1.3 and 1.4) to verify successful implementation of corrective actions.

**Reporting entities must indicate whether they have assessed control activities that meet FROs, and whether the control activities are effective.** If they are not effective, then specific corrective action and validation tasks must be included in the reporting entity's FIP and linked to the appropriate FRO. By embedding the FROs in the FIPs and linking corrective actions to them, the Department is better assured that financial reporting deficiencies will be identified and resolved. Additionally, progress toward achieving reliable financial information and auditability can be better monitored, managed, and measured.

See **Section 3** for a full discussion of internal controls.

#### Supporting Documentation

**Reporting entities must identify and retain sufficient and accurate documentation to support individual financial transactions and accounting events prior to asserting audit readiness for each of waves 3 and 4 (i.e., Mission Critical Asset Existence and Completeness (E&C) and Full Financial Statement Audit) of the FIAR Strategy. Assessing the sufficiency and accuracy of supporting documentation is an essential FIP task and is a critical audit requirement for audit readiness assertions. In fact, the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual (GAO/PCIE FAM) states that organizations must retain documentation to support:**

1. **Balances reported in the financial statements;**

[31] The GAO/PCIE *Financial Audit Manual*, Section 260: Identify Risk Factors, Paragraph .02, defines inherent risk as "the susceptibility of a relevant assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls."

2. **Systems of internal control;**
3. **Substantial compliance of the financial management systems with FFMIA requirements;**
4. **Substantial compliance of internal controls with FMFIA requirements;**
5. **Compliance with laws and regulations; and**
6. **Required supplementary information (RSI) including any stewardship information (RSSI).**

The GAO/PCIE FAM also states that auditors performing financial statement audits must obtain sufficient audit evidence to form an opinion on an organization's financial statements.[32]

Auditors must adhere to professional standards, which have been codified as the Clarified Auditing Standards (AU-C). AU-C Section 500, *Audit Evidence*, discusses the auditor's responsibility to obtain sufficient, appropriate audit evidence from management and other sources. The line item tables in **Section 5** provide the KSD requirements for the financial statement line items in waves 3 and 4 of the FIAR Strategy.

### *Audit "Capabilities"*

Drawing on lessons learned from past audit readiness efforts, the FIAR Directorate has compiled a list of capabilities that have prevented reporting entities from succeeding in audits. **Figure 4-17** lists the audit capabilities and links each back to the detailed activities within the phases of the FIAR Methodology. Each reporting entity should assess progress toward achieving the audit capabilities prior to asserting audit readiness.

| **Audit Capabilities (includes sensitive* and non-sensitive activity)** | |
|---|---|
| **Critical Capabilities** | **FIAR Guidance Reference** |
| 1. Universe of Transactions (UT) for Schedule of Budgetary Activity, Statement of Budgetary Resources and Balance Sheet:<br>A) Ability to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems; and<br>B) Ability to reconcile population of transaction details to feeder/source/originating systems. | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the population |
| 2. Fund Balance with Treasury (FBWT), including Process and Tools to Identify, Age, and Resolve:<br>A) Differences between the General Ledgers (Proprietary and Budgetary) and Treasury (at voucher level);<br>B) Transactions posted to budget clearing accounts within 60 days ("suspense" accounts);<br>C) Transactions reported on Treasury's Statements of Differences within 30 days; and<br>D) Perform aging analysis and apply reconciliations backwards to any years possible. | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the population, Activity 1.4.2 Perform data mining |
| 3. Journal Vouchers (JVs)<br>A) Provide a Universe of Journal Vouchers that reconciles to the financial statements, and processes and tools are in place to identify, age and resolve the root cause for Journal Vouchers<br>B) Eliminate or support material JVs and other adjustments made to financial transactions, trial balances, and financial statements related to intra-departmental elimination entries;<br>C) Where Possible, Reduce the Volume and/or Dollar Value of Journal Vouchers and Other Adjustments Made to Financial Transactions, Trial Balances, and Financial Statements for All Other Journal Vouchers; and | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the population |

[32] Government Auditing Standards (Yellow Book) are the requirements for those performing Federal financial statement audits. The GAO/PCIE FAM is subordinate to the Yellow Book requirements in the event conflicts arise.

| Audit Capabilities (includes sensitive* and non-sensitive activity) | |
|---|---|
| **Critical Capabilities** | **FIAR Guidance Reference** |
| D) Eliminate or support material JVs and other adjustments made to financial transactions, trial balances, and financial statements for all other entries. | |
| 4. Existence and Completeness (E&C) and Rights of Real Property (including Construction in Progress), General Equipment (including Military Equipment), Internal Use Software and Inventory and Related Property:<br>A) Establish an auditable E&C baseline; and<br>B) Establish an auditable process for go-forward activity. | **Figure 4-4**, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation<br>**Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation<br>Section 3.E Test Existence of Supporting Documentation |
| 5. Valuation of Real Property (including Construction in Progress), General Equipment (including Military Equipment), Internal Use Software and Inventory and Related Property for Material Assets:<br>A) Establish an auditable Valuation baseline; and<br>B) Establish an auditable process for go-forward activity. | **Figure 4-4**, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation<br>**Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation<br>Section 3.E Test Existence of Supporting Documentation |
| 6. Environmental & Disposal Liabilities of Real Property for Material Liabilities:<br>A) Ability to provide a listing of environmental and disposal liabilities reconciled to the financial statements, and begin implementing a plan to establish auditable processes to support clean-up costs for environmental liabilities;<br>B)Establish an auditable process for estimating and recording environmental & disposal liabilities (DERP and non-DERP) AND demonstrate the completeness of reported EL. | **Figure 4-4**, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation<br>**Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation<br>Section 3.E Test Existence of Supporting Documentation |
| 7. Environmental & Disposal Liabilities of General Equipment and Chemical Weapons Disposal for Material Liabilities:<br>A) Ability to provide a listing of environmental and disposal liabilities reconciled to the financial statements, and begin implementing a plan to establish auditable processes to support clean-up costs for environmental liabilities;<br>B)Establish an auditable process for estimating and recording environmental & disposal liabilities (DERP and non-DERP) AND demonstrate the completeness of reported EL. | **Figure 4-4**, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation<br>**Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation<br>Section 3.E Test Existence of Supporting Documentation |
| 8. Implement Critical Information Technology General and Application Controls for Material, Financially Relevant Systems. | Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Supporting Documentation Package |

| Audit Capabilities (includes sensitive* and non-sensitive activity) | |
|---|---|
| **Additional Capabilities** | **FIAR Guidance Reference** |
| 1. Testing of transaction samples back to source documents that:<br>A) Cover all material transaction types, sub-processes and locations; and<br>B) Are extensive enough to draw conclusions consistent with the effectiveness of controls. Specifically, if controls are ineffective, sufficient substantive testing (i.e., test of details performed through statistical or valid non-statistical sampling, or substantive analytical procedures) must be performed that would reduce the risk of material misstatements to an acceptable level, resulting in evidence that the balances are fairly stated. | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation<br><br>Section 3.E, Test Existence of Supporting Documentation<br><br>Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Supporting Documentation Package |
| 2. All financial statement assertions and relevant risks are addressed either through control or substantive testing. | **Figure 4-3**, Discovery Phase, Task 1.2 Prioritize, Activity 1.2.4 Identify Financial Reporting Objectives<br>**Figure 4-4**, Discovery Phase, Task 1.3 Assess & Test Controls, Activity 1.3.3 Execute tests of controls<br>**Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation |
| 3. Open Obligations<br>A) Support open obligations with appropriate supporting documentation as of audit start date. | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation<br>Section 3.E Test Existence of Supporting Documentation |
| 4. Reconciliations, transaction populations, and supporting documentation can be provided in a timely manner. | Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Supporting Documentation Package |
| 5. Control activities for high transaction volume areas (e.g., supply, contracts, FBWT, Inventory, OM&S, GE, etc.) are designed and/or operating effectively. | Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Supporting Documentation Package |
| 6. Supporting documentation testing (i.e., substantive testing) can overcome ineffective or missing ITGC and application controls when transaction evidence is electronic and only maintained within a system or the key supporting evidence is system generated reports. | Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Supporting Documentation Package |
| 7. Service provider processes, risks, and controls are integrated within the scope of testing if those processes are material to the assessable unit. | Section 4.B FIAR Methodology – Service Provider<br>Sub-section 4.B.4 Methodology - Service Provider |
| 8. Management has established retrieval and storage procedures for financial data that will support management evaluation and future examinations/audits. | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the Population |
| 9. Material Balances Brought Forward/Opening Balances are evaluated through appropriate testing. | **Figure 4-5**, Discovery Phase, Task 1.4 Evaluate Supporting Documentation |
| *** Note: Sensitive activity is discussed in more detail in Section 6.A**. | |

**Figure 4-17. Audit Capabilities**

### 4.A.7 Standard FIP Framework

Recognizing the benefits from a standard FIP framework and content, the FIAR Directorate, working collaboratively with reporting entities, developed a standard framework and template for the FIPs. See

FIAR Guidance website for the ***standard FIP template*** and ***FIP Preparation and Submission Instructions*** document.

## 4.B METHODOLOGY – SERVICE PROVIDER

Approximately four years ago, the American Institute of Certified Public Accountants (AICPA) issued Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*, to address examination engagements undertaken by service organizations. This standard was superseded in April 2016 by AICPA Standards for Attestation Engagements (SSAE) No. 18 and the associated AT-C 320 "Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting" (for SOC reports dated later than April 30, 2017). The AICPA defines a service organization as "an organization or segment of an organization that provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting."[33]

The Department utilizes many service organizations, also referred to as service providers, to improve efficiency and standardize business operations. Among the many traditional service providers within the DoD are the Defense Finance and Accounting Service (DFAS), Defense Information Systems Agency (DISA), Defense Logistics Agency (DLA), and Defense Contract Management Agency (DCMA). These service organizations provide a variety of traditional support services, in such areas as accounting, personnel, logistics, system development and operations/hosting. Other DoD components may be non-traditional service providers. For example, there are interdependencies between the MilDeps and the ODOs for certain business processes, such as contract pay, vendor pay, and personnel management. The MilDeps become service providers in a non-traditional sense, and must consider how they will support the ODOs in testing key controls and documentation.

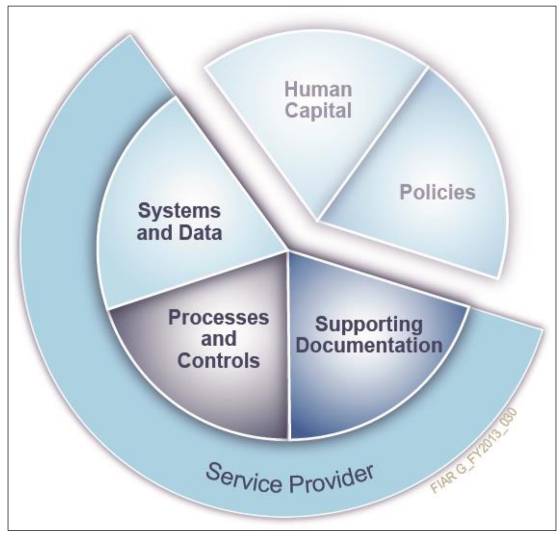


**Figure 4-18. Service providers are responsible for their systems and data, processes and internal controls, and supporting documentation that affect a reporting entity's audit readiness**

Additionally, DoD has designated executive agents as service providers. DoDD 5101.1 "DoD Executive Agent" section 3.1, defines an executive agent as "the head of a DoD Component to whom the Secretary of Defense or the Deputy Secretary of Defense has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operational missions, or administrative or other designated activities that involve two or more of the DoD Components." An example of an executive agent is an entity (or segment of an entity) that owns an information system and operates that system on behalf of a reporting entity (e.g., the Defense Human Resources Activity (DHRA) maintains the Department's civilian personnel system software (DCPDS), which is used to initiate, approve, and process personnel actions for reporting entity civilian employees). As service providers, Departmental executive agents also must follow the service provider methodology to determine the extent they impact relevant internal controls over financial reporting for customer organizations.

For the reporting entity to achieve auditability, it is critical that service providers support their customers and execute numerous tasks, including documentation of processes and controls, testing, and remediation. To assist service providers in delivering this support, this section of the Guidance highlights roles and responsibilities, defines some key terms, discusses service provider audit readiness strategies, and provides the detailed methodology that service providers must follow.

[33] Source: AICPA Statement on Standards for Attestation Engagements No. 18, AT-C 320 *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, paragraph .08

### 4.B.1 Roles and Responsibilities

Reporting entities are ultimately responsible for ensuring that all key processes, systems, internal controls and supporting documentation affecting their financial reporting objectives are audit ready. To successfully address these responsibilities, the reporting entity must first identify other organizations (service providers) that support the execution of transactions and then determine which of these organizations perform controls upon which reliance must be placed during the reporting entity financial statement audit.

It is essential that reporting entities accurately identify and categorize those service providers upon which reliance must be placed for internal controls over financial reporting (i.e., Service Organizations) versus organizations with whom they conduct business and no internal control over financial reporting reliance exists (i.e., Trading Partners / Vendors). To assist reporting entities in this assessment, ODCFO created the "Service Organization versus Trading Partner Assessment Template," located on the FIAR Guidance website. Using this template, reporting entities must evaluate the following:

- Whether the third party's services are relevant to the entity's internal control over financial reporting;
- Whether the third party's services affect the entity's information system; and
- Whether the entity specifically authorizes transactions executed by the third party

Categorizing an external organization / service provider as a "Service Organization" prompts additional responsibilities for the reporting entity (user entity), the reporting entity's financial statement auditor (user auditor), and the service provider (Service Organization). These additional responsibilities apply to the reporting entity's annual compliance with DoD OMB Circular A-123 (ICOFR) requirements, and its annual financial statement audit. Additional responsibilities may include:[34]

On an annual basis, the user entity and the user auditor must obtain and document an understanding of the design and operating effectiveness of the internal controls in place at the Service Organization by:

- Obtaining a SOC 1 type 2 report on the design and operating effectiveness of internal controls on an annual basis;
- Contacting the Service Organization to obtain information;
- Visiting the service organization and performing procedures that will provide the necessary information about the relevant controls at the service organization; and/or
- Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organization.

As is the case with the reporting entity's own internal controls over financial reporting, deficiencies noted in the design and/or operating effectiveness of a Service Organization's controls must also be evaluated (by the reporting entity) for risk of material misstatement to the reporting entity's financial statements. In those instances where the reporting entity does not have existing controls to mitigate deficiencies noted in the Service Organization's internal controls, the reporting entity will need to design and implement additional controls to mitigate the risk of material misstatement.

When making this determination, the reporting entity should apply relevant auditing standards in order to assess the relationship from the perspective of the external financial statement auditor. Auditing standards that are particularly applicable to completing this assessment are:

- AT 801 (*Reporting on Controls at a Service Organization) superseded by AT-C 320 (Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting)*
- AU 324 (*Service Organizations*)
- AU-C 402 (*Audit Considerations Relating to an Entity Using a Service Organization*)

[34] Refer to OMB Bulletin 15-02 (Audit Requirements for Federal Financial Statements) paragraph 6.19.

- AS 2601 (*Consideration of an Entity's Use of a Service Organization*)

When applying these standards to assess the impact of the service provider's on the reporting entity's internal control over financial reporting, particular emphasis should be placed on the nature of the services provided, the degree of reporting entity involvement in transaction initiation, execution, and accounting activities, and whether the reporting entity has controls in place to mitigate the risks of financial misstatement.

However, as shown in **Figure 4-18** service providers working with reporting entities are also responsible for executing audit readiness activities surrounding service provider systems and data, processes and internal controls, and supporting documentation that have a direct effect on the reporting entities' audit readiness state. Since the tasks of service providers are integrated into the end-to-end business processes of a reporting entity, both the service provider and reporting entity are responsible for supporting each other during the audit readiness process. The mutual responsibilities include:

- Maintaining open communications and coordinating with one another
- Establishing common expectations in writing
- Providing additional system and financial information within agreed upon timeframes (ex., FISMA assessment results, FFMIA assessment results, RMF assessment results, etc.).
- Providing access to subject matter experts or contractors supporting those organizations within agreed upon timeframes
- Working together to discover and correct audit impediments
- Establishing a common, detailed understanding of the method for obtaining assurance

To ensure successful completion of audit readiness tasks, the reporting entity and service provider must agree on the roles and responsibilities for the authorization, initiation, processing, recording, and reporting of transactions, and/or information technology (IT) controls affected by the service provider. **A shared understanding and agreement between the service provider and reporting entity on these roles and responsibilities must be documented in a Service Level Agreement (SLA) or Memorandum of Understanding (MOU). In addition to defining the basic strategy and approach for achieving audit readiness (including scope, required FIAR deliverables, and timelines), the SLA or MOU will also specify whether the service provider and/or executive agent will prepare its own FIP or whether its audit readiness activities will be included in the reporting entity FIP.** See FIAR Guidance website for the ***Standard FIP template*** and ***FIP Preparation and Submission Instructions*** document.

An existing SLA may be in place between the reporting entity and service provider, which covers day-to-day operations but may not explicitly include a comprehensive listing of risks of material misstatements, a listing of financial reporting objectives to be achieved, and/or a listing of key supporting documentation to be developed and retained by the service provider. Reporting entities and their service providers can choose to update the existing SLA, or prepare a separate MOU to address the aforementioned audit readiness requirements. (Note that DFAS refers to this agreement as the "FIAR Concept of Operations.")

The SLA/MOU should also identify the types of supporting documentation that should be retained for each business process and transaction type, which organization will retain the specific documents, and the retention period for the documentation. Furthermore, the service provider must provide a description of its control environment, risk assessment process, control activities, information and communication tasks and monitoring activities that may affect the reporting entity's financial reporting objectives. The description of internal controls should be at a level of detail that provides the reporting entity with sufficient information to assess the risks of material misstatement and determine whether these risks have been mitigated; however, the internal control descriptions need not address every aspect of the services provided to the reporting entity. Refer to Section 3 for additional information on entity level controls of the reporting entity.

The service provider methodology presented in Section 4.B.4 incorporates the inter-relationships between the reporting entity's end-to-end processes and the service provider's processes, systems, controls, transactions and documentation. As an example, **Figure 4-19** provides a representative illustration of the

Civilian Pay end-to-end process. The illustration is a notional example, depicting the processes, systems, internal controls, and documentation within both the reporting entity and the service provider. Note that control activities may be manual or automated and documentation may be retained by either reporting entity. In addition, transactions may be executed within either the reporting entity portion of the process or service provider portion of the process. **Both organizations must be able to provide supporting documentation for their respective portions of the end-to-end process to demonstrate that control activities are suitably designed and operating effectively and transactions are properly posted to the accounting records.**

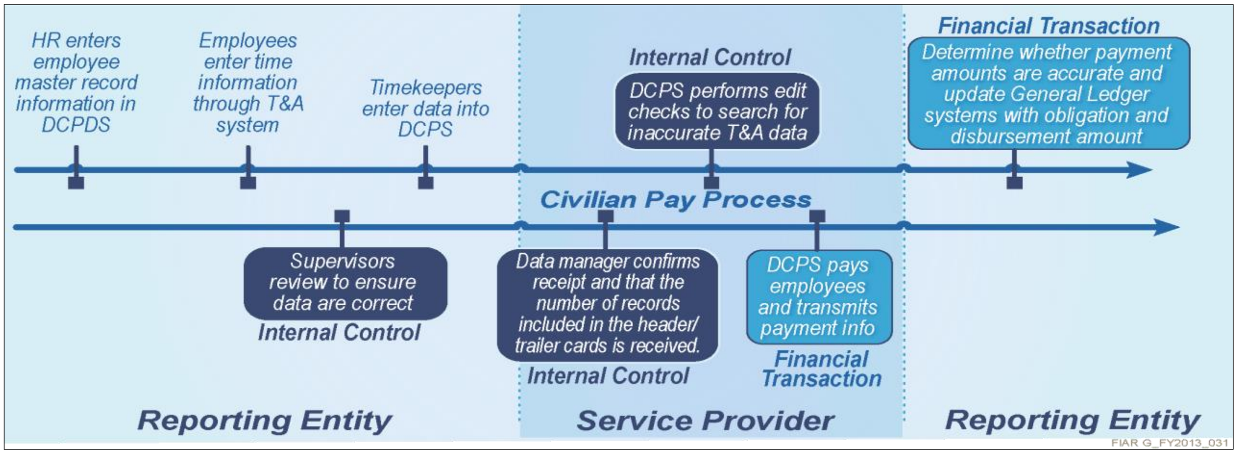


**Figure 4-19. Reporting entities and service providers are responsible for different segments of end-to-end processes in the Department**

The complexities inherent in DoD reporting entity and service provider relationships and associated audit readiness inter-dependencies make it essential to establish a common, detailed, written understanding regarding the mutual roles and responsibilities incumbent upon the reporting entity and service provider.

### 4.B.2 DEFINITIONS

Before proceeding, the following definitions will aid in the discussion of the service provider strategy and methodology that follows:

- User Entity – The reporting entity that has outsourced business tasks or functions to a service organization and is either working to become audit ready or is undergoing an audit of its financial statements.
- User Auditor – The financial statement auditor who issues an audit report opining on the financial statements of the user entity.
- Service Organization (or service provider) – The entity (or segment of an entity) that performs outsourced business tasks or functions for the reporting entity that are part of the reporting entity's manual and/or automated processes for financial reporting and are likely to be relevant to the user entities' internal control over financial reporting.
- Service Organization's System – The policies and procedures designed, implemented, and documented, by management of the service organization to provide user entities with the services covered by the service auditor's report.
- Subservice Organization – A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting.
- Service Auditor – The auditor retained by the service organization to issue an opinion on the service provider's controls that are relevant to a reporting entity's internal control over financial reporting (e.g., SSAE No. 18 / AT-C 320 examination report), as it relates to an audit of the reporting entity's financial statements.

As the role of these entities is explained throughout this section of the guidance, keep these definitions in mind to avoid confusion when developing audit readiness strategies, which is the next topic.

### 4.B.3 Strategy

As required by OMB Bulletin No. 15-02, service providers must support their reporting entities' financial statement audits by providing the reporting entities with an appropriate SOC examination report, or by allowing user auditors to perform appropriate tests of controls at the service organization.

Therefore, once systems and/or business processes and reporting entities have been identified, service providers must develop a high-level strategy for supporting the reporting entities' financial statement audits employing one of two options:

- Undergoing an examination in accordance with SSAE No. 18 (AT-C 320), where the service auditor reports on internal controls at service providers that provide services to reporting entities when those controls are likely to be relevant to reporting entities' internal control over financial reporting (ICOFR); or
- Participating in and directly supporting the reporting entity's financial statement audit, where the service provider's processes, systems, internal controls and supporting documentation are incorporated into the reporting entity's audit.

The process for eliminating audit impediments and known service provider exceptions is to follow the Service Provider Methodology whereby the service provider evaluates the design and operating effectiveness of control activities, and corrects material deficiencies either before a SOC examination begins, or, for service providers directly supporting a reporting entity, within a timeframe that fits the reporting entity's audit readiness timeline.

Accordingly, service providers must develop a sound strategy for identifying and documenting control objectives and control activities, testing control activities and identifying gaps, and designing and implementing corrective actions, in coordination with reporting entities. The strategy must include identification of control objectives, business processes, IT and manual controls, relevant systems, user controls, documentation, and personnel performing the controls. These tasks are essential for the service provider, whether preparing for a SOC examination or opting to provide direct support to the reporting entity and its user auditor. This section discusses many of the strategic elements that should be considered, including service provider/reporting entity relationships, SOC examination and direct support considerations, user controls, audit readiness critical capabilities, and work products.

**In order to develop an appropriate strategy for achieving audit readiness, a service provider initially must identify all reporting entities for which services are provided, and work with those reporting entities to develop a list of the services provided for each reporting entity. In addition, the service provider and the reporting entity must determine which of the services provided are "material" to the reporting entity's financial statements.**

**Materiality is defined in the FAM as "the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item." (FAM Glossary, Page 12)**

**The concept of relevance and materiality is primarily subjective and involves several qualitative factors, which must be evaluated by the service provider and reporting entity. For example, both parties should consider whether:**

- **Relevant information regarding the service providers processes or systems has been omitted or distorted**
- **Relevant aspects of the service provider's operations related to the processing of transactions have been included**

- **Controls identified are designed to provide reasonable assurance that control objectives would be achieved**[35]

**Accordingly, service providers and reporting entities must coordinate to assess the relevance of services provided in the context of materiality. Ultimately, service providers should subject to audit readiness only those processes, controls and documentation that is deemed material to the reporting entities.**

**Once initial tasks are complete, the service provider must contact each reporting entity and begin coordination of audit readiness efforts, identifying the reporting entity's assessable units and mapping them to the service(s) provided.** **Figure 4-20** depicts a decision tree that a service provider can use to help tailor its approach to service provider audit readiness at an assessable unit level (see Section 4.A.3 for more detailed information on assessable units).

[35] From the AICPA's SSAE No. 18 / AT-C 320, paragraph A29

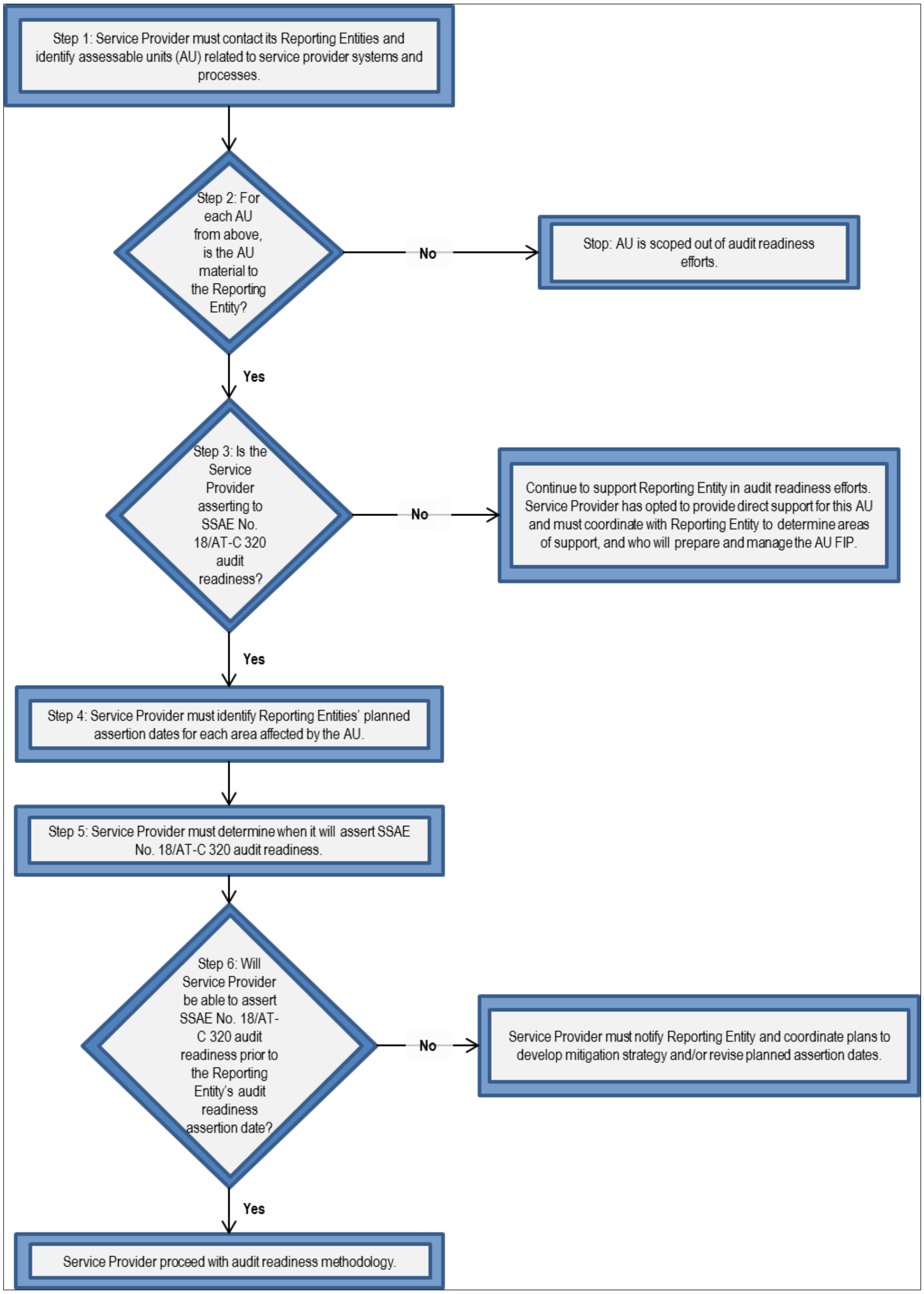


**Figure 4-20. Service Provider decision tree for determining audit readiness strategy**

### *Overall Approach*

Most service providers will likely choose to prepare for and undergo a SOC examination because the examination report can be used by the financial statement auditors of multiple reporting entities. However, service providers serving fewer than three reporting entities may opt to directly support those reporting entities where it is more efficient and cost beneficial to do so. Additionally, service providers with unique sets of controls, e.g. different manual processes across reporting entities, may decide to forgo a SOC examination for those services and provide direct audit support to the reporting entity (combining the two options). **Whether or not a service provider opts for a SOC examination, Phases 1 and 2 and Phase 3, Task 3.1 of the service provider methodology need to be completed (discussed in Sections 4.B.4 and 4.B.5).**

As service providers begin to formulate strategies and implement the methodology, the preferred approach will likely include pursuit of an independent examination of service provider controls based on AICPA Statements on Standards for Attestation Engagements (SSAE) No. 18 (AT-C 320),[36] Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting. Accordingly, at this point it is appropriate to address various report options and emphasize the report type required for audit readiness. DCFO released supplementary guidance to assist service providers in addressing the new standards for Service Organization Control Reports. The guidance can be found at Addressing Requirements of AICPA New Standards for SOC Reports. The memorandum requires the below seven action for successful preparation leading up to SSAE 18 / ATC-320 examinations:

**For Service Organizations.**

1. Service organization management will conduct a meeting with the IPA (Independent Public Accountant) performing the SSAE 18 / AT-C 320 examination (the service auditor), prior to January 13, 2017, to establish an understanding of the service auditor's interpretation of requirements introduced by the new standards and associated changes to the SOC 1 reports.

2. Service organization management will validate the reliability of its internally-produced reports and data used to support its internal controls. Service organization management will also validate reports and data provided to user entities that support their internal controls over financial reporting including Complementary User Entity Controls (CUECs) defined in the scope of the SSAE 18 / AT-C 320 examination.

3. For subservice organizations identified in the service organization SSAE 18 / AT-C 320 examination, service organization management will prepare written descriptions of Complementary Subservice Organization Controls (CSOCs). These are the controls that were designed to achieve the control objectives included in the scope of the service organization SSAE 18 / AT-C 320 examination. These CSOCs are to be aligned to service organization control objectives and incorporated into section 3 of the service organization SOC 1 reports (to appear after the CUEC section in a section labelled "Complementary Subservice Organization Controls" under the main heading of "Subservice Organizations" after the subservice organizations have been listed). To assist with documenting the CSOCs, a CSOC identification template was developed and is located on the FIAR Guidance website.

4. For each CSOC identified for inclusion in the Service Organization's SOC 1 report, service organization management will document the following for the related assertion:

   a. The basis / rationale for concluding the Subservice Organization performs the CSOC on behalf of the Service Organization for the systems and/or processes included in the scope of the SSAE 18 / AT-C 320 examination. This may include, but not be limited to, terms of service level agreements, memos of understanding, and catalog(s) of services, etc.

   b. Monitoring controls over the subservice organization that service organization management has established to determine if the CSOCs are designed and operating effectively. This may include, but not be limited to:

[36] SSAE No. 18 (AT-C 320) superseded SSAE No. 16, effective for reports with an issue date of May 1, 2017 or later.

i. obtaining and reviewing the subservice organization SOC 1 reports,

ii. reviewing and reconciling reports / data provided by the subservice organizations to include those related to their performance,

iii. periodic review and update of service level agreements,

iv. holding periodic discussions with the subservice organization,

v. making regular site visits to the subservice organizations,

vi. testing controls at the subservice organization by members of the service organization's internal audit function, and

vii. monitoring external communications, such as customer complaints relevant to the services by the subservice organization, etc.

5. Service organization management will provide the identified CSOCs to each impacted subservice organization no later than January 23, 2017.

**For Subservice Organizations.**

6. Within fourteen business days of receiving the identified CSOCs, the subservice organization will confirm that the CSOCs are in place and operating as described and will be incorporated into the Subservice Organization SOC 1 report. In addition, the subservice organization will provide notification to the service organizations of instances where controls are not in place or do not plan to implement controls to address the CSOCs.

7. In instances where controls are not in place at the subservice organization or remediation activities are being performed to implement the control, subservice organization management will provide a corrective action plan to the impacted service organizations no later than twenty-one business days after receiving the identified CSOC. This corrective action plan will, at a minimum, describe the control to be implemented and the expected implementation date. Where applicable, the corrective action plan will also identify the first SOC 1 examination period expected to include the additional control.

***Types of Service Organization Control Reports***

The AICPA has designed multiple SOC reports to meet the evolving assurance needs of service organizations and their customers. The SOC reports are based upon SSAE No. 18; Professional Standards (Clarified) Sections AT-C 105, *Concepts Common to All Attestation Engagements; AT-C 205, Examination Engagements; and AT-C 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting.*

Each type of SOC report has been purposefully developed to address a specific assurance need regarding either (a) internal controls that affect user entities' financial reporting; or (b) internal controls that affect the security, availability, and processing integrity of the systems or the confidentiality or privacy of the information processed for user entities' customers. The SOC report relevant to audit readiness is the SOC 1 report. A SOC 1 report, entitled *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting*, is prepared in accordance with SSAE No. 18 (AT-C 320), and is specifically intended to meet the needs of the reporting entities that use service providers and their user auditors. The SOC 1 report is used in evaluating the effect of the controls of the service provider on the reporting entity's financial statements. SOC 1 reports do not address non-financial reporting-related control objectives, such as control objectives related to compliance with laws and regulations.

The SSAE No. 18 (AT-C 320) guidance defines two SOC 1 reports, Type 1 or Type 2:

**SOC 1 – Type 1 Report – Report on Management's Description of a Service Organization's System and the Suitability of the Design of Controls**

These reports encompass:

- the service auditor's report in which the service auditor expresses an opinion on:

- the fairness of the presentation of management's description of the service organization's system as of a specified date
- the suitability of the design of the controls to achieve the related control objectives included in the description as of a specified date

- management's description of the service organization's system
- management's written assertion

**SOC 1 – Type 2 Report – Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls**

These reports encompass:

- the service auditor's report in which the service auditor expresses an opinion on:
  - the fairness of the presentation of management's description of the service organization's system throughout a specified period
  - the suitability of the design **and** the operating effectiveness of the internal controls to achieve the related control objectives included in the description throughout a specified period
- management's description of the service organization's system
- management's written assertion

**Once a determination has been reached that a SOC examination is the appropriate course of action, the FIAR Directorate requires service providers to obtain Type 2 reports as these reports provide an opinion on both the design and operating effectiveness of internal controls.** Since the Type 2 report is the recommended and more commonly used of the SOC reports, when a SOC 1 report is discussed in the remainder of the guidance, the reference is to the Type 2 report.

As noted above, the SOC 1 – Type 2 report is the report that should be obtained to satisfy FIAR requirements for audit readiness, if the service provider chooses to pursue a SOC examination, because it provides an opinion on the suitability of the design **and** operating effectiveness of controls impacting user entities' financial reporting. A SOC 1 – Type 2 report includes the following sections:

1. Section 1 – Service Auditor's Report
2. Section 2 – Service Provider Management's written assertion
3. Section 3 – Service Provider Management's description of its system(s)
4. Section 4 – Service Auditor's description of tests of operating effectiveness of controls and test results
5. Section 5 – Optional other information provided by Service Provider Management

The service provider methodology focuses on Sections 2 and 3 of the Type 2 report as well as testing of controls to properly prepare the service provider for either a SOC examination or interaction with the user auditor when providing direct support to the reporting entity. Having now defined SOC report types, it is time to discuss examination considerations.

### *SSAE No. 18 (AT-C 320) Examination Considerations*

Important matters should be considered when deciding whether to pursue a SOC examination in addition to the number of reporting entities serviced and commonality of controls imbedded in financial reporting processes. These matters include timeliness of the examination, the period covered by the examination, and the treatment of sub-service organizations.

If a SOC examination occurs too soon before the reporting entity's fiscal year end, its usefulness to the user auditor will be diminished. For example, a SOC report covering a six month period ending March 31 may not provide sufficient evidence for a user auditor in that fiscal year, and the user auditor will likely need to conduct additional testing of the service provider's controls (relevant to the reporting entity's

ICOFR) to meet his/her audit needs. Similarly, a SOC report issued after September 30 may be of diminished value to the user auditor for that fiscal year, as it would not be available for audit planning and the internal control phase of the audit**. Accordingly, it is imperative that service providers and reporting entities effectively communicate regarding the timing of planned SOC examinations and audit readiness assertions.**

The period of time covered by a SOC examination (with respect to a Type 2 report) is also significant for the service provider and reporting entity. If the SOC examination opinion covers a sufficient period of time in relation to the fiscal year under audit, the financial statement auditor likely can reduce the nature and extent of internal control and substantive testing (i.e., supporting documentation testing) required for the audit; six months is recognized as the minimum period of coverage (per section A42 of SSAE No. 16 and pending additional SSAE No. Implementation Guidance from the AICPA). As noted above, effective communication between service provider and reporting entity is essential to maximize the utility of a SOC report.

A final consideration is the treatment of subservice providers. The AICPA's SSAE No. 18 (AT-C 320) and preceding SSAE No. 16 recognize that a service organization may rely on services provided by another service organization, referred to as a subservice organization (or subservice provider). As an example, consider a reporting entity's Civilian Pay assessable unit. DFAS may provide services to the reporting entity as the service organization that processes its bi-weekly payroll through the Defense Civilian Pay System (DCPS). However, DFAS does not provide application hosting services for the DCPS software; those services are provided by DISA. In this example, DISA is considered a subservice organization with respect to the Civilian Pay assessable unit for this reporting entity.

In these circumstances, SSAE No. 18 (AT-C 320) allows a service provider (DFAS in the above example) to use one of two methods in presenting information about the subservice organization's system and controls:

- **Carve-out Method.** With the carve-out method, service provider management identifies the nature of the services provided by a subservice organization, but excludes ("carves out") the subservice organization's relevant control objectives and related internal controls from the description and scope of the service provider's SOC report. Management's description of the service organization's system and the scope of the service auditor's engagement will include controls at the service organization that monitor the effectiveness of controls at the subservice organization, which may include management of the service organization's review of a service auditor's report on controls at the subservice organization. (Note that this is the method used by DFAS in the DFAS Federal Civilian Pay Service (DCPS) SOC report issued August 15, 2016.)
- **Inclusive Method.** The other option is referred to as the inclusive method, in which the subservice organization's relevant controls are included in the scope of the service provider's SOC report. In this method, the service organization includes a description of the services provided by the subservice organization, and the subservice organization's relevant control objectives and related controls.

With the carve-out method, although service provider management's description of the service provider's system will exclude the subservice organization's relevant control objectives and related internal controls, the description should contain sufficient information concerning the carved-out services and controls to enable the user auditor to understand what additional information he/she will need pertaining to the subservice organization to assess the risk of material misstatement of the reporting entity's financial statements. Service providers will include all available subservice organization SOC reports in their assertion documentation.

When using the carve-out method, instances may exist in which achieving one or more control objectives depends on one or more controls performed by a subservice organization. In such instances, management's description of its system would identify the controls performed at the service provider and indicate that the related control objectives would be achieved only if the subservice organization's controls were suitability designed and operating effectively throughout the period. With the introduction of SSAE 18 (AT-C 320), service organizations are now required to provide written descriptions of these "Complementary Subservice Organization Controls" aligned with the associated service organization control objective(s). The service provider may also include a table in its description that identifies those instances in which control objectives are met solely by the service provider, and those in which controls at the service provider and at the subservice provider are needed to meet the control objective. To assist service organizations identify and document the Complementary Subservice Organization Controls, along with their basis for assuming these are in place and monitoring procedures over their subservice organizations, a Complementary Subservice Organizations Controls Identification Workbook has been developed and can be found on the FIAR Guidance website.

With the inclusive method, the subservice provider's relevant control objectives and related controls are included in the service provider management's description of its system. The service auditor conducts the SOC examination incorporating the two sets of control objectives and activities into his/her testing procedures. The inclusive method is typically used when the service organization and subservice organization are related parties.

**Whether the service provider uses the carve-out or the inclusive method, communication between service providers and their subservice organizations, as well as a documented SLA or MOU, is critical to ensure that all essential controls are addressed.**

- With the introduction of SSAE 18 (AT-C 320), the service auditors are explicitly required to validate the reliability of reports, data, and reconciliations that are used in the performance of controls included in the scope of the SOC examination. Given this increased emphasis on the reliability of these reports, data, and reconciliations, the service organizations must complete the following in order to assert SOC examination readiness:
    - Identify key system generated reports, data, reconciliations upon which controls in the scope of the SOC 1 depend.
    - Perform procedures to validate / test the reliability of key system generated reports, data, and reconciliations.

### *User Auditor Considerations and SSAE No. 18 (AT-C 320) Control Objectives*

The user auditor will consider many factors when relying on an SOC examination report, including the period of time covered by the report, control objectives and control activities addressed in the report, and results of the tests of controls and the conclusions of the service auditor. Service providers should consider user auditor needs in relation to the SOC report whenever possible. For this reason, when defining the control objectives for the SOC examination, the service provider should use existing guidance and best practices.

For business process controls, the AICPA's SSAE No. 16 Implementation Guidance outlines high level control objectives and includes illustrative examples of control objectives to be used for various service provider processes (for example, payroll processing). SSAE No. 16 will be superseded by SSAE No. 18 (AT-C 320) for SOC reports dated later than April 30, 2017. The illustrative control objective examples included in the AICPA SSAE No. 16 Implementation Guidance should continue to be used until SSAE No. 18 Implementation Guidance is published by the AICPA. When IT General and Application Controls are included in the scope of the SOC examination, use the GAO's Federal Information System Controls Audit Manual (FISCAM) to define control objectives. A recommended list of standardized control objectives, aligned to the FISCAM, is presented in **Figure 4-21**.

| IT General Control Objectives (CO) |
|---|
| **Security Management** |
| Controls provide reasonable assurance that management has established, implemented, and monitors <***application***> security management programs. |
| **Access Controls** |
| Controls provide reasonable assurance that logical access to <***application***>, as well as logical and physical access to <***application***> (programs and data) is reasonable and restricted to authorized individuals. |
| **Configuration Management** |
| Controls provide reasonable assurance that changes to <***application***>, application programs and database |

| |
|---|
| structures are authorized, tested, implemented and documented. |
| **Segregation of Duties** |
| Controls provide reasonable assurance that management has identified, periodically reviewed, and mitigated risks of incompatible duties across <***business operations and IT operations***>. |
| **Contingency Planning** |
| Controls provide reasonable assurance that contingency planning, back-up and recovery procedures exist for <***application***> and are tested on a periodic basis. |
| **Business Process Control Objectives (CO)** |
| **Setup** |
| Controls provide reasonable assurance that <***assessable unit transaction / master data***> are authorized, set up, and updated completely, accurately, and timely. |
| **Input** |
| Controls provide reasonable assurance that <***assessable unit transactions***> are received from authorized sources and are input into the application completely, accurately and timely. |
| **Processing** |
| Controls provide reasonable assurance that <***assessable unit transactions***> are processed completely, accurately, and timely; deviations from the schedule are identified and resolved timely. |
| **Output** |
| Controls provide reasonable assurance that <***assessable unit outputs***> are authorized and transmitted completely and accurately, and are processed timely. |

**Figure 4-21. IT General and Business Process Control Objectives**

For additional information, refer to the FIAR Guidance website for FISCAM control activities and techniques that are highly relevant for addressing key financial reporting risk areas and other ***FISCAM control activities and techniques*** that should be considered by reporting entities and their service providers in their audit readiness efforts.

### *Complementary User Entity Control Considerations*

A service provider's applications and business processes are designed with the understanding that certain complementary user entity controls have been implemented by the reporting entity. Complementary user controls are those controls that management of the service provider, in designing the service(s) provided, assumes are implemented by the user/reporting entity. Complementary user control considerations should relate to the control objectives specified in management's description of the service provider system. With the introduction of SSAE 18 (AT-C 320), service organizations are now required to specifically identify the service organization control objective(s) that are dependent on the assumed complementary user entity controls. Currently, FIAR coordinates user control assumptions between service providers and their reporting entities. Accordingly, the service provider must communicate and confirm its user control assumptions with the FIAR Directorate.

Typical control activities the reporting entity should implement to complement the controls of the service provider include, but are not limited to:

- Control activities that provide reasonable assurance that any changes to processing options (parameters) requested by the reporting entity are appropriately authorized and approved.
- Control activities that provide reasonable assurance that output received from the service provider is routinely reconciled to relevant reporting entity control totals.
- Control activities that provide reasonable assurance that physical and logical access to computer terminals, at the reporting entity premises, is restricted to authorized individuals.

The FIAR Directorate has compiled the complementary user entity controls from multiple DoD impacting SOC 1 reports into a template that identifies changes in the controls from the FY 14 and FY 15 SOC 1 reports, facilitates reporting entity assessment of the applicability of the controls, and reporting entity documentation and testing of controls they have in place to address the complementary user entity control considerations. Note: This template is not intended to be a substitute for the reporting entities obtaining and reviewing the SOC 1 reports. This template is located at CUEC Descriptions.

To further assist reporting entities identify / establish controls to address the complementary user entity control considerations, the FIAR Directorate has documented baseline control descriptions for multiple SOC 1 reports. These baseline controls can be used by reporting entities as examples when developing their own controls and/or adopted (with appropriate modifications) for implementation. The baseline control descriptions developed to date are located at Baseline Control Descriptions.

### *SSAE No. 18 (AT-C 320) Audit and Direct Support Capabilities*

All service providers, whether they are working towards SOC examination or providing direct support to their reporting entities, are responsible for addressing the capabilities listed in **Figure 4-22** below. These separate capabilities are necessary because of the integral role service provider's play in the accounting and reporting process of their customers. Additionally, unlike financial statement audits, which are focused on determining whether the financial statements are fairly presented in accordance with GAAP, the purpose of a SOC examination is to express an opinion on the effectiveness of internal controls in meeting specific control objectives relevant to financial reporting. Accordingly, tests of key supporting documentation (KSDs) for tests of account balances (task 1.6) are not required by service providers to support SOC examination readiness assertions. For SOC examination assertion, service providers will only need to evaluate KSDs that provide evidence that controls are designed and operating effectively. Separate from the SOC examination assertion, service providers may be requested by reporting entities to assist them with tests of KSD for individual assessable units.

All service providers need to address these capabilities. During the Assertion phase, the FIAR Directorate may provide feedback to the service provider on the capabilities and recommend additional procedures to make improvements prior to an examination or providing direct support.

| Service Provider Audit Capabilities | FIAR Guidance Reference |
|---|---|
| 1. All material business processes and information systems (including micro-applications and internal software[37]) are not defined or included in the scope of the SOC examination. | **4.A.2 Consideration of Service Providers**<br>**3.D.2 IT (or Systems) Controls** |
| 2. All relevant business process and information technology control objectives that address information technology general control and transaction setup/input/processing/output risks are not identified or included in the scope of the SOC examination. | **4.A.2 Consideration of Service Providers**<br>**4.B.4 Methodology - Service Provider** |
| 3. All relevant service provider performed controls, user control considerations, sub-service provider roles and responsibilities, and complementary subservice organization controls that address in-scope control objectives have not been identified and included in-scope for testing. | **4.A.2 Consideration of Service Providers**<br>**4.B.4 Methodology – Service Provider** |
| 4. Testing conducted to assess the design and operating effectiveness of business process and information technology controls is not extensive enough to conclude as to whether the related control objectives have been satisfied. | **4.A.2 Consideration of Service Providers**<br>**4.B.4 Methodology - Service Provider** |
| 5. For areas where control deficiencies have been identified during testing, the service provider has not provided sufficient documentation indicating that corrective actions have been implemented. | **4.A.2 Consideration of Service Providers**<br>**4.B.4 Methodology - Service Provider** |

**Figure 4-22. SOC Examination Audit Capabilities**

[37] Internal software includes utility software such as database management systems, operating systems, job scheduling tools, security management utilities, etc.

### *Direct Support Considerations*

A service provider may decide to directly support a reporting entity if the service provider has a small customer base (less than three reporting entities), or employs unique control activities within a process (system) for individual reporting entities. Additionally, if a service provider cannot successfully prepare for and undergo a SOC examination within the required timeframe, it should notify its customers (reporting entities) immediately so that those customers and the service provider can work together on mitigation plans (such as direct support) and/or revise planned FIP milestone dates for this key audit readiness dependency. In such situations, the FIAR Directorate must be notified of these changes.

The direct approach will require the service provider to develop an appropriate audit infrastructure with which to support the reporting entity's user auditor in assessing risk, testing controls and transactions, providing documentation, and accommodating potential site visits to service provider locations.

When a service provider is supporting less than three reporting entities (and when the reporting entity is subject to a financial statement audit and the service provider does not receive a SOC examination report), the service provider's processes and internal controls that affect the reporting entity's financial transactions are audited as part of the reporting entity's financial statement audit. As a result, the service provider will need to complete the key tasks and activities of the FIAR Methodology and coordinate with the reporting entities to develop the required FIAR work products (i.e., risk assessments, controls assessments, process narratives, test plans, etc.) to become audit ready.

As noted earlier in this section, OMB Bulletin No. 15-02 requires service providers to support reporting entity financial statement audits by either providing a SOC report (Type 2), or allowing user auditors to perform appropriate tests of controls at the service organization.

**To support this testing, both the reporting entity and the service provider must work together to provide:**

- **Transaction-level downloads of reporting entity transactions, accompanied by reconciliations of the transaction level detail to the general ledger and financial statements;**
- **Supporting documentation for requested sample items; and**
- **Personnel/responses to questions asked about trends, variances and specific financial transactions.**

**To satisfy user auditor requests, both the reporting entity and service provider will need to ensure they each have an infrastructure of processes and resources established and available to quickly and effectively respond to these requests.**

### *Other Considerations*

Other strategic considerations for service providers include:

- SSEA No. 18 (AT-C 320) explicitly does not apply when the service auditor is reporting on controls at a service provider that are not relevant to reporting entities' ICOFR, such as controls related to regulatory compliance or privacy. For audit readiness purposes, the service provider is not required to provide the reporting entity with a SOC examination report on controls that are not relevant to ICOFR. The SOC 1 report is the most common type of SSAE No. 18 (AT-C 320) report used and the SOC 1 – Type 2 report is required for financial statement audit readiness purposes.
- If the reporting entity requests information on compliance or regulatory controls not related to ICOFR and the service provider has not completed a SOC 2 or SOC 3 report, the service provider may provide the reporting entity with results from internal reviews, such as the Department of Defense Information Assurance Certification and Accreditation Process (DIACAP), Federal Information Security Management Act (FISMA), or FFMIA reviews.
- **Service providers must prepare, evaluate, and remediate weaknesses in their processes, systems, internal controls and supporting documentation to effectively support the**

**reporting entity audit. This requires the service provider to understand the reporting entity's audit readiness dependencies, including scope, timeline, expected deliverables, etc., and coordinate its audit readiness activities with those of the reporting entity prior to engaging a service auditor to perform a SOC examination.** Coordination and communication between the service provider and reporting entity is essential throughout the audit readiness process.

- **The service provider has lead responsibility for coordinating SOC examination engagements of its processes and internal controls.**
- **The service provider and reporting entity must work together to discover and correct audit impediments.**

The key to achieving auditability is focusing on the entire end-to-end processes from the time a transaction is initiated to the point when financial data is reported and supporting documentation is retained and stored for future retrieval[38]. Any gaps will likely impede progress for both the reporting entity and service provider. The service provider methodology discussed below is meant to work in concert with the reporting entity methodology to detect and correct, or avoid such gaps.

### *Other Requirements*

On February 26, 2016, the DCFO issued a policy memorandum titled "Improving Reporting on Service Provider Controls" that included the following requirements for improving the level of reliance placed on the SOC examination reports by reporting entities and their financial statement auditors. The policy was developed as a result of feedback received from Service Provider Working Group and the audit community:

1. SOC examination reports should be issued (to the user entities) by August 15 or the next business day of each year.
2. SOC examination reports should cover a nine (9) month attestation period beginning October 1 and ending June 30 of each fiscal year.
3. Bridge letters should be issued (to the user entities) by October 8 or the next business day of each fiscal year for the preceding fiscal year's attestation period not covered by the SOC examination report. The bride letters should be issued by service provider management and describe any changes or updates to its controls for the gap period.
4. SOC examination reports that contain Complementary User Entity Controls (CUECs) should be mapped to report control objectives in the CUEC section.
5. For SOC examination reports where a sub-service organization is used, the report should include how the service provider is monitoring the sub-service organization's' controls and address any CUECs the service provider should have implemented from the sub-service organization's SOC examination report.
6. SOC examination contracts should include an interim milestone, within the internal control phase, that provides the service auditor's initial conclusion on the fairness of the presentation, suitability of design of key controls and, to the extent possible, operating effectiveness of control on (or around) April 30 of each fiscal year.
7. Section III of the SOC examination reports "Managements Description of Its System" should identify key inputs, key interfaces, key edit checks, key outputs and management's method / rationale for identifying these as key.

The policy memo is located at: Improving Reporting on Service Provider Controls.

[38] Proper retention of financial records is required as annotated within DoD FMR Volume 1: Chapter 9.

## 4.B.4 Methodology – Service Provider

Traditional service providers are responsible for the initiation, authorization, recording, processing or reporting of financial transactions on behalf of the reporting entity; non-traditional service providers may support their customers in other ways, such a processing a specific set of transactions (e.g., contract pay). All service providers must have effective processes and control activities to assist the reporting entity in meeting its financial reporting objectives. Consequently, service providers play a key role in ensuring that the reporting entity achieves audit readiness. This section of the Guidance describes the Department's methodology that service providers must follow to support their customers' efforts to achieve audit readiness, as well as Departmental efforts to develop a common strategy by bringing together service providers and reporting entities to identify risks, develop common control and financial reporting objectives, and ensure control activities are designed to meet those risks and are operating effectively.

**Figure 4-23** presents the FIAR methodology that service providers must follow to assist the reporting entity in achieving audit readiness.

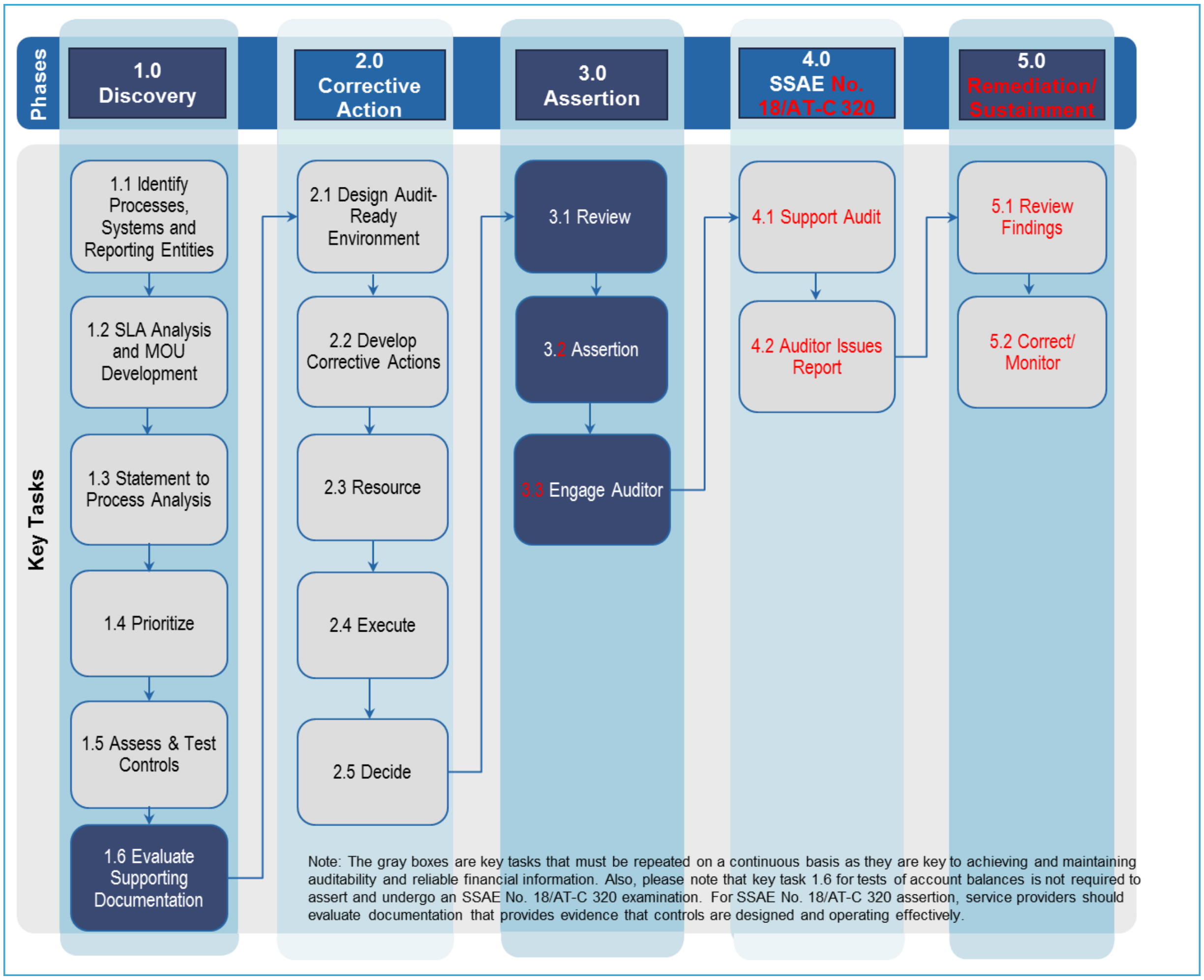


**Figure 4-23. Service Provider Phases and Key Tasks to Achieve Auditability and Reliable Financial Information**

## Phases and Key Tasks

**All service providers must complete each Key Task of the Discovery and Corrective Active phases as well as Key Task 3.1.** Furthermore, those service providers that determine to undergo a SOC examination will also need to complete the remaining Key Tasks in the Assertion/Evaluation, Validation, and SOC examination phases. It should be noted that the SOC examination focuses on determining the design and operating effectiveness of the control activities and the service auditor does not perform documentation testing to support account balances. However, for the purpose of the FIAR Methodology, service providers are required to complete Key Task 1.6, whether they intend to undergo a SOC examination or provide direct support to their customers. Successfully completing Key Task 1.6 provides assurance that in the event that the service provider is not able to undergo a SOC examination, the service provider will be able to support its customer's audit readiness requirements through alternative procedures.

The five phases and key tasks of the Methodology are as follows:

1. Discovery

   a. Service provider identifies reporting entities, relevant business processes, systems and assessable units.

   b. Service provider coordinates with the reporting entity (and any subservice organizations) to document understanding of audit readiness roles and responsibilities, and establish an agreed-upon timeline for completion of joint audit readiness activities and/or SOC examination, either within the existing SLA or in a separate MOU.

   c. Service provider documents its business processes and the financial environment, and supports the reporting entity in developing the statement to process analysis.

   d. Service provider coordinates with the reporting entity to define and prioritize the service provider's processes into assessable units.

   e. Service provider identifies risks, control objectives and control activities, and tests the design and operational effectiveness of control activities.

   f. Service provider evaluates the sufficiency and accuracy of documentation to support financial transactions, account balances and financial statement line items **only when supporting the reporting entity's assertion of audit readiness (for asserting to SOC examination readiness, service providers should evaluate documentation providing evidence that controls are designed and operating effectively).**

   g. Service provider identifies and classifies any deficiencies in control activities and/or supporting documentation. [Note that copy/pasting from the FISCAM does not constitute internal controls documentation.]

2. Corrective Action

   a. Service provider defines and designs audit readiness environment, to include requirements for remediating deficiencies in internal control and supporting documentation.

   b. Service provider develops concrete corrective action plans to resolve each deficiency identified during the Discovery phase.

   c. Service provider develops budget estimates of required resources (i.e., funding and staffing levels) to execute corrective actions.

   d. Service provider executes corrective action plans and verifies that corrective actions were implemented.

   e. Service provider determines strategy for supporting reporting entity's audit readiness efforts (i.e., proceed with SOC examination or provide direct support during reporting entity's financial statement audit) and coordinates audit readiness timeline with the reporting entity.

3. Assertion
    a. Service Provider Management prepares a management assertion letter on the fairness of the description of its system, the suitability of the design of controls, and the operating effectiveness of controls to meet control objectives.
    b. Service provider performs procedures to verify that corrective actions successfully remediated deficiencies.
4. Service Organization Control Examination
    a. Service provider engages auditor to perform SOC examination.
    b. Service provider supports the SOC examination.
    c. Auditor issues the SOC examination report.
5. Remediation/Sustainment
    a. FIAR Directorate reviews the SSAE 18/AT-C 320 examination report and additional documentation provided by the service provider demonstrating remediation of deficiencies
    b. Repeat steps 1.1-1.5 and 2.1-2.4 on a continuous basis as they are key to achieving and maintaining auditability and reliable financial information

In the following charts, the key tasks are numbered to coincide with the standard FIP Template. For example, the Discovery Phase of the FIP template includes key tasks beginning with section 1.1, while the Audit Phase begins with section 4.1 of the template.

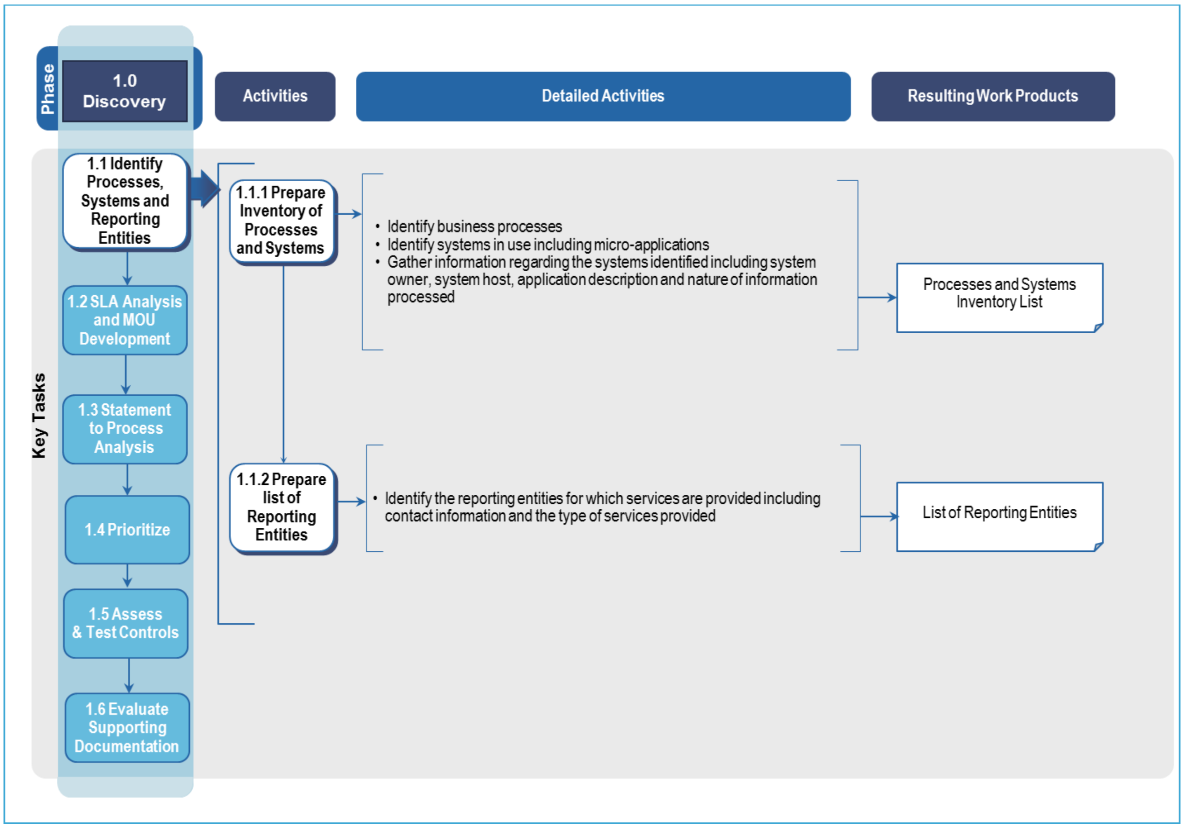


Figure 4-24. Discovery Phase – Identify Systems and Reporting Entities

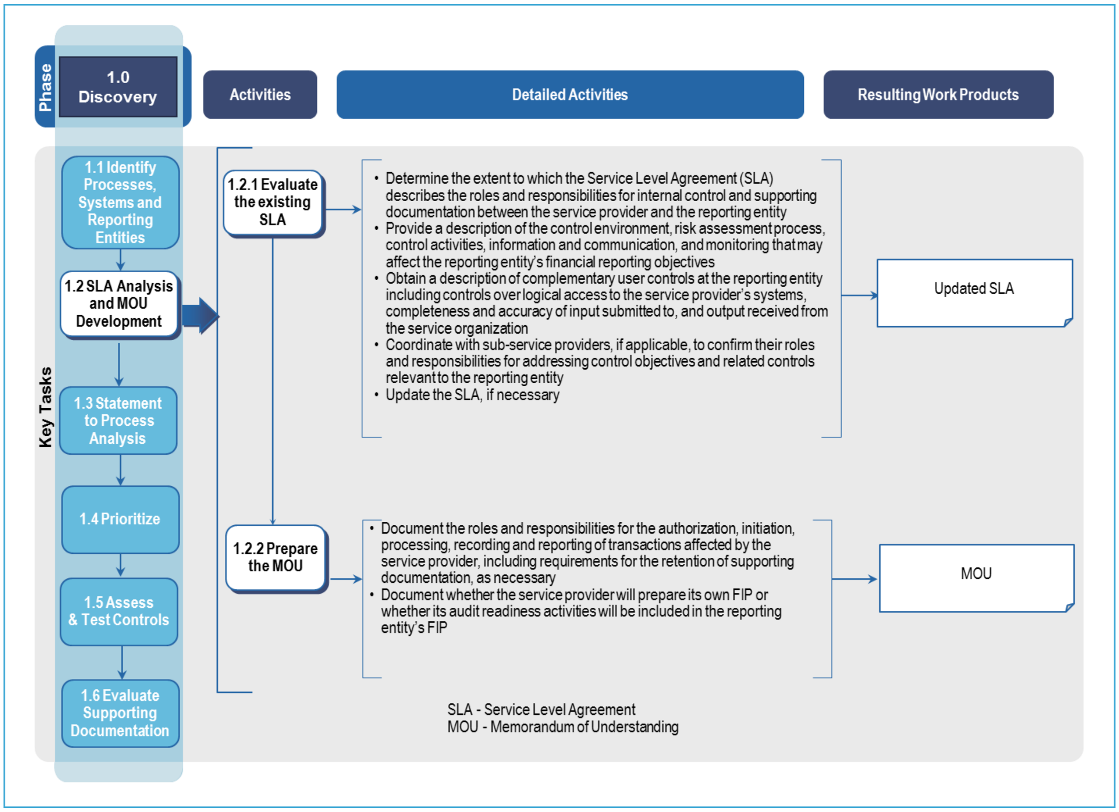


**Figure 4-25. Discovery Phase – SLA Analysis and MOU Development**

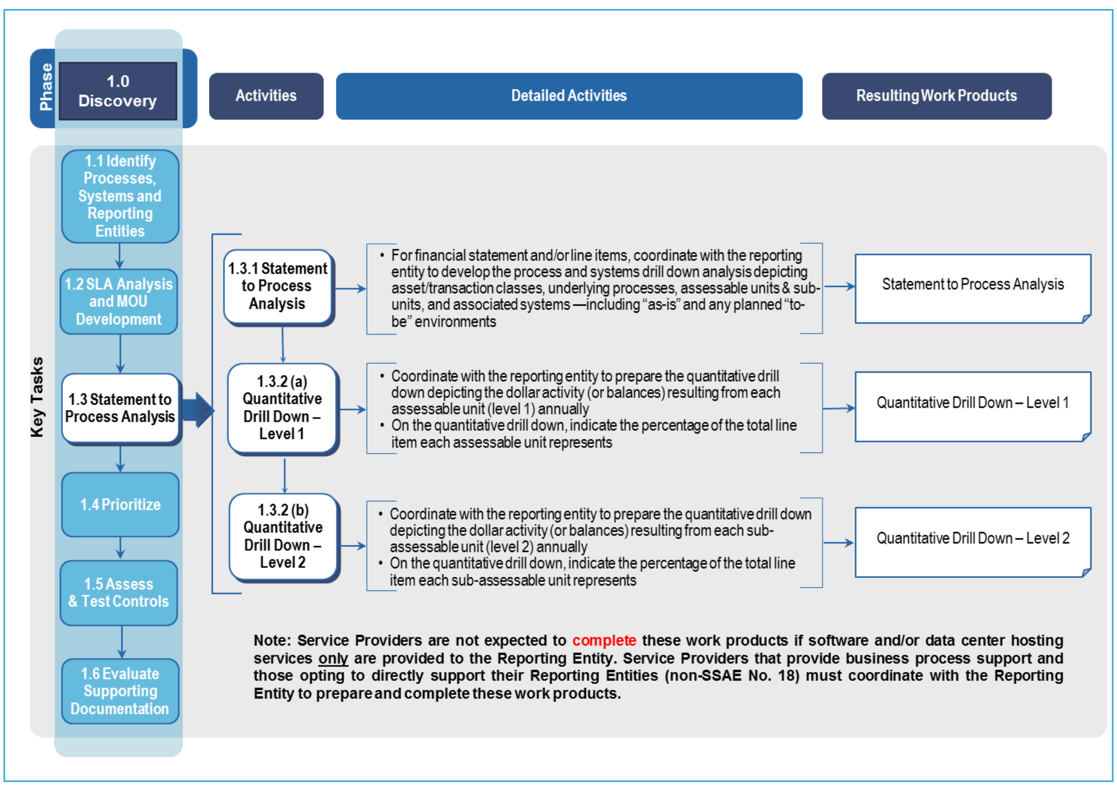


**Figure 4-26. Discovery Phase – Statement to Process Analysis**

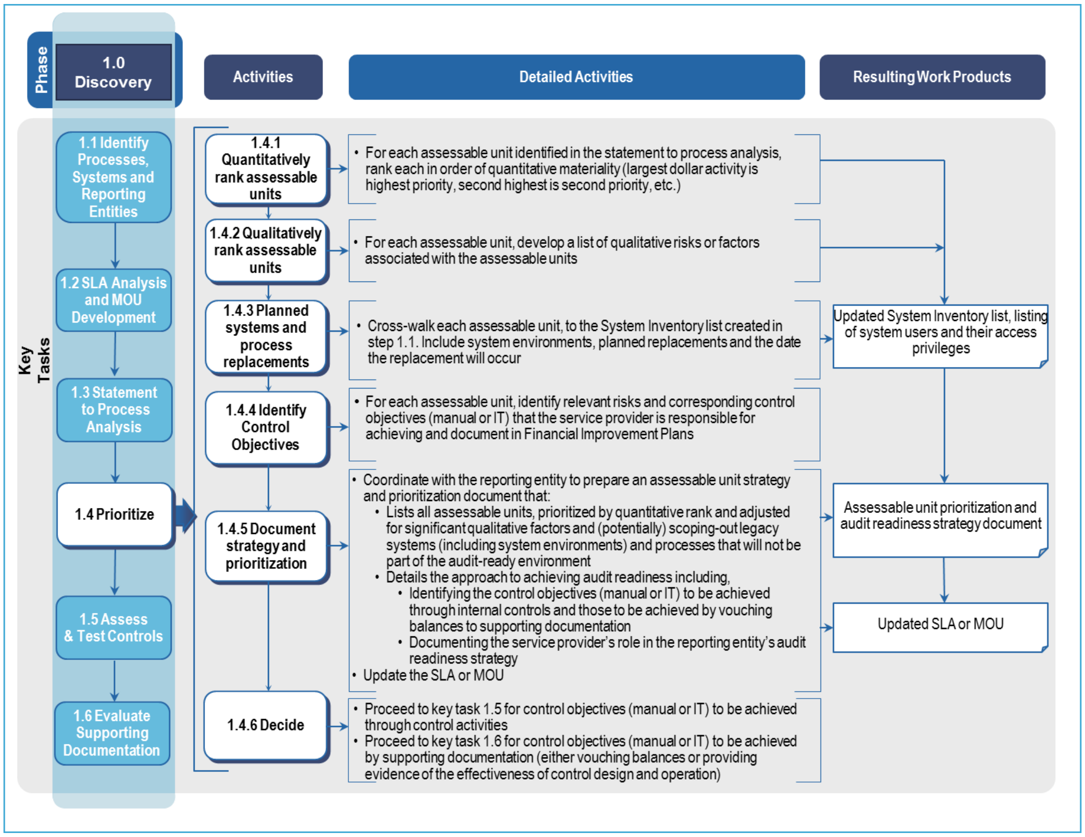


**Figure 4-27. Discovery Phase – Prioritize**

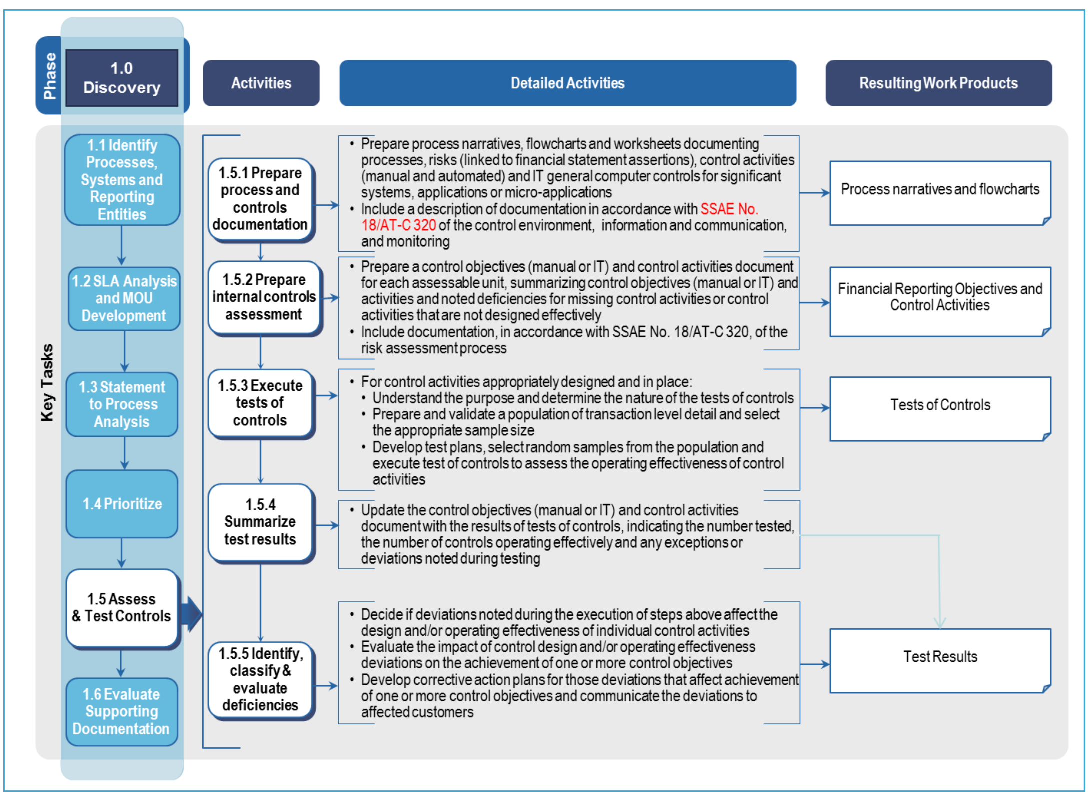


**Figure 4-28. Discovery Phase – Assess & Test Controls**

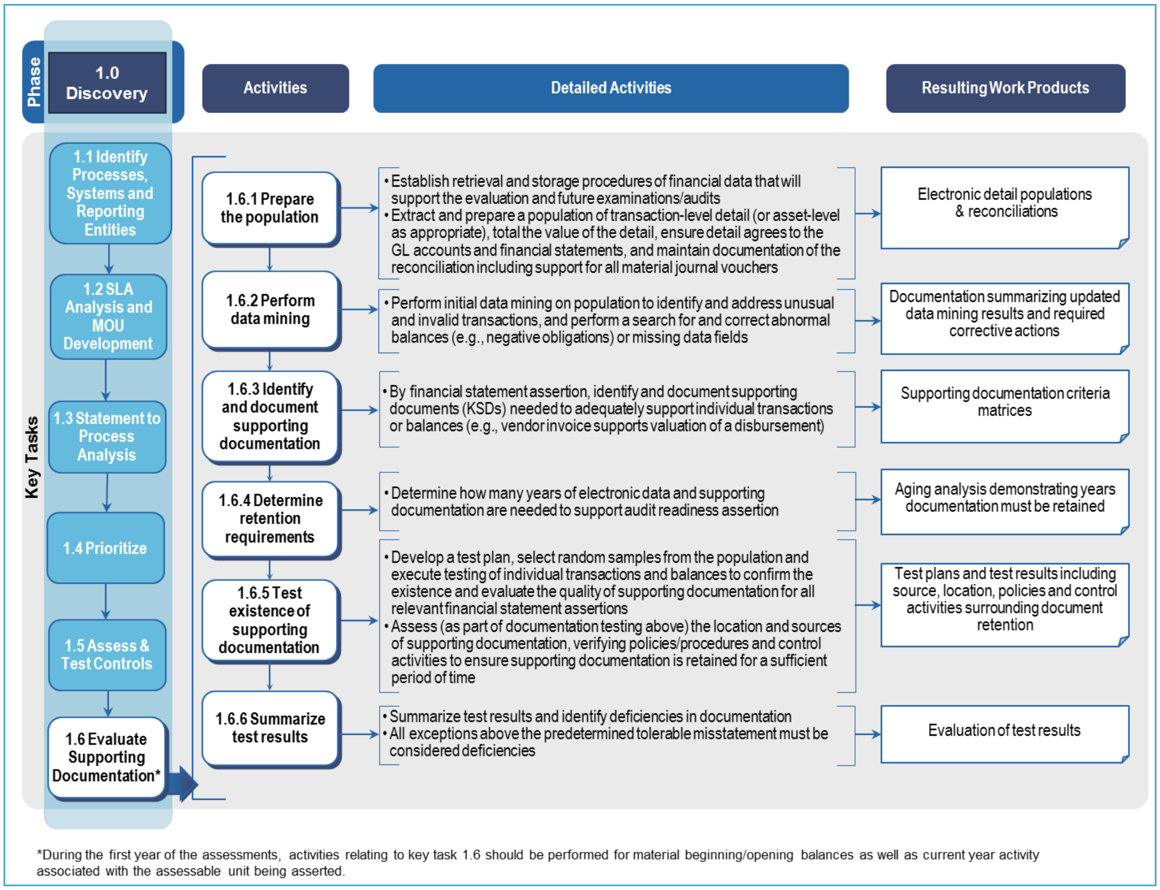


**Figure 4-29. Discovery Phase – Evaluate Supporting Documentation**

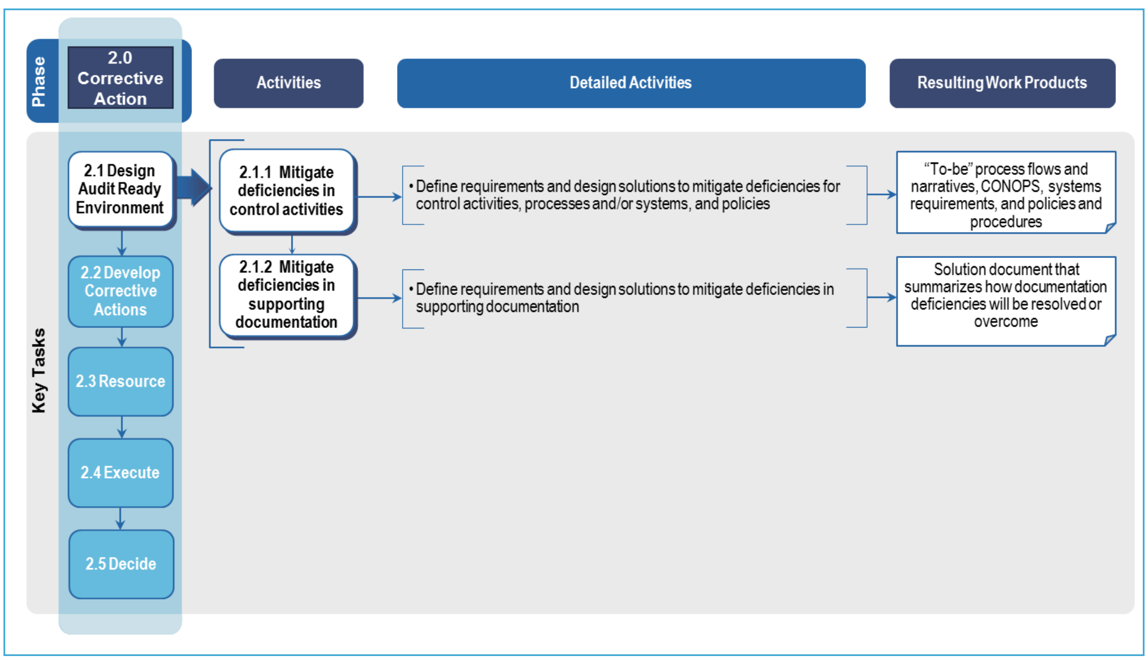


**Figure 4-30. Corrective Action – Design Audit Ready Environment**

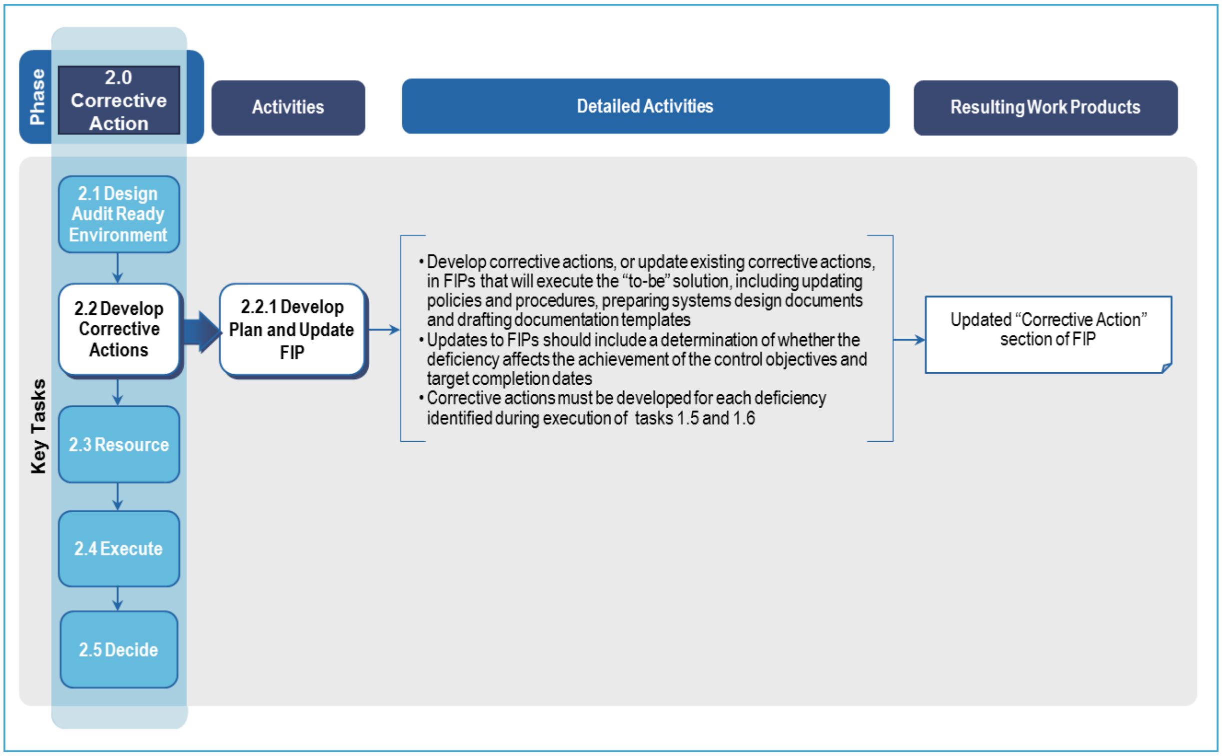


**Figure 4-31. Corrective Action – Develop Plan and Update FIP**

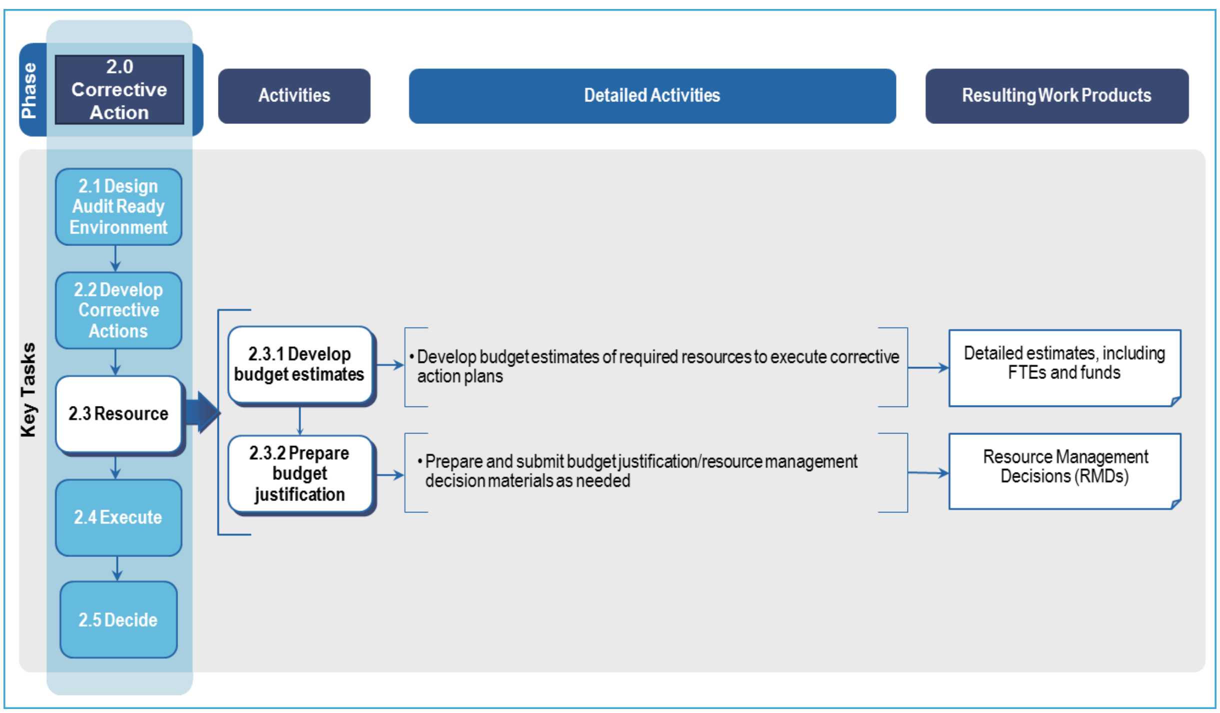


**Figure 4-32. Corrective Action – Resource**

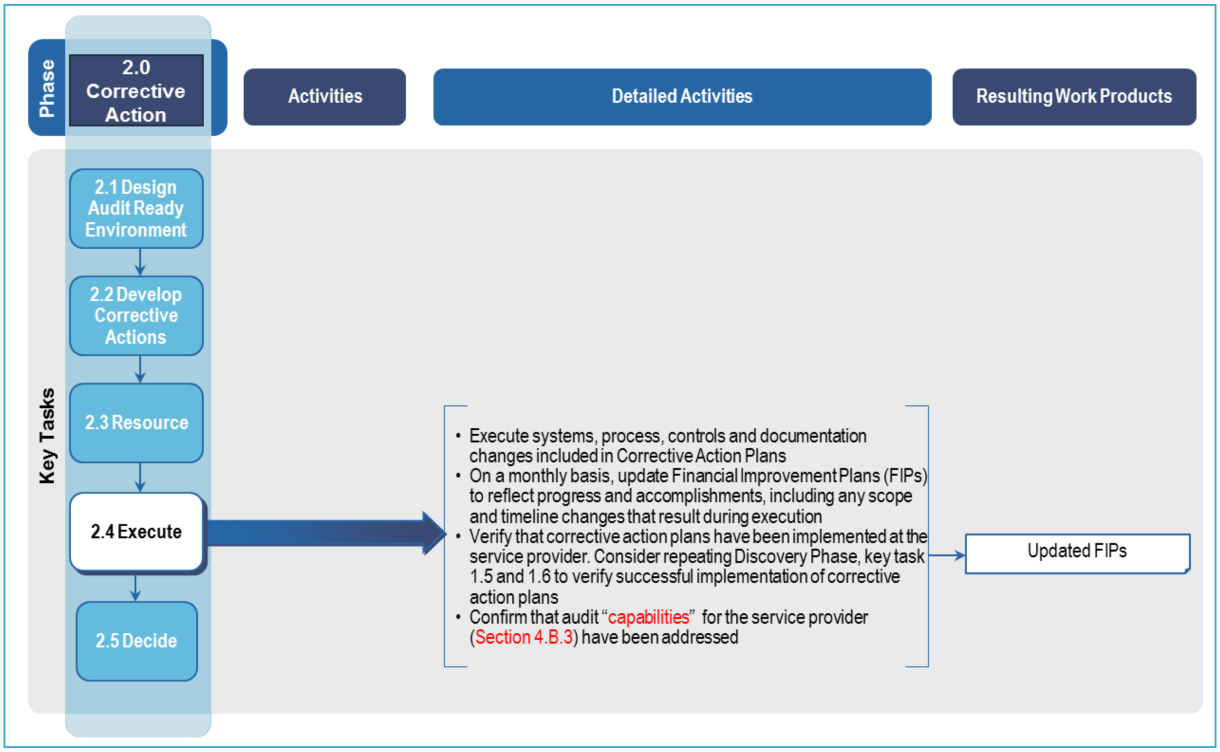


**Figure 4-33. Corrective Action – Execute**

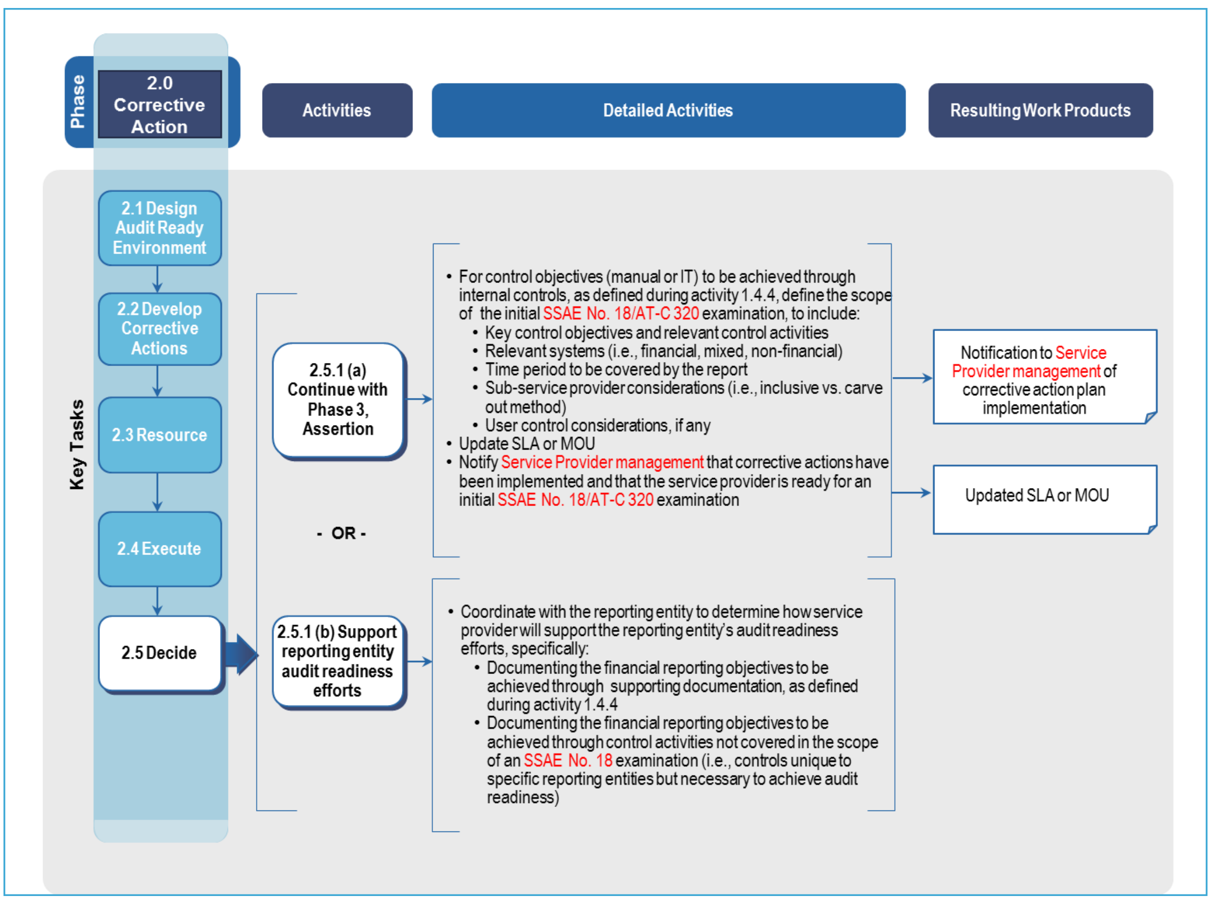


**Figure 4-34. Corrective Action – Decide**

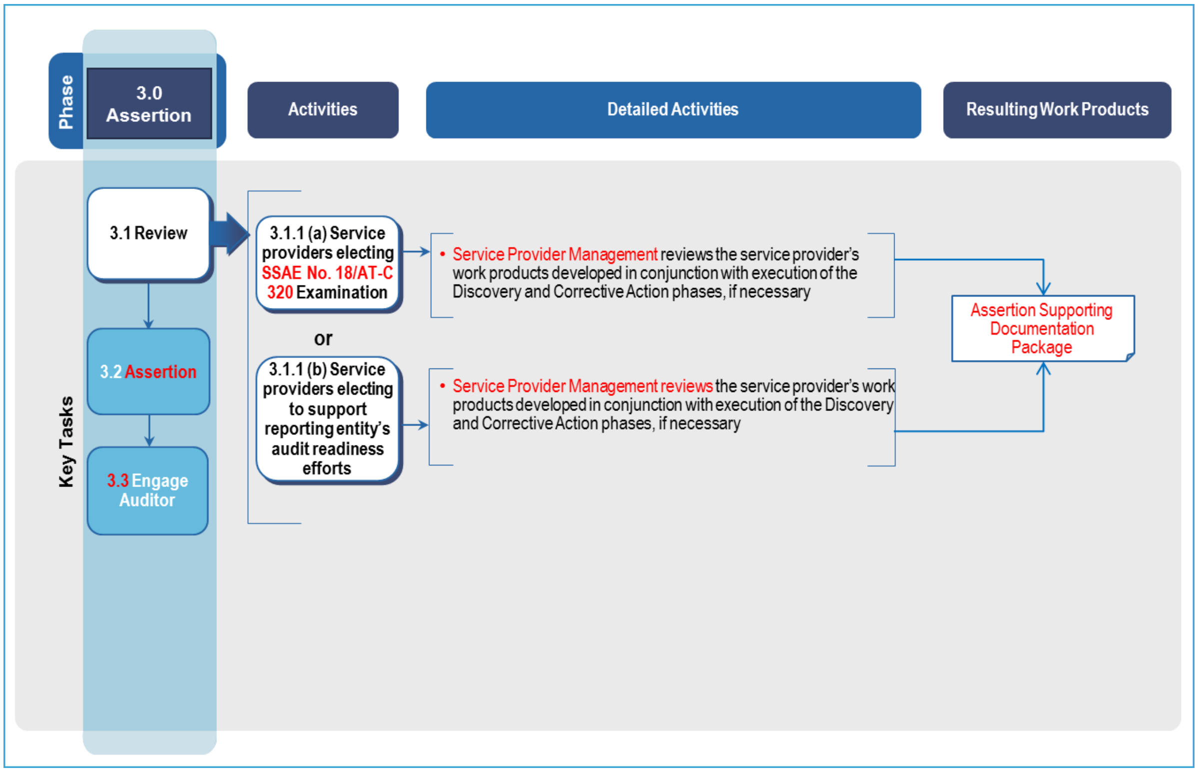


**Figure 4-35. Assertion – Review**

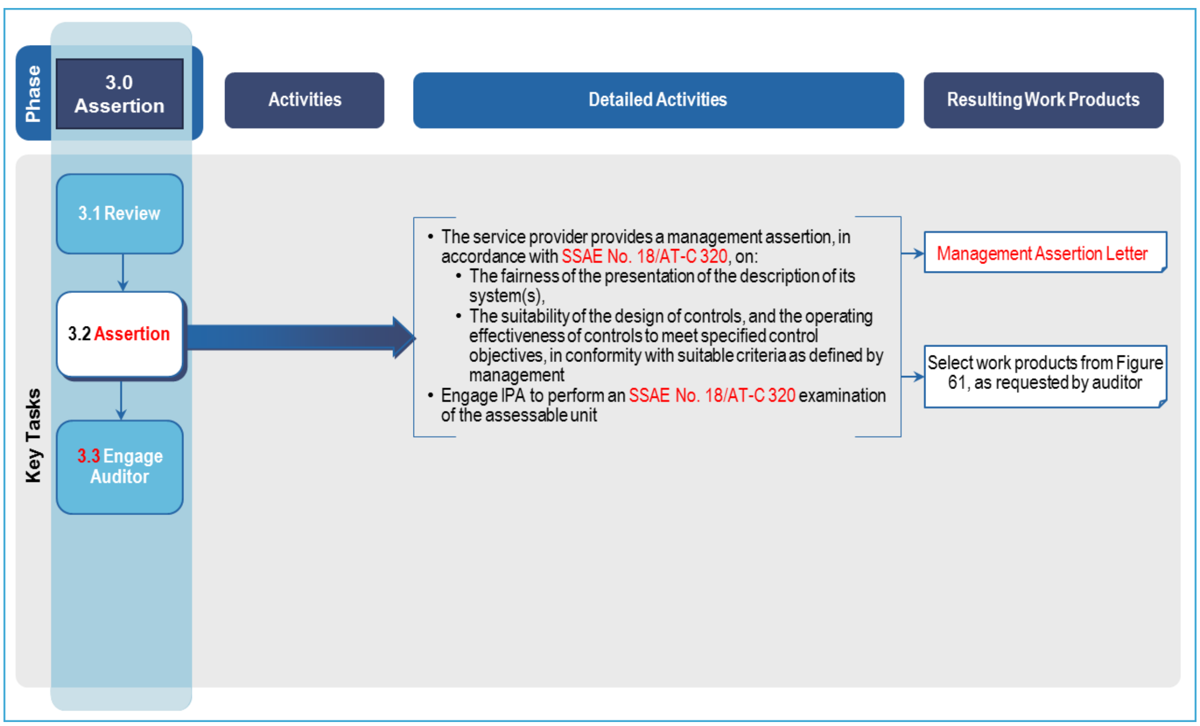


**Figure 4-36. Assertion**

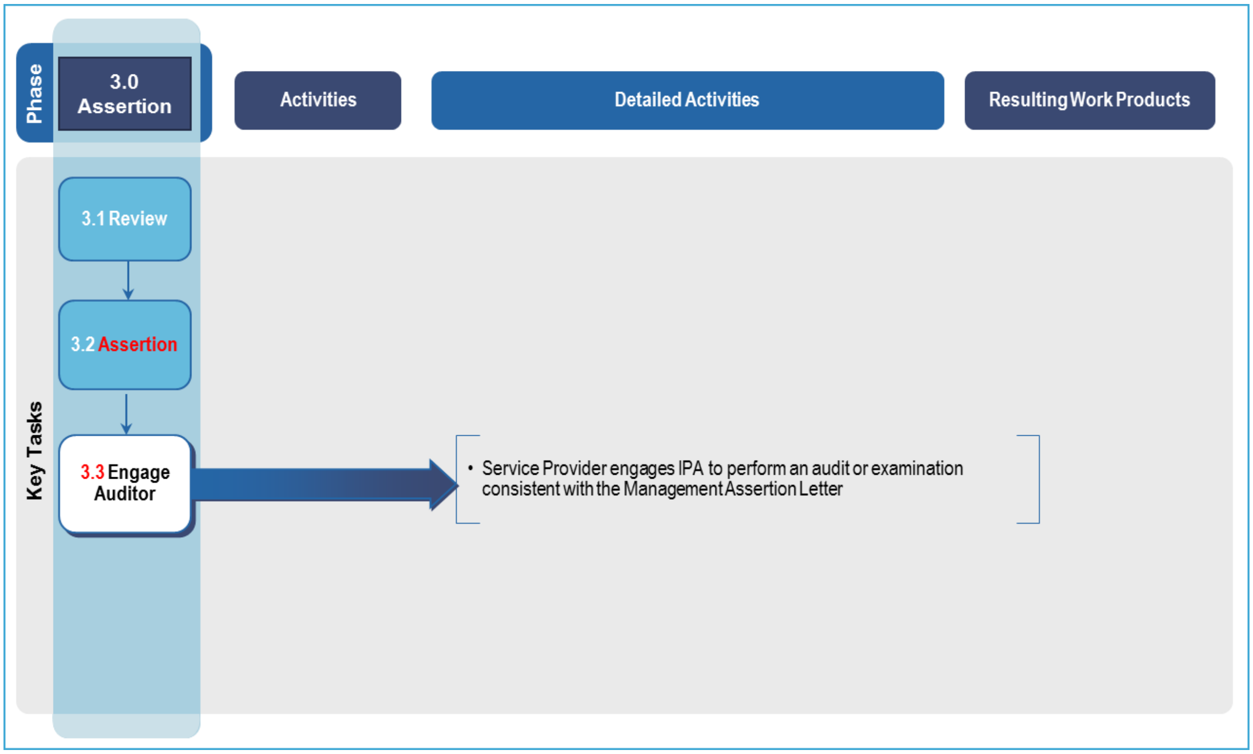


**Figure 4-37. Assertion – Engage Auditor**

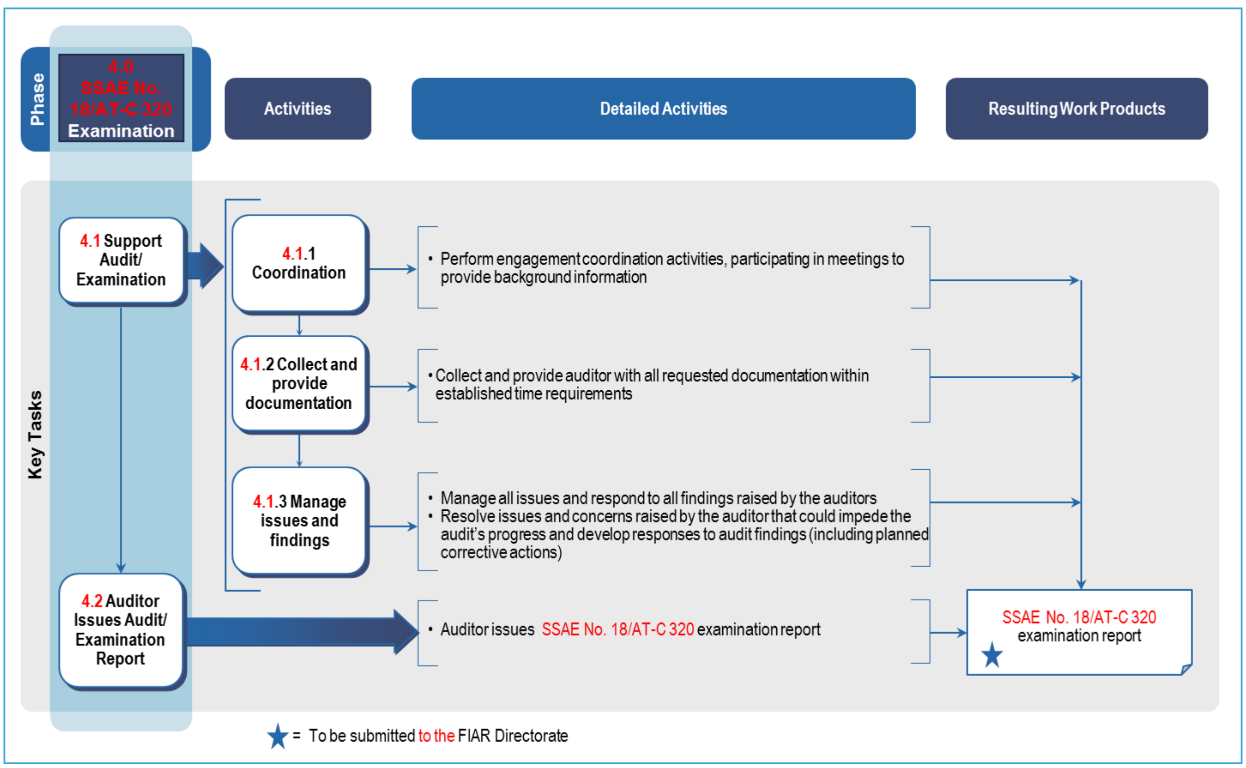


**Figure 4-38. SSAE No. 18 (AT-C 320) Examination Phase**

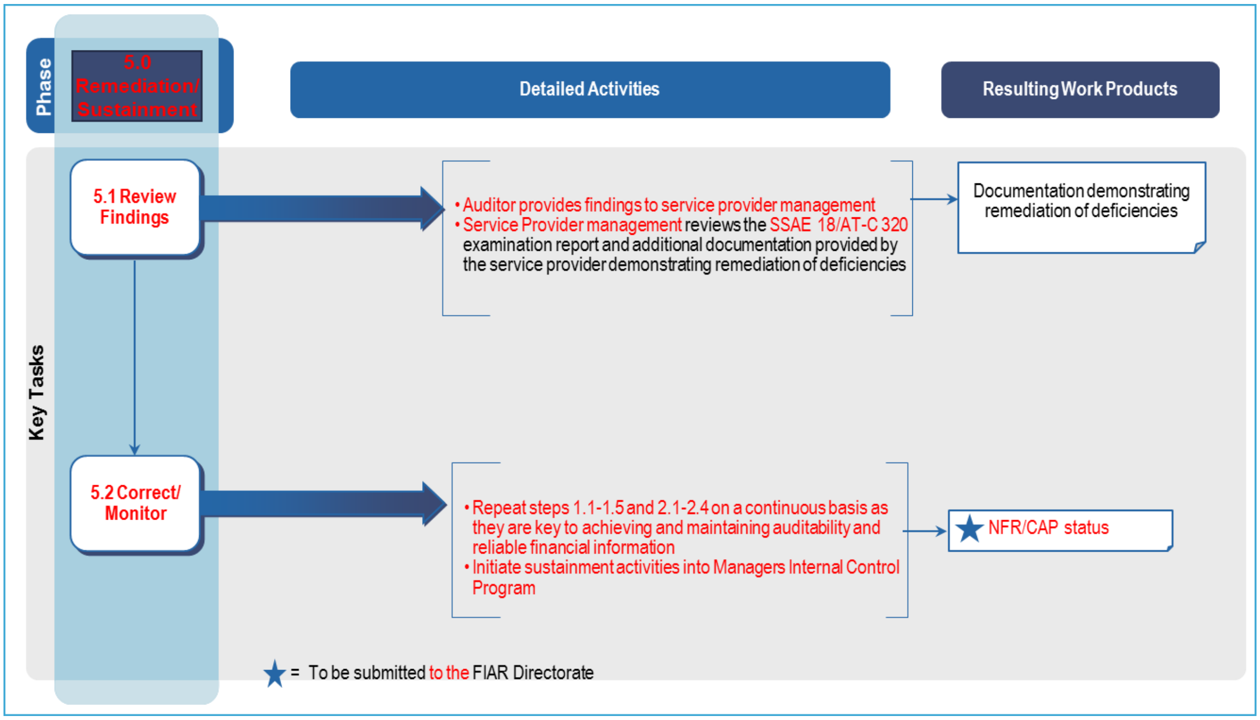


**Figure 4-39. Remediation / Sustainment Phase**

## Work Products

**Service provider work products must follow the format of SOC report and include the information that will be included in Section III and Section IV of the service auditor's report (even if the service provider is not pursuing a SOC examination).** Section I of a SOC report contains the service auditor's report, which describes the scope of the SOC examination and provides the service auditor's opinion. It is not required for the service provider's assertion documentation. Section II of a SOC report includes management's assertion, and Section III of a SOC report includes a description of the service organization's "system", **complementary user entity controls, and complementary subservice organization controls**. Section IV of a SOC report includes a description of the control activities in place to achieve the control objectives, as well as the test plans and the test results (Type 2 report). Refer to the FIAR Guidance website to review and download the ***SSAE No. 18 Examination Report Section IV Template and example***.

During the service provider's Discovery phase, the service provider should perform an audit impact assessment on service provider systems and processes, rather than the statement to process analysis and quantitative drill downs, to define the scope of the service auditor's report. **However, the service provider must coordinate with the reporting entity to prepare the overall Statement to Process Analysis, Quantitative Drill Down – Level 1 and Quantitative Drill Down - Level 2 for the reporting entity's assessable units.** The service provider will use these work products to determine the material processes, sub-processes, and systems the service provider is responsible for in supporting the reporting entity's audit readiness effort, either directly or by inclusion in the scope of the SOC report. (Note: the service provider does not need to submit the statement to process analysis and quantitative drill downs separately from the reporting entity.)

The graphic below illustrates the service provider work products outlined in accordance with the SOC report for Section II and Section III, and depicts how these service provider work products align to, and support reporting entity work products. The service provider's work products will be incorporated into the reporting entity's work products.

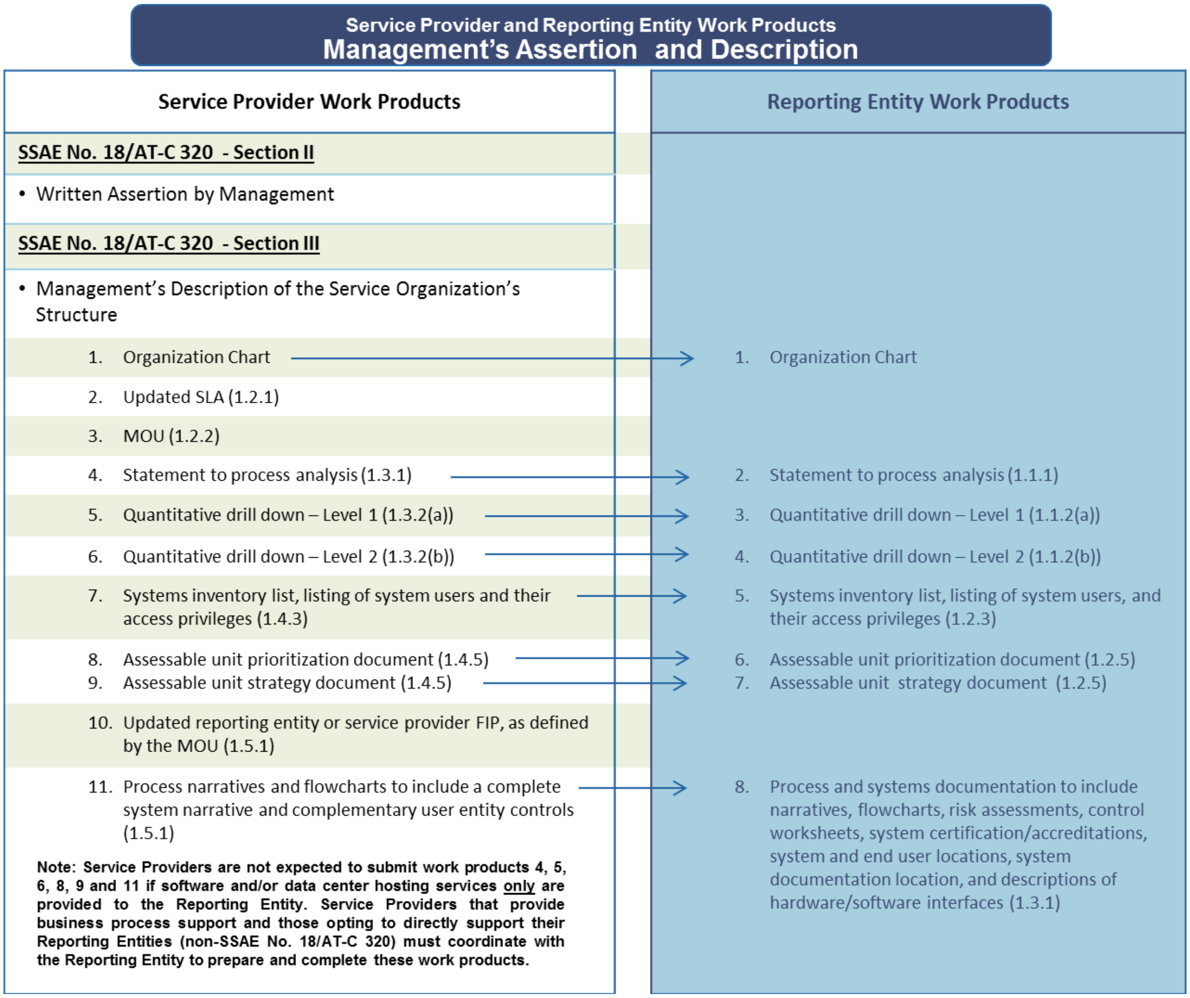


**Figure 4-40. Service Provider and Reporting Entity Work Products – SSAE 18 (AT-C 320) Section III**

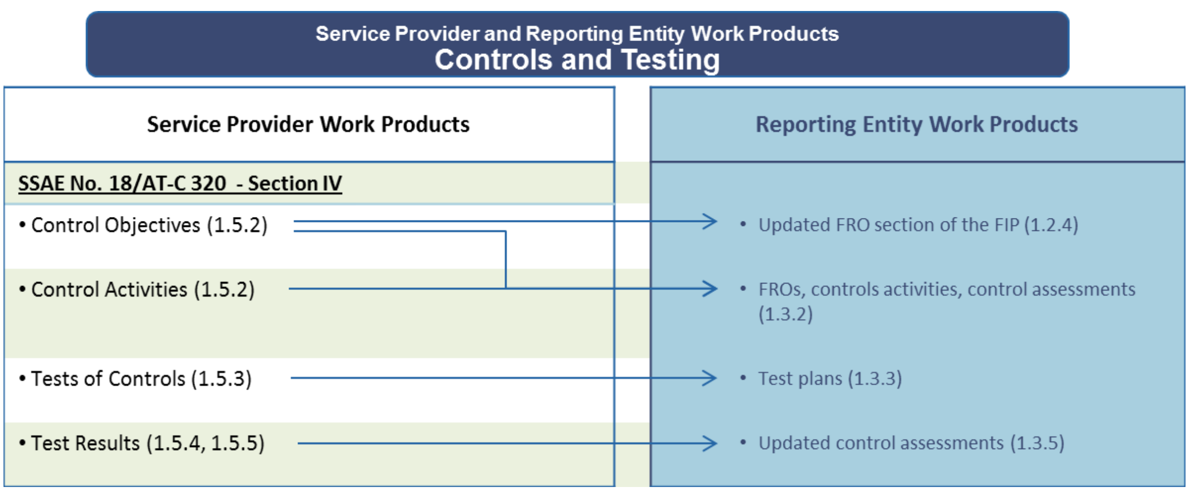


**Figure 4-41. Service Provider and Reporting Entity Work Products – SSAE No. 18 (AT-C 320) Section IV**

If the service provider is not prepared to assert audit readiness and undergo a SOC examination, the service provider is still required to support its customers by discussing a SOC examination timeline and working with customer auditors so as not to impede customer audit readiness progress.

## 4.C Preparing for an Audit

### 4.C.1 Assertion Supporting Documentation Package

**Assertion documentation consists of required work products that are prepared by reporting entities as they execute the key tasks and activities of the FIAR Methodology. Reporting entities and service providers must complete management assertion supporting documentation packages for each assessable unit being asserted as audit ready.**

The Methodology provides guidance for preparing the required work products to demonstrate successful completion of each of the five phases of the FIAR Methodology. The compilation of work products from the *Discovery* and *Corrective Action Phases* not only satisfies most OMB Circular A-123, Appendix A requirements, but also provides the evidence needed to demonstrate that the reporting entity is ready for audit.

The goal of the FIAR Methodology, and therefore, the assertion documentation is to provide evidence demonstrating that the reporting entity has:

- **Identified and evaluated the risk of material misstatement**
- **Identified the financial reporting objectives (FROs) relevant to the subject matter, assertion or processes that must be audit ready**
- **Designed and implemented an appropriate combination of control activities and supporting documentation, defined as KSDs, to mitigate the risk of material misstatement and achieve the FROs**
- **Ensured that the supporting documentation identified above is sufficient, relevant and accurate to support financial transactions, account balances, and financial statement line items**

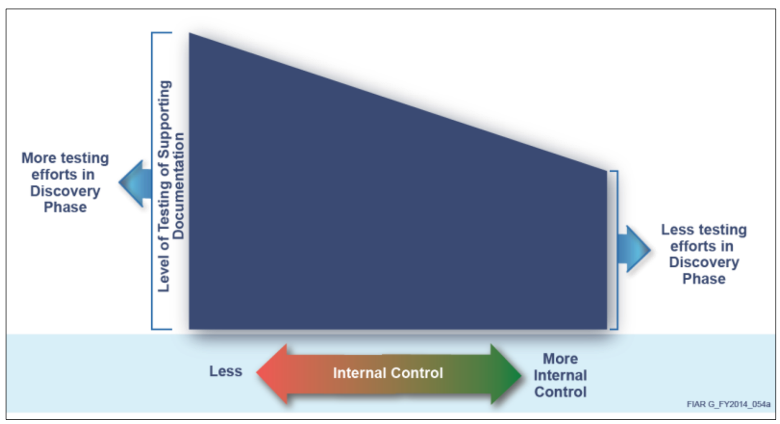


**Figure 4-42. Reliance on internal controls affects the level of testing of supporting documentation**

**Reporting entity management must decide how it will achieve audit readiness. The reporting entity must rely on effective control activities, but has flexibility with regard to how much to rely on internal controls**, as shown in **Figure 4-42**. In general, areas with large transaction volumes or numerous individual assets (e.g., supply, contracts, FBWT, inventory, OM&S, GE, etc.) require management and the auditor to rely on effective control activities to provide assurance that balances are properly stated at any given date. Management's determination that effective internal controls are not in place to mitigate risk does not necessarily preclude an assertion of audit readiness. For example, management may decide that it is more efficient to rely on supporting documentation and limit internal controls reliance for the existence and completeness assertion of low volume items, such as satellites. However, for populations with a large number of items or with a high volume of transaction activity, such as OM&S, it is more effective and efficient to place more reliance on internal controls, which requires detailed internal control documentation, including risk and internal controls assessments. **In cases where management reduces internal controls reliance, the reporting entity must provide extensive supporting evidence in the assertion documentation to offset the low reliance on internal controls.**

**ITGCs and application controls must be designed effectively and tested for operating effectiveness in order for management to rely on the automated controls and system generated reports (i.e., KSDs).** Supporting documentation testing (i.e., substantive testing) cannot overcome ineffective or missing ITGCs and application controls when transaction evidence is electronic and only maintained within a system, or the key supporting evidence is system generated reports.

### 4.C.2 Assertion Supporting Documentation Package - Interim Reviews

**As reporting entities complete the key tasks and activities required by the FIAR Methodology, it is recommended they prepare "audit ready" assertion documentation (i.e., process narratives, flow charts, test plans, etc.) supporting their audit readiness assertions and submit to management for review. 0 contains a graphical depiction of the required work products that may be required by the auditor.**

| Phase | FIP Task | Work Product |
|---|---|---|
| **Overview** | **N/A** | • Organization Chart |
| **Discovery Phase** | **1.1** | • Statement to process analysis<br>• Quantitative drill down – level 1<br>• Quantitative drill down – level 2<br>• Service Level Agreement (SLA)/ Memorandum of Understanding (MOU) |
| | **1.2** | • Systems inventory list, listing of system users and their access privileges<br>• Assessable Unit Prioritization and Audit Readiness Strategy document<br>• Updated Service Level Agreement (SLA)/ Memorandum of Understanding (MOU) |
| | **1.3** | • Process and system documentation (to include certifications/ accreditations of systems, systems/end user locations, system documentation location, and descriptions of hardware/software/interfaces)<br>• FROs and control activities<br>• Updated Controls Assessments<br>• Test Plans |
| | **1.4** | • Electronic Data Populations and Reconciliations<br>• Data Mining Results and CAPs<br>• Supporting Documentation Matrix<br>• Aging Analysis<br>• Test Plans and Test Results including Source, Location, Policy and Control Activities Surrounding Document Retention<br>• Evaluation of Test Results |
| **Corrective Action Phase** | **2.1** | • "To-be" process flows and narratives, CONOPS, systems requirements, and policies and procedures<br>• Solution document that summarizes how documentation deficiencies will be resolved or overcome |

**Figure 4-43. Assertion Documentation Work Products Requirements**

**Figure 4-44 below describes the key work products required per the FIAR Methodology and indicates whether an auditor will require the document during the engagement. Although some assertion work products may not be required by the auditor, all are integral components of becoming audit ready.**

| Assertion Work Product | FIAR Task | Required by Auditor |
|---|---|---|
| SLAs/MOUs, Statement to Process Analysis, and Quantitative Drill Down - Level 1/Level 2 | 1.1.1<br>1.1.2 | Y |
| Systems Inventory List, Listing of System Users and Access Privileges | 1.2.3 | Y |
| Assessable Unit Prioritization, Audit Readiness Strategy Document | 1.2.5 | N |
| Process and System Documentation, and Supporting Documentation Criteria Matrices | 1.3.1<br>1.4.3 | Y |
| Electronic Detail Populations and Reconciliations | 1.4.1 | Y |
| Documentation summarizing updated data mining results and required corrective actions and Aging analysis demonstrating years documentation must be retained | 1.4.2<br>1.4.4 | N |
| Test Plans and Test Results – Evaluation of Test Results | 1.3.3<br>1.3.4<br>1.4.5<br>1.4.6 | N |
| "To-be" process flows and narratives, CONOPS, systems requirements, and policies and procedures, Solution document that summarizes how documentation deficiencies will be resolved or overcome, and Updated "Corrective Action" section of FIP | 2.1.1<br>2.1.2<br>2.2.1 | Y |
| Assertion Supporting Documentation Package | 3.1 | N |

Discovery | Corrective Action | Assertion

**Figure 4-44. Assertion Documentation Work Products Requirements**

## 4.C.3 Management Assertion Process for IPA or DoD OIG Examinations

Once reporting entity management completes its review of the reporting entity's assertion documentation, the reporting entity prepares and submits a management assertion letter to the IPA declaring that the subject matter (financial statement/selected element of the financial statement) is audit ready. For the Fourth Estate, the FIAR Directorate assists the reporting entity in defining the scope of the management assertion letter to ensure it aligns with the Department's overall timeline for achieving audit readiness. Refer to Section 2.D.2 for guidance on preparing management assertions.

### 4.C.4 Clarifying and Restructuring the Attestation Standards

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) has completed clarifying Statements of Standards for Attestation Engagements (SSAEs or attestation standards) and issued its clarified attestation standards as SSAE No. 18, *Attestation Standards: Clarification and Recodification*, in April 2016 to be effective for practitioners' reports dated on or after May 1, 2017.

The attestation standards are developed and issued in the form of SSAEs and are codified into sections. The identifier "AT-C" is used to differentiate the sections of the clarified attestation standards ("AT-C" sections) from the sections of the attestation standards that are superseded by SSAE No. 18 ("AT" sections).

The attestation standards provide for three types of services – examination, review, and agreed-upon procedures, SSAE No. 18 restructures the attestation standards so that the applicability of any AT-C section of the attestation standards to a particular engagement depends on the type of service provided and the subject matter of the engagements.

AT-C section 105, *Concepts Common to all Attestation Engagements,* contains requirements and application guidance applicable to any attestation engagement. AT-C sections 205, *Examination Engagements;* 210, *Review Engagements;* and 215, *Agreed-Upon Procedures Engagements,* each contain additional requirements and application guidance specific to the type of service performed. The applicable requirements and application guidance for any attestation engagement is contained in at least two AT-C sections: AT-C section 105 and either AT-C section 205, 210, or 215, depending on the type of service provided.

The clarified Attestation Standards are issued and restructured as SSAE No. 18. Per the new guidance, AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting,* supersedes SSAE No. 16, AT section 801[39].

[39] Refer to SSAE No. 18 – Exhibit, List of AT-C Sections designated by Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification, Cross Referenced to List of AT Sections in AICPA Professional Standards

# 5. AUDITING THE FINANCIAL STATEMENTS

## 5.A INTRODUCTION

In order to help the Department of Defense achieve its goal of having all of its financial statements ready for audit by September 30, 2017, reporting entities must begin to shift their focus towards balance sheet line items. FIAR activities that were performed during Wave 2 for material assessable units may be leveraged in Wave 4, but reporting entities must also expand the scope of their efforts to cover proprietary transactions.

The successful completion of Wave 4 should include ensuring that internal controls over proprietary transactions are operating effectively and that relevant management assertions for all material financial statement line items are verified. As noted in the GAO/PCIE Financial Audit Manual (FAM), most of the auditor's work in forming an opinion on financial statements consists of obtaining and evaluating sufficient appropriate evidence concerning the assertions in the financial statements. In section 235, the FAM classifies financial statement assertions into the five categories listed in **Figure 5-1**.

| Financial Statement Assertions | Outcomes Demonstrating Audit Readiness |
|---|---|
| Existence or Occurrence (E) | Recorded transactions and events occurred during the given period, are properly classified, and pertain to the entity. An entity's assets, liabilities, and net position exist at a given date. |
| Completeness (C) | All transactions and events that should have been recorded are recorded in the proper period. All assets, liabilities, and net position that should have been recorded have been recorded in the proper period and properly included in the financial statements. |
| Accuracy/Valuation or Allocation (V) | Amounts and other data relating to recorded transactions and events have been recorded appropriately. Assets, liabilities, and net position are included in the financial statements at appropriate amounts, and any resulting valuation or allocation adjustments are properly recorded. Financial and other information is disclosed fairly and at appropriate amounts. |
| Rights and Obligations (R) | The entity holds or controls the rights to assets, and liabilities are the obligations of the entity at a given date. |
| Presentation and Disclosure (P) | The financial and other information in the financial statements is appropriately presented and described and disclosures are clearly expressed. All disclosures that should have been included in the financial statements have been included. Disclosed events and transactions have occurred and pertain to the entity. |

**Figure 5-1. Financial Statement Assertions and Financial Reporting Objectives**

For each financial statement line item, reporting entities must ensure that audit evidence is readily available to support all applicable assertions. By reviewing the corresponding Outcomes Demonstrating Audit Readiness in the table, reporting entities can determine whether or not applicable assertions have been satisfied for a particular line item. The Presentation and Disclosure assertion for all line items is covered by the Financial Reporting assessable unit, thus is not presented in the individual line item tables.

Suggested test procedures have been provided to assist reporting entities in validating that assertions can be supported. Reporting entities may tailor the procedures to address the intricacies of their operating environment. By performing these test procedures in advance of a financial statement audit, reporting entities can identify gaps in controls and documentation that require the implementation of corrective actions prior to audit.

Financial reporting risks have been identified for each financial statement line item. Assertions impacted by each risk have been identified as well as outcomes demonstrating audit readiness, key supporting documents and Wave 4 requirements.

## 5.B TIE-POINT RECONCILIATIONS GUIDANCE

"Tie-points" are interdependent relationships between U.S. Standard General Ledger (USSGL) accounts. As indicated in the July 14, 2014 OUSD(C) memorandum regarding *Accurate and Reliable DoD Component-level Financial Management Trial Balances* from the DCFO, reporting entities must perform tie-point reconciliations on a recurring basis. These reconciliations are intended to validate the integrity of financial data and allow for the early detection and correction of potential reporting errors.

Tie-point relationships exist:

- within the budgetary series of accounts
- within the proprietary series of accounts
- between the budgetary and proprietary series of accounts

Examples of tie-points are provided in **Figure 5-2** below. For a full listing of the most up-to-date tie points, visit the DoD Chart of Accounts Tie-Points Standard at http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/.

| Tie-Point | Relationship |
|---|---|
| Treasury Tie-Point #1 | Assets = Liabilities, Net Position, Revenue, Expenses, and Gains/Losses |
| Treasury Tie-Point #2 | Budgetary Cash = Proprietary Cash |
| Treasury Tie-Point #3 | Budgetary Delivered Orders Unpaid = Proprietary Accounts Payable |

**Figure 5-2. Tie-Point Examples**

*Tie-point analyses should be conducted on trial balances that are produced by reporting entity accounting systems before they are input into the Defense Departmental Reporting System (DDRS).*

Out-of-balance tie-point relationships may occur for a variety of reasons such as general ledger discrepancies carried forward from converted legacy data or the utilization of incorrect posting logic. In instances where a reporting entity encounters a tie-point relationship that does not balance, the root cause should be determined and corresponding corrective actions should be implemented in a timely manner. Corrective actions should be adequately documented to ensure the existence of a sufficient audit trail.

It is recommended that reporting entities develop and maintain tie-point metrics for each trial balance. The metrics will enable reporting entities to gain assurance over the accuracy and reliability of general ledger data and will provide for the proactive identification and resolution of financial reporting issues and anomalies.

## 5.C WAVE 2 – STATEMENT OF BUDGETARY RESOURCES

### 5.C.1 BALANCES BROUGHT FORWARD

Balances Brought Forward are amounts reported on the Statement of Budgetary Resources (SBR) that are comprised of prior-year appropriations netted against collection, disbursement, rescission, and transfer activity that has occurred since the initial appropriation. These beginning balances are reported in SBR line items referred to as "brought forward" items because the ending balance in one fiscal year becomes the opening balance for the next fiscal year. Those line items include amounts reported in general ledger and Treasury accounts that are not closed at fiscal year-end. **Figure 5-3** identifies the SBR line items that report balances carried forward and the primary associated budgetary general ledger accounts that do not close at fiscal year-end.[40]

| SBR Line Item | Typical General Ledger Accounts |
|---|---|
| 1000, "Unobligated balance, brought forward, October 1" | 413900, "Contract Authority Carried Forward" |
| | 420100, "Total Actual Resources – Collected" |
| | 422100, "Unfilled Customer Orders Without Advance" |
| | 422200, "Unfilled Customer Orders With Advance" |
| | 425100, "Reimbursements and Other Income Earned – Receivable |
| | 438400, "Temporary Reduction/Cancellation Returned by Appropriation" |
| | *Less:* 480100, "Undelivered Orders – Obligations, Unpaid" |
| | *Less:* 480200, "Undelivered Orders – Obligations, Prepaid/Advanced" |
| | *Less:* 490100, "Delivered Orders – Obligations, Unpaid" |
| 3000, "Unpaid obligations, brought forward, October 1" | 480100, "Undelivered Orders – Obligations, Unpaid" |
| | 490100, "Delivered Orders – Obligations, Unpaid" |
| 3060, "Uncollected payments, Fed sources, brought forward, October 1" | 422100, "Unfilled Customer Orders Without Advance" |
| | 422500, "Expenditure Transfers from Trust Funds – Receivable" |
| | 425100, "Reimbursements and Other Income Earned – Receivable" |
| | 428700, "Other Federal Receivables" |

**Figure 5-3. SBR Line Items Reporting Balances Carried Forward to the Next Fiscal Year and Primary Associated Budgetary General Ledger Accounts**

Wave 2 of the FIAR guidance has recently focused on current year budget execution, which will be reported in a schedule of budgetary activity. Accordingly, reporting entities have concentrated their audit readiness efforts on current year activity. However, because the amounts reported on these three SBR lines are cumulative amounts based on prior years' activity, auditors will examine them differently from those line items containing current year activity. Specifically, auditors will attempt to determine whether the line item fairly presents the amounts contained in the underlying general ledger by testing transactions that occurred in the past, which comprise the balances of the line item. **Reporting entities must treat the SBR Balances Brought Forward line items as an assessable unit, and prepare assertion supporting documentation packages for reporting entity management in accordance with the FIAR methodology.**

Beginning balances will likely be the most difficult financial statement line items for reporting entities to support. Understanding there is a risk that historical documentation may not be readily available, reporting entities should make reasonable efforts to confirm historical documentation does not exist before pursuing an alternative approach. At a minimum, reporting entities must perform the following procedures when evaluating beginning balances:

[40] The table may not identify every general ledger account that comprises these SBR line items. However, all general ledger accounts that comprise the SBR line items should be included in audit readiness activities. Please refer to Treasury Financial Manual (TFM) Crosswalks for a complete listing.

1. Confirm internal controls and document retention policies/procedures/systems are in place and operating effectively on a go-forward basis.
2. Develop the ability to produce a universe of transactions/balances that supports beginning balances at a detailed level. The completeness of the universe of transactions is demonstrated through reconciliations (e.g., reconciliations between the accounting system and Treasury's records for FBWT beginning balances).
3. Perform discovery testing to confirm the availability of historical documentation through sampling of the universe of transactions.
4. If historical documentation is not available, develop a strategy for addressing beginning balance, and present strategy to reporting entity management for concurrence.

A brief description of the SBR Balances Brought Forward line items is provided below.

*Unobligated Balances (Line Item 1000)* – This line item is comprised of amounts available for obligation during the current fiscal year brought forward from prior fiscal years. Prior year unobligated balances may be available to enter into new obligations during the current year, and for upward adjustments of obligations that were properly incurred against the account during the unexpired period.[41]

*Unpaid Obligations (Line Item 3000)* – This line item is comprised of the amount of obligations already incurred for which payment has not yet been made. For a fixed appropriation account, this balance can be carried forward and retains its fiscal year identity for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled.

*Uncollected Payments, Federal Sources (Line Item 3060)* – This line item is comprised of amounts earned but not collected from other Federal Government sources. Specifically, this line item includes two types of amounts, (1) accounts receivable from other Federal Government accounts (amounts owed for fulfilled orders); and (2) unfilled customer orders from other Federal Government accounts not accompanied by an advance (unfulfilled orders).

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for SBR Balances Brought Forward are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • DoD FMR: Volume 3, Chapter 8; Volume 6B, Chapter 7<br>• Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget*<br>• U.S. Government Accountability Office (GAO) *Principles of Federal Appropriations Law* ("Red Book") | • National Archives and Records Administration (NARA) General Records Schedule 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance by Reporting Entity – Unobligated Balances

The following reporting entities comprise the balances brought forward in the Unobligated Balances line item (line item 1000) on the Statement of Budgetary Resources.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 42,912,596,530 | 28.5% |

[41] According to Office of Management and Budget guidance, SBR balances include budgetary resources for accounts during the current period of availability and the five years that they are in an expired status. Unobligated balances of expired budget authority remain available for five years after the account expires to make legitimate adjustments, such as recording previously unrecorded obligations and making upward adjustments to previously recorded obligations. At the end of the fifth year, the expired account is closed and no longer reported on the SBR.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| Air Force GF | | 25,747,448,595 | 17.1% |
| Navy GF | | 32,260,381,199 | 21.4% |
| Marine Corps GF | | 2,985,237,022 | 2.0% |
| Navy WCF | | 2,977,317,332 | 2.0% |
| Air Force WCF | | 993,355,639 | 0.7% |
| Army WCF | | 2,783,612,763 | 1.8% |
| Marine Corps WCF | | 288,612,091 | 0.2% |
| USACE – Civil Works Program | | 10,987,389,892 | 7.3% |
| **Subtotal - OMB Design. Audit** | **$** | **121,935,951,062** | **80.9%** |
| **DoD Designated Audit** | | | |
| DHA - Contract Resource Mgmt | $ | 114,367,691 | 0.1% |
| DHA - Comptroller FOD | | 1,712,586,917 | 1.1% |
| DHA - USUHS | | 128,290,853 | 0.1% |
| DHA - SMA/Army | | 3,413,255,128 | 2.3% |
| DHA - SMA/Navy | | 328,186,879 | 0.2% |
| DHA - SMA/Air Force | | 505,323,739 | 0.3% |
| DHA - SMA/NCR | | 41,110,587 | 0.0% |
| DLA WCF | | 122,742,469 | 0.1% |
| DLA GF | | 522,922,502 | 0.3% |
| DLA Strategic Materials | | 201,689,082 | 0.1% |
| DoD Component Level Accounts | | 3,769,340,506 | 2.5% |
| U.S. Special Operations Command | | 1,849,936,375 | 1.2% |
| DISA WCF | | 339,106,055 | 0.2% |
| DISA GF | | 325,593,347 | 0.2% |
| TRANSCOM - Air Mobility Command | | 745,130,502 | 0.5% |
| TRANSCOM - Military SDDC | | 40,229,159 | 0.0% |
| TRANSCOM - Military Sealift Command | | 345,966,708 | 0.2% |
| TRANSCOM - Command Staff | | 28,345,353 | 0.0% |
| TRANSCOM - Defense Courier Division | | 10,883,628 | 0.0% |
| DeCA WCF | | 213,182,102 | 0.1% |
| DeCA GF | | 75,762,847 | 0.1% |
| DFAS WCF | | 17,337,486 | 0.0% |
| Defense Contract Audit Agency | | 24,240,258 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **14,875,530,171** | **9.9%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 199,034,373 | 0.1% |
| WHS - Office of the SecDef | | 2,852,385,837 | 1.9% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 22,395,617 | 0.0% |
| WHS - Building Maintenance Fund | | 49,136,373 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | | 4,532,776 | 0.0% |
| WHS - Civilian Military Program | | 25,177,745 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 1,775,590 | 0.0% |
| WHS - Defense Legal Services Agency | | 31,797,627 | 0.0% |
| Missile Defense Agency | | 570,528,064 | 0.4% |
| Defense Security Cooperation Agency | | 2,823,368,491 | 1.9% |
| DoD Education Activity | | 942,316,019 | 0.6% |
| DARPA | | 582,795,191 | 0.4% |
| Other TI-97 Funds – Army | | 1,067,215,157 | 0.7% |
| Chemical Biological Defense Program | | 251,584,701 | 0.2% |
| Defense Contract Mgmt Agency | | 117,250,752 | 0.1% |
| Defense Threat Reduction Agency | | 294,562,678 | 0.2% |
| Joint Staff (includes NDU) | | 227,174,918 | 0.2% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **10,063,031,909** | **6.7%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 3,888,333,037 | 2.6% |
| | | | |
| **Total** | **$** | **150,762,846,179** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Statements of Budgetary Resources

### Line Item Audit Readiness Considerations – Unobligated Balances

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to SBR Balances Brought Forward for Unobligated Balances (SBR line item 1000). In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting the SBR Balances Brought Forward for Unobligated Balances and to assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Unobligated Balance, Brought Forward** | | | | |
| UB.1 | Recorded Unobligated Balances, Brought Forward may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (Wave 2 – SBR, ROMM #1) (E) | Recorded Unobligated Balances, Brought Forward from prior periods represent events that actually occurred and are properly summarized and classified in the financial statements (Wave 2 – SBR, FRO #9) | Comparative financial statements<br><br>SF 133<br><br>Appropriation Warrant<br><br>Funding Authorization Document | Trace the current year Unobligated Balance, Brought Forward to the prior year Unobligated Balance, End of Year and determine if amounts agree<br><br>Determine whether amounts contained in prior year Total Unobligated Balance, End of Year have been canceled or rescinded<br><br>Compare Unobligated Balance, Brought Forward to the final SF 133 from the prior year |
| UB.2 | Valid Unobligated Balances, Brought Forward are not recorded or are improperly summarized (Wave 2 – SBR, ROMM #14) (C) | All valid Unobligated Balances, Brought Forward are recorded and are properly summarized (Wave 2 – SBR, FRO #10) | Appropriations Act<br><br>Supporting documentation evidencing the beginning balances of FBWT<br><br>Appropriation Warrant<br><br>Funding Authorization Document | Review the appropriations act or other laws to determine whether all available balances pursuant to the law were included in the statements |
| UB.3 | Unobligated Balances, Brought Forward are recorded at incorrect amounts, or valued on an inappropriate basis, or measured improperly summarized (Wave 2 – SBR, ROMM #27) (V) | Unobligated Balances, Brought Forward are valued on an appropriate basis and are properly classified and described in the financial statements (Wave 2 – SBR, FRO #10) | Comparative financial statements<br><br>SF 133<br><br>Appropriation Warrant<br><br>Funding Authorization Document<br><br>Account Reconciliations | See Suggested Test Procedures for UB.1 |
| UB.4 | The reporting entity does not have rights to recorded Unobligated Balances, Brought Forward summarized (Wave 2 – SBR, ROMM #43) (R) | The reporting entity has rights to recorded Unobligated Balances, Brought Forward (Wave 2 – SBR, FRO #9) | Appropriation Warrant<br><br>Funding Authorization Document | Determine whether any Unobligated Balances, Brought Forward have expired, been canceled or rescinded |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| Unobligated Balance, Brought Forward | | | | |
| UB.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Balance by Reporting Entity – Unpaid Obligations

The following reporting entities comprise the balance brought forward in the Unpaid Obligations line item (line item 3000) on the Statement of Budgetary Resources.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 111,937,127,892 | 26.0% |
| Air Force GF | 78,988,540,289 | 18.3% |
| Navy GF | 101,021,507,728 | 23.4% |
| Marine Corps GF | 9,644,423,172 | 2.2% |
| Navy WCF | 12,305,935,185 | 2.9% |
| Air Force WCF | 6,605,017,342 | 1.5% |
| Army WCF | 7,143,398,060 | 1.7% |
| Marine Corps WCF | 268,897,848 | 0.1% |
| Military Retirement Fund | 4,540,647,484 | 1.1% |
| USACE – Civil Works Program | 8,041,864,339 | 1.9% |
| **Subtotal - OMB Design. Audit** | **$ 340,497,359,340** | **79.0%** |
| **DoD Designated Audit** | | |
| DHA - Contract Resource Mgmt | $ 1,376,397,615 | 0.3% |
| DHA – Comptroller FOD | 1,215,895,456 | 0.3% |
| DHA - USUHS | 381,946,043 | 0.1% |
| DHA - SMA/Army | 6,628,488,998 | 1.5% |
| DHA - SMA/Navy | 2,223,083,342 | 0.5% |
| DHA - SMA/Air Force | 1,828,444,419 | 0.4% |
| DHA - SMA/NCR | 672,870,431 | 0.2% |
| MERHCF | 941,208,085 | 0.2% |
| DLA WCF | 22,552,926,861 | 5.2% |
| DLA GF | 909,812,056 | 0.2% |
| DLA Strategic Materials | 27,564,926 | 0.0% |
| DoD Component Level Accounts | 11,385,073,518 | 2.6% |
| U.S. Special Operations Command | 6,372,938,178 | 1.5% |
| DISA WCF | 3,422,382,069 | 0.8% |
| DISA GF | 1,243,246,264 | 0.3% |
| TRANSCOM - Air Mobility Command | 1,113,469,269 | 0.3% |
| TRANSCOM - Military SDDC | 444,201,161 | 0.1% |
| TRANSCOM - Military Sealift Command | 296,756,284 | 0.1% |
| TRANSCOM - Command Staff | 78,692,143 | 0.0% |
| TRANSCOM - Defense Courier Division | 2,446,276 | 0.0% |
| DeCA WCF | 620,199,126 | 0.1% |
| DeCA GF | 304,984,722 | 0.1% |
| DFAS WCF | 213,594,237 | 0.0% |
| Defense Contract Audit Agency | 81,154,689 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$ 64,337,776,167** | **14.9%** |
| **Mid-Sized Defense Agencies** | | |
| Washington Headquarters Services (WHS) | $ 539,583,269 | 0.1% |
| WHS - Office of the SecDef | 4,820,758,967 | 1.1% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | 352,038,496 | 0.1% |
| WHS - Building Maintenance Fund | 120,140,384 | 0.0% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| WHS - DoD Test Resource Mgmt Ctr | | 217,436,957 | 0.1% |
| WHS - Civilian Military Program | | 133,914,140 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 3,373,926 | 0.0% |
| WHS - Defense Legal Services Agency | | 100,112,743 | 0.0% |
| Missile Defense Agency | | 5,395,948,766 | 1.3% |
| Defense Security Cooperation Agency | | 336,354,741 | 0.1% |
| DoD Education Activity | | 2,194,228,874 | 0.5% |
| DARPA | | 2,237,637,327 | 0.5% |
| Other TI-97 Funds - Army | | 2,168,380,278 | 0.5% |
| Chemical Biological Defense Program | | 1,185,469,230 | 0.3% |
| Defense Contract Mgmt Agency | | 217,642,147 | 0.1% |
| Defense Threat Reduction Agency | | 1,140,150,264 | 0.3% |
| Joint Staff (includes NDU) | | 449,400,271 | 0.1% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **21,612,570,780** | **5.0%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 4,543,680,142 | 1.1% |
| | | | |
| **Total** | **$** | **430,991,386,429** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Statements of Budgetary Resources

### Line Item Audit Readiness Considerations – Unpaid Obligations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to SBR Balances Brought Forward for Unpaid Obligations (SBR line item 3000). In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting the SBR Balances Brought Forward for Unpaid Obligations and to assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Unpaid Obligations, Brought Forward** | | | | |
| UO.1 | Recorded Unpaid Obligations, Brought Forward may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (Wave 2 – SBR, ROMM #7) (E) | Recorded Unpaid Obligations, Brought Forward from prior periods represent events that actually occurred and are properly summarized and classified in the financial statements (Wave 2 – SBR, FRO #53) | Comparative financial statements<br><br>SF 133<br><br>Invoices<br><br>Contracts<br><br>MIPRs<br><br>Supporting documentation evidencing the beginning balances of FBWT and Delivered Orders-Unpaid | Trace the current year Unpaid Obligations, Brought Forward to the prior year Unpaid Obligations, End of Year and determine if amounts agree<br><br>Determine whether amounts contained in prior year Unpaid Obligations, End of Year were paid in the prior year or require an adjustment pertaining to a prior period<br><br>Compare Unpaid Obligations, Brought Forward to the final SF 133 from the prior year |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Unpaid Obligations, Brought Forward** | | | | |
| UO.2 | Valid Unpaid Obligations, Brought Forward are not recorded or are improperly summarized (Wave 2 – SBR, ROMM #22) (C) | All valid Unpaid Obligations, Brought Forward are recorded and are properly summarized (Wave 2 – SBR, FRO #48) | Unpaid invoices/billing documents<br><br>Contracts<br><br>MIPRs<br><br>Supporting documentation evidencing the beginning balances of FBWT and Delivered Orders-Unpaid | Review all unpaid invoices and billing documents for goods or services received to determine whether all valid Unpaid Obligations, Brought Forward have been recorded and are properly summarized |
| UO.3 | Unpaid Obligations, Brought Forward are recorded at incorrect amounts, or valued on an inappropriate basis, or measured improperly (Wave 2 – SBR, ROMM #35) (V) | Unpaid Obligations, Brought Forward are valued on an appropriate basis and are properly classified and described in the financial statements (Wave 2 – SBR, FRO #54) | Comparative financial statements<br><br>SF 133<br><br>Invoices<br><br>Contracts<br><br>MIPRs<br><br>Supporting documentation evidencing the beginning balances of FBWT and Delivered Orders-Unpaid<br><br>Account Reconciliations | See Suggested Test Procedures for UO.1 |
| UO.4 | The reporting entity does not have an obligation for recorded Unpaid Obligations, Brought Forward (Wave 2 – SBR, ROMM #45) (R) | The reporting entity has an obligation for recorded Unpaid Obligations, Brought Forward (Wave 2 – SBR, FRO #53) | Invoices<br><br>Contracts<br><br>MIPRs | Determine whether any Unpaid Obligations, Brought Forward represent invalid obligations |
| UO.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Balance by Reporting Entity – Uncollected Payments, Federal Sources

The following reporting entities comprise the balance brought forward in the Uncollected Payments, Federal Sources line item (line item 3060) on the Statement of Budgetary Resources.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ (26,393,857,938) | 34.1% |
| Air Force GF | (2,348,722,765) | 3.0% |
| Navy GF | (3,165,958,158) | 4.1% |
| Marine Corps GF | (108,298,297) | 0.1% |
| Navy WCF | (12,323,509,628) | 15.9% |
| Air Force WCF | (4,148,694,015) | 5.4% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| Army WCF | | (7,016,481,133) | 9.1% |
| Marine Corps WCF | | (430,916,109) | 0.6% |
| USACE – Civil Works Program | | (1,802,964,062) | 2.3% |
| **Subtotal - OMB Design. Audit** | **$** | **(57,739,402,104)** | **74.6%** |
| **DoD Designated Audit** | | | |
| DHA - Contract Resource Mgmt | $ | (69,025,528) | 0.1% |
| DHA – Comptroller FOD | | (19,295,529) | 0.0% |
| DHA – USUHS | | (135,616,045) | 0.2% |
| DHA - SMA/Army | | (499,589,235) | 0.6% |
| DHA - SMA/Navy | | (7,250,104) | 0.0% |
| DHA - SMA/Air Force | | (2,525,885) | 0.0% |
| DHA - SMA/NCR | | (19,432,281) | 0.0% |
| DLA WCF | | (9,373,994,242) | 12.1% |
| DLA GF | | (29,737,997) | 0.0% |
| DoD Component Level Accounts | | (1,806,005,656) | 2.3% |
| U.S. Special Operations Command | | (227,093,296) | 0.3% |
| DISA WCF | | (3,362,500,620) | 4.3% |
| DISA GF | | (127,649,536) | 0.2% |
| TRANSCOM - Air Mobility Command | | (1,368,987,887) | 1.8% |
| TRANSCOM - Military SDDC | | (450,210,439) | 0.6% |
| TRANSCOM - Military Sealift Command | | (402,516,573) | 0.5% |
| TRANSCOM - Command Staff | | (83,699,929) | 0.1% |
| TRANSCOM - Defense Courier Division | | (1,898,794) | 0.0% |
| DeCA WCF | | (1,868,705) | 0.0% |
| DFAS WCF | | (48,610,638) | 0.1% |
| Defense Contract Audit Agency | | (7,047,737) | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **(18,044,556,655)** | **23.3%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | (265,828,694) | 0.3% |
| WHS - Office of the SecDef | | (73,638,487) | 0.1% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | (96,652,345) | 0.1% |
| WHS - Building Maintenance Fund | | (132,753,941) | 0.2% |
| WHS - DoD Test Resource Mgmt Ctr | | (81) | 0.0% |
| WHS - Civilian Military Program | | (13,122) | 0.0% |
| WHS - Defense Legal Services Agency | | (2,854,877) | 0.0% |
| Missile Defense Agency | | (7,492,516) | 0.0% |
| Defense Security Cooperation Agency | | 640,609 | 0.0% |
| DoD Education Activity | | 7,326,459 | 0.0% |
| DARPA | | (350,964) | 0.0% |
| Other TI-97 Funds – Army | | (28,045,164) | 0.0% |
| Chemical Biological Defense Program | | (67,418,764) | 0.1% |
| Defense Contract Mgmt Agency | | (17,126,872) | 0.0% |
| Defense Threat Reduction Agency | | (19,199,715) | 0.0% |
| Joint Staff (includes NDU) | | (16,574,381) | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **(719,982,854)** | **0.9%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | (893,738,193) | 1.2% |
| | | | |
| **Total** | **$** | **(77,397,679,806)** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Statements of Budgetary Resources

### Line Item Audit Readiness Considerations – Uncollected Payments, Federal Sources

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to SBR Balances Brought Forward for Uncollected Payments, Federal Sources (SBR line item 3060). In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting the SBR Balances Brought Forward for Uncollected Payments, Federal Sources, and to assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Uncollected Payments, Federal Sources, Brought Forward** | | | | |
| UP.1 | Recorded Uncollected Payments, Federal Sources, Brought Forward may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (Wave 2 – SBR, ROMM #11) (E) | Recorded Uncollected Payments, Federal Sources, Brought Forward from prior periods represent events that actually occurred and are properly summarized and classified in the financial statements (Wave 2 – SBR, FRO #53) | Comparative financial statements<br><br>SF 133<br><br>Open invoices<br><br>Contracts<br><br>MIPRs<br><br>Supporting documentation evidencing the beginning balances of Accounts Receivable and Unfilled Customer Orders | Trace the current year Uncollected Payments, Federal Sources, Brought Forward to the prior year Uncollected Payments, Federal Sources, End of Year and determine if amounts agree<br><br>Determine whether amounts contained in prior year Uncollected Payments, Federal Sources, Brought Forward were collected in the prior year or require an adjustment pertaining to a prior period<br><br>Compare Uncollected Payments, Federal Sources, Brought Forward to the final SF 133 from the prior year |
| UP.2 | Valid Uncollected Payments, Federal Sources, Brought Forward are not recorded or are improperly summarized (Wave 2 – SBR, ROMM #24) (C) | All valid Uncollected Payments, Federal Sources, Brought Forward are recorded and are properly summarized (Wave 2 – SBR, FRO #48) | Open invoices<br><br>Contracts<br><br>MIPRs<br><br>Supporting documentation evidencing the beginning balances of Accounts Receivable and Unfilled Customer Orders | Review all open invoices and billing documents for goods or services provided to federal entities to determine whether all valid Uncollected Payments, Federal Sources, Brought Forward have been recorded and are properly summarized |
| UP.3 | Uncollected Payments, Federal Sources, Brought Forward are recorded at incorrect amounts, or valued on an inappropriate basis, or measured improperly (Wave 2 – SBR, ROMM #36) (V) | Uncollected Payments, Federal Sources, Brought Forward are valued on an appropriate basis and are properly classified and described in the financial statements (Wave 2 – SBR, FRO #54) | Comparative financial statements<br><br>SF 133<br><br>Open invoices<br><br>Contracts<br><br>MIPRs<br><br>Supporting documentation evidencing the beginning balances of Accounts Receivable and Unfilled Customer Orders<br><br>Account Reconciliations<br><br>Accounts Receivable Aging Schedule | See Suggested Test Procedures for UP.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Uncollected Payments, Federal Sources, Brought Forward** | | | | |
| UP.4 | The reporting entity does not have rights to recorded Uncollected Payments, Federal Sources, Brought Forward (Wave 2 – SBR, ROMM #42) (R) | The reporting entity has rights to recorded Uncollected Payments, Federal Sources, Brought Forward (Wave 2 – SBR, FRO #53) | Invoices<br><br>Contracts<br><br>MIPRs<br><br>Accounts Receivable Aging Schedule | Review the Uncollected Payments, Federal Sources, Brought Forward balance and confirm that the reporting entity still has valid rights to collect the amounts comprising the balance |
| UP.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Statement of Budgetary Resources** footnote disclosures included in **Note 20** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Statement of Budgetary Resources footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

### Consideration of Historical Transactions

Reporting entities need to consider the longevity of beginning balance transactions and how far back the reporting entity must go in order to provide transactional support. An initial analysis of beginning balance transactions is critical to making this determination. While appropriated funds generally have limited periods of availability, "no-year" and working capital funds must consider whether supporting documentation is readily available for all transactions. As reporting entities identify documentation gaps, they should coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy for coverage of significantly aged transactions and balances.

## 5.D Wave 4 – Proprietary Statements

### 5.D.1 Balance Sheet

The Department of Defense (Department or DoD), with its many reporting entities preparing stand-alone financial statements, has a complex reporting structure. Its reporting entities vary significantly from a financial statement perspective (e.g., the Military Departments are few in number but material to the Department, versus the other Defense Agencies, which are large in number but less material than the Military Departments). Therefore, it is not effective or efficient to perform financial statement audits on all stand-alone financial statements. To address the complexity of the Department's reporting structure, OUSD(C) has developed a DoD-wide audit strategy, which re-aligns the reporting entities into the categories defined below. Following the category definitions, **Figures 5-4 and 5-5** present all financially material reporting entities, and identify specific areas of the reporting entity that are material to the Department's consolidated financial statements.

- **OMB Designated Audits** – includes the Military Departments (WCF and GF), Military Retirement Fund, and the U.S. Army Corps of Engineers Civil Works Program (in accordance with the requirements of OMB Bulletin 15-02, as amended). These reporting entities must perform all audit readiness efforts in accordance with the Financial Improvement and Audit Readiness (FIAR) Methodology and will undergo annual financial statement audits on their stand-alone financial statements.
- **DoD Designated Audits** – includes DeCA, DFAS-WCF, DISA, DLA, Defense Health, U.S. TRANSCOM and U.S. SOCOM. These reporting entities must perform all audit readiness efforts in accordance with the FIAR Methodology, and will undergo annual stand-alone financial statement audits.
- **Mid-Sized Defense Agencies** – includes Washington Headquarters Service, MDA, Other TI-97 Funds - Army, DSCA, DoDEA, DARPA, CBDP, DTRA, DCMA and JCS. These reporting entities will undergo annual examinations or other independent validations of their financial statement balances.
- **Remaining Defense Agencies and Funds** – includes other defense agencies, organizations and funds not material to the DoD consolidated financial statements. These entities must perform audit readiness efforts to improve their internal controls and they will be included in the DoD's consolidated financial statement audit. A complete list of these entities is included in Appendix F.

| Reporting Entities | Intragovernmental | | | | Non-Federal | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FBwT | Investments | A/R | Other Assets | Cash & Other Monetary Assets | A/R | Loans Receivable | Inventory & Related Property | Real Property | General Equipment | IUS | Investments | Other Assets |
| **OMB Designated Audit** | | | | | | | | | | | | | |
| Army GF | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Air Force GF | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Navy GF | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | | ✓ |
| Marine Corp GF | ✓ | | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ | | | |
| Navy WCF | ✓ | | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Air Force WCF | ✓ | | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Army WCF | ✓ | | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Marine Corp WCF | | | | | | ✓ | | ✓ | | | | | |
| Military Retirement Fund | | ✓ | | | | ✓ | | | | | | | |
| USACE - Civil Works Program | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | ✓ | | |
| ✓ = Material to DoD Consolidated FY 2015 Balance Sheet | | | | | | | | | | | | | |

| Reporting Entities | Intragovernmental | | | | Non-Federal | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FBwT | Investments | A/R | Other Assets | Cash & Other Monetary Assets | A/R | Loans Receivable | Inventory & Related Property | Real Property | General Equipment | IUS | Investments | Other Assets |
| **DoD Designated Audits** | | | | | | | | | | | | | |
| MRF Payment | | | | | | | | | | | | | |
| DLA WCF | ✓ | | ✓ | ✓ | | ✓ | | ✓ | ✓ | | ✓ | | |
| DLA GF | ✓ | | ✓ | | | | | | ✓ | | ✓ | | |
| DLA Strategic Materials | | | | | | | | ✓ | | | | | |
| DHA - Contract Resource Mgmt | ✓ | | ✓ | | | ✓ | | | | | | | |
| DHA - SMA/Army | ✓ | | ✓ | | | ✓ | | | ✓ | | | | |
| DHA - SMA/Navy | ✓ | | | | | ✓ | | | ✓ | | | | |
| DHA - SMA/Air Force | ✓ | | ✓ | | | ✓ | | | | | | | |
| DHA - Comptroller FOD | ✓ | | | | | | | | | | ✓ | | |
| DHA - SMA/NCR | ✓ | | ✓ | | | | | | | | | | |
| DHA - USUHS | | | | | | | | | | | | | |
| DoD Component Level Accounts | ✓ | | | ✓ | ✓ | ✓ | | | ✓ | | ✓ | | |
| MERHCF | | ✓ | | | | ✓ | | | | | | | |
| MERHCF - Payment to MERHCF | | | | | | | | | | | | | |
| U.S. Special Operations Command | ✓ | | | | | | | | ✓ | ✓ | | | ✓ |
| DISA WCF | | | ✓ | | | | | | | ✓ | ✓ | | |
| DISA GF | ✓ | | ✓ | | | | | | | | ✓ | | |
| TRANSCOM - Air Mobility Command | | | ✓ | | | ✓ | | | ✓ | | ✓ | | |
| TRANSCOM - Military SDDC | | | ✓ | | | | | | | | ✓ | | |
| TRANSCOM - Military Sealift Command | | | ✓ | | | | | | | | | | |
| TRANSCOM - Command Staff | | | | | | | | | | | ✓ | | |
| TRANSCOM - Defense Courier Division | | | | | | | | | | | | | |
| TRANSCOM - Component Level | | | | | | | | | | | | | |
| DeCA WCF | | | | | ✓ | ✓ | | ✓ | | | | | |
| DeCA GF | | | | | ✓ | | | | ✓ | | ✓ | | |
| DFAS WCF | | | ✓ | | | ✓ | | | | | ✓ | | |
| Defense Contract Audit Agency | | | | | | | | | | | | | |
| **Mid-Sized Defense Agencies** | | | | | | | | | | | | | |
| WHS - Office of the SecDef | ✓ | | | | | | | | ✓ | | | | |
| WHS - Washington Headquarters Services | ✓ | | ✓ | | | | | | | | | | |
| WHS - Pnt Res Mtn Rev Fund and PFPA | | | ✓ | | | | | | ✓ | | | | |
| WHS - Building Maintenance Fund | | | ✓ | | | | | | | | | | |
| WHS - DoD Test Resource Mgmt Ctr | | | | | | | | | | | | | |
| WHS - Civilian Military Program | | | | | | | | | | | | | |
| WHS - Defense Legal Services Agency | | | | | | | | | | | | | |
| WHS - U.S. Court of Appeals, A.F. | | | | | | | | | | | | | |
| Missile Defense Agency | ✓ | | | | | | | ✓ | ✓ | ✓ | | | ✓ |
| Defense Security Cooperation Agency | ✓ | | | | | | | | | | | | |
| DoD Education Activity | ✓ | | | | | | | | ✓ | | | | |
| Other TI-97 Funds - Army | ✓ | | ✓ | | ✓ | | | | ✓ | | | ✓ | |
| DARPA | ✓ | | | | | | | | | | | | |
| Chemical Biological Defense Program | ✓ | | ✓ | | | | | | | | | | |
| Defense Threat Reduction Agency | ✓ | | | | | | | | | | | | |
| Defense Contract Mgmt Agency | | | ✓ | | | | | | | | | | |
| Joint Staff (includes NDU) | ✓ | | ✓ | | | | | | | | ✓ | | |

✓ = Material to DoD Consolidated FY 2015 Balance Sheet

| Reporting Entities | Intragovernmental | | | | Non-Federal | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FBwT | Investments | A/R | Other Assets | Cash & Other Monetary Assets | A/R | Loans Receivable | Inventory & Related Property | Real Property | General Equipment | IUS | Investments | Other Assets |
| **Remaining Defense Agencies and Funds** | | | | | | | | | | | | | |
| Burden Sharing/Foreign Allies, Defense | ✓ | | | | | | | | | | | | |
| Other TI-97 Funds - Air Force | ✓ | | | | | | | | | | | ✓ | |
| Defense Acquisition University | ✓ | | | | | | | | | | | | |
| Defense Technical Information Center | | | ✓ | | | | | | | | | | |
| Defense Human Resources Activity | ✓ | | ✓ | | | | | | | | ✓ | | |
| Support/US Relo to Guam Acts., Defense | ✓ | | | | | | | | | | | | |
| Other TI-97 Funds - Navy | ✓ | | | | | | | | | | | ✓ | |
| Office of Economic Adjustment | ✓ | | | | | | | | | | | | |
| Defense Security Service | | | | | | | | | | | ✓ | | |
| Military Housing Privatization Initiative | | | ✓ | | | | ✓ | | | | | | |
| DoD Education Benefits Fund | | ✓ | | | | | | | | | | | |
| Department of Defense OIG | | | | | | | | | | | | | |
| Director, OT&E | | | | | | | | | | | | | |
| Homeowners Assistance Fund, Defense | | | | | | | | | | | | | |
| Defense Media Activity | | | | | | | | | | | | | |
| Emergency Response Fund, Defense | | | | | | | | | | | | | |
| Component Level Adjustments | ✓ | | | | | | | | | | | | |
| Support/US Relo Acts., Defense | | | | | | | | | | | | | |
| Vol Separation Incentive Trust Fund | | | | | | | | | | | | | |
| Defense Technology Security Admin | | | | | | | | | | | | | |
| Business Transformation Agency | | | | | | | | | | | | | |
| Defense Gift Fund | | | | | | | | | | | | | |
| National Security Education Trust Fund | | | | | | | | | | | | | |
| DFAS GF | | | | | | | | | | | | | |
| Def Personnel Acctg Agency (formerly Def PoW/Missing Persons Office) | | | | | | | | | | | | | |
| Agency-Wide Component | | | | | | | | | | | | | |
| Defense Cooperation Account | | | | | | | | | | | | | |

✓ = Material to DoD Consolidated FY 2015 Balance Sheet

**Figure 5-4. Reporting Entities Material to Each Balance Sheet Line Item (Assets)**

Note: A policy change regarding the reporting of real property within the Department was issued on September 30, 2015, which may significantly impact materiality for certain reporting entities reflected in the table.

| Reporting Entities | Intragovernmental | | | | Non-Federal | | | |
|---|---|---|---|---|---|---|---|---|
| | A/P | Other Liabilities | Military Retirement and Other Benefits | Loan Guarantee Liability | A/P | Debt | EL | Other Liabilities |
| **OMB Designated Audit** | | | | | | | | |
| Army GF | ✓ | ✓ | | | ✓ | | ✓ | ✓ |
| Air Force GF | ✓ | ✓ | | | ✓ | | ✓ | ✓ |
| Navy GF | ✓ | ✓ | | | ✓ | | ✓ | ✓ |
| Marine Corp GF | ✓ | ✓ | | | ✓ | | ✓ | ✓ |
| Navy WCF | ✓ | ✓ | | | ✓ | | | ✓ |
| Air Force WCF | ✓ | ✓ | | | ✓ | | | ✓ |
| Army WCF | ✓ | ✓ | | | ✓ | | | ✓ |
| Marine Corp WCF | ✓ | | | | ✓ | | | |
| Military Retirement Fund | | | ✓ | | | | | |
| USACE - Civil Works Program | ✓ | ✓ | | | ✓ | | ✓ | ✓ |
| **DoD Designated Audit** | | | | | | | | |
| DLA WCF | ✓ | ✓ | | | ✓ | | ✓ | ✓ |
| DLA GF | ✓ | | | | ✓ | | ✓ | |
| DLA Strategic Materials | | | | | | | | |
| DHA - Contract Resource Mgmt | ✓ | | ✓ | | ✓ | | | |
| DHA - SMA/Army | ✓ | ✓ | ✓ | | ✓ | | | ✓ |
| DHA - SMA/Navy | ✓ | ✓ | ✓ | | ✓ | | | ✓ |
| DHA - SMA/Air Force | ✓ | ✓ | ✓ | | | | | |
| DHA - Comptroller FOD | ✓ | ✓ | | | | | | ✓ |
| DHA - SMA/NCR | | | | | ✓ | | | |
| DHA - USUHS | | | | | | | | |
| DoD Component Level Accounts | ✓ | | | | ✓ | | | ✓ |
| MERHCF | ✓ | | ✓ | | ✓ | | | |
| MERHCF - Payment to MERHCF | | | | | | | | |
| U.S. Special Operations Command | ✓ | | | | ✓ | | | ✓ |
| DISA WCF | ✓ | | | | ✓ | | | ✓ |
| DISA GF | ✓ | | | | ✓ | | | ✓ |
| TRANSCOM - Air Mobility Command | ✓ | ✓ | | | ✓ | | | |
| TRANSCOM - Military SDDC | | | | | ✓ | | | |
| TRANSCOM - Military Sealift Command | | | | | ✓ | | | |
| TRANSCOM - Command Staff | ✓ | | | | | | | |
| TRANSCOM - Defense Courier Division | | | | | | | | |
| TRANSCOM - Component Level | ✓ | | | | | | | |
| DeCA WCF | ✓ | ✓ | | | ✓ | | | ✓ |
| DeCA GF | ✓ | | | | | | | |
| DFAS WCF | ✓ | ✓ | | | ✓ | | | ✓ |
| Defense Contract Audit Agency | | | | | | | | ✓ |
| ✓ = Material to DoD Consolidated FY 2015 Balance Sheet | | | | | | | | |

| Reporting Entities | Intragovernmental | | | | Non-Federal | | | |
|---|---|---|---|---|---|---|---|---|
| | A/P | Other Liabilities | Military Retirement and Other Benefits | Loan Guarantee Liability | A/P | Debt | EL | Other Liabilities |
| **Mid-Sized Defense Agencies** | | | | | | | | |
| WHS - Office of the SecDef | | | | | ✓ | | | ✓ |
| WHS - Washington Headquarters Services | ✓ | | | | | | | ✓ |
| WHS - Pnt Res Mtn Rev Fund and PFPA | | | | | ✓ | | | ✓ |
| WHS - Building Maintenance Fund | | | | | | | | |
| WHS - DoD Test Resource Mgmt Ctr | | | | | ✓ | | | |
| WHS - Civilian Military Program | | | | | | | | |
| WHS - Defense Legal Services Agency | | | | | | | | |
| WHS - U.S. Court of Appeals, A.F. | | | | | | | | |
| Missile Defense Agency | | | | | ✓ | | | ✓ |
| Defense Security Cooperation Agency | | | | | | | | |
| DoD Education Activity | ✓ | ✓ | | | | | | ✓ |
| Other TI-97 Funds - Army | ✓ | | | | ✓ | | | ✓ |
| DARPA | | | | | ✓ | | | |
| Chemical Biological Defense Program | | | | | ✓ | | | |
| Defense Threat Reduction Agency | | | | | ✓ | | | |
| Defense Contract Mgmt Agency | | ✓ | | | ✓ | | | ✓ |
| Joint Staff (includes NDU) | | | | | | | | |
| **Remaining Defense Agencies and Funds** | | | | | | | | |
| Burden Sharing/Foreign Allies, Defense | | | | | | | | |
| Other TI-97 Funds - Air Force | | | | | ✓ | | | |
| Defense Acquisition University | | | | | ✓ | | | |
| Defense Technical Information Center | | | | | ✓ | | | |
| Defense Human Resources Activity | ✓ | | | | | | | |
| Support/US Relo to Guam Acts., Defense | | | | | | | | |
| Other TI-97 Funds - Navy | | | | | | | | |
| Office of Economic Adjustment | | | | | | | | |
| Defense Security Service | ✓ | | | | ✓ | | | |
| Military Housing Privatization Initiative | | ✓ | | ✓ | | ✓ | | |
| DoD Education Benefits Fund | | | | | | | | |
| Department of Defense OIG | | | | | | | | |
| Director, OT&E | | | | | | | | |
| Homeowners Assistance Fund, Defense | | | | | | | | |
| Defense Media Activity | | | | | | | | |
| Emergency Response Fund, Defense | | | | | | | | |
| Component Level Adjustments | | | | | | | | |
| Support/US Relo Acts., Defense | | | | | | | | |
| Vol Separation Incentive Trust Fund | | | | | | | | |
| Defense Technology Security Admin | | | | | | | | |
| Business Transformation Agency | | | | | | | | |
| Defense Gift Fund | | | | | | | | |
| National Security Education Trust Fund | | | | | | | | |
| DFAS GF | | | | | | | | |
| Def Personnel Acctg Agency (formerly Def PoW/Missing Persons Office) | | | | | | | | |
| Agency-Wide Component | | | | | | | | |
| Defense Cooperation Account | | | | | | | | |

✓ = Material to DoD Consolidated FY 2015 Balance Sheet

**Figure 5-5. Reporting Entities Material to Each Balance Sheet Line Item (Liabilities)**

### 5.D.1.1 FUND BALANCE WITH TREASURY

Fund Balance with Treasury is an asset account that reflects the available budget spending authority of a reporting entity. Collections and disbursements will, correspondingly, increase or decrease the balance in the account. For Fund Balance with Treasury, a reporting entity must be able to:

1. Reconcile its Fund Balance with Treasury account.
2. Assert the audit readiness of all disbursements and collections impacting the account balance.
3. Consistently fulfill its monthly reporting requirements to the Bureau of the Fiscal Service.

#### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Fund Balance with Treasury are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1 (and amendments)<br>• Treasury Financial Manual (TFM)<br>• DoD FMR: Volume 4, Chapter 2<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

#### Balance By Reporting Entity

The following reporting entities comprise the Fund Balance with Treasury line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 113,051,239,622 | 24.2% |
| Air Force GF | 105,151,531,912 | 22.5% |
| Navy GF | 129,882,021,877 | 27.8% |
| Marine Corps GF | 10,612,797,156 | 2.3% |
| Navy WCF | 754,932,486 | 0.2% |
| Air Force WCF | 1,417,240,383 | 0.3% |
| Army WCF | 1,810,385,495 | 0.4% |
| Marine Corps WCF | 124,636,245 | 0.0% |
| Military Retirement Fund | 30,818,135 | 0.0% |
| USACE - Civil Works Program | 15,649,768,964 | 3.3% |
| **Subtotal - OMB Design. Audit** | **$ 378,485,372,274** | **81.0%** |
| **DoD Designated Audit** | | |
| DHA - Contract Resource Mgmt | $ 1,234,201,092 | 0.3% |
| DHA – Comptroller FOD | 2,566,391,556 | 0.5% |
| DHA - USUHS | 441,799,722 | 0.1% |
| DHA - SMA/Army | 9,696,013,684 | 2.1% |
| DHA - SMA/Navy | 2,671,744,220 | 0.6% |
| DHA - SMA/Air Force | 2,381,776,366 | 0.5% |
| DHA - SMA/NCR | 576,635,175 | 0.1% |
| MERHCF | 100,088,837 | 0.0% |
| DLA WCF | 3,296,583,109 | 0.7% |
| DLA GF | 1,469,174,460 | 0.3% |
| DLA Strategic Materials | 260,117,894 | 0.1% |
| DoD Component Level Accounts | 14,070,416,537 | 3.0% |
| U.S. Special Operations Command | 8,481,828,379 | 1.8% |
| DISA GF | 1,340,073,147 | 0.3% |
| TRANSCOM - Air Mobility Command | 361,043,240 | 0.1% |
| TRANSCOM - Military SDDC | 194,017,416 | 0.0% |
| TRANSCOM - Military Sealift Command | 361,733,349 | 0.1% |
| TRANSCOM - Command Staff | 84,486,998 | 0.0% |
| TRANSCOM - Defense Courier Division | 10,480,487 | 0.0% |
| DeCA WCF | 413,504,068 | 0.1% |

| Reporting Entities | | FY 2015 Balance | % of Total |
|---|---|---|---|
| DeCA GF | | 425,903,857 | 0.1% |
| Defense Contract Audit Agency | | 85,449,575 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **50,523,463,166** | **10.8%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 531,345,665 | 0.1% |
| WHS - Office of the SecDef | | 7,102,145,878 | 1.5% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 261,549,387 | 0.1% |
| WHS - Building Maintenance Fund | | 62,535,895 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | | 234,086,626 | 0.1% |
| WHS - Civilian Military Program | | 171,390,865 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 3,653,895 | 0.0% |
| WHS - Defense Legal Services Agency | | 136,559,635 | 0.0% |
| Missile Defense Agency | | 5,941,044,883 | 1.3% |
| Defense Security Cooperation Agency | | 2,679,552,567 | 0.6% |
| DoD Education Activity | | 3,526,843,071 | 0.8% |
| DARPA | | 2,943,302,749 | 0.6% |
| Other TI-97 Funds - Army | | 2,988,963,773 | 0.6% |
| Chemical Biological Defense Program | | 1,250,720,525 | 0.3% |
| Defense Contract Mgmt Agency | | 355,337,171 | 0.1% |
| Defense Threat Reduction Agency | | 1,288,621,791 | 0.3% |
| Joint Staff (includes NDU) | | 539,016,984 | 0.1% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **30,016,671,360** | **6.4%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 8,349,006,072 | 1.8% |
| | | | |
| **Total** | **$** | **467,374,512,872** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

## Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Fund Balance with Treasury. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Fund Balance with Treasury, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| FB.1 | All Treasury accounts may not be reconciled timely (E) (Wave 2 – Fund Balance with Treasury, ROMM #2) | All Treasury accounts related to the Component are reconciled monthly within required timeline(Wave 2, FRO #76, #77, #78, and #79) | Documentation evidencing the operation of internal control activities for the period under audit. Examples include:<br>• A supervisory review is performed monthly to verify monthly Treasury reconciliations were performed timely and signed/dated by the completer, supervisor evidences review by signing and dating reconciliation.<br>• All reconciling items are aged monthly to ensure | Obtain a listing of all open Treasury Accounts (Active and Expired). Select a sample of current year monthly reconciliations between the SF 1329, SF 1219/1220 (appropriation level only; not available at TI-97 limit level), DCAS and the disbursing systems and determine whether:<br>• The reconciliation is performed timely (i.e., month end) and accurately<br>• The reconciliation consisted of comparing USSGL account 1010 (for |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| | | | all differences are resolved within 60 days. Supervisor randomly selects items cleared from the aging and reviews supporting documentation (and entry recorded in system) to verify reconciling items were appropriately resolved.<br><br>Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account<br><br>Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | no-year, revolving, deposit, and trust fund accounts as well as clearing and receipt accounts) and any related subaccounts with the Government Wide Account (GWA) statement<br>• The specific differences identified and reported on the FMS 6652 were researched (review of invoices, IPAC billings, deposit tickets, general ledger reports, etc.) and resolved through appropriate and accurate adjusting entries to the general ledger (SF 1219/1220 at appropriation level only; not available at TI-97 limit level), which are reviewed/approved by authorized personnel<br>• Documentation exists to support any adjustments made to the FBWT account (SF 1219/1220 at appropriation level only; not available at TI-97 limit level)<br>• The reconciliation is signed and dated by the preparer, reviewed by authorized personnel who then signs and dates the reconciliation as evidence of approval<br><br>Select a sample of recorded disbursements and collections (unless covered by other assessable units such as Contract Pay, Vendor Pay, Requisitioning, RWO-Grantor, Military Pay, Civilian Pay and RWO-Acceptor) and determine whether:<br>• The recorded collections and disbursements are valid transactions that are supported by sufficient, accurate and relevant documentation<br>• The transactions were recorded timely and accurately |
| FB.2 | Reconciling items may not be resolved accurately or be valid (E) (Wave 2 – Fund Balance with Treasury, | Reconciling and budget clearing account items are appropriately resolved (adjustment recorded in General Ledger or reported | Documentation evidencing the operation of internal control activities for the period under audit. Examples include: | See Suggested Test Procedures for FB.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| | ROMM #1, #3 and #6) | to Treasury (SF 1219/1220 at appropriation level only; not available at TI-97 level), at the correct amount (Treasury account and budget fiscal year) and valid (authorized/approved transactions supported by documentation that demonstrates how the individual transaction should have been recorded/reported) (Wave 2, FRO #79 and #80) | • A supervisory review is performed monthly to verify monthly Treasury reconciliations were performed timely and signed/dated by the completer, supervisor evidences review by signing and dating reconciliation.<br>• All reconciling items are aged monthly to ensure all differences are resolved within 60 days. Supervisor randomly selects items cleared from the aging and reviews supporting documentation (and entry recorded in system) to verify reconciling items were appropriately resolved.<br><br>Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account<br><br>Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | |
| FB.3 | All disbursements and collections may not be reported timely (C) (Wave 2 – Fund Balance with Treasury, ROMM #4 and #5) | All disbursements and collections are reported to Treasury in the correct period and within Treasury deadline (Wave 2, FRO #77, #78, and #82) | Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account | See Suggested Test Procedures for FB.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| | | | Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | |
| FB.4 | All reconciling items may not be identified timely (C) (Wave 2 – Fund Balance with Treasury, ROMM #4 and #5) | All reconciling differences and budget clearing account items are identified at the transaction level (specific disbursement or collection causing the difference) (Wave 2, FRO #79 and #80) | Documentation evidencing the operation of internal control activities for the period under audit. Examples include:<br>• A supervisory review is performed monthly to verify monthly Treasury reconciliations were performed timely and signed/dated by the completer, supervisor evidences review by signing and dating reconciliation.<br>• All reconciling items are aged monthly to ensure all differences are resolved within 60 days. Supervisor randomly selects items cleared from the aging and reviews supporting documentation (and entry recorded in system) to verify reconciling items were appropriately resolved.<br><br>Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account<br><br>Supporting documentation for individual transaction | See Suggested Test Procedures for FB.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| | | | differences and adjustments between the agency and Treasury's records, including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | |
| FB.5 | Reconciliations, including general ledger and disbursing system data, may not be accurate (V) (Wave 2 – Fund Balance with Treasury, ROMM #6) | All Treasury reconciliations, including general ledger and disbursing system data, are accurate (using correct Treasury accounts, dollar amounts/accounting periods from GWA, General Ledger, and Disbursing) (Wave 2, FRO #79, #80, #82, and #83) | Documentation evidencing the operation of internal control activities for the period under audit. Examples include:<br>• A supervisory review is performed monthly to verify monthly Treasury reconciliations were performed timely and signed/dated by the completer, supervisor evidences review by signing and dating reconciliation.<br>• All reconciling items are aged monthly to ensure all differences are resolved within 60 days. Supervisor randomly selects items cleared from the aging and reviews supporting documentation (and entry recorded in system) to verify reconciling items were appropriately resolved.<br><br>Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account<br><br>Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, | See Suggested Test Procedures for FB.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| | | | including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | |
| FB.6 | Other budgetary activity (e.g., rescissions) may not be recorded timely and accurately and may be invalid (E, C, V) (Wave 2 - SBR, ROMM #1, #2, #3, #4, #5, #6, #14, #15, #16, #17, #18, #19, #27, #28, #29, #32, #33, and #34) | All other budgetary activity affecting Fund Balance with Treasury is valid and reported accurately in the correct period (Wave 2, FRO #9, #10, #11, #12, #17, #18,#21, #22, #23, #24, #25, #49, #50, #51, #54, #55, #68, #69, #70, #71, #72, #73) | Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account<br><br>Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | See Suggested Test Procedures for FB.1 |
| FB.7 | Disbursements and collections may not be reported accurately, may not be valid, or may be improperly classified and summarized (E, C, V, R) (Wave 2 - SBR, ROMM #13, #26, and #42; Wave 2 – Fund Balance with Treasury, ROMM #1, #6, #10, and #11) | Disbursements and collections are accurately (correct amount, Treasury account, budget fiscal year) reported to Treasury and are valid (authorized/approved transactions supported by documentation, e.g., invoice and receiving report) (Wave 2, FRO #77, #78, #81, #82, #83, #86, #87) | Monthly FBWT Reconciliations<br><br>General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account<br><br>Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, including supporting documentation for cash | See Suggested Test Procedures for FB.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Fund Balance with Treasury** | | | | |
| | | | disbursements, cash collections and adjustments as described in the preceding sections<br><br>Check Issue Discrepancy (FMS 5206)<br><br>SF 1219/1220 (appropriation level only; not available at TI-97 limit level)<br><br>FMS 6652 | |
| FB.8 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |
| FB.9 | Budgetary and proprietary interdependencies may not be properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to FBWT and:<br>• Determine the root cause of the variance<br>• Execute appropriate corrective actions to resolve the variance<br>• Document executed corrective actions<br><br>Tie-point reconciliations related to FBWT should include:<br>• 4221 + 4251 + 4450 + 4510 + 46X0 + 4700 + 4720 + 48X1 + 49X1 = 1010 |

## Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Fund Balance with Treasury** footnote disclosures included in **Note 3** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Fund Balance with Treasury footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## Consideration of Historical Transactions

Beginning balances will likely be the most difficult financial statement line items for reporting entities to support. Understanding there is a risk that historical documentation may not be readily available, reporting entities should make reasonable efforts to confirm historical documentation does not exist before pursuing an alternative approach. At a minimum, reporting entities must perform the following procedures when evaluating beginning balances:

1. Confirm internal controls and document retention policies/procedures/systems are in place and operating effectively on a go-forward basis prior to focusing on beginning balances.

2. Develop the ability to produce a universe of transactions/balances that supports beginning balances at a detailed level. The completeness of the universe of transactions is demonstrated through reconciliations (e.g., reconciliations between the accounting system and Treasury's records for FBWT beginning balances).
3. Perform discovery testing to confirm the availability of historical documentation through sampling of the universe of transactions.
4. If historical documentation is not available, develop a strategy for addressing beginning balance, and present strategy to reporting entity management for concurrence.

### 5.D.1.2 Investments

Investments represent the value of securities and other assets held for the production of revenues in the form of interest, dividends, rental payments or lease payments, net of premiums and discounts. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes including investment purchases, accrued interest, discounts or premiums, interest received, amortization of discounts or premiums, year-end adjustments, sales and gains or losses on sales.

#### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with other federal entities throughout the course of the fiscal year. The suggested test procedures for IN.1 – IN.2 and IN.4 – IN.6 can be leveraged to test both Intragovernmental and Non-Federal Investments. The suggested test procedures provided in IN.3 are for Intragovernmental Investments only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Intragovernmental Investments, are covered in the Financial Reporting assessable unit.

#### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Investments are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1 (and amendments)<br>• DoD FMR: Volume 4, Chapter 7<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

#### Balance By Reporting Entity

The following reporting entities comprise the Intragovernmental - Investments line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 2,176,986 | 0.0% |
| Air Force GF | 954,359 | 0.0% |
| Navy GF | 6,543,350 | 0.0% |
| Military Retirement Fund | 600,462,119,337 | 71.1% |
| USACE – Civil Works Program | 8,818,856,600 | 1.0% |
| **Subtotal - OMB Design. Audit** | **$ 609,290,650,633** | **72.1%** |
| **DoD Designated Audit** | | |
| MERHCF | $ 233,397,547,279 | 27.6% |
| **Subtotal - DoD Design. Audit** | **$ 233,397,547,279** | **27.6%** |
| **Remaining Defense Agencies and Funds** | | |
| Other Reporting Entities | 1,976,745,319 | 0.2% |
| | | |
| **Total** | **$ 844,664,943,230** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

The following reporting entities comprise the Non-Federal - Investments line item.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **Mid-Sized Defense Agencies** | | | |
| Other TI-97 Funds - Army | $ | 1,965,671,500 | 58.3% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **1,965,671,500** | **58.3%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 1,406,225,630 | 41.7% |
| | | | |
| **Total** | **$** | **3,371,897,130** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Investments. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Investments, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Investments** | | | | |
| IN.1 | Recorded Investments may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #7, #19, #20, #21, and #22) | Recorded Investments represent actual investments by the reporting entity, and are properly classified (Wave 4, FRO #5) | Bureau of Public Debt account statement or investment report<br><br>Investment subsidiary ledger with detailed investment activity including all purchases, interest income, discount/amortization, redemptions, etc. | Review the year-end investment balance and related investment activity and examine documentation to determine whether investment account balances and related activity (purchases, interest earned, amortization/discount, redemptions, etc.) agree to balances and information per the Bureau of Public Debt (BPD) Account Statements and the financial statements of the reporting entity.<br><br>Perform inquiries of appropriate personnel and examine documentation to determine whether investment activity (purchases and redemptions) was properly authorized by appropriate personnel. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Investments** | | | | |
| IN.2 | Valid Investments may be omitted from the balance sheet or may be improperly classified and summarized (C) (Wave 4, ROMM #30, #42, #43, and #44) | All Investments are recorded in the proper accounting period and are accurately classified and summarized (Wave 4, FRO #6 and #77) | Bureau of Public Debt account statement or investment report<br><br>Investment subsidiary ledger with detailed investment activity including all purchases, interest income, discount/amortization, redemptions, etc. | See Suggested Test Procedures for IN.1 |
| IN.3 | Investments may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Investments are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Bureau of Public Debt account statement or investment report | Select a sample of Investments from account statements and investment reports and verify that the Investments are properly classified as either Intragovernmental or Non-Federal. |
| IN.4 | Investments included in the financial statements may be recorded at incorrect amounts, or are valued on an inappropriate basis (V) (Wave 4, ROMM #51, #64, #65, and #66) | Investments are recorded at correct amounts and valued on an appropriate valuation basis (Wave 4, FRO #6) | Bureau of Public Debt account statement or investment report<br><br>Investment subsidiary ledger with detailed investment activity including all purchases, interest income, discount/amortization, redemptions, etc. | Review the year-end investment balance and related investment activity and examine documentation to determine whether investment account balances and related activity (purchases, interest earned, amortization/discount, redemptions, etc.) agree to balances and information per the BPD Account Statements, the subsidiary ledger, and the financial statements of the reporting entity. |
| IN.5 | The reporting entity may not have rights to recorded Investments due to liens, pledges, or other restrictions (R) (Wave 4, ROMM #71) | The reporting entity has the rights to recorded Investments at a given date (Wave 4, FRO #7) | Bureau of Public Debt account statement or investment report<br><br>Investment subsidiary ledger with detailed investment activity including all purchases, interest income, discount/amortization, redemptions, etc. | Select a sample of Investments from account statements and investment reports and verify that the reporting entity has rights to the recorded Investments. |
| IN.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Investments** footnote disclosures included in **Note 4** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Investment footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

### 5.D.1.3 Accounts Receivable

Receivable represent a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes including receiving orders, providing goods or services, billing, aging, collecting accounts receivable, and writing off accounts receivable.

#### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for AR.1 – AR.2 and AR.4 – AR.7 can be leveraged to test both Intragovernmental and Non-Federal Accounts Receivable. The suggested test procedures provided in AR.3 are for Intragovernmental Accounts Receivable only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Intragovernmental Accounts Receivable, are covered in the Financial Reporting assessable unit.

#### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Accounts Receivable are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1, 7 (and amendments)<br>• DoD FMR: Volume 4, Chapter 3<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

#### Balance By Reporting Entity

The following reporting entities comprise the Intragovernmental Accounts Receivable line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 228,610,263 | 3.1% |
| Air Force GF | 514,348,931 | 6.9% |
| Navy GF | 188,569,040 | 2.5% |
| Marine Corps GF | 31,422,239 | 0.4% |
| Navy WCF | 843,319,845 | 11.3% |
| Air Force WCF | 781,677,911 | 10.5% |
| Army WCF | 302,108,167 | 4.0% |
| Marine Corps WCF | 5,512,005 | 0.1% |
| USACE – Civil Works Program | 600,262,748 | 8.0% |
| **Subtotal - OMB Design. Audit** | **$ 3,495,831,149** | **46.8%** |
| **DoD Designated Audit** | | |
| DHA - Contract Resource Mgmt | $ 49,603,205 | 0.7% |
| DHA – Comptroller FOD | 1,303,025 | 0.0% |
| DHA - USUHS | 3,070,287 | 0.0% |
| DHA - SMA/Army | 431,482,660 | 5.8% |
| DHA - SMA/Navy | 795,815 | 0.0% |
| DHA - SMA/Air Force | 7,429,340 | 0.1% |
| DHA - SMA/NCR | 10,329,852 | 0.1% |
| DLA WCF | 1,345,684,558 | 18.0% |
| DLA GF | 10,154,825 | 0.1% |
| DoD Component Level Accounts | (45,668,616) | -0.6% |
| U.S. Special Operations Command | 2,438,482 | 0.0% |
| DISA WCF | 682,137,710 | 9.1% |
| DISA GF | 19,664,595 | 0.3% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| TRANSCOM - Air Mobility Command | | 667,359,205 | 8.9% |
| TRANSCOM - Military SDDC | | 156,270,963 | 2.1% |
| TRANSCOM - Military Sealift Command | | 30,649,037 | 0.4% |
| TRANSCOM - Command Staff | | 3,129,089 | 0.0% |
| TRANSCOM - Defense Courier Division | | 1,261,561 | 0.0% |
| TRANSCOM - Component Level | | (32,798,890) | -0.4% |
| DeCA WCF | | 38,733 | 0.0% |
| DFAS WCF | | 8,680,813 | 0.1% |
| Defense Contract Audit Agency | | 5,902,796 | 0.1% |
| **Subtotal - DoD Design. Audit** | **$** | **3,358,919,047** | **44.9%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 44,906,981 | 0.6% |
| WHS - Office of the SecDef | | (2,682,427) | 0.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 256,595,564 | 3.4% |
| WHS - Building Maintenance Fund | | 54,258,016 | 0.7% |
| WHS - DoD Test Resource Mgmt Ctr | | 2,583 | 0.0% |
| WHS - Civilian Military Program | | 22,945 | 0.0% |
| WHS - Defense Legal Services Agency | | 503,976 | 0.0% |
| Missile Defense Agency | | 1,447,994 | 0.0% |
| Defense Security Cooperation Agency | | 1,203,583 | 0.0% |
| DoD Education Activity | | 5,013,364 | 0.1% |
| DARPA | | (1,219,679) | 0.0% |
| Other TI-97 Funds – Army | | 20,044,533 | 0.3% |
| Chemical Biological Defense Program | | 53,242,151 | 0.7% |
| Defense Contract Mgmt Agency | | 16,547,780 | 0.2% |
| Defense Threat Reduction Agency | | 716,732 | 0.0% |
| Joint Staff (includes NDU) | | 18,780,431 | 0.3% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **469,384,527** | **6.3%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 152,173,562 | 2.0% |
| | | | |
| **Total** | **$** | **7,476,308,285** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

The following reporting entities comprise the Non-Federal Accounts Receivable line item.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **OMB Designated Audit** | | | |
| Army GF | $ | 467,944,499 | 7.6% |
| Air Force GF | | 326,703,359 | 5.3% |
| Navy GF | | 543,335,001 | 8.8% |
| Marine Corps GF | | 28,428,238 | 0.5% |
| Navy WCF | | 93,866,527 | 1.5% |
| Air Force WCF | | 1,724,939 | 0.0% |
| Army WCF | | 55,343,330 | 0.9% |
| Marine Corps WCF | | 6,420,218 | 0.1% |
| Military Retirement Fund | | 91,708,107 | 1.5% |
| USACE – Civil Works Program | | 2,155,665,472 | 34.8% |
| **Subtotal - OMB Design. Audit** | **$** | **3,771,139,689** | **60.9%** |
| **DoD Designated Audit** | | | |
| DHA - Contract Resource Mgmt | | 419,711,303 | 6.8% |
| DHA – Comptroller FOD | | 63,748 | 0.0% |
| DHA - USUHS | | 50,166 | 0.0% |
| DHA - SMA/Army | | 139,433,363 | 2.3% |
| DHA - SMA/Navy | | 10,109,602 | 0.2% |
| DHA - SMA/Air Force | | 65,973,157 | 1.1% |
| DHA - SMA/NCR | | 383,794 | 0.0% |
| MERHCF | | 277,382,771 | 4.5% |
| DLA WCF | | 1,307,664,637 | 21.1% |
| DLA GF | | 10,717 | 0.0% |
| DLA Strategic Materials | | 300,420 | 0.0% |
| DoD Component Level Accounts | | 7,501,859 | 0.1% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| U.S. Special Operations Command | | 846,656 | 0.0% |
| DISA WCF | | 661,705 | 0.0% |
| DISA GF | | 472,975 | 0.0% |
| TRANSCOM - Air Mobility Command | | 127,257,553 | 2.1% |
| TRANSCOM - Military SDDC | | 2,697,401 | 0.0% |
| TRANSCOM - Command Staff | | 59,526 | 0.0% |
| TRANSCOM - Defense Courier Division | | 457,093 | 0.0% |
| DeCA WCF | | 35,334,742 | 0.6% |
| DeCA GF | | 113,524 | 0.0% |
| DFAS WCF | | 13,729,833 | 0.2% |
| Defense Contract Audit Agency | | 152,779 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **2,410,369,325** | **38.9%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 71,228 | 0.0% |
| WHS - Office of the SecDef | | 261,330 | 0.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 846,921 | 0.0% |
| WHS - Building Maintenance Fund | | 18,510 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | | 80 | 0.0% |
| WHS - Civilian Military Program | | 4,934 | 0.0% |
| WHS - Defense Legal Services Agency | | 5,873 | 0.0% |
| Missile Defense Agency | | 142,251 | 0.0% |
| Defense Security Cooperation Agency | | 34,075 | 0.0% |
| DoD Education Activity | | 4,895,599 | 0.1% |
| DARPA | | 49,850 | 0.0% |
| Other TI-97 Funds - Army | | 466,786 | 0.0% |
| Chemical Biological Defense Program | | 20,585 | 0.0% |
| Defense Contract Mgmt Agency | | 825,105 | 0.0% |
| Defense Threat Reduction Agency | | 67,644 | 0.0% |
| Joint Staff (includes NDU) | | 87,549 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **7,798,319** | **0.1%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 1,551,736 | 0.0% |
| | | | |
| **Total** | **$** | **6,190,859,070** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Accounts Receivable. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Accounts Receivable, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Accounts Receivable** | | | | |
| AR.1 | Recorded Accounts Receivable may not pertain to the reporting entity, may not be representative of amounts earned by and owed to the reporting entity, or | Recorded Accounts Receivable represent transactions and events that actually occurred, are appropriately classified and pertain to the reporting entity (Wave 4, FRO #43 and #44) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts<br><br>Invoices, collection histories, other supporting documentation supporting an | Test a sample of revenue transactions and examine supporting documentation to determine whether an Accounts Receivable has been recorded timely and accurately for all revenue transactions where payment has not been received. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Accounts Receivable** | | | | |
| | may be improperly classified and summarized (E) (Wave 4, ROMM #10, #11, #19, #20, #21, and #22) | | accounts receivable<br><br>Copy of Treasury Report on Receivables and documentation supporting preparation and contents of the report | Select a sample of IPAC, cash, or equivalent collections and examine documentation to determine whether Accounts Receivable is reduced/liquidated accurately and recorded in the proper accounting period.<br><br>Select a sample of Accounts Receivable that were outstanding at year end and review documentation that supports the reporting entity's claim to each receivable (e.g., contract, shipping document, subsequent cash receipt, etc.)<br><br>Verify that Accounts Receivable subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| AR.2 | Recorded Accounts Receivables may not include all amounts earned by and owed to the reporting entity, or may not be summarized accurately in the financial statements (C) (Wave 4, ROMM #33, #34, #42, #43 and #44) | Recorded Accounts Receivable include all amounts earned by and owed to the reporting entity and are accurately classified and summarized (Wave 4, FRO #46) | IPAC/GOALs reports supporting cash collection dollar amounts<br><br>Accounts Receivable general ledger account reconciliation and associated supporting documentation | Select a sample of post period IPAC or equivalent collections (subsequent to year-end) and determine whether an Accounts Receivable was recorded as of year-end (for goods/services rendered prior to year-end).<br><br>See also Suggested Test Procedures for AR.1 |
| AR.3 | Accounts Receivable may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Accounts Receivable are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts<br><br>Copy of Treasury Report on Receivables and documentation supporting preparation and contents of the report | Select a sample of Accounts Receivable from the accounting system and verify that the Accounts Receivable are properly classified as either Intragovernmental or Non-Federal, and the trading partner code is correct (for Intragovernmental transactions). |
| AR.4 | All valid recorded Accounts Receivable transactions may be recorded at incorrect amounts (V) (Wave 4, ROMM #54, #55, #64, #65, and #66) | Recorded Accounts Receivable transactions are recorded at correct amounts (Wave 4, FRO #46 and #47) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts<br><br>Invoices, collection histories, other supporting documentation supporting an | Test a sample of revenue transactions and examine supporting documentation to determine whether revenue (and associated Accounts Receivable) is recorded timely (after services have been rendered or goods |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Accounts Receivable** | | | | |
| | | | accounts receivable<br><br>Copy of Treasury Report on Receivables and documentation supporting preparation and contents of the report<br><br>Schedule of calculation of allowance for uncollectible accounts (Non-Federal only) and documentation supporting the methodology and assumptions used | provided) and at correct amounts.<br><br>Review the reporting entity's methodology for calculating and recording an allowance for doubtful accounts and verify that the factors used (i.e., historical collection percentage, debtor's ability to pay, aging analysis) to compute the allowance are valid.<br><br>Select a sample of outstanding Non-Federal Accounts Receivable (180 days old or greater) and determine whether debts have been referred to Treasury timely and accurately in accordance with the Debt Collection Improvement Act.<br><br>See also Suggested Test Procedures for AR.1 |
| AR.5 | The reporting entity may not have rights to recorded Accounts Receivable (R) (Wave 4, ROMM #71) | The reporting entity has the rights to the recorded Accounts Receivable (Wave 4, FRO #48) | Public law demonstrating authority to collect non-exchange revenue<br><br>Contracts and invoices supporting any direct or indirect costs that have been included in the calculation of customer rates | Test a sample of revenue transactions and examine supporting documentation to determine whether the reporting entity has earned revenue (by providing goods or services) and has the right to report a corresponding Accounts Receivable in its financial records.<br><br>See also Suggested Test Procedures for AR.1 |
| AR.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Accounts Receivable** | | | | |
| AR.7 | Budgetary and proprietary interdependencies are not properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to Accounts Receivable and:<br>• Determine the root cause of the variance<br>• Execute appropriate corrective actions to resolve the variance<br>• Document executed corrective actions<br><br>Tie-point reconciliations related to Accounts Receivable including Tie Point #15. For a full list of Tie-Points, see DoD Tie Point Standards at http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/. |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Accounts Receivable** footnote disclosures included in **Note 5** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Accounts Receivable footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## 5.D.1.4 INVENTORY AND RELATED PROPERTY

Inventory and Related Property represents tangible personal property and includes such items as inventory for resale, fuels held for sale, spare and repair parts, clothing and textiles. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by the Department. Related property includes Operating Materiel & Supplies (OM&S) and stockpile materiel. OM&S includes such items as spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with the recording and classifying of inventory and related property, including the use of proper valuation and measurement methods.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Inventory and Related Property are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1, 3, 48, 50 (and amendments)<br>• DoD FMR: Volume 4, Chapter 1 & 4, Volume 6B, Chapter 10<br>• DoDI 4140.01, *DoD Supply Chain Materiel Management Policy* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

| | |
|---|---|
| • DCFO Policy Memoranda: *Inventory and Related Property Accounting Policy Requirements* issued 11/13/2015; *Alternative Valuation Methods for Establishing Opening Balances for Inventory, OM&S and Stockpile Materials* issued 08/28/2015; *Accounting Policy Update for the Expense Recognition of OM&S* issued 09/04/2015<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | |

## Balance By Reporting Entity

The following reporting entities comprise the Inventory and Related Property line item.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **OMB Designated Audit** | | | |
| Army GF | $ | 31,333,625,915 | 12.0% |
| Air Force GF | | 54,997,936,913 | 21.0% |
| Navy GF | | 67,096,137,256 | 25.6% |
| Marine Corps GF | | 11,755,603,198 | 4.5% |
| Navy WCF | | 30,847,836,955 | 11.8% |
| Air Force WCF | | 23,437,813,677 | 9.0% |
| Army WCF | | 19,484,195,260 | 7.4% |
| Marine Corps WCF | | 1,084,919,329 | 0.4% |
| USACE – Civil Works Program | | 24,958,751 | 0.0% |
| **Subtotal - OMB Design. Audit** | **$** | **240,063,027,254** | **91.7%** |
| **DoD Designated Audit** | | | |
| DLA WCF | $ | 17,590,917,424 | 6.7% |
| DLA Strategic Materials | | 449,257,413 | 0.2% |
| DoD Component Level Accounts | | 6,022,227 | 0.0% |
| DeCA WCF | | 402,417,484 | 0.2% |
| **Subtotal - DoD Design. Audit** | **$** | **19,547,970,768** | **7.5%** |
| **Mid-Sized Defense Agencies** | | | |
| Missile Defense Agency | $ | 3,207,152,995 | 1.2% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **3,207,152,995** | **1.2%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | (1,652,799) | 0.0% |
| | | | |
| **Total** | **$** | **261,717,141,998** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

## Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Inventory and Related Property. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Inventory and Related Property and assess the availability of KSDs that support the controls and amounts recorded.

## Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for Inventory and Related Property are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Inventory and Related Property** | | | | |
| INV.1<br>*WAVE 3*<br>*WAVE 4* | Recorded inventory may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22)<br><br>Recorded OM&S may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22) | Recorded inventory exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the source system and general ledger (Wave 3, FRO #2, #3, #4, #7, and #8)<br><br>Recorded OM&S exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the source system and general ledger (Wave 3, FRO #2, #3, #4, #7, and #8) | Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "book" and physically inspected on the "floor"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 4140.01) (Tier 1 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). | Physically observe Inventory and OM&S counts being performed and examine documentation to determine whether:<br>• the physical inventory or OM&S count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year)<br>• evidence exists to support the review and approval of inventory counts and supporting adjusting entries to financial records by an authorized official<br>• evidence exists to support the review and approval of OM&S counts and supporting adjusting entries to property records by an authorized official.<br><br>Select a sample of inventory items or OM&S from the total item property record and physically inspect assets to determine whether:<br>• the selected inventory or OM&S physically exists. In cases where inventory or OM&S does not exist, determine whether the inventory has been appropriately sold, transferred, or disposed of, and sufficient documentation exists to support the sale, transfer, or disposal<br>• selected inventory is properly classified in the total item property record and general ledger<br>• selected OM&S is properly classified in an appropriate subledger and general ledger.<br><br>Note: if applicable, this sample should include a sub-sample of inventory or OM&S in the possession of contractors. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Inventory and Related Property** | | | | |
| | | | DD Form 1150 – Request for Issue/Transfer/Turn-In | Verify that Inventory and Related Property subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| INV.2 *WAVE 3* *WAVE 4* | Inventory transactions (acquisitions, sales, issuance, disposals) may not be recorded in the total item property record or subledger and general ledger, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44)<br><br>OM&S transactions may not be recorded, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44) | All inventory transactions are recorded (physical inventory of inventory assets reconciles to source system) and properly classified (Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier within source system and general ledger) (Wave 3, FRO #1, #6, #9, and #10)<br><br>All OM&S transactions are recorded (physical inventory of OM&S assets reconciles to source system records) and properly classified (Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier within the source system and general ledger) (Wave 3, FRO #1, #6, #9, and #10) | Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "floor" and traced back to the "book"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD (AT&L) requirements (Tier 1 Asset Documentation).<br><br>Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the subledger, demonstrating the completeness of the subledger population (Tier 2 Asset Documentation).<br><br>Mission-management/ logistics data (if different from the subledger) used by leadership to track, deploy or distribute assets, reconciled to the subledger demonstrating the completeness of the subledger population (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases | Physically observe Inventory and OM&S counts being performed and examine documentation to determine whether:<br>• the physical inventory or OM&S count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year)<br>• evidence exists to support the review and approval of inventory counts and supporting adjusting entries to financial records by an authorized official<br>• evidence exists to support the review and approval of OM&S counts and supporting adjusting entries to property records by an authorized official.<br><br>Select a sample of inventory or OM&S from the warehouse and determine whether:<br>• inventory or OM&S is appropriately entered in the total item property record or other subledger and general ledger. In cases where inventory is not entered in the source system, review documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission<br>• inventory or OM&S is properly classified in the total item property record or other subledger and general ledger<br><br>Note: If applicable, this |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Inventory and Related Property** | | | | |
| | | | functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In<br><br>Other estimation techniques can be used to estimate the size of the population with tolerable precision and then compared to the subledger population to demonstrate completeness (Tier 2 Asset Documentation). | sample should include a sub-sample of inventory or OM&S in the possession of contractors.<br><br>Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to inventory or OM&S. |
| INV.3<br>*WAVE 4* | Inventory transactions (acquisitions, sales, issuances, disposals) are recorded at incorrect amounts, or Inventory assets may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66)<br><br>OM&S transactions (acquisitions, consumptions, disposals) are recorded at incorrect amounts, or OM&S assets are valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66) | Inventory transactions (all acquisitions, sales, disposals) are recorded at correct amounts, and Inventory is valued on an appropriate valuation basis, in accordance with U.S. GAAP and SFFAS #3 (Wave 4, FRO #16 and #17)<br><br>OM&S transactions (all acquisitions, disposals, maintenance) transactions are recorded at correct amounts, and OM&S assets are valued on an appropriate valuation basis (Wave 4, FRO #16 and #17) | Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets | Select a sample of inventory additions (i.e., purchases, transfers in, donations) and examine documentation (i.e., receiving reports, invoices, etc.) to determine whether:<br>• inventory was valued in accordance with U.S. GAAP, at historical cost or the latest acquisition cost<br>• inventory was valued using consistent accounting principles from period to period<br>• sufficient and accurate documentation exists to support the inventory value<br><br>Select a sample of OM&S additions (i.e., purchases, transfers in, donations) and examine documentation to determine whether:<br>• OM&S was valued using appropriate costing methodologies, in accordance with U.S. GAAP (purchase vs. consumption method)<br>• OM&S was recorded at correct amounts<br>• sufficient and accurate evidence exists to support the validity and value of the OM&S addition |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Inventory and Related Property** | | | | |
| | | | such as:<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). | (invoices, etc.).<br><br>Select a sample of inventory issuances (i.e., sales, transfers out, donations) and examine documentation to determine whether:<br>• issuance was authorized and approved by an appropriate official<br>• issuance was recorded timely and accurately<br><br>Identify slow moving, obsolete, stale or damaged inventory and examine documentation to determine whether:<br>• appropriate adjustments (write-downs or write-offs) were made to reduce inventory to its net realizable value<br>• the adjustments were recorded timely and accurately<br>• the write-downs or write-offs were authorized by an appropriate authorizing official<br>• the adjusting entries were reviewed and approved by an authorized official prior to recording the entry in the source system<br>• documentation exists to support the review and approval (i.e., signature and date of warehouse supervisor)<br><br>Select a sample of OM&S disposals (i.e., unusable, obsolete, scrapped, or damaged) and examine documentation to determine whether:<br>• The disposal was authorized and approved by appropriate official<br>• The disposal was recorded timely and accurately.<br><br>Verify that all impairments to OM&S are identified timely and all asset adjustments are recorded accurately and |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Inventory and Related Property** | | | | |
| | | | | in the correct accounting period.<br><br>Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to inventory. |
| INV.4<br>*WAVE 3*<br>*WAVE 4* | Recorded inventory may not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71)<br><br>Recorded OM&S does not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71) | The reporting entity has rights to the recorded Inventory at a given date. (Wave 3, FRO #5)<br><br>The reporting entity has rights to the recorded OM&S at a given date (Wave 3, FRO #5) | Contract documentation, including (for base assets and asset modifications):<br>• Statement of Work<br>• Contract clauses that define who owns assets and when the reporting entity takes possession<br>• Purchase Orders<br>• Receiving report or other acceptance document (e.g., DD-250, "Material Inspection and Receiving Report") (Tier 2 Asset Documentation).<br><br>Documentation of observed physical indicators of ownership rights, including a combination of:<br>• Documentation of assets located on reporting entity facility<br>• Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership<br>• Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset<br>• Other evidence of exclusive rights to use assets (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and | Select a sample of inventory items or OM&S from the total item property record or other subledger and physically inspect assets to determine whether the reporting entity controls/owns the inventory or OM&S and has the rights to report the inventory or OM&S in the total item property record or other subledger and general ledger.<br><br>Select a sample of inventory items or OM&S from the warehouse and determine whether documentation exists (i.e., DD-250) to evidence ownership/control and the right to report the inventory or OM&S in the financial records.<br><br>Note: If applicable, this sample should include a sub-sample of inventory or OM&S in the possession of contractors. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Inventory and Related Property** | | | | |
| | | | invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In | |
| INV.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Inventory and Related Property** footnote disclosures included in **Note 9** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for the Inventory and Related Property footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## 5.D.1.5 General Property, Plant and Equipment

### *5.D.1.5.1 General Equipment*

General Equipment is included as General Property, Plant & Equipment (G-PP&E) and consists of tangible assets that have an estimated useful life of 2 or more years; are not intended for sale in the ordinary course of operations; do not ordinarily lose their identity or become a component part of another item when put into use; and, are intended to be used or available for use by the reporting entity.

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with General Equipment, including acquisitions, depreciation, transfers, dispositions and general ledger recording. Furthermore, reporting entities should have controls in place to properly account for General Equipment acquired by and/or in the possession of contractors. The nature of the item, rather than who has possession of the asset, is the basis for proper accountability.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for General Equipment are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 6, 11, 44, 50 (and amendments)<br>• Technical Release (TR): 13, 14<br>• DoD FMR: Volume 4, Chapter 6<br>• DoDI 5000.64, *Accountability and Management of DoD Equipment and Other Accountable Property*<br>• DCFO Policy Memorandum: *Strategy and Implementation Guidance for General Equipment Valuation* issued 03/14/2016<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances*<br>• DCFO Memorandum: *Accounting Treatment of Long Range Ballistic Missiles issued* 09/12/2016 | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• FMR: Volume 1, Chapter 9 |

## Balance By Reporting Entity

The following reporting entities comprise the General Equipment line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 70,274,149,514 | 16.5% |
| Air Force GF | 80,935,549,386 | 19.0% |
| Navy GF | 243,946,797,476 | 57.2% |
| Marine Corps GF | 9,331,954,844 | 2.2% |
| Navy WCF | 517,506,185 | 0.1% |
| Air Force WCF | 961,811,361 | 0.2% |
| Army WCF | 440,995,555 | 0.1% |
| Marine Corps WCF | 18,975,969 | 0.0% |
| USACE – Civil Works Program | 983,342,201 | 0.2% |
| **Subtotal - OMB Design. Audit** | **$ 407,411,082,493** | **95.5%** |
| **DoD Designated Audit** | | |
| DHA – Comptroller FOD | $ 6,907,454 | 0.0% |
| DHA - USUHS | 5,317,390 | 0.0% |
| DLA WCF | 207,874,929 | 0.0% |
| DLA Strategic Materials | 2,130,643 | 0.0% |
| DoD Component Level Accounts | 110,405,321 | 0.0% |
| U.S. Special Operations Command | 16,156,609,429 | 3.8% |
| DISA WCF | 443,843,613 | 0.1% |
| DISA GF | 89,188,719 | 0.0% |
| TRANSCOM - Air Mobility Command | 19,873,350 | 0.0% |
| TRANSCOM - Military SDDC | 20,557,766 | 0.0% |
| TRANSCOM - Military Sealift Command | 145,250 | 0.0% |
| TRANSCOM - Command Staff | 8,447,982 | 0.0% |
| DeCA WCF | 15,551,507 | 0.0% |
| DeCA GF | 61,833,103 | 0.0% |
| DFAS WCF | 33,575,971 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$ 17,182,262,428** | **4.0%** |
| **Mid-Sized Defense Agencies** | | |
| Washington Headquarters Services (WHS) | $ 12,163,134 | 0.0% |
| WHS - Office of the SecDef | 98,462,716 | 0.0% |

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| Missile Defense Agency | 1,738,178,104 | 0.4% |
| Chemical Biological Defense Program | 48,515 | 0.0% |
| Defense Contract Mgmt Agency | 3,053,488 | 0.0% |
| Defense Threat Reduction Agency | 1,856,832 | 0.0% |
| Joint Staff (includes NDU) | 38,964,852 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$ 1,892,727,640** | **0.4%** |
| Remaining Defense Agencies and Funds | | |
| Other Reporting Entities | 47,378,165 | 0.0% |
| | | |
| **Total** | **$ 426,533,450,726** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Footnote Data

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness, and KSDs specific to General Equipment. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting General Equipment and assess the availability of KSDs that support the controls and amounts recorded.

### Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for General Equipment are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| GE.1<br>*WAVE 3*<br>*WAVE 4* | Recorded General Equipment may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22) | Recorded General Equipment exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the APSR (Wave 3, FRO #2, #3, #4, #7, and #8) | Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "book" and physically inspected on the "floor"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 5000.64, Enclosure 3, Section 11) (Tier 1 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related | Physically observe general equipment counts being performed and examine documentation to determine whether:<br>• the count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year)<br>• evidence exists to support the review and approval of counts and supporting adjusting entries to property records by an authorized official.<br><br>Select a sample of general equipment assets from the APSR and physically inspect assets to determine whether: |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| | | | asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In | • the selected asset physically exists. In cases where assets do not exist, determine whether assets have been appropriately transferred or disposed of, and sufficient documentation exists to support the transfer/disposal<br>• the selected general equipment is properly classified in the APSR and general ledger.<br><br>Note: if applicable, this sample should include a sub-sample of government furnished general equipment (i.e., equipment in the possession of contractors). This will require coordination with the contractor to ensure a complete population is available for testing and is supportable.<br><br>Select a sample of general equipment disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether:<br>• disposal was authorized and approved by appropriate official<br>• disposal was recorded timely and accurately.<br><br>Verify that General Equipment subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| GE.2<br>*WAVE 3*<br>*WAVE 4* | General Equipment transactions may not be recorded, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, | All General Equipment transactions are recorded (physical inventory of equipment assets reconciles to APSR records) and properly classified (Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier) within the Accountable Property System of Record and | Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "floor" and traced back to the "book"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). | Physically observe general equipment counts being performed and examine documentation to determine whether:<br>• the count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year) |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| | and #44) | general ledger (Wave 3, FRO #1, #6, #9, and #10) | Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD (AT&L) requirements (Tier 1 Asset Documentation).<br><br>Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the APSR, demonstrating the completeness of the APSR population (Tier 2 Asset Documentation).<br><br>Mission-management/ logistics data (if different from the APSRs) used by leadership to track, deploy or distribute assets, reconciled to the APSR demonstrating the completeness of the APSR population (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In | • evidence exists to support the review and approval of counts and supporting adjusting entries to property records by an authorized official.<br><br>Select a sample of general equipment and determine whether:<br>• the general equipment is appropriately entered in the APSR and general ledger. In cases where assets are not entered in the APSR, review documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission<br>• general equipment is properly classified in the accountable property system of record (APSR) and general ledger.<br><br>Note: If applicable, this sample should include a sub-sample of government furnished general equipment (i.e., equipment in the possession of contractors). This will require coordination with the contractor to ensure a complete population is available for testing and is supportable.<br><br>Select a sample of general equipment additions (i.e., constructions, transfers in, donated) and examine documentation to determine whether:<br>• construction in progress costs were recorded in correct accounts at the correct amounts<br>• all construction in progress costs were accurately charged to the cost of the asset<br>• sufficient, accurate, and relevant documentation exists to support all property acquisition costs (i.e., invoices) |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| | | | Other estimation techniques can be used to estimate the size of the population with tolerable precision and then compared to the APSR population to demonstrate completeness (Tier 2 Asset Documentation). | • general equipment has been capitalized in accordance with the reporting entity's capitalization policy and FMR 7000.14, as revised<br>• the recorded useful life/recovery period is in accordance with the reporting entity's policies and FMR 7000.14, as revised<br>• the "Placed-in-Service Date" is appropriate and supported by adequate documentation.<br><br>Select a sample of general equipment disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether:<br>• disposal was authorized and approved by appropriate official<br>• disposal was recorded timely and accurately.<br><br>Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to general equipment. |
| GE.3 *WAVE 4* | General Equipment transactions (acquisitions, disposals) may be recorded at incorrect amounts, or General Equipment may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66) | General Equipment transactions (all acquisitions, disposals, maintenance) are recorded at correct amounts, and General Equipment assets are valued on an appropriate valuation basis (Wave 4, FRO #13 and #14) | Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting "placed-in-service" date (e.g., DD-250, "Material | Select a sample of general equipment additions (i.e., constructions, transfers in, donated) and examine documentation to determine whether:<br>• all costs to bring general equipment into service (i.e., freight, installation, moving, and holding costs) were recorded as part of asset<br>• costs to make any enhancement or modification to the general equipment that increased the useful life and/or added new capabilities were appropriately capitalized and added to the full cost of the asset<br>• routine repair or |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| | | | Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).<br><br>Documentation supporting mathematical calculations for recorded depreciation/amortization (demonstrating that the system is correctly calculating depreciation/amortization expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives and acquisition costs over the life of assets) (Tier 1 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical | maintenance costs were appropriately and timely expensed (i.e., charged to the correct GL account)<br>• depreciation expense was recorded accurately and timely<br>• construction in progress costs were recorded in correct accounts at the correct amounts<br>• all construction in progress costs were accurately charged to the cost of the asset<br>• sufficient, accurate, and relevant documentation exists to support all property acquisition costs (i.e., invoices)<br>• general equipment has been capitalized in accordance with the reporting entity's capitalization policy and FMR 7000.14, as revised<br>• the recorded useful life/recovery period is in accordance with the reporting entity's policies and FMR 7000.14, as revised<br>• the "Placed-in-Service Date" is appropriate and supported by adequate documentation.<br><br>Select a sample of general equipment disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether:<br>• disposal was recorded at the net realizable value (full historical cost – accumulated depreciation)<br>• any loss/gain on disposal was properly and accurately recorded.<br><br>Verify that all impairments are identified timely and all asset adjustments are recorded accurately, and in the correct accounting period. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| | | | asset/inventory counts (Tier 1 Asset Documentation). | Select a sample of general equipment assets and verify the following:<br>• the validity of useful life and estimated salvage value (if applicable) for the purpose of calculating depreciation expense<br>• the validity of the depreciation method in conformity with U.S. GAAP<br>• accuracy of recorded current year depreciation expense and accumulated depreciation.<br><br>Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to equipment. |
| GE.4<br>*WAVE 3*<br>*WAVE 4* | Recorded General Equipment may not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71) | The reporting entity has rights to the recorded General Equipment at a given date (Wave 3, FRO #5) | Contract documentation, including (for base assets and asset modifications):<br>• Statement of Work<br>• Contract clauses that define who owns assets and when the reporting entity takes possession<br>• Purchase Orders<br>• Receiving report or other acceptance document (e.g., DD-250, "Material Inspection and Receiving Report") (Tier 2 Asset Documentation).<br><br>Physical indicators of ownership rights, including a combination of:<br>• Assets located on reporting entity facility<br>• Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership<br>• Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset | Select a sample of general equipment assets from the APSR and physically inspect assets to determine whether the reporting entity controls/owns the asset and has the right to report the asset in the APSR and general ledger.<br><br>Select a sample of general equipment and determine whether documentation exists (i.e., DD-250) to evidence ownership/control and the right to report the general equipment in its financial records.<br><br>Note: If applicable, this sample should include a sub-sample of government furnished general equipment (i.e., equipment in the possession of contractors). This will require coordination with the contractor to ensure a complete population is available for testing and is supportable. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **General Equipment** | | | | |
| | | | • Other evidence of exclusive rights to use assets (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting “placed-in-service” date (e.g., DD-250, “Material Inspection and Receiving Report,” receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In | |
| GE.5 | IT General and Application Controls may not be | All material systems achieve the relevant FISCAM IT general- and application- | See FIAR Guidance Section 3.D.2, “Systems (IT) Controls,” for additional details related to IT General and Application Controls audit readiness activities | |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| General Equipment | | | | |
| | appropriately designed or operating effectively (FISCAM) | level general control objectives. | | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **General Property, Plant and Equipment, Net** footnote disclosures included in **Note 10** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for General Property, Plant and Equipment, Net footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## *5.D.1.5.2 Real Property*

Real Property is included as General Property, Plant & Equipment (G-PP&E) on the Balance Sheet and includes Land, Buildings, Structures, Facilities, and Leasehold Improvements. Real Property also includes Stewardship Land that includes both land and land rights owned by the Department, but not acquired for, or in connection with, items of G-PP&E. All land provided to the Department from the public domain or at no cost, regardless of its use, is classified as Stewardship Land. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with Real Property, including acquisitions, capitalization, depreciation, general ledger recording, and financial reporting.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Real Property are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 6, 50<br>• DoD FMR: Volume 4, Chapter 11; Volume 6B, Chapter 4<br>• DoD Instruction 4165.14, *Real Property Inventory (RPI) and Forecasting*<br>• DoD FMR: Volume 4, Chapter 6<br>• DCFO Policy Memoranda: *Accounting Policy Update for Financial Statement Reporting for Real Property* issued 09/30/2015; *Alternative Valuation Methodology for Establishing Opening Balances for Buildings, Structures and Linear Structures* issued 01/19/2016; *Financial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside the United States* issued 06/27/2016<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Real Property line item.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **OMB Designated Audit** | | | |
| Army GF | $ | 63,178,312,326 | 31.7% |
| Air Force GF | | 41,087,713,357 | 20.6% |
| Navy GF | | 28,916,603,706 | 14.5% |
| Marine Corps GF | | 10,366,807,656 | 5.2% |
| Navy WCF | | 1,389,547,022 | 0.7% |
| Air Force WCF | | 585,346,026 | 0.3% |
| Army WCF | | 914,125,712 | 0.5% |
| Marine Corps WCF | | 47,878,837 | 0.0% |
| USACE – Civil Works Program | | 28,788,167,910 | 14.4% |
| **Subtotal - OMB Design. Audit** | **$** | **175,274,502,551** | **88.0%** |
| **DoD Designated Audit** | | | |
| DHA - USUHS | | 8,069,440 | 0.0% |
| DHA - SMA/Army | | 3,179,508,872 | 1.6% |
| DHA - SMA/Navy | | 1,322,758,862 | 0.7% |
| DHA - SMA/Air Force | | 1,556,883 | 0.0% |
| DLA WCF | | 2,486,663,849 | 1.2% |
| DLA GF | | 979,561,695 | 0.5% |
| DoD Component Level Accounts | | 2,383,975,347 | 1.2% |
| U.S. Special Operations Command | | 2,845,771,817 | 1.4% |
| DISA WCF | | 65,638,255 | 0.0% |
| DISA GF | | 83,084,109 | 0.0% |
| TRANSCOM - Air Mobility Command | | 289,068,512 | 0.1% |
| TRANSCOM - Military SDDC | | 20,114,773 | 0.0% |
| TRANSCOM - Command Staff | | 121,784,617 | 0.1% |
| TRANSCOM - Defense Courier Division | | 1,530,079 | 0.0% |
| DeCA WCF | | 35,722,752 | 0.0% |
| DeCA GF | | 713,790,192 | 0.4% |
| DFAS WCF | | 125,394,308 | 0.1% |
| **Subtotal - DoD Design. Audit** | **$** | **14,663,994,363** | **7.4%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 124,132,923 | 0.1% |
| WHS - Office of the SecDef | | 3,123,707,083 | 1.6% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 3,049,412,361 | 1.5% |
| Missile Defense Agency | | 1,643,218,572 | 0.8% |
| DoD Education Activity | | 414,639,821 | 0.2% |
| Other TI-97 Funds - Army | | 684,562,337 | 0.3% |
| Chemical Biological Defense Program | | 1,991,229 | 0.0% |
| Defense Threat Reduction Agency | | 82,077,181 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **9,123,741,507** | **4.6%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 216,630,162 | 0.1% |
| | | | |
| **Total** | **$** | **199,278,868,583** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Footnote Data

**As noted, the balances above were reported in the FY 2015 reporting entity balance sheets and footnotes. A policy memorandum regarding reporting of real property within the Department was issued on September 30, 2015 that may significantly impact the balances reflected in the table.**

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Real Property. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Real Property, and assess the availability of KSDs that support the controls and amounts recorded.

### Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for Real Property are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| RP.1<br>*WAVE 3*<br>*WAVE 4* | Recorded Real Property may not exist at given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22) | Recorded Real Property exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the APSR (Wave 3, FRO #2, #3, #4, #7, and #8) | Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the “book” and physically inspected on the “floor”), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 4165.14, Enclosure 3) (Tier 1 Asset Documentation). | Physically observe real property asset counts being performed and examine documentation to determine whether:<br>• the real property count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year)<br>• evidence exists to support the review and approval of real property counts and supporting adjusting entries to property records by an authorized official. |
| | | | Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, bills of lading, receiving reports and invoices, and appraisal reports for donated assets.<br>Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation). | Select a sample of real property assets from the APSR and physically inspect assets to determine whether:<br>• the selected real property assets physically exist. In cases where assets do not exist, determine whether these assets have been appropriately transferred or disposed of, and sufficient documentation exists to support the transfer/disposal<br>• selected real property is properly classified in the APSR and general ledger.<br><br>Note: If applicable, this sample should include a |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| | | | Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334)<br>• Declaration of Excess document<br>• approval documentation (to include disposal of land)<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).<br>• Interim Agreements Of Real Property Financial Reporting Responsibility And Transfer<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In | sub-sample of real property in the custody of contractors.<br><br>Select a sample of real property disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether:<br>• the disposal was authorized and approved by appropriate official<br>• the disposal was recorded timely and accurately.<br><br>Verify that Real Property subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity. |
| RP.2<br>*WAVE 3*<br>*WAVE 4* | Real Property transactions may not be recorded, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44) | All Real Property transactions are recorded (physical inventory of Real Property assets reconciles to APSR records) and properly classified (Real Property Unique Identifier (RPUID), Facility Number) within the Accountable Property System of Record and general ledger (Wave 3, FRO #1, #6, #9, and #10) | Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "floor" and traced back to the "book"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD (AT&L) requirements (Tier 1 Asset Documentation).<br><br>Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the APSR, demonstrating | Physically observe real property asset counts being performed and examine documentation to determine whether:<br>• the real property count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year)<br>• evidence exists to support the review and approval of real property counts and supporting adjusting entries to property records by an authorized official.<br><br>Select a sample of real property assets and |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| | | | the completeness of the APSR population (Tier 2 Asset Documentation).<br><br>Mission-management/logistics data (if different from the APSRs) used by leadership to track, deploy or distribute assets, reconciled to the APSR demonstrating the completeness of the APSR population (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In<br><br>Interim Agreements Of Real Property Financial Reporting Responsibility And Transfer<br><br>Other estimation techniques can be used to estimate the size of the population with tolerable precision and then compared to the APSR population to demonstrate completeness (Tier 2 Asset | determine whether:<br>• real property is appropriately entered in the APSR and general ledger. In cases where assets are not entered in the APSR, review documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission<br>• real property is properly classified in the APSR and general ledger.<br><br>Note: If applicable, this sample should include a sub-sample of real property in the custody of contractors.<br><br>Select a sample of real property additions (i.e., constructions, transfers in, donations) and examine documentation to determine whether:<br>• construction in progress (CIP) costs were recorded in correct accounts at the correct amounts<br>• all CIP costs were accurately charged to the cost of the asset and CIP accounts were relieved after construction completion<br>• sufficient, accurate, and relevant documentation exists to support all property acquisition costs<br>• real property assets have been capitalized in accordance with the DoD capitalization threshold.<br><br>Select a sample of real property disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether:<br>• the disposal was authorized and |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| | | | Documentation). | approved by appropriate official<br>• the disposal was recorded timely and accurately.<br><br>Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to real property. |
| RP.3<br>*WAVE 4* | Real Property transactions (acquisitions, maintenance, disposals) may be recorded at incorrect amounts, or Real Property assets may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66) | Real Property transactions (all acquisitions, disposals, maintenance) are recorded at correct amounts, and Real Property assets are valued on an appropriate valuation basis (Wave 4, FRO #13 and #14) | Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting transfer of cost information from Construction in Progress (CIP) accounts to the fixed asset account (DD-1354, "Transfer and Acceptance of Real Property") (Tier 1 Asset Documentation).<br><br>Documentation supporting "placed-in-service" date (e.g., DD-1354, "Transfer and Acceptance of Real Property"), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).<br><br>Documentation supporting mathematical calculations for recorded depreciation/amortization (demonstrating that the system is correctly calculating | Select a sample of real property additions (i.e., constructions, transfers in, donations) and examine documentation to determine whether:<br>• all costs to bring real property into service (i.e., freight, installation, moving, and holding costs) were recorded as part of asset<br>• costs to make any enhancement or modification to the property that increased the useful life were appropriately capitalized and added to the full cost of the asset<br>• routine repair or maintenance costs were appropriately and timely expensed (i.e., charged to the correct GL account)<br>• depreciation expense was recorded accurately and timely<br>• CIP costs were recorded in correct accounts at the correct amounts and CIP accounts were relieved after construction completion<br>• all CIP costs were accurately charged to the cost of the asset<br>• sufficient, accurate, and relevant documentation exists to support all property acquisition costs |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| | | | depreciation/amortization expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives and acquisition costs over the life of assets) (Tier 1 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334)<br>• Declaration of Excess document<br>• approval documentation (to include disposal of land)<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). | • real property assets have been capitalized in accordance with the DoD capitalization threshold.<br><br>Select a sample of real property disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether:<br>• the disposal was recorded at the net realizable value (full historical cost – accumulated depreciation)<br>• any loss/gain on disposal was properly and accurately recorded.<br><br>Verify that all impairments are identified timely and all asset adjustments are recorded accurately and in the correct accounting period.<br><br>Select a sample of real property assets and verify the following:<br>• the validity of useful life and estimated salvage value (if applicable) for the purpose of calculating depreciation expense<br>• the validity of the depreciation method in conformity with U.S. GAAP<br>• accuracy of recorded current year depreciation expense and accumulated depreciation<br><br>Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to real property. |
| RP.4<br>*WAVE 3*<br>*WAVE 4* | Recorded Real Property assets may not pertain to nor are rightfully | The reporting entity has rights to the recorded Real Property at a given date | Contract documentation, including (for base assets and asset modifications): | Select a sample of real property assets and determine whether |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| | owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71) | (Wave 3, FRO #5) | • Statement of Work<br>• Contract clauses that define who owns assets and when the reporting entity takes possession<br>• Purchase Orders<br>• Receiving report or other acceptance document (e.g., DD-1354, "Transfer and Acceptance of DoD Real Property")<br>• Deeds/titles (for Land only)<br>• Lease, Occupancy Agreement, Reversion Legal Document, Judgment Legal Document (for condemnation), Letter of Withdrawal (for withdrawal from Public Domain) (Tier 2 Asset Documentation).<br><br>Tract maps, land plats, space management systems, utilities maps, or facility diagrams that are reconciled to the APSR, demonstrating the completeness of the APSR population (Tier 2 Asset Documentation).<br><br>Documentation of observed physical indicators of ownership rights, including a combination of:<br>• Documentation of assets located on reporting entity facility<br>• Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership<br>• Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset<br>• Other evidence of exclusive rights to use assets (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition | documentation exists (i.e., DD-1354) to evidence ownership/control and the right to report the real property in its financial records.<br><br>Note: If applicable, this sample should include a sub-sample of real property in the custody of contractors. |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| | | | and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting "placed-in-service" date (e.g., DD-1354, "Transfer and Acceptance of Real Property," or the "Interim Agreement of Real Property Financial Reporting and Responsibility Transfer" receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334)<br>• Declaration of Excess document<br>• approval documentation (to include disposal of land)<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).<br><br>DD Form 1150 – Request for Issue/Transfer/Turn-In | |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Real Property** | | | | |
| RP.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Real Property** footnote disclosures included in **Note 10** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Real Property footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## *5.D.1.5.3 Internal Use Software*

Internal Use Software is included as General Property, Plant & Equipment on the Balance Sheet and represents the costs of software, whether commercial off-the-shelf (COTS), internally developed or contractor developed, that meet the DoD capitalization criteria.

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with the proper recording and classifying of Internal Use Software, including the proper recognition of full capitalization cost and valuation.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Internal Use Software are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 6, 10, 50 (and amendments)<br>• Technical Release 16<br>• DoD FMR: Volume 6B, Chapter 4, 10<br>• DoD FMR: Volume 4, Chapter 6<br>• DCFO Policy Memorandum: *Strategy for Internal Use Software Audit Readiness* issued 09/30/2015<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances*<br>• DoDI 5000.76, *Accountability and Management of Internal Use Software* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Internal Use Software line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 295,481,223 | 8.2% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| Air Force GF | | 193,100,618 | 5.4% |
| Navy GF | | 1,701,224 | 0.0% |
| Navy WCF | | 48,240,096 | 1.3% |
| Air Force WCF | | 46,659,693 | 1.3% |
| Army WCF | | 379,965,599 | 10.6% |
| USACE – Civil Works Program | | 26,680,246 | 0.7% |
| **Subtotal - OMB Design. Audit** | **$** | **991,828,699** | **27.6%** |
| **DoD Designated Audit** | | | |
| DHA – Comptroller FOD | $ | 31,875,563 | 0.9% |
| DLA WCF | | 361,115,548 | 10.0% |
| DLA GF | | 103,554,877 | 2.9% |
| DoD Component Level Accounts | | 1,566,803,845 | 43.6% |
| DISA WCF | | 20,465,951 | 0.6% |
| DISA GF | | 5,573,363 | 0.2% |
| TRANSCOM - Air Mobility Command | | 207,915,219 | 5.8% |
| TRANSCOM - Military SDDC | | 19,604,196 | 0.5% |
| TRANSCOM - Military Sealift Command | | 2,247,072 | 0.1% |
| TRANSCOM - Command Staff | | 131,905,050 | 3.7% |
| DeCA WCF | | 2,991,122 | 0.1% |
| DeCA GF | | 4,617,085 | 0.1% |
| DFAS WCF | | 69,201,900 | 1.9% |
| **Subtotal - DoD Design. Audit** | **$** | **2,527,870,791** | **70.3%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 367,421 | 0.0% |
| WHS - Office of the SecDef | | 143,189 | 0.0% |
| Defense Contract Mgmt Agency | | 3,031,816 | 0.1% |
| Defense Threat Reduction Agency | | 1,872,236 | 0.1% |
| Joint Staff (includes NDU) | | 36,146,785 | 1.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **41,561,447** | **1.2%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 34,299,649 | 1.0% |
| | | | |
| **Total** | **$** | **3,595,560,587** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Footnote Data

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Internal Use Software. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Internal Use Software and assess the availability of KSDs that support the controls and amounts recorded.

### Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for Internal Use Software are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Internal Use Software** | | | | |
| IS.1 *WAVE 3* *WAVE 4* | Recorded Internal Use Software may not exist at a given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22) | Recorded Internal Use Software exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the APSR (Wave 3, FRO #2, #3, #4, #7, and #8) | Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of asset/inventory counts (Tier 1 Asset Documentation). | Verify that all impairments are properly recognized and are recorded accurately in the correct accounting period.<br><br>Select a sample of purchases and additions to Internal Use Software and examine supporting documentation to verify that internally developed or contractor-developed software represents fully implemented and functioning software that has met the "Final Acceptance Testing" and is rightfully owned by the reporting entity.<br><br>Verify that Internal Use Software subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| IS.2 *WAVE 3* *WAVE 4* | Internal Use Software transactions may not be recorded, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and | All Internal Use Software transactions are recorded (all direct and indirect cost have been recognized and recorded) within the APSR and general ledger (Wave 3, FRO #1, #6, #9, and #10)) | Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. | Select a sample of Internal Use Software additions (i.e., purchased (COTS) or developed) and examine documentation to determine whether:<br>• contractor-developed and internally developed software costs (software development stage) were |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Internal Use Software** | | | | |
| | #44) | | Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of asset/inventory counts (Tier 1 Asset Documentation). | recorded in the correct GL account (1832) at the correct amounts<br>• sufficient, accurate and relevant documentation exists to support all Internal Use Software acquisition costs<br>• Internal Use Software has been capitalized in accordance with the reporting entity's capitalization policy and FMR 7000.14, as revised.<br><br>Verify that all impairments are properly recognized and are recorded accurately in the correct accounting period.<br><br>Select a sample of Internal Use Software assets and determine whether:<br>• Internal Use Software is appropriately entered in the APSR and general ledger. In cases where assets are not entered in the APSR, review documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission<br>• Internal Use Software is properly classified in the APSR and general ledger.<br><br>Select a sample of purchases and additions to Internal Use Software and examine supporting documentation to verify that internally developed or contractor-developed software represents fully implemented and functioning software that has met the "Final Acceptance Testing" and is rightfully owned by the reporting entity. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Internal Use Software** | | | | |
| IS.3<br>*WAVE 4* | Internal Use Software transactions (purchases (COTS), impairments, development costs) may be recorded at incorrect amounts, or Internal Use Software may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66) | Internal Use Software transactions (all purchases, impairments, and development costs) are recorded at correct amounts, and Internal Use Software is valued on an appropriate valuation basis(Wave 4, FRO #13 and #14) | Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting "placed-in-service" date (e.g., DD-250, "Material Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).<br><br>Documentation supporting mathematical calculations for recorded depreciation/amortization (demonstrating that the system is correctly calculating depreciation/amortization expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives and acquisition costs over the life of assets) (Tier 1 Asset Documentation).<br><br>Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation).<br><br>Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation). | Select a sample of Internal Use Software additions (i.e., purchased (COTS) or developed) and examine documentation to determine whether:<br>• all costs to bring the software into service (i.e., contractor costs, installation, implementation cost, programming cost, direct and indirect costs, overhead costs) were recorded as part of Internal Use Software<br>• program management costs were recognized and recorded as indirect costs and accurately expensed or capitalized<br>• costs to make any enhancement or modification to existing Internal Use Software that significantly increases functionality and adds new capabilities were appropriately capitalized and added to the full cost of the software<br>• preliminary design and post-implementation costs were appropriately and accurately expensed<br>• amortization expense was recorded accurately and timely<br>• contractor-developed and internally developed software costs (software development stage) were recorded in the correct GL account (1832) at the correct amounts<br>• all data conversion costs incurred were accurately expensed and <u>not</u> capitalized<br>• sufficient, accurate and relevant documentation exists to support all Internal Use Software acquisition costs<br>• Internal Use Software has been capitalized in accordance with the reporting entity's capitalization policy and |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Internal Use Software** | | | | |
| | | | Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of impairment from performance of asset/inventory counts (Tier 1 Asset Documentation).<br><br>Documentation supporting the allocation methodology for direct labor costs and the distribution methodology for indirect labor costs and overhead costs for internally developed software (software development stage only) (Tier 1 Asset Documentation).<br><br>Documentation supporting the purchase of commercial off-the-shelf (COTS) purchases, plus any costs incurred for implementation (Tier 1 Asset Documentation).<br><br>Documentation supporting the amounts paid to the contractor to design, program, install, and implement new software or to modify existing software, plus any costs incurred for implementation (Tier 1 Asset Documentation). | FMR 7000.14, as revised.<br><br>Verify that all impairments are properly recognized and measured and all asset adjustments are recorded accurately.<br><br>Select a sample of Internal Use Software assets and verify the following:<br>• the validity of useful life (consistent with that used for planning the software's acquisition) for the purpose of calculating amortization expense<br>• the validity of the amortization method in conformity with U.S. GAAP<br>• the accuracy of recorded current year accumulated amortization.<br><br>Verify that all Internal Use Software transactions are recorded at the correct amounts, using appropriate valuation methods that are in accordance with GAAP and SFFAS #10. Also verify that the reporting entity has established a methodology for capitalizing and amortizing Internal Use Software (e.g., capturing full cost incurred during the software development stage), which is consistently applied from period to period. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Internal Use Software** | | | | |
| IS.4<br>*WAVE 3*<br>*WAVE 4* | Recorded Internal Use Software may not pertain to nor is rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71) | The reporting entity has rights to the recorded Internal Use Software at a given date (Wave 3, FRO #5) | Contract documentation, including (for base assets and asset modifications):<br>• Statement of Work<br>• Contract clauses that define who owns assets and when the reporting entity takes possession<br>• Purchase Orders<br>• Receiving report or other acceptance document (e.g., DD-250, "Material Inspection and Receiving Report") (Tier 2 Asset Documentation).<br><br>Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation).<br><br>Documentation supporting "placed-in-service" date (e.g., DD-250, "Material Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation).<br><br>Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as:<br>• Declaration of Excess document<br>• approval documentation<br>• documents supporting disposal start date<br>• documents supporting determination of | Select a sample of Internal Use Software assets and determine whether documentation exists to evidence ownership/control and the right to report the Internal Use Software in its financial records.<br><br>Select a sample of purchases and additions to Internal Use Software and examine supporting documentation to verify that internally developed or contractor-developed software represents fully implemented and functioning software that has met the "Final Acceptance Testing" and is rightfully owned by the reporting entity. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Internal Use Software** | | | | |
| | | | impairment from performance of asset/inventory counts (Tier 1 Asset Documentation). | |
| IS.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **General Property, Plant & Equipment, Net (General PP&E, Net)** footnote disclosures included in **Note 10** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for the General PP&E, Net footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## Consideration of Historical Transactions

For all classes of G-PP&E, reporting entities need to consider whether documentation is available to support the valuation of historical assets. An initial analysis of G-PP&E acquisition dates and availability of supporting documentation is critical to making this determination. As reporting entities identify documentation gaps, they should coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy calculating valuations of historical assets, including proper application of SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. FASAB is issuing a Technical Release to aide entities in calculating their opening balances in accordance with SFFAS 50. For IUS and Land a $0 opening balance is permissible.

### 5.D.1.6 Other Assets

Other Assets consist of military and civil service employee pay advances, travel advances, and certain contract financing payments. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes involving Other Assets including the recording, monitoring and amortizing of such assets.

#### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with other federal entities throughout the course of the fiscal year. The suggested test procedures for OA.1 – OA.2 and OA.4 – OA.7 can be leveraged to test both Intragovernmental and Non-Federal Other Assets. The suggested test procedures provided in OA.3 are for Intragovernmental Other Assets only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Intragovernmental Other Assets, are covered in the Financial Reporting assessable unit.

#### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Other Assets are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1 (and amendments)<br>• DoD FMR: Volume 4, Chapter 7<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

#### Balance By Reporting Entity

The following reporting entities comprise the Intragovernmental Other Assets line item.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **OMB Designated Audit** | | | |
| Army GF | $ | 228,888,695 | 11.0% |
| Air Force GF | | 168,884,838 | 8.1% |
| Navy GF | | 444,465,954 | 21.3% |
| Navy WCF | | 46,297 | 0.0% |
| Air Force WCF | | 319,714,765 | 15.3% |
| **Subtotal - OMB Design. Audit** | **$** | **1,162,000,548** | **55.7%** |
| **DoD Designated Audit** | | | |
| DLA WCF | $ | 124,925,000 | 6.0% |
| DoD Component Level Accounts | | 797,458,565 | 38.2% |
| DISA GF | | 19,796 | 0.0% |
| DFAS WCF | | 773,354 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **923,176,715** | **44.3%** |
| **Mid-Sized Defense Agencies** | | | |
| WHS - Office of the SecDef | $ | (451,492) | 0.0% |
| Defense Security Cooperation Agency | | 152,431 | 0.0% |
| DoD Education Activity | | 39,936 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **(259,125)** | **0.0%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 1,931 | 0.0% |
| | | | |
| **Total** | **$** | **2,084,920,070** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

The following reporting entities comprise the Non-Federal Other Assets line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 2,704,180,353 | 3.7% |
| Air Force GF | 17,635,028,359 | 24.0% |
| Navy GF | 48,673,936,876 | 66.1% |
| Marine Corps GF | 50,097,367 | 0.1% |
| Navy WCF | 2,543,488,848 | 3.5% |
| Air Force WCF | 177,548,027 | 0.2% |
| Army WCF | 97,125,902 | 0.1% |
| Marine Corps WCF | 1,605,905 | 0.0% |
| USACE – Civil Works Program | 90,544 | 0.0% |
| **Subtotal - OMB Design. Audit** | **$ 71,883,102,180** | **97.6%** |
| **DoD Designated Audit** | | |
| DHA – Comptroller FOD | $ 177 | 0.0% |
| DHA - SMA/Army | 32,434,668 | 0.0% |
| DHA - SMA/Navy | 134,961 | 0.0% |
| DHA - SMA/Air Force | 266,256 | 0.0% |
| DHA - SMA/NCR | 1,712 | 0.0% |
| DLA WCF | 44,125,171 | 0.1% |
| DLA GF | 2,106,299 | 0.0% |
| DoD Component Level Accounts | (84,384,715) | -0.1% |
| U.S. Special Operations Command | 257,654,848 | 0.3% |
| DISA WCF | 18,971,830 | 0.0% |
| DISA GF | 172,528 | 0.0% |
| TRANSCOM - Air Mobility Command | 1,161,896 | 0.0% |
| TRANSCOM - Military SDDC | 2,870,274 | 0.0% |
| TRANSCOM - Military Sealift Command | 1,200 | 0.0% |
| TRANSCOM - Command Staff | 83,668 | 0.0% |
| TRANSCOM - Defense Courier Division | (402) | 0.0% |
| TRANSCOM - Component Level | 1,902,313 | 0.0% |
| DeCA WCF | 936,367 | 0.0% |
| DFAS WCF | 3,706,896 | 0.0% |
| Defense Contract Audit Agency | 2,525,146 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$ 284,671,093** | **0.4%** |
| **Mid-Sized Defense Agencies** | | |
| Washington Headquarters Services (WHS) | $ 560 | 0.0% |
| WHS - Office of the SecDef | 19,957,129 | 0.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | 498 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | 9,362,757 | 0.0% |
| WHS - Civilian Military Program | 6,907,586 | 0.0% |
| Missile Defense Agency | 1,276,989,644 | 1.7% |
| Defense Security Cooperation Agency | 1,854,065 | 0.0% |
| DoD Education Activity | 12,393,919 | 0.0% |
| Other TI-97 Funds - Army | 43,684,103 | 0.1% |
| Chemical Biological Defense Program | 21,873,954 | 0.0% |
| Defense Contract Mgmt Agency | (68,798) | 0.0% |
| Defense Threat Reduction Agency | 218,395 | 0.0% |
| Joint Staff (includes NDU) | 37,333 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$ 1,393,211,145** | **1.9%** |
| **Remaining Defense Agencies and Funds** | | |
| Other Reporting Entities | 59,969,774 | 0.1% |
| | | |
| **Total** | **$ 73,620,954,192** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Other Assets. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Other Assets, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Assets** | | | | |
| OA.1 | Recorded Other Assets may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #9, #19, #20, #21, and #22) | Recorded Other Assets represent amounts actually received by the reporting entity and are properly classified (Wave 4, FRO #9) | Contracts, contract modifications, invoices, billing statements, advance payment pool agreements | Select a sample of recorded prepayments and determine whether source documentation indicates the obligation that corresponds to the prepayment is expected to be fulfilled in a future period.<br><br>Select a sample of recorded advances and determine whether:<br>• each advance has been approved by an appropriate official<br>• sufficient documentation exists to verify the terms of the advance<br>• the purpose for and collectability of each advance is reasonable.<br><br>Select a sample of recorded contract financing payments and determine whether:<br>• financing payments are being made in accordance with the terms of the contract<br>• the obligation that corresponds to the contract financing payment is expected to be fulfilled in future periods.<br><br>Select a sample of recorded Other Assets not covered by the preceding tests and determine whether:<br>• Source documentation indicates that the transaction that gave rise to the Other Asset actually occurred and pertains to the reporting entity<br>• Source documentation indicates the obligation that corresponds to the Other Asset is expected to be fulfilled in a future period.<br><br>Verify that subledgers for Other Assets reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Assets** | | | | |
| | | | | reporting entity |
| OA.2 | Valid Other Assets may be omitted from the balance sheet or may be improperly classified and summarized (C) (Wave 4, ROMM #32, #42, #43 and #44) | All Other Assets are recorded in the proper accounting period and are accurately classified and summarized (Wave 4, FRO #10) | Contracts, contract modifications, invoices, billing statements, advance payment pool agreements | See Suggested Test Procedures for OA.1 |
| OA.3 | Other Assets may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Other Assets are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Contracts, contract modifications, invoices, billing statements, advance payment pool agreements | Select a sample of Other Assets from source documentation and verify that the Other Assets are properly classified as either Intragovernmental or Non-Federal. |
| OA.4 | Other Assets included in the financial statements may be recorded at incorrect amounts, or are valued on an inappropriate basis (V) (Wave 4, ROMM #53, #64, #65, and #66) | Other Assets are recorded at correct amounts and valued on an appropriate valuation basis (Wave 4, FRO #10) | Contracts, contract modifications, invoices, billing statements, advance payment pool agreements | Select a sample of recorded prepayments and determine whether the amount of the prepayment per the general ledger agrees to source documentation (e.g., contract, invoice, etc.) and the corresponding disbursement.<br><br>Select a sample of recorded advances and determine whether the advance amount per the general ledger agree to advance agreements and the actual amount disbursed.<br><br>Select a sample of recorded contract financing payments and determine whether the amount of the payment per the general ledger agrees to source documentation (e.g., contract, invoice, billing statement, etc.) and the corresponding disbursement.<br><br>Select a sample of recorded Other Assets not covered by the preceding tests and determine whether the amount of the Other Asset per the general ledger agrees to source documentation (e.g., contract, invoice, etc.) and corresponding disbursements. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Assets** | | | | |
| OA.5 | The reporting entity may not have rights to recorded Other Assets due to liens, pledges, or other restrictions (R) (Wave 4, ROMM #71) | The reporting entity has the rights to the recorded Other Assets at a given date (Wave 4, FRO #11) | Contracts, contract modifications, invoices, billing statements, advance payment pool agreements | Select a sample of recorded prepayments and determine whether source documentation indicates that the reporting entity has valid ownership of the assets being obtained via the prepayments.<br><br>Select a sample of recorded advances and determine whether source documentation indicates that the reporting entity has valid ownership of the assets being obtained via the advances.<br><br>Select a sample of recorded contract financing payments and determine whether source documentation indicates that the reporting entity has valid ownership of the assets being obtained via the contract financing payment.<br><br>Select a sample of recorded Other Assets not covered by the preceding tests and determine whether source documentation indicates that the reporting entity has valid ownership of the assets being obtained. |
| OA.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |
| OA.7 | Budgetary and proprietary interdependencies may not be properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to Other Assets and:<br>• Determine the root cause of the variance<br>• Execute appropriate corrective actions to resolve the variance<br>• Document executed corrective actions<br><br>Tie-point reconciliations related to Other Assets should include:<br>• 48X2 = 14XX (i.e., Budgetary Undelivered Orders Prepaid = Proprietary Advances to Vendors) |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Other Assets** footnote disclosures included in **Note 6** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Other Asset footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## 5.D.1.7 Accounts Payable

Accounts Payable represents amounts owed for goods and services received from other entities, progress in contract performance made by other entities and rents due to other entities. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes including the recording of Accounts Payable due to vendors and federal entities and recording accruals for purchased or contracted goods or services.

### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for AP.1 – AP.2 and AP.4 – AP.7 can be leveraged to test both Intragovernmental and Non-Federal Accounts Payable. The suggested test procedures provided in AP.3 are for Intragovernmental Accounts Payable only. Specific considerations that apply to the -presentation and disclosure assertion for Intragovernmental transactions, including Intragovernmental Accounts Payable, are covered in the Financial Reporting assessable unit.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Accounts Payable are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
| --- | --- |
| • SFFAS No. 1, 4, 5, 30 (and amendments)<br>• DoD FMR: Volume 4, Chapter 9<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Intragovernmental Accounts Payable line item.

| Reporting Entities | FY 2015 Balance | % of Total |
| --- | --- | --- |
| **OMB Designated Audit** | | |
| Army GF | $ 1,744,842,564 | 22.6% |
| Air Force GF | 2,012,405,379 | 26.0% |
| Navy GF | 1,246,554,581 | 16.1% |
| Marine Corps GF | 159,502,760 | 2.1% |
| Navy WCF | 310,398,822 | 4.0% |
| Air Force WCF | 176,829,308 | 2.3% |
| Army WCF | 105,766,207 | 1.4% |
| Marine Corps WCF | 13,431,893 | 0.2% |
| USACE – Civil Works Program | 53,761,462 | 0.7% |
| **Subtotal - OMB Design. Audit** | **$ 5,823,492,977** | **75.4%** |
| **DoD Designated Audit** | | |

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| DHA - Contract Resource Mgmt | $ 57,245,622 | 0.7% |
| DHA – Comptroller FOD | 23,419,369 | 0.3% |
| DHA - USUHS | 786,973 | 0.0% |
| DHA - SMA/Army | 65,319,358 | 0.8% |
| DHA - SMA/Navy | 40,379,401 | 0.5% |
| DHA - SMA/Air Force | 48,635,573 | 0.6% |
| DHA - SMA/NCR | 5,746,825 | 0.1% |
| MERHCF | 191,168,975 | 2.5% |
| DLA WCF | 117,931,881 | 1.5% |
| DLA GF | 8,843,580 | 0.1% |
| DLA Strategic Materials | 1,647,954 | 0.0% |
| DoD Component Level Accounts | 893,075,865 | 11.6% |
| U.S. Special Operations Command | 79,504,175 | 1.0% |
| DISA WCF | 46,401,069 | 0.6% |
| DISA GF | 140,970,268 | 1.8% |
| TRANSCOM - Air Mobility Command | 103,643,428 | 1.3% |
| TRANSCOM - Military SDDC | (14,349,643) | -0.2% |
| TRANSCOM - Military Sealift Command | (2,370,607) | 0.0% |
| TRANSCOM - Command Staff | 23,706,001 | 0.3% |
| TRANSCOM - Defense Courier Division | 441,109 | 0.0% |
| TRANSCOM - Component Level | 13,037,767 | 0.2% |
| DeCA WCF | 33,790,054 | 0.4% |
| DeCA GF | 14,088,062 | 0.2% |
| DFAS WCF | 23,003,472 | 0.3% |
| Defense Contract Audit Agency | 2,068,600 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$ 1,918,135,131** | **24.8%** |
| **Mid-Sized Defense Agencies** | | |
| Washington Headquarters Services (WHS) | $ 86,923,134 | 1.1% |
| WHS - Office of the SecDef | (232,397,753) | -3.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | 3,152,491 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | (84,711) | 0.0% |
| WHS - Civilian Military Program | 50,961 | 0.0% |
| WHS - Defense Legal Services Agency | 33,432 | 0.0% |
| Missile Defense Agency | 5,768,312 | 0.1% |
| Defense Security Cooperation Agency | 1,208,506 | 0.0% |
| DoD Education Activity | 36,392,326 | 0.5% |
| DARPA | 5,210,844 | 0.1% |
| Other TI-97 Funds - Army | 10,222,766 | 0.1% |
| Chemical Biological Defense Program | 5,024,999 | 0.1% |
| Defense Contract Mgmt Agency | 4,884,858 | 0.1% |
| Defense Threat Reduction Agency | 330,893 | 0.0% |
| Joint Staff (includes NDU) | (119,800) | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$ (73,398,744)** | **-0.9%** |
| **Remaining Defense Agencies and Funds** | | |
| Other Reporting Entities | 58,871,404 | 0.8% |
| | | |
| **Total** | **$ 7,727,100,768** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

The following reporting entities comprise the Non-Federal Accounts Payable line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 516,913,783 | 2.7% |
| Air Force GF | 3,513,528,147 | 18.6% |
| Navy GF | 368,147,780 | 1.9% |
| Marine Corps GF | 357,464,904 | 1.9% |
| Navy WCF | 4,025,738,225 | 21.3% |
| Air Force WCF | 538,004,552 | 2.8% |
| Army WCF | 171,555,473 | 0.9% |
| Marine Corps WCF | 264,509,087 | 1.4% |
| USACE – Civil Works Program | 572,124,627 | 3.0% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **Subtotal - OMB Design. Audit** | **$** | **10,327,986,579** | **54.6%** |
| **DoD Designated Audit** | | | |
| DHA - Contract Resource Mgmt | $ | 450,701,017 | 2.4% |
| DHA – Comptroller FOD | | 9,004,263 | 0.0% |
| DHA - USUHS | | 4,332,072 | 0.0% |
| DHA - SMA/Army | | 211,804,322 | 1.1% |
| DHA - SMA/Navy | | 85,993,038 | 0.5% |
| DHA - SMA/Air Force | | 6,942,958 | 0.0% |
| DHA - SMA/NCR | | 20,715,747 | 0.1% |
| MERHCF | | 167,615,132 | 0.9% |
| DLA WCF | | 2,085,234,305 | 11.0% |
| DLA GF | | 41,564,199 | 0.2% |
| DLA Strategic Materials | | 643,998 | 0.0% |
| DoD Component Level Accounts | | 107,605,111 | 0.6% |
| U.S. Special Operations Command | | 1,618,318,632 | 8.6% |
| DISA WCF | | 898,248,511 | 4.8% |
| DISA GF | | 43,052,521 | 0.2% |
| TRANSCOM - Air Mobility Command | | 363,191,340 | 1.9% |
| TRANSCOM - Military SDDC | | 242,935,930 | 1.3% |
| TRANSCOM - Military Sealift Command | | 139,765,674 | 0.7% |
| TRANSCOM - Command Staff | | 7,491,975 | 0.0% |
| TRANSCOM - Defense Courier Division | | 912,361 | 0.0% |
| TRANSCOM - Component Level | | (45,836,656) | -0.2% |
| DeCA WCF | | 370,934,238 | 2.0% |
| DeCA GF | | 11,207,766 | 0.1% |
| DFAS WCF | | 24,633,643 | 0.1% |
| Defense Contract Audit Agency | | 7,540,475 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **6,874,552,570** | **36.4%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 15,386,059 | 0.1% |
| WHS - Office of the SecDef | | 536,860,891 | 2.8% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 38,998,181 | 0.2% |
| WHS - Building Maintenance Fund | | 3,285,688 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | | 28,819,432 | 0.2% |
| WHS - Civilian Military Program | | 4,233,034 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 148,280 | 0.0% |
| WHS - Defense Legal Services Agency | | 837,378 | 0.0% |
| Missile Defense Agency | | 421,382,191 | 2.2% |
| Defense Security Cooperation Agency | | (1,181,722) | 0.0% |
| DoD Education Activity | | (6,616,918) | 0.0% |
| DARPA | | 232,298,753 | 1.2% |
| Other TI-97 Funds - Army | | 82,205,661 | 0.4% |
| Chemical Biological Defense Program | | 58,608,068 | 0.3% |
| Defense Contract Mgmt Agency | | 51,420,770 | 0.3% |
| Defense Threat Reduction Agency | | 35,553,448 | 0.2% |
| Joint Staff (includes NDU) | | 4,087,271 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **1,506,326,466** | **8.0%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 199,071,003 | 1.1% |
| | | | |
| **Total** | **$** | **18,907,936,617** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

## Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Accounts Payable. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Accounts Payable, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Accounts Payable** | | | | |
| AP.1 | Accruals and/or payables may be recorded inaccurately, may be invalid, or may be improperly classified and summarized (E) (Wave 4, ROMM #12, #13, #19, #20, #21 and #22) | All accruals and/or payables are valid (authorized/approved transactions supported by evidence goods/services were received or otherwise due) (Wave 4, FRO #19) | Billing document such as vendor invoice or equivalent<br><br>Delegation of Authority Letter (e.g., Form DD-577)<br><br>Receiving report<br><br>Accrual estimate support (in instances where invoice has not been received or to support payroll accrual calculation) | Select a sample of recorded Accounts Payable transactions and agree each to appropriate supporting documentation in order to validate that a liability exists and that it pertains to the reporting entity<br><br>Verify that Accounts Payable subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| AP.2 | All Accounts Payable may not be recorded timely or are improperly classified or summarized (C) (Wave 4, ROMM #35, #36, #42, #43 and #44) | All Accounts Payable are recorded in the correct period and are properly summarized (Wave 4, FRO #20 and #77) | Billing document such as vendor invoice or equivalent<br><br>Delegation of Authority Letter (e.g., Form DD-577)<br><br>Receiving report<br><br>Accrual estimate support (in instances where invoice has not been received or to support payroll accrual calculation) | Select a sample of disbursements recorded subsequent to period end and examine supporting documentation to verify that:<br>• an Accounts Payable accrual was recorded as of the end of the period (if the disbursement is related to goods/services received prior to the end of the period)<br>• the actual disbursement amount agrees to or is within a reasonable variance of the Accounts Payable accrual estimate<br>• the Accounts Payable accrual methodology is reasonable and documented |
| AP.3 | Accounts Payable may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Accounts Payable are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Billing document such as vendor invoice or equivalent<br><br>Delegation of Authority Letter (e.g., Form DD-577)<br><br>Receiving report<br><br>Accrual estimate support (in instances where invoice has not been received or to support payroll accrual calculation) | Select a sample of Accounts Payable and obtain supporting documentation to validate that each is properly classified as either Intragovernmental or Non-Federal, and Intragovernmental trans-actions include the correct trading partner code. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Accounts Payable** | | | | |
| AP.4 | Accounts Payable included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (V) (Wave 4, ROMM #56, #57, #64, #65, and #66) | Accounts Payable included in the financial statements are valued correctly, using an appropriate valuation basis (Wave 4, FRO #21) | Billing document such as vendor invoice or equivalent<br><br>Delegation of Authority Letter (e.g., Form DD-577)<br><br>Receiving report<br><br>Accrual estimate support (in instances where invoice has not been received or to support payroll accrual calculation) | Select a sample of recorded Accounts Payable and validate transaction amounts with appropriate supporting documentation.<br><br>Review accrual amounts on a periodic basis to ensure that the Accounts Payable balance is accurately stated and that all invalid payables are removed in a timely manner. |
| AP.5 | The reporting entity does not have an obligation for recorded Accounts Payable at a given date (R) (Wave 4, ROMM #72) | Recorded Accounts Payable are the reporting entity's obligation at a given date (Wave 4, FRO #22) | Billing document such as vendor invoice or equivalent<br><br>Delegation of Authority Letter (e.g., Form DD-577)<br><br>Receiving report<br><br>Accrual estimate support (in instances where invoice has not been received or to support payroll accrual calculation) | See also Suggested Test Procedures for AP.1 |
| AP.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |
| AP.7 | Budgetary and proprietary interdependencies may not be properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to Accounts Payable and:<br>• Determine the root cause of the variance<br>• Execute appropriate corrective actions to resolve the variance<br>• Document executed corrective actions<br><br>Tie-point reconciliations including Tie Point #3. For a full list of Tie-Points, see DoD Tie Point Standards at http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/. |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Accounts Payable** footnote disclosures included as **Note 12** in the DoD Agency Financial Report. Although the Department currently includes an Accounts Payable footnote in its AFR, such a footnote is not a requirement of OMB Circular A-136, *Financial Reporting Requirements*. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

### 5.D.1.8 Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consists of Pension and Health Actuarial Benefits (Military Retirement Pensions, Military Retirement Health Benefits (MRHB), and Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits) and Other Benefits (Federal Employees Compensation Act (FECA), Voluntary Separation Incentive (VSI) Program, etc.).

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with Military Retirement and Other Federal Employment Benefits, including adequately supported long-term and annual actuarial assumptions and projections.

#### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Military Retirement and Other Federal Employment Benefits are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 5 (and amendments)<br>• DoD FMR: Volume 4, Chapter 11; Volume 6B, Chapter 4<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• FMR: Volume 1, Chapter 9 |

#### Balance By Reporting Entity

The following reporting entities comprise the Military Retirement and Other Federal Employment Benefits line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 1,239,176,602 | 0.1% |
| Air Force GF | 1,083,880,196 | 0.0% |
| Navy GF | 1,349,016,051 | 0.1% |
| Marine Corps GF | 188,542,540 | 0.0% |
| Navy WCF | 662,050,187 | 0.0% |
| Air Force WCF | 188,872,303 | 0.0% |
| Army WCF | 265,429,552 | 0.0% |
| Marine Corps WCF | 19,001,755 | 0.0% |
| Military Retirement Fund | 1,563,159,161,579 | 67.9% |
| USACE – Civil Works Program | 244,497,247 | 0.0% |
| **Subtotal - OMB Design. Audit** | **$ 1,568,399,628,012** | **68.1%** |
| **DoD Designated Audit** | | |
| DHA - Contract Resource Mgmt | $ 164,402,469,000 | 7.1% |
| DHA – Comptroller FOD | 26,243,558 | 0.0% |
| DHA - USUHS | 1,009,697 | 0.0% |
| DHA - SMA/Army | 22,239,281,681 | 1.0% |
| DHA - SMA/Navy | 19,107,987,000 | 0.8% |
| DHA - SMA/Air Force | 16,834,452,000 | 0.7% |
| MERHCF | 508,796,560,000 | 22.1% |
| DLA WCF | 226,081,940 | 0.0% |
| DLA GF | 4,838,887 | 0.0% |
| DLA Strategic Materials | 1,323,916 | 0.0% |
| DoD Component Level Accounts | 52,039,467 | 0.0% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| DISA WCF | | 7,340,155 | 0.0% |
| DISA GF | | 5,440,624 | 0.0% |
| TRANSCOM - Air Mobility Command | | 607,032 | 0.0% |
| TRANSCOM - Command Staff | | 962 | 0.0% |
| TRANSCOM - Component Level | | 17,956,351 | 0.0% |
| DeCA WCF | | 145,087,031 | 0.0% |
| DFAS WCF | | 33,389,833 | 0.0% |
| Defense Contract Audit Agency | | 18,475,416 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **731,920,584,548** | **31.8%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 485,335 | 0.0% |
| WHS - Office of the SecDef | | 12,313,352 | 0.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 9,958,102 | 0.0% |
| WHS - Building Maintenance Fund | | 290 | 0.0% |
| WHS - Defense Legal Services Agency | | 1,047 | 0.0% |
| Missile Defense Agency | | 534,028 | 0.0% |
| DoD Education Activity | | 31,319,300 | 0.0% |
| DARPA | | 5,006 | 0.0% |
| Defense Contract Mgmt Agency | | 33,111,808 | 0.0% |
| Defense Threat Reduction Agency | | 3,292,071 | 0.0% |
| Joint Staff (includes NDU) | | 1,029,671 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **92,050,010** | **0.0%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 1,605,935,213 | 0.1% |
| | | | |
| **Total** | **$** | **2,302,018,197,782** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Military Retirement and Other Federal Employment Benefits. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Military Retirement and Other Federal Employment Benefits and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Military Retirement and Other Federal Employment Benefits** | | | | |
| MB.1 | Recorded Military Retirement and Other Federal Employment Benefits may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #1, #19, #20, #21, and #22) | Recorded Military Retirement and Other Federal Employment Benefits represent amounts actually received by the reporting entity and are properly classified (Wave 4, FRO #24 and #26) | Memoranda from a determining Federal agency (e.g., Office of Personnel Management and Department of Labor) showing the reporting entity's allocation of employment related liabilities (funded and unfunded) such as civilian pension, FECA, and unemployment benefits<br><br>Schedule(s) detailing calculation of current year expenses | For the trust fund elements in this financial statement line item (Military Retirement Fund, Military Retirement Health Benefits, Military Medicare-eligible Retiree Benefits, Voluntary Separation Incentive Programs, and DoD Education Benefits Fund), obtain the individual fund's Schedule of Changes in Actuarial Liability and determine whether:<br><br>• expenses are summarized correctly and supported by appropriate documentation |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Military Retirement and Other Federal Employment Benefits** | | | | |
| | | | Detail listing of factors, data, assumptions, and formulas used to prepare the actuarial calculations for each retirement/benefit trust fund involved in the projection | • changes in actuarial assumptions are approved and documented, and the corresponding gains/losses are calculated correctly<br>• outlays are properly summarized and supported<br>***** The test procedures above should be performed in consultation with an actuarial specialist.<br><br>For Federal Employees Compensation Act (FECA) liabilities, obtain documentation from the Department of Labor (DoL) indicating the Component's FECA liability allocation and determine whether:<br>• the journal voucher to record the liability was properly prepared and authorized<br>• the recorded balance agrees to the DoL allocation<br><br>For other federal employee benefit liabilities determine whether:<br>• recorded amounts are calculated and summarized correctly<br>• recorded amounts are properly supported<br>• assumptions and estimates are documented, reviewed, and approved<br><br>Verify that Military Retirement and Other Federal Employment Benefit subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| MB.2 | Valid Military Retirement and Other Federal Employment Benefits may be omitted from the balance sheet or may be improperly classified and summarized (C) (Wave 4, ROMM #24, #42, #43, | All Military Retirement and Other Federal Employment Benefits are recorded in the proper accounting period and are accurately classified and summarized (Wave 4, #24, #25, and #77) | Memoranda from a determining Federal agency (e.g., Office of Personnel Management and Department of Labor (DoL)) showing the reporting entity's allocation of employment related | See Suggested Test Procedures for MB.1 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Military Retirement and Other Federal Employment Benefits** | | | | |
| | and #44) | | liabilities (funded and unfunded) such as civilian pension, FECA and unemployment benefits<br><br>Schedule(s) detailing calculation of current year expenses<br><br>Detail listing of factors, data, assumptions, and formulas used to prepare the actuarial calculations for each retirement/benefit trust fund involved in the projection | |
| MB.3 | Military Retirement and Other Federal Employment Benefits included in the financial statements may be recorded at incorrect amounts, or are valued on an inappropriate basis (V) (Wave 4, ROMM #45, #64, #65, and #66) | Military Retirement and Other Federal Employment Benefits are recorded at correct amounts and valued on an appropriate valuation basis (Wave 4, FRO #24, #26, and #27) | Memoranda from a determining Federal agency (e.g., Office of Personnel Management and Department of Labor (DoL)) showing the reporting entity's allocation of employment related liabilities (funded and unfunded) such as civilian pension, FECA and unemployment benefits<br><br>Schedule(s) detailing calculation of current year expenses<br><br>Detail listing of factors, data, assumptions, and formulas used to prepare the actuarial calculations for each retirement/benefit trust fund involved in the projection | See Suggested Test Procedures for MB.1 |
| MB.4 | The reporting entity may not have an obligation for recorded Military Retirement and Other Federal Employment Benefits (R) (Wave 4, ROMM #72) | Recorded Military Retirement and Other Federal Employment Benefits are the reporting entity's obligations at a given date (Wave 4, FRO #41) | Memoranda from a determining Federal agency (e.g., Office of Personnel Management and DoL) showing the reporting entity's allocation of employment related liabilities (funded and unfunded) such as civilian pension, FECA and unemployment benefits | See Suggested Test Procedures for MB.1 |
| MB.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Military Retirement and Other Federal Employment Benefits** footnote disclosures included in **Note 17** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for the Military Retirement and Other Federal Employment Benefits footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## 5.D.1.9 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and Disposal Liabilities are future outflows or expenditures of resources that exist as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. For Environmental and Disposal Liabilities, reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with the recording and disclosure of environmental liabilities including identification, probability determination, and liability estimation.

### Standards and Guidance

Sources of guidance pertaining to financial management, accounting and record retention policies for Environmental and Disposal Liabilities are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1, 5, 6 (and amendments)<br>• FASAB Technical Release (TR): 2, 10, 11, 14<br>• FASAB Technical Bulletin (TB): 2011-2,<br>• DoD FMR: Volume 4, Chapter 13<br>• Joint OUSDC/OUSD AT&L Policy Memorandum: *Strategy for Environmental & Disposal Liabilities Audit Readiness* issued 09/30/2015<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

In addition, reporting entities can refer to the General Equipment Environmental & Disposal Liabilities Audit Readiness Checklist and its Appendix A to assist in identifying and supporting the General Equipment Environmental and Disposal Liabilities reported on their Financial Statements.

### Balance By Reporting Entity

The following reporting entities comprise the Environmental and Disposal Liabilities line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 27,508,693,000 | 45.8% |
| Air Force GF | 8,382,297,000 | 14.0% |
| Navy GF | 20,856,972,946 | 34.7% |
| Marine Corps GF | 263,567,406 | 0.4% |
| USACE – Civil Works Program | 956,888,035 | 1.6% |
| **Subtotal - OMB Design. Audit** | **$ 57,968,418,388** | **96.6%** |
| **DoD Designated Audit** | | |
| DLA WCF | $ 1,758,848,355 | 2.9% |
| DLA GF | 165,980,848 | 0.3% |
| DLA Strategic Materials | 10,186,501 | 0.0% |
| DoD Component Level Accounts | 19,677,461 | 0.0% |
| DeCA GF | 28,984,601 | 0.0% |

| Reporting Entities | | FY 2015 Balance | % of Total |
|---|---|---|---|
| **Subtotal - DoD Design. Audit** | **$** | **1,983,677,766** | **3.3%** |
| **Mid-Sized Defense Agencies** | | | |
| WHS – Office of the SecDef | | 47,990,341 | 0.1% |
| Defense Threat Reduction Agency | | 30,043,326 | 0.1% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **78,033,667** | **0.1%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | - | 0.0% |
| | | | |
| **Total** | **$** | **60,030,129,821** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Environmental and Disposal Liabilities. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Environmental and Disposal Liabilities, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Environmental and Disposal Liabilities** | | | | |
| EL.1 | Recorded Environmental and Disposal Liabilities are not representative of legal environmental costs incurred by the reporting entity, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #2, #19, #20, #21, and #22) | Recorded Environmental and Disposal Liabilities are valid, pertain to the reporting entity, and represent legal costs incurred by the reporting entity (Wave 4, FRO #35) | Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items<br><br>Record of Decision | Identify the specific types of assets and associated liabilities that could and do contribute to the organization's liability balance (e.g., asbestos in real property assets; closure requirements for real property assets such as underground storage tanks, water treatment facilities, hazardous waste storage areas)<br><br>Review the methodology used to inspect total asset inventories and arrive at those assets contributing to liability balances<br><br>Select a sample of recorded Environmental and Disposal Liabilities and determine whether:<br>• estimate amounts were reviewed and approved by an authorized official<br>• sufficient and appropriate documentation exists to support the estimates.<br><br>Verify that Environmental Liability subledgers reconcile to general ledger (G/L) accounts and G/L accounts |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Environmental and Disposal Liabilities** | | | | |
| | | | | agree to the financial statements of the reporting entity |
| EL.2 | Valid Environmental and Disposal Liabilities were not recorded or are improperly summarized (C) (Wave 4, ROMM #25, #42, #43 and #44) | All valid Environmental and Disposal Liabilities are recorded, are properly allocated across reporting periods and are properly summarized in the financial statements (Wave 4, FRO #33 and #77) | Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items<br><br>Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation | Identify the specific types of assets and associated liabilities that could and do contribute to the organization's liability balance (e.g., asbestos in real property assets; closure requirements for real property assets such as underground storage tanks, water treatment facilities, hazardous waste storage areas)<br><br>Review the methodology used to inspect total asset inventories and arrive at those assets contributing to liability balances<br><br>Select a sample of recorded Environmental and Disposal Liabilities and determine whether estimates include all relevant phases and costs to complete the project and are valid.<br><br>Examine the listing of Environmental and Disposal Liabilities and determine whether the list includes all locations for reporting entity Environmental Liabilities.<br><br>Review real property subledger and APSR to ensure that all site locations and property have been considered for environmental liabilities. |
| EL.3 | Environmental and Disposal Liabilities may not be valued appropriately or recorded at the best possible estimated cost in the financial statements (V) (Wave 4, ROMM #46, #64, #65, and #66) | Environmental and Disposal Liabilities are valued using appropriate estimation methodologies and are recorded at best possible estimated cost in the financial (Wave 4, FRO #33 and #34) | Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items<br><br>Record of Decision<br><br>Contracts, invoices, receiving reports/status | Select a sample of recorded environmental liabilities and determine whether:<br>• cost factors are valid and appropriate<br>• estimates include all relevant phases and costs to complete the project and are valid |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Environmental and Disposal Liabilities** | | | | |
| | | | reports<br><br>Documentation supporting clean-up cost estimates and related facts and assumptions<br><br>Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation | |
| EL.4 | The obligation for Environmental and Disposal Liabilities may not apply to the reporting entity (R) (Wave 4, ROMM #72) | Recorded Environmental and Disposal Liabilities are the reporting entity's obligations at a given date (Wave 4, FRO #36) | Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items<br><br>Record of Decision<br><br>Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation | Examine the listing of Environmental Liabilities and determine whether the Environmental Liabilities are appropriately classified based upon U.S. GAAP criteria for recognition and/or disclosure (occurrence of a transaction or event, future outflows are probable, future outflows are measurable). |
| EL.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Environmental and Disposal Liabilities** footnote disclosures included in **Note 14** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Environmental and Disposal Liabilities footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## 5.D.1.10 Other Liabilities

Other Liabilities represent liabilities not recognized in specific categories. Separate reporting of items normally characterized as "Other Liabilities" is appropriate if the amounts are significant to the balance sheet. Footnote 15 of the DoD Agency Financial Report mentions various Other Liabilities, including accrued unfunded annual leave, accrued funded payroll and benefits, custodial liabilities, contingent liabilities, advances from others, non-environmental disposal liabilities, disbursing officer cash, FECA reimbursement to the Department of Labor, contract holdbacks, employer contribution and payroll taxes payable, deposit funds and suspense account liabilities, unemployment compensation liabilities, Judgment Fund liabilities, deferred credits, and capital lease liability. Intragovernmental Other Liabilities primarily consists of unfunded liabilities for Federal Employees Compensation Act, Unemployment Insurance, and Judgment Fund. Non-Federal Other Liabilities primarily consists of unfunded annual leave, contingent liabilities and expected expenditures for disposal of conventional munitions

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with Other Liabilities, including adequately supported accruals and estimates and the proper recognition of contingencies.

### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for OL.1 – OL.2 and OL.4 – OL.7 can be leveraged to test both Intragovernmental and Non-Federal Other Liabilities. The suggested test procedures provided in OL.3 are for Intragovernmental Other Liabilities only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Other Liabilities related transactions, are covered in the Financial Reporting assessable unit.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Other Liabilities are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 5, 6, 12 (and amendments)<br>• DoD FMR: Volume 4, Chapter 12<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Intragovernmental Other Liabilities line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 2,255,166,503 | 26.7% |
| Air Force GF | 1,183,958,651 | 14.0% |
| Navy GF | 805,493,886 | 9.5% |
| Marine Corps GF | 81,750,579 | 1.0% |
| Navy WCF | 320,389,778 | 3.8% |
| Air Force WCF | 54,284,447 | 0.6% |
| Army WCF | 112,059,214 | 1.3% |
| Marine Corps WCF | 4,870,506 | 0.1% |
| Military Retirement Fund | 2,071,874 | 0.0% |
| USACE – Civil Works Program | 2,933,519,964 | 34.8% |
| **Subtotal - OMB Design. Audit** | **$ 7,753,565,404** | **91.9%** |
| **DoD Designated Audit** | | |
| DHA – Comptroller FOD | $ 8,719,175 | 0.1% |
| DHA - USUHS | 534,551 | 0.0% |
| DHA - SMA/Army | 77,609,928 | 0.9% |
| DHA - SMA/Navy | 10,791,245 | 0.1% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| DHA - SMA/Air Force | | 39,808,182 | 0.5% |
| DHA - SMA/NCR | | 2,806,930 | 0.0% |
| DLA WCF | | 387,155,318 | 4.6% |
| DLA GF | | 2,550,948 | 0.0% |
| DLA Strategic Materials | | 219,495 | 0.0% |
| DoD Component Level Accounts | | (22,135,327) | -0.3% |
| U.S. Special Operations Command | | 3,279,693 | 0.0% |
| DISA WCF | | 3,563,572 | 0.0% |
| DISA GF | | 2,752,220 | 0.0% |
| TRANSCOM - Air Mobility Command | | 29,897,995 | 0.4% |
| TRANSCOM - Military Sealift Command | | 23,054 | 0.0% |
| TRANSCOM - Command Staff | | 983 | 0.0% |
| TRANSCOM - Component Level | | (10,739,504) | -0.1% |
| DeCA WCF | | 36,968,532 | 0.4% |
| DFAS WCF | | 12,531,201 | 0.1% |
| Defense Contract Audit Agency | | 6,785,237 | 0.1% |
| **Subtotal - DoD Design. Audit** | **$** | **593,123,427** | **7.0%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 2,070,862 | 0.0% |
| WHS - Office of the SecDef | | 3,792,078 | 0.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 755,328 | 0.0% |
| WHS - Building Maintenance Fund | | 2,162,417 | 0.0% |
| WHS - Civilian Military Program | | 250 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 28,633 | 0.0% |
| WHS - Defense Legal Services Agency | | 157,359 | 0.0% |
| Missile Defense Agency | | 1,699,462 | 0.0% |
| Defense Security Cooperation Agency | | 2,888,586 | 0.0% |
| DoD Education Activity | | 12,514,192 | 0.1% |
| DARPA | | 132,983 | 0.0% |
| Other TI-97 Funds - Army | | 172 | 0.0% |
| Chemical Biological Defense Program | | 539,000 | 0.0% |
| Defense Contract Mgmt Agency | | 13,210,979 | 0.2% |
| Defense Threat Reduction Agency | | 1,327,516 | 0.0% |
| Joint Staff (includes NDU) | | 981,609 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **42,261,426** | **0.5%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 45,915,507 | 0.5% |
| | | | |
| **Total** | **$** | **8,434,865,764** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

The following reporting entities comprise the Non-Federal Other Liabilities line item.

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| **OMB Designated Audit** | | | |
| Army GF | $ | 9,445,366,897 | 27.0% |
| Air Force GF | | 7,488,373,110 | 21.4% |
| Navy GF | | 7,462,833,969 | 21.4% |
| Marine Corps GF | | 1,662,837,843 | 4.8% |
| Navy WCF | | 1,177,021,848 | 3.4% |
| Air Force WCF | | 424,243,833 | 1.2% |
| Army WCF | | 366,228,582 | 1.0% |
| Marine Corps WCF | | 2,439,225 | 0.0% |
| Military Retirement Fund | | 241,090 | 0.0% |
| USACE – Civil Works Program | | 2,132,892,931 | 6.1% |
| **Subtotal - OMB Design. Audit** | **$** | **30,162,479,327** | **86.4%** |
| **DoD Designated Audit** | | | |
| DHA - Contract Resource Mgmt | $ | 21,187 | 0.0% |
| DHA – Comptroller FOD | | 37,734,421 | 0.1% |
| DHA - USUHS | | 9,701,239 | 0.0% |
| DHA - SMA/Army | | 343,453,824 | 1.0% |
| DHA - SMA/Navy | | 76,742,760 | 0.2% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| DHA - SMA/Air Force | | 13,685,141 | 0.0% |
| DHA - SMA/NCR | | 23,652,325 | 0.1% |
| MERHCF | | 28,942 | 0.0% |
| DLA WCF | | 251,224,449 | 0.7% |
| DLA GF | | 3,310,250 | 0.0% |
| DLA Strategic Materials | | 837,023 | 0.0% |
| DoD Component Level Accounts | | 2,677,306,430 | 7.7% |
| U.S. Special Operations Command | | 91,196,142 | 0.3% |
| DISA WCF | | 38,098,908 | 0.1% |
| DISA GF | | 39,918,053 | 0.1% |
| TRANSCOM - Air Mobility Command | | 3,517,761 | 0.0% |
| TRANSCOM - Military SDDC | | 15,709,104 | 0.0% |
| TRANSCOM - Military Sealift Command | | 1,299,131 | 0.0% |
| TRANSCOM - Command Staff | | 4,098,983 | 0.0% |
| TRANSCOM - Defense Courier Division | | 17,795 | 0.0% |
| TRANSCOM - Component Level | | 16,077,922 | 0.0% |
| DeCA WCF | | 83,949,981 | 0.2% |
| DFAS WCF | | 82,868,604 | 0.2% |
| Defense Contract Audit Agency | | 52,902,650 | 0.2% |
| **Subtotal - DoD Design. Audit** | **$** | **3,867,353,028** | **11.1%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 34,546,004 | 0.1% |
| WHS - Office of the SecDef | | 217,021,237 | 0.6% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 47,047,791 | 0.1% |
| WHS - Building Maintenance Fund | | 2,051,662 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | | 1,799,694 | 0.0% |
| WHS - Civilian Military Program | | 778,710 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 2,103,155 | 0.0% |
| WHS - Defense Legal Services Agency | | 3,706,455 | 0.0% |
| Missile Defense Agency | | 62,330,841 | 0.2% |
| Defense Security Cooperation Agency | | 7,791,763 | 0.0% |
| DoD Education Activity | | 105,438,488 | 0.3% |
| DARPA | | 3,291,070 | 0.0% |
| Other TI-97 Funds - Army | | 124,597,951 | 0.4% |
| Chemical Biological Defense Program | | 8,590,435 | 0.0% |
| Defense Contract Mgmt Agency | | 124,627,167 | 0.4% |
| Defense Threat Reduction Agency | | 18,008,614 | 0.1% |
| Joint Staff (includes NDU) | | 31,430,046 | 0.1% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **795,161,081** | **2.3%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 102,105,847 | 0.3% |
| | | | |
| **Total** | **$** | **34,927,099,283** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Other Liabilities. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Other Liabilities, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Liabilities** | | | | |
| OL.1 | Recorded Other Liabilities, including custodial contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities do not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #3, #19, #20, #21 and #22) | Recorded Other Liabilities, including custodial contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities represent events that actually occurred, and are properly summarized and classified in the financial statements (Wave 4, FRO #38) | Ordering Document: MIPR, reimbursable agreement, customer order, etc.<br><br>Advice of collection, deposit tickets, photocopies of checks received for advances received<br><br>Reconciliations of advances from others showing amounts received, revenue earned, and remaining liabilities<br><br>Invoices and calculations of penalties, interest, or administrative fees collected<br><br>Invoices, IPAC billings (using GOALs reports) supporting any reductions of advances for amounts earned<br><br>Reconciliation of disbursing officer cash to general ledger account balance or equivalent, evidence of foreign exchange rates, receipts for disbursements, and requests for replenishment<br><br>SF-50s that support the hourly rate for leave liability calculation (supporting the grade/step/locality) for individual employees<br><br>Legal representation letter prepared by the Office of General Counsel (in accordance with OMB Bulletin No. 15-02, Section 9)<br><br>Management's schedule of legal liabilities (in accordance with OMB Bulletin 15-02, Section 9)<br><br>Other supporting documentation necessary to support recorded Other Liability transactions (e.g., FECA letter, journal voucher listings, etc.)<br><br>Screenshots showing posting logic or other transactional support | Select a sample of custodial liability transactions and determine whether the transactions are appropriately supported and properly identified as custodial liabilities.<br><br>Obtain the journal voucher used to record the amount of the FECA Reimbursement to the Department of Labor and determine whether the JV is properly approved and supported.<br><br>Obtain the journal voucher used to record the amount of the unfunded unemployment liability and determine whether the JV is properly approved and supported.<br><br>Select a sample of advances from others recorded in accounts 231000.9000 and 232000.9000 and determine whether:<br>• initial collection of the advance is supported by appropriate documentation and represents unearned revenue<br>• evidence of supervisory approval exists.<br><br>Select a sample of non-environmental disposal liability transactions and determine whether sufficient and appropriate documentation exists to support the estimates and any actual costs.<br><br>Select a sample of transactions posted to the disbursing officer cash liability account (DoD account 298500.0100) and determine whether amounts are supported by appropriate detailed records.<br><br>Select a sample of |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Liabilities** | | | | |
| | | | | transactions recorded as deposit funds and suspense account liabilities and determine whether amounts are supported by appropriate detailed records.<br><br>Verify that Other Liability subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| OL.2 | Valid Other Liabilities, including custodial, contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities are not recorded or are improperly summarized (C) (Wave 4, ROMM #26, #42, #43 and #44) | All valid Other Liabilities, including custodial contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities are recorded and are properly summarized (Wave 4, FRO #39 and #77) | Reconciliations of advances from others showing amounts received, revenue earned, and remaining liability amounts<br><br>Reconciliation of disbursing officer cash to general ledger account balance or equivalent<br><br>Individual employee-level listing of hours, hourly rates, and total dollar amount of unfunded leave liability that reconciles to amount recorded in the financial statements<br><br>Legal representation letter prepared by the Office of General Counsel (in accordance with OMB Bulletin No. 15-02, Section 9)<br><br>Management's schedule of legal liabilities (in accordance with OMB Bulletin 15-02, Section 9)<br><br>Other supporting documentation necessary to support recorded Other Liability transactions (e.g., FECA letter, journal voucher listings, etc.)<br><br>Screenshots showing posting logic or other transactional support | Select a sample of custodial liability transaction documentation from the current period and validate that corresponding liabilities have been completely recorded in the general ledger.<br><br>Obtain a list of potential claims (contingent liabilities) from the reporting entity's general counsel showing the probability and estimated amounts (if reasonably estimable) of potential losses and determine whether contingent liabilities were recorded in compliance with U.S. GAAP.<br><br>Select a sample of advances from others transaction documentation from the current period and validate that corresponding liabilities have been completely recorded in the general ledger.<br><br>Select a sample of non-environmental disposal liability transaction documentation from the current period and validate that corresponding liabilities have been completely recorded in the general ledger.<br><br>Select a sample of disbursing officer cash transaction documentation from the current period and validate that corresponding loan custodial liabilities have |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Liabilities** | | | | |
| | | | | been completely recorded in the general ledger.<br><br>Select a sample of deposit fund and suspense account transaction documentation from the current period and validate that corresponding liabilities have been completely recorded in the general ledger. |
| OL.3 | Other Liabilities, including custodial, contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Other Liabilities, including custodial contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Ordering Document: MIPR, reimbursable agreement, customer order, etc. | Select a sample of Other Liabilities and obtain supporting documentation to validate that each is properly classified as either Intragovernmental or Non-Federal. |
| OL.4 | Other Liabilities, including custodial, contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities including in the financial statements are valued on an inappropriate basis, or measured improperly (V) (Wave 4, ROMM #47, #64, #65, and #66) | Other Liabilities, including custodial contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities are summarized and reported in the financial statements at the correct amounts (Wave 4, FRO #40) | Advice of collection, deposit tickets, photocopies of checks received for advances received<br><br>IPAC/GOALs report evidencing amounts advanced<br><br>Reconciliations of advances from others showing amounts received, revenue earned, and remaining liability amounts<br><br>Invoices and calculations of penalties, interest, or administrative fees collected<br><br>Invoices, IPAC billings (using GOALs reports) supporting any reductions of advances for amounts earned<br><br>Reconciliation of disbursing officer cash to general ledger account balance or equivalent, evidence of foreign exchange rates, receipts for disbursements and requests for replenishment<br><br>Individual employee-level listing of hours, hourly rates, and total dollar amount of unfunded leave liability that | Select a sample of custodial liability transactions and determine whether the corresponding custodial assets match the related custodial liabilities.<br><br>Obtain the journal voucher used to record the amount of the FECA reimbursement to the Department of Labor and determine whether the ending FECA liability balance agrees to the amount allocated to the reporting entity by the Department of Labor.<br><br>Obtain the journal voucher used to record the amount of the unfunded unemployment liability and determine whether the ending unemployment liability balance agrees to the amount allocated to the reporting entity by the Department of Labor.<br><br>Select a sample of advances from others and determine whether recorded amounts are accurate,<br><br>Select a sample of non-environmental disposal liability transactions and |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Liabilities** | | | | |
| | | | reconciles to amount recorded in the financial statements<br><br>Timesheets & leave earning reports that support the amount of leave taken and earned, respectively, by pay period for individual employees<br><br>SF-50s that support the hourly rate for leave liability calculation (supporting the grade/step/locality) for individual employees<br><br>Legal representation letter prepared by the Office of General Counsel (in accordance with OMB Bulletin No. 15-02, Section 9)<br><br>Management's schedule of legal liabilities (in accordance with OMB Bulletin 15-02, Section 9)<br><br>Reconciliation of custodial and deposit fund assets to the associated liabilities<br><br>Reconciliation and aging of suspense account items<br><br>Other supporting documentation necessary to support recorded Other Liability transactions (e.g., FECA letter, journal voucher listings, etc.)<br><br>Screenshots showing posting logic or other transactional support | determine whether:<br>• cost factors are valid and accurate<br>• estimates include all relevant phases and costs to complete the project and are valid<br>• sufficient and appropriate documentation exists to support the estimated and actual costs.<br><br>Select a sample of transactions posted to the disbursing officer cash liability account (DoD account 298500.0100) and determine whether:<br>• amounts are valid, recorded timely and accurately, and are authorized<br>• conversions of foreign currency to U.S. dollars, if any, are calculated accurately at the correct conversion rate.<br><br>Select a sample of transactions recorded to deposit funds and suspense account liabilities and determine whether amounts are valid, recorded timely and accurately, and are properly authorized. |
| OL.5 | Recorded Other Liabilities, including custodial, contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities may not represent valid legal obligations of the reporting entity at a given date (R) (Wave 4, ROMM #72) | Recorded Other Liabilities, including custodial contingent, FECA, and unemployment liabilities; advances from others; disbursing officer cash liability; and deposit funds/suspense account liabilities are valid obligations of the reporting entity at a given date (Wave 4, FRO #41) | Ordering Document: MIPR, reimbursable agreement, customer order, etc.<br><br>Individual employee-level listing of hours, hourly rates, and total dollar amount of unfunded leave liability that reconciles to amount recorded in the financial statements<br><br>Timesheets & leave earning reports that support the amount of leave taken and earned, respectively, by pay | Review supporting documentation to verify that recorded custodial liabilities are obligations of the reporting entity.<br><br>Review supporting documentation to verify that recorded contingent liabilities are obligations of the reporting entity.<br><br>Review supporting documentation to verify that recorded advances from others are obligations of the |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Liabilities** | | | | |
| | | | period for individual employees<br><br>Legal representation letter prepared by the Office of General Counsel (in accordance with OMB Bulletin No. 15-02, Section 9)<br><br>Management's schedule of legal liabilities (in accordance with OMB Bulletin 15-02, Section 9)<br><br>Other supporting documentation necessary to support recorded Other Liability transactions (e.g., FECA letter, journal voucher listings, etc.)<br><br>Screenshots showing posting logic or other transactional support | reporting entity.<br><br>Review supporting documentation to verify that recorded non-environmental disposal liabilities are obligations of the reporting entity.<br><br>Review supporting documentation to verify that recorded disbursing officer cash liabilities are obligations of the reporting entity.<br><br>Review supporting documentation to verify that recorded deposit fund and suspense account liabilities are obligations of the reporting entity. |
| OL.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |
| OL.7 | Budgetary and proprietary interdependencies may not be properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to Other Liabilities and:<br>• Determine the root cause of the variance<br>• Execute appropriate corrective actions to resolve the variance<br>• Document executed corrective actions<br><br>Tie-point reconciliations related to Other Liabilities should including Tie Point #6. For a full list of Tie-Points, see DoD Tie Point Standards at http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/. |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Other Liabilities** footnote disclosures included in **Note 15** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Other Liabilities footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line item.

## 5.D.2 Statement of Net Cost

The table in **Figure 5-6** below shows the material entities with respect to the earned revenue and gross costs line items presented in the DoD consolidated Statement of Net Cost.

| Reporting Entities | Earned Revenue | Gross Costs |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | ✓ | ✓ |
| Air Force GF | ✓ | ✓ |
| Navy GF | ✓ | ✓ |
| Marine Corp GF | ✓ | ✓ |
| Navy WCF | ✓ | ✓ |
| Air Force WCF | ✓ | ✓ |
| Army WCF | ✓ | ✓ |
| Marine Corp WCF | ✓ | ✓ |
| Military Retirement Fund | ✓ | ✓ |
| USACE - Civil Works Program | ✓ | ✓ |
| **DoD Designated Audit** | | |
| MRF Payment | ☐ | ✓ |
| DLA WCF | ✓ | ✓ |
| DLA GF | ☐ | ☐ |
| DLA Strategic Materials | ☐ | ☐ |
| DHA - Contract Resource Mgmt | ✓ | ✓ |
| DHA - SMA/Army | ✓ | ✓ |
| DHA - SMA/Navy | ✓ | ✓ |
| DHA - SMA/Air Force | ✓ | ✓ |
| DHA - Comptroller FOD | ☐ | ✓ |
| DHA - SMA/NCR | ✓ | ✓ |
| DHA - USUHS | ☐ | ☐ |
| ✓= Material to DoD Consolidated FY 2015 Statement of Net Cost | | |

| Reporting Entities | Earned Revenue | Gross Costs |
|---|---|---|
| DoD Component Level Accounts | | ✓ |
| MERHCF | ✓ | ✓ |
| MERHCF - Payment to MERHCF | | ✓ |
| U.S. Special Operations Command | | ✓ |
| DISA WCF | ✓ | ✓ |
| DISA GF | | ✓ |
| TRANSCOM - Air Mobility Command | ✓ | ✓ |
| TRANSCOM - Military SDDC | ✓ | ✓ |
| TRANSCOM - Military Sealift Command | ✓ | |
| TRANSCOM - Command Staff | ✓ | |
| TRANSCOM - Defense Courier Division | | |
| TRANSCOM - Component Level | ✓ | |
| DeCA WCF | ✓ | ✓ |
| DeCA GF | | |
| DFAS WCF | ✓ | ✓ |
| Defense Contract Audit Agency | | |
| **Mid-Sized Defense Agencies** | | |
| WHS - Office of the SecDef | | ✓ |
| WHS - Washington Headquarters Services | | |
| WHS - Pnt Res Mtn Rev Fund and PFPA | ✓ | |
| WHS - Building Maintenance Fund | ✓ | |
| WHS - DoD Test Resource Mgmt Ctr | | |
| WHS - Civilian Military Program | | |
| WHS - Defense Legal Services Agency | | |
| WHS - U.S. Court of Appeals, A.F. | | |
| Missile Defense Agency | | ✓ |
| Defense Security Cooperation Agency | | ✓ |
| DoD Education Activity | | ✓ |
| Other TI-97 Funds - Army | | ✓ |
| DARPA | | ✓ |
| Chemical Biological Defense Program | | ✓ |
| Defense Threat Reduction Agency | | ✓ |
| Defense Contract Mgmt Agency | | ✓ |
| Joint Staff (includes NDU) | | |
| ✓= Material to DoD Consolidated FY 2015 Statement of Net Cost | | |

| Reporting Entities | Earned Revenue | Gross Costs |
|---|---|---|
| **Remaining Defense Agencies and Funds** | | |
| Burden Sharing/Foreign Allies, Defense | | |
| Other TI-97 Funds - Air Force | | |
| Defense Acquisition University | ✓ | |
| Defense Technical Information Center | ✓ | ✓ |
| Defense Human Resources Activity | | ✓ |
| Support/US Relo to Guam Acts., Defense | | |
| Other TI-97 Funds - Navy | | |
| Office of Economic Adjustment | | |
| Defense Security Service | | |
| Military Housing Privatization Initiative | | |
| DoD Education Benefits Fund | | |
| Department of Defense OIG | | |
| Director, OT&E | | |
| Homeowners Assistance Fund, Defense | | |
| Defense Media Activity | | |
| Emergency Response Fund, Defense | | |
| Component Level Adjustments | | |
| Support/US Relo Acts., Defense | | |
| Vol Separation Incentive Trust Fund | | |
| Defense Technology Security Admin | | |
| Business Transformation Agency | | |
| Defense Gift Fund | | |
| National Security Education Trust Fund | | |
| DFAS GF | | |
| Def Personnel Acctg Agency (formerly Def PoW/Missing Persons Office) | | |
| Agency-Wide Component | ✓ | |
| Defense Cooperation Account | | |
| ✓= Material to DoD Consolidated FY 2015 Statement of Net Cost | | |

**Figure 5-6. Reporting Entities Material to Statement of Net Cost (Earned Revenue and Gross Cost Line Items)**

## *5.D.2.1 Revenue*

Revenue represents the inflow of resources that the Government demands, earns, or receives by donation. These amounts are received from both Government and private entities in exchange and non-exchange transactions and are a supplement to appropriations received from Congress. Exchange revenues (earned revenues) arise when a Government entity provides goods and services to the public or to another Government entity for a price. Non-exchange revenues arise primarily from exercise of the Government's power to demand payments from the public, including income taxes, duties, and fines and penalties. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes related to Revenue including the rendering of goods or services, billing, and collection.

### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their Federal trading partners throughout the course of the fiscal year. The suggested test procedures for RE.1 – RE.2 and RE.4 – RE.7 can be leveraged to test both Intragovernmental and Non-Federal Revenue. The suggested test procedures provided in RE.3 are for Intragovernmental Revenue only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Intragovernmental Revenue, are covered in the Financial Reporting assessable unit.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Revenue are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 7, 20, 21 (and amendments)<br>• DoD FMR: Volume 4, Chapter 16<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Earned Revenue line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 6,845,700,885 | 2.3% |
| Air Force GF | 5,209,417,027 | 1.8% |
| Navy GF | 8,006,036,958 | 2.7% |
| Marine Corps GF | 283,800,034 | 0.1% |
| Navy WCF | 25,813,744,230 | 8.7% |
| Air Force WCF | 10,689,280,592 | 3.6% |
| Army WCF | 20,384,862,547 | 6.9% |
| Marine Corps WCF | 1,053,366,474 | 0.4% |
| Military Retirement Fund | 112,267,833,065 | 38.0% |
| USACE – Civil Works Program | 2,318,711,198 | 0.8% |
| **Subtotal - OMB Design. Audit** | **$ 192,872,753,010** | **65.4%** |
| **DoD Designated Audit** | | |
| DHA - Contract Resource Mgmt | $ 957,687,968 | 0.3% |
| DHA – Comptroller FOD | 26,369,031 | 0.0% |
| DHA - USUHS | 33,908,739 | 0.0% |
| DHA - SMA/Army | 1,005,743,054 | 0.3% |
| DHA - SMA/Navy | 378,154,260 | 0.1% |
| DHA - SMA/Air Force | 577,409,725 | 0.2% |
| DHA - SMA/NCR | 305,126,957 | 0.1% |
| MERHCF | 15,941,642,504 | 5.4% |
| DLA WCF | 51,036,387,365 | 17.3% |
| DLA GF | 78,884,420 | 0.0% |
| DLA Strategic Materials | 39,461,759 | 0.0% |
| DoD Component Level Accounts | 190,527,965 | 0.1% |
| U.S. Special Operations Command | 222,203,689 | 0.1% |
| DISA WCF | 6,385,522,030 | 2.2% |
| DISA GF | 167,768,660 | 0.1% |
| TRANSCOM - Air Mobility Command | 5,777,348,050 | 2.0% |
| TRANSCOM - Military SDDC | 1,571,320,607 | 0.5% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| TRANSCOM - Military Sealift Command | | 710,449,421 | 0.2% |
| TRANSCOM - Command Staff | | 405,757,812 | 0.1% |
| TRANSCOM - Defense Courier Division | | 5,077,490 | 0.0% |
| TRANSCOM - Component Level | | 409,486,590 | 0.1% |
| DeCA WCF | | 5,553,155,834 | 1.9% |
| DeCA GF | | 276,838,945 | 0.1% |
| DFAS WCF | | 1,348,777,450 | 0.5% |
| Defense Contract Audit Agency | | 63,749,152 | 0.0% |
| **Subtotal - DoD Design. Audit** | **$** | **93,468,759,476** | **31.7%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 91,901,367 | 0.0% |
| WHS - Office of the SecDef | | 34,093,055 | 0.0% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 391,073,424 | 0.1% |
| WHS - Building Maintenance Fund | | 377,026,554 | 0.1% |
| WHS - Civilian Military Program | | 4,101 | 0.0% |
| WHS - Defense Legal Services Agency | | 1,460,079 | 0.0% |
| Missile Defense Agency | | 5,245,630 | 0.0% |
| Defense Security Cooperation Agency | | 12,647,088 | 0.0% |
| DoD Education Activity | | 55,058,441 | 0.0% |
| DARPA | | 221,285 | 0.0% |
| Other TI-97 Funds - Army | | 20,901,449 | 0.0% |
| Chemical Biological Defense Program | | 30,611,501 | 0.0% |
| Defense Contract Mgmt Agency | | 195,095,671 | 0.1% |
| Defense Threat Reduction Agency | | 27,532,343 | 0.0% |
| Joint Staff (includes NDU) | | 27,403,021 | 0.0% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **1,270,275,008** | **0.4%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | 7,490,529,268 | 2.5% |
| | | | |
| **Total** | **$** | **295,102,316,762** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Statements of Net Cost

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Revenue. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Revenue, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Revenue** | | | | |
| RE.1 | Recorded Revenue may not pertain to the reporting entity, may not be representative of amounts earned by the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #4, #5, #6, #19, and #20) | Recorded Revenue represents transactions and events that actually occurred, are appropriately classified and pertain to the reporting entity (Wave 4, FRO #43, #44, #50, #51, and #52) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts<br><br>Documentation supporting collection of exchange revenue (e.g., MIPR acceptance, reimbursable agreements, vendor invoices, contracts) | Test a sample of Revenue transactions and examine supporting documentation to determine whether:<br>• revenue is recorded timely (after services have been rendered or goods provided) and at correct amounts<br>• reporting entity has earned revenue (by providing goods or services) |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Revenue** | | | | |
| | | | Invoices, collection histories, other documentation supporting an accounts receivable | Verify that Revenue subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity |
| RE.2 | Recorded Revenue may not include all amounts earned by the reporting entity, or may not be summarized accurately in the financial statements (C) (Wave 4, ROMM #27, #28, #29, #42, and #43) | Recorded Revenue includes all amounts earned by the reporting entity, and is summarized accurately in the financial statements (Wave 4, FRO #46 and #53) | Other support to demonstrate completeness of reported revenue (e.g., reconciliation to trust fund collections) | Test a sample of Revenue transactions and examine supporting documentation to determine whether:<br>• revenue is recorded timely (after services have been rendered or goods provided) and at correct amounts<br>• reporting entity has earned revenue (by providing goods or services) |
| RE.3 | Revenue may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Revenue is properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Trading partner confirmations, Intragovernmental Accounts Receivable reconciliations, IPAC reports, receiving reports (DD Form 250), Interservice Support Agreements (DD Form 1144) | Select a sample of revenue transactions and verify that the Revenue is properly classified as Intra-governmental or Non-Federal; for Intra-governmental Revenue, confirm the trading partner code. |
| RE.4 | All valid recorded Revenue transactions may be recorded at incorrect amounts (V) (Wave 4, ROMM #48, #49, and #67) | Recorded Revenue transactions are recorded at correct amounts (Wave 4, FRO #47, #50, and #54) | Deposit tickets (SF-215s), IPAC/GOALs reports, supporting cash collection dollar amounts<br><br>Documentation supporting collection of exchange revenue (e.g., MIPR acceptance, reimbursable agreements, vendor invoices, contracts)<br><br>Screenshots of posting logic of sales orders, earned revenue and collection transactions<br><br>Invoices, collection histories, other documentation supporting an accounts receivable<br><br>Cost accounting records including a detailed listing of factors, data, assumptions, and formulas used in the calculation of current year customer rates<br><br>Budget-to-actual analysis of data used to calculate prior | Test a sample of Revenue transactions and examine supporting documentation to determine whether revenue is recorded at correct amounts. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Revenue** | | | | |
| | | | year customer rates<br><br>Timecards and SF-50s supporting any labor costs that have been included in the calculation of customer rates<br><br>Contracts and invoices supporting any direct or indirect costs that have been included in the calculation of customer rates | |
| RE.5 | The reporting entity may not have rights to recorded Revenue (R) (Wave 4, ROMM #71) | The reporting entity has the rights to the recorded Revenue (Wave 4, FRO #48 and #55) | Public law demonstrating authority to collect non-exchange revenue<br><br>Contracts and invoices supporting any direct or indirect costs that have been included in the calculation of customer rates | Test a sample of revenue transactions and examine supporting documentation to determine whether reporting entity has earned revenue (by providing goods or services) and has the right to report revenue in its financial records. |
| RE.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |
| RE.7 | Budgetary and proprietary interdependencies may not be properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to Revenue and:<br>• Determine the root cause of the variance<br>• Execute appropriate corrective actions to resolve the variance<br>• Document executed corrective actions<br><br>Tie-point reconciliations including Tie Point #4, #18, and #16. For a full list of Tie-Points, see DoD Tie Point Standards at http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/. |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the footnote disclosures related to **Note 18. General Disclosures Related to the Statement of Net Cost** included in the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for revenue that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

### 5.D.2.2 Gross Costs

Expenses represent the outflow or consumption of assets or the incurrence of liabilities during an operating period. Such expenses, reported as Gross Costs on the Statement of Net Cost, represent the total costs of the following appropriations: Military Retirement Benefits, Civil Works, Military Personnel, Operations - Readiness & Support, Procurement, Research & Development and Test & Evaluation, Family Housing & Military Construction.

#### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for GC.3 are specific to this attribute; the suggested test procedures for GC.1/GC.2 and GC.4/GC.5 can be leveraged to test both Intragovernmental and Non-Federal Gross Costs. The suggested test procedures provided in GC.7 are for Intragovernmental Gross Costs only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Intragovernmental Gross Costs, are covered in the Financial Reporting assessable unit.

#### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Gross Costs are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 4, 30, 33 (and amendments)<br>• DoD FMR: Volume 4, Chapters 17-23<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

#### Balance By Reporting Entity

The following reporting entities comprise the Gross Costs line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 158,314,042,970 | 17.8% |
| Air Force GF | 162,026,206,580 | 18.3% |
| Navy GF | 136,500,847,458 | 15.4% |
| Marine Corps GF | 25,775,921,626 | 2.9% |
| Navy WCF | 28,058,790,649 | 3.2% |
| Air Force WCF | 11,182,939,991 | 1.3% |
| Army WCF | 21,764,514,299 | 2.5% |
| Marine Corps WCF | 1,449,518,949 | 0.2% |
| Military Retirement Fund | 64,190,527,446 | 7.2% |
| USACE – Civil Works Program | 9,365,982,490 | 1.1% |
| **Subtotal - OMB Design. Audit** | **$ 618,629,292,458** | **69.7%** |
| **DoD Designated Audit** | | |
| MRF Payment | $ 81,759,440,000 | 9.2% |
| DHA - Contract Resource Mgmt | 5,604,985,859 | 0.6% |
| DHA – Comptroller FOD | 1,893,053,879 | 0.2% |
| DHA - USUHS | 320,205,706 | 0.0% |
| DHA - SMA/Army | 12,518,828,623 | 1.4% |
| DHA - SMA/Navy | 7,306,983,191 | 0.8% |
| DHA - SMA/Air Force | 6,912,847,236 | 0.8% |
| DHA - SMA/NCR | 1,733,252,288 | 0.2% |

| Reporting Entities | FY 2015 Balance | | % of Total |
|---|---|---|---|
| MERHCF | | 6,441,696,676 | 0.7% |
| MERHCF - Payment to MERHCF | | 4,005,000,000 | 0.5% |
| DLA WCF | | 48,710,992,769 | 5.5% |
| DLA GF | | 424,926,132 | 0.0% |
| DLA Strategic Materials | | 94,623,033 | 0.0% |
| DoD Component Level Accounts | | 21,309,550,444 | 2.4% |
| U.S. Special Operations Command | | 15,971,328,285 | 1.8% |
| DISA WCF | | 6,455,468,111 | 0.7% |
| DISA GF | | 2,119,533,003 | 0.2% |
| TRANSCOM - Air Mobility Command | | 5,630,345,849 | 0.6% |
| TRANSCOM - Military SDDC | | 1,375,329,415 | 0.2% |
| TRANSCOM - Military Sealift Command | | 664,288,398 | 0.1% |
| TRANSCOM - Command Staff | | 364,885,789 | 0.0% |
| TRANSCOM - Defense Courier Division | | 10,502,808 | 0.0% |
| TRANSCOM - Component Level | | (393,607,741) | 0.0% |
| DeCA WCF | | 6,896,266,438 | 0.8% |
| DeCA GF | | 270,473,648 | 0.0% |
| DFAS WCF | | 1,344,020,113 | 0.2% |
| Defense Contract Audit Agency | | 675,165,482 | 0.1% |
| **Subtotal - DoD Design. Audit** | **$** | **240,420,385,435** | **27.1%** |
| **Mid-Sized Defense Agencies** | | | |
| Washington Headquarters Services (WHS) | $ | 664,037,674 | 0.1% |
| WHS - Office of the SecDef | | 4,895,852,812 | 0.6% |
| WHS - Pnt Res Mtn Rev Fund & PFPA | | 243,127,273 | 0.0% |
| WHS - Building Maintenance Fund | | 305,915,947 | 0.0% |
| WHS - DoD Test Resource Mgmt Ctr | | 327,740,820 | 0.0% |
| WHS - Civilian Military Program | | 160,184,848 | 0.0% |
| WHS - U.S. Court of Appeals, A.F. | | 15,119,073 | 0.0% |
| WHS - Defense Legal Services Agency | | 114,309,801 | 0.0% |
| Missile Defense Agency | | 7,246,063,634 | 0.8% |
| Defense Security Cooperation Agency | | 2,898,826,297 | 0.3% |
| DoD Education Activity | | 2,707,871,326 | 0.3% |
| DARPA | | 2,904,856,315 | 0.3% |
| Other TI-97 Funds - Army | | 1,342,258,347 | 0.2% |
| Chemical Biological Defense Program | | 1,588,717,032 | 0.2% |
| Defense Contract Mgmt Agency | | 1,626,996,217 | 0.2% |
| Defense Threat Reduction Agency | | 1,520,322,637 | 0.2% |
| Joint Staff (includes NDU) | | 768,334,100 | 0.1% |
| **Subtotal – Mid-Sized Defense Agencies** | **$** | **29,330,534,153** | **3.3%** |
| **Remaining Defense Agencies and Funds** | | | |
| Other Reporting Entities | | (577,356,898) | -0.1% |
| | | | |
| **Total** | **$** | **887,802,855,148** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Statements of Net Cost

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Gross Costs. In order to assert audit readiness for this line item, Reporting Entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Gross Costs, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Gross Costs** | | | | |
| GC.1 | Recorded Gross Costs, including imputed financing costs and depreciation or amortization expenses, do not represent economic events that actually occurred or do not pertain to the reporting entity (E) (Wave 4, ROMM #15, #16, #18, #19, and #20) | Recorded Gross Costs, including imputed financing costs and depreciation or amortization expenses, represent economic events that actually occurred, are supported by appropriate detailed records that are accurately summarized, are properly classified, and pertain to the reporting entity (Wave 4, FRO #29, #61, and #65) | Documents supporting expenses incurred such as: invoices or other billing documents, receiving reports, IPACs, travel orders vouchers and receipts, credit card statements, etc. Note: For payroll transactions, SF 52s (Request for Personnel Actions), SF 50s (Notification of Personnel Action), approved timesheets and any supporting screenshots (e.g., for manual entry of time in DCPS), pay histories, leave/earnings statements, benefit documentation and special pay/entitlements support documents support recorded payroll expenses.<br>Documents used to support transportation costs such as: EDI 858, EDI 859, DD 1149, DD 1348-1A, DD 1384, DD 361<br>Documents to support accrual estimates recorded (in instances where invoice has not been received or to support payroll accrual calculations)<br>Screenshots showing posting logic, system purchase orders or other transactional support<br>For imputed financing costs, documentation supporting the terms of any intra-departmental agreements (e.g., MOA, MOU, operating agreement, etc.) | Select a sample of recorded costs and agree the transactions to appropriate supporting documentation. |
| GC.2 | Valid Gross Costs, including imputed financing costs and depreciation or amortization expenses, are not recorded or are improperly classified (C) (Wave 4, ROMM #38, #39, #41, #42, and #43) | Valid Gross Costs, including imputed financing costs and depreciation or amortization expenses, are recorded in the general ledger and financial statements, and classified properly (Wave 4, FRO #30, #62, and #66) | Documents supporting expenses incurred such as: invoices or other billing documents, receiving reports, IPACs, travel orders vouchers and receipts, credit card statements, etc. Note: For payroll transactions, SF 52s (Request for Personnel Actions), SF 50s (Notification of Personnel Action), timesheets, pay histories, leave/earnings | Select a sample of disbursements recorded subsequent to period end and examine supporting documentation to verify that:<br>• an expense was recorded as of period end (if the disbursement is related to goods/services received prior to period end)<br>• the actual disbursement amount agrees to or is within a reasonable variance of the expense |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Gross Costs** | | | | |
| | | | statements, benefit documentation and special pay/entitlements support documents support recorded payroll expenses.<br>Documents used to support transportation costs such as: EDI 858, EDI 859, DD 1149, DD 1348-1A, DD 1384, DD 361<br>Documents to support accrual estimates recorded (in instances where invoice has not been received or to support payroll accrual calculations)<br>Screenshots showing posting logic, system purchase orders or other transactional support | • in instances of depreciation or amortization, the expense methodology is reasonable and documented. |
| GC.3 | Gross Costs may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded Gross Costs are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Trading partner confirmations, Intragovernmental Accounts Payable reconciliations, IPAC reports, receiving reports (DD Form 250), Interservice Support Agreements (DD Form 1144) | Select a sample of expense transactions and verify that the expense is properly classified as Intra-governmental or Non-Federal; for Intragovernmental Gross Costs, confirm the trading partner code. |
| GC.4 | Gross Costs, including imputed financing costs and depreciation or amortization expenses, are recorded at incorrect amounts, or are measured improperly (V) (Wave 4, ROMM #58, #60, #61, #63, and #67) | Gross Costs, including imputed financing costs and depreciation or amortization expenses, are recorded at correct amounts, are valued using an appropriate valuation basis, and are measured properly (Wave 4, FRO #30, #63, and #67) | Documents supporting expenses incurred such as: invoices or other billing documents, receiving reports, IPACs, travel orders vouchers and receipts, credit card statements, etc. Note: For payroll transactions, SF 52s (Request for Personnel Actions), SF 50s (Notification of Personnel Action), timesheets, pay histories, leave/earnings statements, benefit documentation and special pay/entitlements support documents support recorded payroll expenses.<br>Documents used to support transportation costs such as: EDI 858, EDI 859, DD 1149, DD 1348-1A, DD 1384, DD 361<br>Explanation of foreign exchange rate used for payment (e.g., local bank rate), if applicable<br>Documents to support | Select a sample of recorded costs and validate transaction amounts with appropriate supporting documentation. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Gross Costs** | | | | |
| | | | accrual estimates recorded (in instances where invoice has not been received or to support payroll accrual calculations)<br><br>Screenshots showing posting logic, system purchase orders or other transactional support<br><br>For imputed financing costs, documentation supporting any significant changes in actuarial calculations from prior years<br><br>For imputed financing costs, documentation supporting evaluation of actual to expected results supporting accuracy of models used<br><br>For imputed financing costs, detail listing of amounts paid during the fiscal year from the Federal Judgment Fund to settle lawsuits and claims against the reporting entity<br><br>For imputed financing costs, detail calculations and support for other imputed financing costs | |
| GC.5 | Gross Costs, including imputed financing costs and depreciation or amortization expenses, of a reporting entity include improper payments (R) | Gross Costs of a reporting entity do not include improper payments | Documents supporting expenses incurred such as: invoices or other billing documents, receiving reports, IPACs, travel orders vouchers and receipts, credit card statements, etc. Note: For payroll transactions, SF 52s (Request for Personnel Actions), SF 50s (Notification of Personnel Action), timesheets, pay histories, leave/earnings statements, benefit documentation and special pay/entitlements support documents support recorded payroll expenses.<br><br>Documents used to support transportation costs such as: EDI 858, EDI 859, DD 1149, DD 1348-1A, DD | Select a sample of recorded costs and verify that each cost and corresponding disbursement:<br>• agrees to amounts contained in appropriate supporting documentation<br>• is for eligible goods or services<br>• is not duplicative in nature<br>• is for goods or services that have been received. |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Gross Costs** | | | | |
| | | | 1384, DD 361<br>Documents to support accrual estimates recorded (in instances where invoice has not been received or to support payroll accrual calculations) | |
| GC.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, “Systems (IT) Controls,” for additional details related to IT General and Application Controls audit readiness activities | |
| GC.7 | Budgetary and proprietary interdependencies may not be properly maintained as indicated by tie-point reconciliation variances | Budgetary and proprietary interdependencies are properly maintained and reflected in tie-point reconciliations | Tie-point reconciliations | Review all tie-point reconciliation variances related to Gross Costs and:<br>• determine the root cause of the variance<br>• execute appropriate corrective actions to resolve the variance<br>• document executed corrective actions<br><br>For a full list of Tie-Points, see DoD Tie Point Standards at http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/. |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **General Disclosures Related to the Statement of Net Cost** included in **Note 18** of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Gross Cost footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## 5.D.3 Statement of Changes in Net Position

The net position of a reporting entity represents the difference between the assets and liabilities shown on its balance sheet. The Statement of Changes in Net Position (SCNP) presents a reconciliation of cumulative results of operations and unexpended appropriations from the beginning to the end of the reporting period.

Each reporting entity should ensure that the following equations balance for the SCNP:

| No. | Equation |
|---|---|
| 1 | SCNP Beginning Balances = Net Position Balances from prior year Balance Sheet |
| 2 | SCNP Ending Balances = Net Position Balances from current year Balance Sheet |
| 3 | Net Cost of Operations Balance in SCNP = Net Cost of Operations Balance in Statement of Net Cost (SNC) |
| 4 | Appropriations Used (Cumulative Results of Operations) in SCNP = Appropriations Used (Unexpended Appropriations) in SCNP |

In assessing the individual lines in its SCNP, reporting entities should review relevant sections of OMB Circular A-136, *Financial Reporting Requirements*. Specific guidance that reporting entities must follow is presented for the following four line items which are material to the DoD Consolidated SCNP:

- Appropriations Used
- Other Financing Sources – Other
- Appropriations Received
- Other Adjustments

Reporting entities should also review relevant sections of OMB Circular A-136, *Financial Reporting Requirements*, for additional information regarding each line on the SCNP.

### 5.D.3.1 Appropriations Used

Appropriations are considered used as a financing source when goods or services have been provided. The Appropriations Used balance includes appropriations used for both items that are expensed or capitalized. It does not include undelivered orders or unobligated appropriations. The balance reflected on the SCNP for Appropriations Used should agree to the balance of the reporting entity for USSGL account 570000 – Expended Appropriations. The detail transactions impacting the account balance should have been tested in conjunction with the efforts of the reporting entity to assert to the audit readiness of its SBR.

#### Audit Readiness Considerations

The following table presents financial reporting risks, outcomes demonstrating audit readiness and KSDs specific to Appropriations Used. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the audit readiness outcomes relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Appropriations Used, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Appropriations Used** | | | | |
| AU.1 | Appropriations Used may not pertain to the reporting entity, may not be representative of amounts expended by the reporting entity, or may be improperly classified and summarized (E) (Wave 4 – SCNP, ROMM #1) | Recorded Appropriations Used pertain to the reporting entity, are representative of amounts expended by the reporting entity and are properly classified and summarized (Wave 4 – SCNP, FRO #1) | General ledger account reconciliations for USSGL account 570000 – Expended Appropriations<br><br>General ledger account detail for USSGL account 570000 – Expended Appropriations<br><br>Posting logic for transactions that impact USSGL account 570000 – Expended Appropriations<br><br>Other documentation to support adjusting journal vouchers posted to USSGL | Review the posting logic within the general ledger and determine whether transactions impacting USSGL account 570000 – Expended Appropriations map to the correct accounts in accordance with the USSGL<br><br>Reconcile the balance of Appropriations Used per the SCNP to the underlying the general ledger account detail for USSGL account 570000 – Expended Appropriations (universe of transactions) |
| AU.2 | Recorded Appropriations Used may not include all amounts used by the reporting entity, or may not be summarized accurately in the financial statements (C) (Wave 4 – SCNP, ROMM #5 ) | All Appropriations Used are recorded in the correct period and are properly summarized (Wave 4 – SCNP, FRO #2) | | |

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Appropriations Used** | | | | |
| AU.3 | Appropriations Used included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (V) (Wave 4 – SCNP, ROMM #9) | Appropriations Used included in the financial statements are valued correctly, using an appropriate valuation basis (Wave 4 – SCNP, FRO #3) | account 570000 – Expended Appropriations | Select a sample of journal vouchers from the universe of transactions and:<br>• Obtain appropriate documentation that adequately supports the journal voucher<br>• Review the nature of the journal voucher for reasonableness<br>• Determine whether the transaction has been appropriately classified in the SCNP |
| AU.4 | The reporting entity does not have rights to recorded Appropriations Used at a given date (R) (Wave 4 – SCNP, ROMM #13) | The reporting entity has the rights to the recorded Appropriations Used at a given date (Wave 4 – SCNP, FRO #4) | | |
| AU.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

In addition to ensuring the audit readiness of its own Appropriations Used balance, a reporting entity must provide data that is complete and accurate to OUSD(C) for the preparation of the Disclosures Related to the Statement of Changes in Net Position included in Note 19 of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, also specifies requirements for SCNP footnote disclosures that reporting entities must consider for standalone and consolidated reporting purposes.

## 5.D.3.2 Other Financing Sources - Other

Because the Other Financing Sources – Other account balance is material to the DoD Consolidated SCNP, reporting entities must be able to reconcile this account balance and ensure that adequate documentation exists to support transactions recorded to the account. Per OMB Circular A-136, *Financial Reporting Requirements*, this account should include financing sources that do not represent budgetary resources and are not otherwise classified in other line items on the SCNP.

### Audit Readiness Considerations

The following table presents financial reporting risks, outcomes demonstrating audit readiness and KSDs specific to Other Financing Sources - Other. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the audit readiness outcomes relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Other Financing Sources - Other, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| | | **Other Financing Sources - Other** | | |
| OT.1 | Other Financing Sources - Other may not pertain to the reporting entity, may not be representative of amounts of transactions entered into by the reporting entity, or may be improperly classified and summarized (E) Wave 4 – SCNP, ROMM #2) | Recorded Other Financing Sources - Other represent amounts of transactions actually entered into by the reporting entity and are properly classified (Wave 4 – SCNP, FRO #5) | General ledger account reconciliations for USSGL accounts with activity included in Other Financing Sources – Other (e.g., 719000 – Other Gains, 729000 – Other Losses, etc.)<br><br>General ledger account detail for USSGL accounts with activity during the period included in Other Financing Sources – Other<br><br>Posting logic for transactions that impact USSGL accounts included in Other Financing Sources – Other<br><br>Other documentation to support adjusting journal vouchers posted to accounts included in Other Financing Sources – Other | Review the posting logic within the general ledger and determine whether transactions impacting the Other Financing Sources – Other line item on the SCNP map to the correct accounts in accordance with the USSGL<br><br>Reconcile the balance of Other Financing Sources – Other per the SCNP to the underlying the general ledger account detail for USSGL accounts with activity during the period included in the Other Financing Sources – Other balance on the SCNP (universe of transactions)<br><br>Select a sample of journal vouchers from the universe of transactions and:<br>• Obtain appropriate documentation that adequately supports the journal voucher<br>• Review the nature of the journal voucher for reasonableness<br>• Determine whether the transaction has been appropriately classified in the SCNP |
| OT.2 | Recorded Other Financing Sources - Other may not include all amounts used by the reporting entity, or may not be summarized accurately in the financial statements (C) (Wave 4 – SCNP, ROMM #6) | All Other Financing Sources - Other are recorded in the correct period and are properly summarized (Wave 4 – SCNP, FRO #6) | | |
| OT.3 | Other Financing Sources - Other included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (V) (Wave 4 – SCNP, ROMM #10) | Other Financing Sources - Other included in the financial statements are valued correctly, using an appropriate valuation basis (Wave 4 – SCNP, FRO #7) | | |
| OT.4 | The reporting entity does not have rights to or obligations for amounts posted to Other Financing Sources – Other at a given date (R) (Wave 4 – SCNP, ROMM #14) | The reporting entity has rights to or obligations for amounts posted to Other Financing Sources – Other at a given date (Wave 4 – SCNP, FRO #8) | | |
| OT.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Footnote Disclosures

In addition to ensuring the audit readiness of its own Other Financing Sources - Other balance, a reporting entity must provide data that is complete and accurate to OUSD(C) for the preparation of the Disclosures Related to the Statement of Changes in Net Position included in Note 19 of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements,* also specifies requirements for SCNP footnote disclosures that reporting entities must consider for standalone and consolidated reporting purposes.

### 5.D.3.3 APPROPRIATIONS RECEIVED

The Appropriations Received balance on the SCNP reflects amounts appropriated from Treasury general fund receipts that are not earmarked by law for a specific purpose. The balance will not necessarily agree with the Appropriations Received balance reported on the SBR because of differences between proprietary and budgetary accounting concepts and reporting. For example, certain dedicated and earmarked receipts are recorded as Appropriations Received on the SBR, but are recognized as exchange or non-exchange revenue for the SCNP and are reported in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

#### Audit Readiness Considerations

The following table presents financial reporting risks, outcomes demonstrating audit readiness and KSDs specific to Appropriations Received. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the audit readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Appropriations Received, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Appropriations Received** | | | | |
| AD.1 | Recorded Appropriations Received may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4 – SCNP, ROMM #3) | Recorded Appropriations Received represent amounts actually received by the reporting entity and are properly classified (Wave 4 – SCNP, FRO #9) | General ledger account reconciliations for USSGL account 310100 – Unexpended Appropriations – Appropriations Received<br><br>General ledger account detail for USSGL account 310100 – Unexpended Appropriations – Appropriations Received<br><br>Posting logic for transactions that impact USSGL account 310100 – Unexpended Appropriations – Appropriations Received<br><br>Other documentation to support journal vouchers posted to USSGL account 310100 – Unexpended Appropriations – Appropriations Received | Reconcile Appropriations Received per the SBR to Appropriations Received per the SCNP<br><br>Identify the general ledger account detail comprising the balance of any differences between Appropriations Received per the SBR and Appropriations Received per the SCNP (universe of transactions)<br><br>Select a sample of journal vouchers from the universe of transactions and:<br>• Obtain appropriate documentation that adequately supports the journal voucher<br>• Review the nature of the journal voucher for reasonableness<br>• Determine whether the transaction has been appropriately classified in the SCNP |
| AD.2 | Valid Appropriations Received may be omitted from financial statements or may be improperly classified and summarized (C) (Wave 4 – SCNP, ROMM #7) | All Appropriations Received are recorded in the proper accounting period and are accurately classified and summarized (Wave 4 – SCNP, FRO #10) | | |
| AD.3 | Appropriations Received included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (V) (Wave 4 – SCNP, ROMM #11) | Appropriations Received included in the financial statements are valued correctly, using an appropriate valuation basis (Wave 4 – SCNP, FRO #11) | | |
| AD.4 | The reporting entity does not have rights to recorded Appropriations Received at a given date (R) (Wave 4 – SCNP, ROMM #15) | The reporting entity has rights to recorded Appropriations Received at a given date (Wave 4 – SCNP, FRO #12) | | |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Appropriations Received** | | | | |
| AD.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

In addition to ensuring the audit readiness of its own Appropriations Received balance, a reporting entity must provide data that is complete and accurate to OUSD(C) for the preparation of the Disclosures Related to the Statement of Changes in Net Position included in Note 19 of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements,* also specifies requirements for SCNP footnote disclosures that reporting entities must consider for standalone and consolidated reporting purposes.

## 5.D.3.4 Other Adjustments

Because the Other Adjustments account balance is material to the DoD Consolidated SCNP, reporting entities must be able to reconcile this account balance and ensure that adequate documentation exists to support transactions recorded to the account. This account includes adjustments to unexpended appropriations. Examples of adjustments include rescissions, capital transfers and cancellations of expired appropriations

### Audit Readiness Considerations

The following table presents financial reporting risks, outcomes demonstrating audit readiness and KSDs specific to Other Adjustments. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the audit readiness outcomes relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Other Adjustments, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Other Adjustments** | | | | |
| OT.1 | Other Adjustments may not pertain to the reporting entity, may not be representative of amounts of transactions entered into by the reporting entity, or may be improperly classified and summarized (E) (Wave 4 – SCNP, ROMM #4) | Recorded Other Adjustments represent amounts of transactions actually entered into by the reporting entity and are properly classified (Wave 4 – SCNP, FRO #13) | General ledger account reconciliations for USSGL account 310600 – Unexpended Appropriations – Adjustments<br><br>General ledger account detail for USSGL account 310600 – Unexpended Appropriations – Adjustments | Review the posting logic within the general ledger and determine whether transactions impacting the Other Adjustments line item on the SCNP map to the correct accounts in accordance with the USSGL<br><br>Reconcile the balance of Other Adjustments per the |

<table>
<tr><th colspan="2">Financial Reporting Risks</th><th>Outcomes Demonstrating Audit Readiness</th><th>Key Supporting Documents</th><th>Suggested Test Procedures</th></tr>
<tr><th colspan="5">Other Adjustments</th></tr>
<tr><td>OT.2</td><td>Recorded Other Adjustments may not include all amounts used by the reporting entity, or may not be summarized accurately in the financial statements (C) (Wave 4 – SCNP, ROMM #8)</td><td>All Other Adjustments are recorded in the correct period and are properly summarized (Wave 4 – SCNP, FRO #14)</td><td rowspan="3">Posting logic for transactions that impact USSGL account 310600 – Unexpended Appropriations – Adjustments<br><br>Other documentation to support journal vouchers posted to USSGL account 310600 – Unexpended Appropriations – Adjustments</td><td rowspan="3">SCNP to the underlying the general ledger account detail for USSGL account 310600 – Unexpended Appropriations – Adjustments (universe of transactions)<br><br>Select a sample of journal vouchers from the universe of transactions and:<ul><li>Obtain appropriate documentation that adequately supports the journal voucher</li><li>Review the nature of the journal voucher for reasonableness</li><li>Determine whether the transaction has been appropriately classified in the SCNP</li></ul></td></tr>
<tr><td>OT.3</td><td>Other Adjustments included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (V) (Wave 4 – SCNP, ROMM #12)</td><td>Other Adjustments included in the financial statements are valued correctly, using an appropriate valuation basis (Wave 4 – SCNP, FRO #15)</td></tr>
<tr><td>OT.4</td><td>The reporting entity does not have rights to or obligations for amounts posted to Other Adjustments at a given date (R) (Wave 4 – SCNP, ROMM #16)</td><td>The reporting entity has rights to or obligations for amounts posted to Other Adjustments at a given date (Wave 4 – SCNP, FRO #16)</td></tr>
<tr><td>OT.5</td><td>IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)</td><td>All material systems achieve the relevant FISCAM IT general- and application-level general control objectives</td><td colspan="2">See FIAR Guidance Section 3.D.2, “Systems (IT) Controls,” for additional details related to IT General and Application Controls audit readiness activities</td></tr>
</table>

### Footnote Disclosures

In addition to ensuring the audit readiness of its own Other Adjustments balance, a reporting entity must provide data that is complete and accurate to OUSD(C) for the preparation of the Disclosures Related to the Statement of Changes in Net Position included in Note 19 of the DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, also specifies requirements for SCNP footnote disclosures that reporting entities must consider for standalone and consolidated reporting purposes.

## 5.D.4 Financial Reporting

Financial Reporting is the process for ensuring the completeness and accuracy of the data provided for the DoD Agency Financial Report, including proper and adequate note disclosures. Financial Reporting addresses the presentation and disclosure assertion for all financial statement line items. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for adequate and proper financial statement note disclosures.

All reporting entities must be able to assert to the audit readiness of all business processes and sub-processes associated with Financial Reporting, including proper note disclosure and general ledger recording. For reporting entities undergoing, or preparing to undergo a financial statement audit (OMB and DoD Designated Audit entities), this includes the development of the Management’s Discussion and Analysis (MD&A), financial statements and notes to the financial statements, required supplementary information (RSI), required supplementary stewardship information (RSSI), and other accompanying information (OAI).[42]

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Financial Reporting are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policy |
|---|---|
| • SFFAS No. 24 (and amendments)<br>• OMB Circular A-136 – Financial Reporting Requirements<br>• GAO/PCIE FAM 2010<br>• GAO/PCIE FAM 2020 | • National Archives and Records Administration (NARA) General Records Schedule 1.1<br>• DoD FMR: Volume 1, Chapter 9<br>• DoD FMR: Volume 6B |

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Financial Reporting. In order to assert audit readiness for Financial Reporting, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Financial Reporting, and assess the availability of KSDs that support the controls and amounts recorded.

| Financial Reporting Risks | | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Financial Reporting** | | | | |
| FR.1 | Trial balances (or equivalents) are not accurate or valid (E, P) (Wave 2 - SBR, ROMM #12, #13, #39, and #40; Wave 3, ROMM #11; Wave 4, ROMM #19, #20, #21, #68, and #69) | Trial balances (or equivalents) are accurate and valid (Wave 2 - SBR, FRO #1, #2, #5, and #6; Wave 3, FRO #1; Wave 4, FRO #1, #5, #9, #13, #14, #19, #26, #29, #35, #38, #44, #56, #57, #61, #65, #72, and #77) | Trial Balances | Review reconciliation of trial balance to the listing of Treasury accounts in the Treasury FAST Book and determine whether:<br>• all trial balances for all Treasury accounts and general ledgers are included<br>• only valid Treasury accounts are included in the trial balance.<br><br>Review the posting logic within the general ledger and determine whether:<br>• transactions map to the correct accounts in accordance with the USSGL<br>• changes made to the posting logic are accurate and approved by an authorizing official, as evidenced by the approver's signature and date |

[42] Other reporting entities, such as Military Housing Privatization Initiative, may not produce a stand-alone AFR, but must perform audit readiness tasks necessary to support the DoD consolidated MD&A, statements, notes, RSI, RSSI and OAI.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Financial Reporting** | | | | |
| | | | | • changes or modifications to the chart of accounts or the posting logic are restricted to appropriate users.<br><br>Review postings from the sub-ledgers to the general ledger and determine whether:<br>• postings are made completely, accurately, and in the proper period<br>• suspense, invalid, or other rejected or improper automated postings are analyzed, researched, and resolved on a timely basis<br>• resolution of suspense postings is properly approved<br>• postings are restricted to appropriate users<br>• proper segregation of duties exist.<br><br>Verify that all trial balances (or equivalents) are accurate and valid. |
| FR.2 | All trial balances (or equivalents) are not produced timely (C, P) (Wave 2 - SBR, ROMM #25, #26, and #41; Wave 4, ROMM #42, #43, #44, and #70) | Trial balances (or equivalents) are produced timely (Wave 2 - SBR, FRO #3, #7, and #8; Wave 4, FRO #71, #73, and #77) | Trial Balances | Verify that all balances (or equivalents) are produced timely. |
| FR.3 | All trial balances (or equivalents) are not loaded into DDRS-B timely (C, P) (Wave 2 - SBR, ROMM #25, #26, and #41; Wave 4, ROMM #42, #43, #44, and #70) | Trial balances (or equivalents) are loaded into DDRS-B timely (Wave 2 - SBR, FRO #3, #7, and #8; Wave 4, FRO #71, #73, and #77) | Trial Balances | Verify that all trial balances (or equivalents) are loaded into DDRS-B timely. |
| FR.4 | Trial balances (or equivalents) are not completely or accurately loaded into DDRS-B (C, V, P) (Wave 2 - SBR, ROMM #25, #26, and #41; Wave 4, ROMM #42, #43, #44, #65, #66, and #70) | Trial balances (or equivalents) are complete and accurately loaded into DDRS-B (Wave 2 - SBR, FRO #3, #7, and #8; Wave 4, FRO #2, #6, #10, #14, #17, #21, #26, #30, #33, #40, #46, #47, #56, #58, #63, #67, #71, #72, #73, and #77) | Trial Balances | Verify that all trial balances (or equivalents) are loaded into DDRS-B completely and accurately (debit and credit account balances sum to zero). |
| FR.5 | All trial balance data in DDRS-B is not loaded into DDRS-AFS timely (C, P) (Wave 2 - SBR, ROMM #26 and #41; Wave 4, ROMM #43 and | All trial balance data in DDRS-B is loaded into DDRS-AFS timely (Wave 2 - SBR, FRO #3 and #8; Wave 4, FRO #4, #8, #12, #15, #18, #23, #28, #31, | Trial Balances | Verify that all trial balance data in DDRS-B is loaded into DDRS-AFS timely. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Financial Reporting** | | | | |
| | #70) | #32, #42, #45, #49, #60, #64, #68, #71, #73, and #77) | | |
| FR.6 | Trial balance data is not accurately loaded from DDRS-B into DDRS-AFS (V, P) (Wave 2 - SBR, ROMM ##39 and #40; Wave 3, ROMM #11; Wave 4, ROMM #68 and #69) | Trial balance data is accurately loaded from DDRS-B into DDRS-AFS (Wave 2 - SBR, FRO #1 and #2; Wave 3, FRO #1; Wave 4, FRO #4, #8, #12, #15, #18, #23, #28, #31, #32, #42, #45, #49, #60, #64, #68, #71, #73, and #77) | Trial Balances | Verify that all trial balance data is accurately loaded from DDRS-B into DDRS-AFS. |
| FR.7 | Journal vouchers and adjustments recorded in DDRS-B and DDRS-AFS are not accurate or valid (E, P) (Wave 2 - SBR, ROMM #12, #13, #39, and #40; Wave 3, ROMM #11; Wave 4, ROMM #19, #20, #21, #22, #23, #68, and #69) | All journal vouchers and adjustments recorded in DDRS-B and DDRS-AFS are accurate (correct amount, Treasury account, line of accounting, reporting entity) and valid (authorized/approved transactions supported by appropriate documentation) (Wave 2 - SBR, FRO #1, #2, #5, and #6; Wave 3, FRO #1; Wave 4, FRO #1, #5, #9, #13, #14, #19, #26, #29, #35, #38, #44, #56, #57, #61, #65, #69, #72, and #77) | Journal Vouchers<br><br>Trading partner data summarization worksheets | Select a sample of recorded adjustments made to the general ledger, DDRS-B and DDRS-AFS, and determine whether:<br>• the adjustments are accurately recorded as supported by underlying documentation (JV form)<br>• the JV is signed and dated by the preparer<br>• the adjustments are reviewed and approved by an authorizing official as evidenced by the approver's signature and date<br>• proper segregation of duties exist.<br><br>Review the Year-End Closing process and determine whether:<br>• closing adjustments are recorded completely, accurately, and in the proper period<br>• closing adjustments are reviewed and approved by an authorizing official as evidenced by the approver's signature and date<br>• posting of closing adjustments are restricted to appropriate users.<br><br>Verify that all JV activity (e.g., non-expenditure transfers, adjusting entries) recorded in DDRS-B and DDRS-AFS are accurate, valid and supported by appropriate approval documentation.<br><br>Verify that all trading partner activity is properly summarized and elimination |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Financial Reporting** | | | | |
| | | | | journal vouchers are accurate, valid and supported by appropriate approval documentation. |
| FR.8 | All journal vouchers and adjustments recorded in DDRS-B and DDRS-AFS are timely (C, P) (Wave 2 - SBR, ROMM #26 and #41; Wave 4, ROMM #42, #43, #44, and #70) | All journal vouchers and adjustments are recorded timely in DDRS-B and DDRS-AFS (Wave 2 - SBR, FRO #3, #7, and #8; Wave 4, FRO #71 and #73) | Journal Vouchers | See Suggested Test Procedures for FR.7 |
| FR.9 | All financial statements, related footnotes, and required and accompanying information are not accurate or valid (E, P) (Wave 2 – SBR, ROMM #39 and #40; Wave 3, ROMM #11; Wave 4, ROMM #68 and #69) | The financial statements (Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources), related footnotes, required supplementary information, and other accompanying information are accurate (in compliance with accounting and reporting standards) and valid (supported by data in DDRS-AFS) (Wave 2 – SBR, FRO #1 and #2; Wave 3, FRO #1; Wave 4, FRO #4, #8, #12, #15, #18, #23, #28, #31, #32, #42, #45, #49, #60, #64, #68, and #73) | Financial Statements, Footnote Disclosures | At year-end and for one interim quarter, compare the information in the trial balance, general ledger and financial statements to determine whether:<br>• the account balances per the reporting entity trial balance, DDRS-B, DDRS-AFS and financial statements agree<br>• the financial statements are prepared in accordance with U.S. GAAP and underlying accounts are mapped to the financial statements in accordance with the USSGL<br>• any exceptions noted are adequately researched and resolved.<br><br>Review the Performance and Accountability Report (PAR) or the Agency Financial Report (AFR) and the financial statements and notes to determine whether:<br>• the accompanying information has been presented, disclosed, and developed in conformity with OMB Circular A-136 requirements<br>• information presented in notes is consistent with information reported in the financial statements<br>• financial statements and notes were reviewed and approved by an authorized official prior to being published<br>• balances and the amounts per the manually produced notes agree to the financial statements, DDRS-B, DDRS-AFR, and the |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Financial Reporting** | | | | |
| | | | | DDRS produced notes.<br><br>Review the Standard Guidance Checklist at year-end and one interim quarter and determine whether:<br>• the Standard Guidance Checklist was completed, reviewed, approved, and signed and dated by the preparer and approver<br>• the Standard Guidance checklist conforms with the requirements contained in FAM 2010, Checklist for Federal Accounting, and FAM 2020, Checklist for Federal Reporting and Disclosures, to ensure all required disclosures have been made.<br><br>See also Suggested Test Procedures for FR.1 and FR.10 |
| FR.10 | All financial statements, related footnotes, and required accompanying information are not completed timely (C, P) (Wave 2 – SBR, ROMM #41; Wave 4, ROMM #70) | The financial statements (Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position ,and Statement of Budgetary Resources), related footnotes, required supplementary information and other accompanying information are completed timely (Wave 2 – SBR, FRO #1 and #2; Wave 3, FRO #1; Wave 4, FRO #4, #8, #12, #15, #18, #23, #28, #31, #32, #42, #45, #49, #60, #64, #68, and #73) | Financial Statements, Footnote Disclosures | Verify that all information on the financial statements, related footnotes and other information is completed timely |
| FR.11 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the annual DoD Agency Financial Report (AFR), including the related Footnote Disclosures. OMB Circular A-136, *Financial Reporting Requirements,* specifies fundamental requirements for certain footnote disclosures that reporting entities must consider in carrying out audit readiness activities.

# 6. AUDIT INFRASTRUCTURE & SUSTAINMENT

## 6.A NECESSARY INFRASTRUCTURE

Reporting entities undergoing a first-year audit frequently underestimate the workload and level of effort needed to support their auditors. With a need to substantiate beginning balances, first-year audits require substantially larger sample sizes and place greater demands on both the auditor and auditee. To manage this surge in effort, reporting entities should have the necessary infrastructure in place before beginning a first-year audit. Reporting entities must demonstrate that their infrastructure includes robust retention, storage and retrieval capabilities for supporting documentation. The reporting entity should designate dedicated audit liaisons to create and sustain this infrastructure during the first-year audit. The audit liaisons should focus on the following major tasks:

### *Audit Coordination*

During a first-year audit, auditors typically spend a significant amount of time gaining an understanding of the reporting entity under audit. This is accomplished through reviews of documentation (e.g., policies and procedures, agency financial reports, business process flowcharts and narratives, etc.) and interviews with key personnel. The coordination and satisfaction of these auditor requests for documentation and interviews is essential to providing auditors with the information they need, within their time constraints, to help support a successful and timely audit.

### *Sensitive Activity*

Reporting entities may process sensitive activity that requires special handling, e.g., transactions for classified programs; such activity will be in scope for an audit. Necessary elements of a successful audit, such as compiling and reconciling a universe of transactions, and assembling appropriate supporting documentation, also apply to sensitive activity; however special handling is required to ensure proper treatment and dissemination of sensitive data. **Reporting entities must develop a plan and process by which samples can be screened and sensitive activity passed to the DoD OIG, prior to commencement of an audit/exam.** For FIAR Guidance purposes, sensitive activity is any type of activity that is not unclassified.

A sensitive activity process needs to address two potential risks when sensitive activity is subject to audit: (1) compromising the sensitive activity; and (2) limiting the auditor's scope. Accordingly, three overall objectives must be met:

- Compilation of a complete, reconciled universe of transactions
- Ability to identify sensitive activity
- Safeguarding sensitive activity

For each financial statement line item, one reconciled universe of transactions will be provided to the IPA and DoD OIG. The IPA must be at ease with the approach used to compile the transaction universe. Once a testing population has been selected by the IPA, sensitive activity must be identified; testing of sensitive transactions can then be conducted by the DoD OIG. The IPA needs to be comfortable with, and able to review, the DoD OIG's work.

With appropriate safeguards, reporting entities can avoid compromising sensitive activity, which could have security repercussions. Furthermore, scope limitations in a financial statement audit could lead to a modified opinion or a disclaimer. By properly planning for and handling sensitive activity, reporting entities can mitigate these risks.

### *Document Management*

All first-year audits include requests for substantial supporting documentation to verify management's beginning balances. In a first-year audit, sample sizes can be up to three times the size of those for a recurring audit; therefore, management should establish an infrastructure to manage these requests, as well future audits. This infrastructure includes receiving requests from the auditors, coordinating with field personnel to collect and submit the documentation to the auditors, and responding to auditor questions about the documentation. In a first-year audit, it is common for management to receive a large number of auditor questions about supporting documentation because the auditors are building an understanding of the reporting entity and its operations.

**As a general rule, reporting entities must ensure they are prepared to respond to audit team PBC requests within 5 business days. Expected response times may vary depending on the nature, timing and extent of the request.**

### *Document Retention*

Records management and document retention requirements applicable to Federal entities are included in the U.S. Code Title 44 and the National Archives and Records Administration (NARA) **General Record Schedules**. NARA has recently issued new General Records Schedules (GRS) affecting financial management records (effective in FY 2015). Generally, GRS 1.1, *Financial Management and Reporting Records*, provides for retention of documentation for as long as necessary to support audit requirements. Furthermore, the Department has also developed supplementary guidance in DoDD 5015.2 and in the DoD 7000.14R - FMR Volume 1, Chapter 9 – Financial Records Retention (link provided below). Additionally, DoD has designated records officers who may be able to provide assistance. To identify the records officer for your entity, see the Federal Agency Records Officer List at: http://www.archives.gov/records-mgmt/agency/departments/defense.html.

As previously discussed, auditors performing government financial statement audits in the United States must adhere to professional standards, which have been codified as Clarified Auditing Standards (AU-Cs). The audit standards do not directly contain document retention requirements, but they define accounting records and audit evidence (e.g., supporting documentation) that auditors must obtain and test to form an opinion on the reporting entity's financial statements.

Accounting records, per AU-C 500 paragraph .05, generally include "[t]he records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records, such as worksheets and spreadsheets, supporting cost allocations, computations, reconciliations, and disclosures."

DoD 7000.14R – FMR Volume 1, Chapter 9 was recently updated and now specifies minimum retention periods documentation supporting financial transactions by assessable unit. Reporting entities should comply with this regulation when determining document retention requirements. The updated financial records retention regulations can be found at http://comptroller.defense.gov/Portals/45/documents/fmr/Volume_01.pdf.

### *Issue/Findings Management*

As an audit progresses, the following two kinds of issues typically arise, especially during first-year audits:

- Audit Impediments – Typical impediments include unorganized documentation and issues associated with the format and content of system downloads. As such, conflicts will occur due to competing demands on limited resources. These impediments must be identified, discussed, and promptly resolved. Otherwise, the likelihood of delays in schedule (and potential scope restrictions) increases due to the cumulative effect of these issues.
- Audit Findings – As the audit progresses, the auditors will identify findings and recommendations. **The reporting entity must develop Plans of Action and Milestones (POAMs) and assign resources to lead remediation efforts for findings the reporting entity agrees are valid.** Without periodic PMO monitoring, there is a risk that remediation efforts will not be sustained. Significant control deficiencies contribute directly to additional time and auditor fees because alternative procedures must be performed to overcome control deficiencies. Therefore, timely and effective remediation of audit findings results in direct savings of Departmental resources.

### 6.A.1 Human Capital

**The reporting entity must ensure that the personnel assigned to support an audit (and perform FIAR activities) have the necessary level of competence.** This includes having a basic knowledge of accounting and auditing concepts, including:

- familiarity with financial statements and their content
- understanding of financial statement assertions
- knowledge of accounting requirements, including DoD policies
- understanding of internal controls
- familiarity with the reporting entity's systems

After determining the assessable units, the reporting entity should identify the competencies required (e.g., accounting, information technology, fiscal law) to achieve auditability and reliable financial information and determine whether the personnel assigned to audit readiness tasks have the required competencies or whether those competencies need to be developed.

The Office of the Under Secretary of Defense (Comptroller) has developed ***FM myLearn***, a multi-purpose website (CAC restricted) for DoD financial management workforce, to serve as an online catalog of professional training opportunities for financial management personnel and support career-long learning objectives. The people assigned to FIAR activities should participate in financial management training, ensuring that they have sufficient knowledge of accounting and auditing requirements to complete the tasks accurately.

In addition to competence, the people who perform the work must have the necessary objectivity. Persons responsible for evaluating the design of internal controls, performing tests of operating effectiveness, validating the sufficiency of corrective actions and testing for the adequacy of supporting documentation should not be the personnel responsible for performing the control or reporting directly to the person performing the control. Preferably, personnel performing discovery audit readiness efforts are outside of the organizational unit that is responsible for carrying out the day-to-day operational activities.

## 6.B AUDIT PROCESS - OVERVIEW

The Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act (GMRA), requires major agencies of the federal government, including the DoD, to prepare and submit audited financial statements. In FY 2017, reporting entities must have achieved audit readiness and be ready to commence full financial statement audits in FY2018 (see Figure 1-1 on page 2).

Per OMB Bulletin 15-02, federal audits must be conducted in accordance with generally accepted government auditing standards (GAGAS). To help auditors ensure they comply with GAGAS, the GAO/PCIE developed the Financial Audit Manual (FAM), which incorporates the four phases of a standard financial statement audit: planning, internal control, testing and reporting. During an audit, the audit team will aim to collect evidence in each phase to help determine whether the financial statements under audit are fairly presented in conformity with U.S. GAAP.

Reporting entities should recognize that a great deal of resources must be invested in preparing for the arrival of the audit team. These efforts should include defining expectations for audit support personnel, addressing logistical considerations for facilitating the audit and addressing known deficiencies. This advance preparation will help to promote audit efficiency.

Key measures that should be taken when planning for the arrival of the audit team include developing a project plan for the audit and compiling an onboarding binder for audit team members. A detailed project plan allows the reporting entity to formally designate audit resources and establish expected timelines for major audit tasks. The onboarding binder should include documentation that will help the audit team become acclimated with the reporting entity.

A strategy briefing will be held prior to the start of an audit by reporting entity leadership and/or the FIAR Directorate to communicate a strategy for supporting the audit to audit support personnel. The briefing will help set the tone for the audit as well as allow for the discussion of challenges that are likely to be encountered once the audit begins.

The following table identifies key tasks and supporting parties that must be completed before the audit team arrives.

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 1 | Identify Points of Contact (POCs) | FIAR Audit Liaison Team[43], DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Primary and secondary Reporting Entity and Service Provider audit liaisons responsible for coordination of audit requests with the FIAR audit liaison team should be identified. Primary and secondary POCs at the functional level should also be identified, including human resources, logistics, acquisitions, etc. |
| 2 | Set the Tone for Audit to Senior Leadership and FM Staff | FIAR Audit Liaison Team, DFAS, DCFO/FIAR Director[44] | The DCFO, supported by the FIAR audit liaison team, should conduct a briefing with Reporting Entity leadership to set the tone and articulate the strategy for supporting the audit. The DCFO will maintain a commitment to creating and sustaining a culture of consistent reinforcement with personnel that will be supporting the audit. |
| 3 | Define Expectations at the Functional Level (e.g., Operations, Information Technology, etc.) | Reporting Entity Audit Liaisons | Reporting Entity audit liaisons should coordinate with functional level POCs to ensure that each has a clear understanding of the nature and extent of the audit requests they will be expected to fulfill. |

[43] The FIAR Audit Liaison role is expected to be utilized for future audits and exams of ODOs. The role does not apply to Military Department audits or exams. It also does not apply to ODO audits or exams that have already commenced. In these instances a FIAR Audit Liaison is not utilized, but it is expected that the reporting entity will have internally designated audit liaisons to complete the noted task.

[44] The DCFO and the FIAR Director are expected to play a leading role in facilitating future audits and exams of Other Defense Organizations. In instances where a task has been assigned to the DCFO and/or the FIAR Director, Military Departments and ODOs that have already commenced audits or exams are expected to already have such tasks assigned to be completed by their own internal leadership.

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 4 | Develop Project Plan | FIAR Audit Liaison Team | The FIAR audit liaison team should develop a project plan that provides time and resource estimates for the various phases of the audit. The project plan will be circulated to Reporting Entity and Service Provider audit liaisons and discussed during pre-audit meetings. The project plan will enable the FIAR Directorate, Reporting Entity and Service Providers to monitor the status of key tasks during the audit, as well as meet the expectations of the audit team. |
| 5 | Establish Transaction Data Warehouse | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons, DCFO/FIAR Director | A transaction data warehouse must be established and maintained, as well as related SOPs outlining the processes for populating data in the data warehouse. General ledger system owners are responsible for transmitting accounting transaction details to the transaction data warehouse on a regular basis. |
| 6 | Establish Protocols for Audit Requests Using FIAR Audit Response Center (ARC) Tool | FIAR Audit Liaison Team | The FIAR audit liaison team should establish protocols for the Reporting Entities, Service Providers and audit team to follow when using the FIAR ARC Tool during the audit. Protocols include who should access the FIAR ARC Tool, how the audit team will load PBC and documentation requests and how audit support staff will submit requested documents. These protocols should be communicated out to all personnel supporting the audit. |
| 7 | Establish KSD Repositories and Understand KSD Responsibilities | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons, DCFO/FIAR Director | FIAR, Reporting Entity, and Service Provider audit liaisons should review consolidated KSD listings and understand which KSDs they are responsible for providing during the audit. The audit liaisons should also locate where these KSDs are maintained, and if necessary establish a KSD repository, to ensure they can provide them upon auditor requests in a timely manner. In doing so, the FIAR audit liaison team and Reporting Entity audit liaisons and Service Provider audit liaisons will be able to gain efficiencies as they are prompted to retrieve documentation requests during the course of the audit. |
| 8 | Establish Quality Assurance (QA) Procedures | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | QA procedures should be established with specific standards for reviewing documentation at the:<br>• Reporting Entity/Service Provider functional level,<br>• Reporting Entity/Service Provider audit liaison level, and<br>• FIAR audit liaison level.<br>These standards should ensure documentation meets audit objectives and addresses auditor requests completely and accurately prior to submission to the audit team. |
| 9 | Develop and Conduct Training for Audit Support Personnel | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | The FIAR audit liaison team should develop and conduct training for audit support personnel at the Reporting Entities and Service Providers. This training will help audit support personnel to understand the type of information requests that can be expected from the audit team and what documentation satisfies audit team requests in terms of quality, accuracy and timeliness. The training will also place an emphasis on how communications with the audit team will be handled. |

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 10 | Develop Onboarding Binder and Training for Audit Team | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | An onboarding binder should be compiled to present to audit staff during the entrance conference or onboarding session. The binder should include:<br>• FIAR Audit Liaison POC information for all requests.<br>• Listing of relevant Service Providers.<br>• Reporting Entity and Service Provider POC information.<br>• Organization charts for the Reporting Entity and relevant Service Providers.<br>• Reporting Entity mission objectives, history and strategic plans.<br>• Listing of Reporting Entities and Service Providers.<br>• Roles and responsibilities of the Reporting Entities and Service Provider personnel that will be supporting the audit. |
| 11 | Perform Contracting Officer Representative (COR) Tasks | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | The COR for the audit engagement will assume responsibility for the logistics of the audit engagement. The COR will be responsible for ensuring all audit team members are on-boarded timely, including obtaining necessary badges and providing access to required systems. The COR should also maintain an adequate degree of oversight over the progress of the audit. |

**Figure 6-1. Key Tasks and Supporting Parties Completed Prior to Audit**

Auditing standards require audits to be properly planned so they can be performed in an effective and efficient manner. The planning phase involves considerations of the many issues an auditor may face while executing the audit. The FIAR Directorate, reporting entities, and service providers will be expected to coordinate the completion of general administrative tasks during the planning phase with the audit team including scheduling logistics and the communication of deadlines to audit support personnel.

The internal control phase provides the audit team the opportunity to gain an understanding of the design and effectiveness of internal controls. During this phase, the audit team will test and assess internal controls to reach conclusions about the reliability of financial reporting and risks of material misstatement. In instances where the audit team determines controls to be effective, the extent of subsequent test procedures and documentation requests may be reduced.

During the testing phase, the audit team will test significant assertions related to account balances. The types of tests that may be performed during the testing phase include tests of details, compliance tests and analytical procedures. Audit support personnel should anticipate a substantial volume of documentation requests during this phase of the audit.

During the reporting phase, the audit team will report the results obtained during execution of audit procedures and testing. It will draft reports providing conclusions on the financial statements, internal control and financial systems. Responses to audit findings will be sought from reporting entity leadership and/or the FIAR Directorate. Audit support personnel will assist with wrap-up activities such as responding to additional inquiries or documentation requests arising from overall analytical procedures.

The remainder of this section of the FIAR Guidance discusses the four stages of a financial statement audit and identifies what is expected of audit support personnel.

### 6.B.1 Planning Phase

In the planning phase, the audit team will develop strategies for obtaining evidence needed to report on the financial statements, internal controls and compliance with laws and regulations of a reporting entity. The nature, extent, and timing of the audit depend on factors including the size and complexity of a reporting entity and the experience of the audit team with the reporting entity.

The audit team will seek to gain an understanding of the operations of the reporting entity and its internal controls. Observations, interviews and policy and procedure manuals will help the audit team obtain an understanding of significant business processes and information systems. The FIAR Directorate has developed TI-97-wide process documentation; FIAR audit liaisons should ensure that they are well-versed in TI-97-wide process flowcharts and system documentation before starting the audit. FIAR audit liaisons should confirm that reporting entity and service provider audit liaisons are familiar with this documentation as well.

Before starting the audit, FIAR audit liaisons should collaborate with reporting entity and service provider audit liaisons to analyze financial statement line items on a comparative basis and identify underlying causes of significant fluctuations (i.e., fluctuations greater than ten percent). Once the audit begins, FIAR audit liaisons will provide the audit team with comparative financial statements and any related "provided by client" (PBC)[45] list requests such as budget data. FIAR audit liaisons should be prepared to respond to audit team inquiries regarding account fluctuations and provide relevant supporting documentation as necessary.

In the planning phase, the audit team will seek to identify conditions that increase the risk of internal control failure or fraud. The audit team will identify these conditions by reviewing business processes, information systems and the results of preliminary analytical procedures. Reporting entity and service provider audit liaisons can assist the audit team in this process by providing agency-specific business process and system documentation to FIAR audit liaisons as requested. Additionally, FIAR audit liaisons should obtain SOC examination reports from service provider audit liaisons and ensure that they are readily available for the audit team.

The audit team will make inquiries of reporting entity management regarding management's assessment of the risk of a material financial statement misstatement due to fraud. The audit team will inquire about the process management uses for identifying, responding to and monitoring the risks of fraud with the reporting entity. Additionally, the audit team will inquire about communications management has had with employees regarding its views on business practices and ethical behavior.

During the planning phase, the audit team will gain an understanding of the design of general, application and user controls for significant information systems. The audit team will also tentatively conclude whether the controls are likely to be effective. To assist, reporting entity and service provider audit liaisons must be able to provide documentation about significant information systems and system controls to FIAR audit liaisons. This documentation will subsequently be provided by FIAR audit liaisons to the audit team for review.

The following table identifies key tasks and supporting parties for the planning phase of a financial statement audit.

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 1 | Participate in Entrance Conference with Audit Team | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons, DCFO/FIAR Director | The audit team will conduct the Entrance Conference with the DCFO, FIAR Director, FIAR audit liaison team, Reporting Entity leadership and Service Provider leadership to kick off the audit. During the Entrance Conference, the audit team will discuss audit requirements, other relevant information and plans for field and site visits. |
| 2 | Conduct Onboarding Training for Audit Team | FIAR Audit Liaison Team*****, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | The FIAR audit liaison will provide an onboarding training to assist the audit team in gaining an understanding of the Reporting Entity. The training will explain the organization structure, describe the various Service Providers that are relevant to the Reporting Entity under audit and outline the SOC examination reports that are available. |

[45]A PBC list is a list of items requested by the audit team that will be required to be provided prior to the commencement of fieldwork. PBC lists are preliminary and will likely be expanded once the audit begins.

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 3 | Review End-to-End Processes and Provide to Audit Team | FIAR Audit Liaisons, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | The FIAR audit liaisons, along with the Reporting Entity and Service Provider audit liaisons, should review the Reporting Entity and Service Provider end-to-end process documentation. The review should ensure that narratives and flowcharts are both current and accurate before being provided to the audit team. |
| 4 | Obtain SOC Examination Reports | FIAR Audit Liaison Team | All SOC examination reports must be obtained from Service Provider audit liaisons and made available for review by the audit team. |
| 5 | Maintain SOPs | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Reporting Entities and Service Providers should maintain and update all standard operating procedure (SOP) manuals for key business processes. These SOPs may ultimately be requested by an audit team during the course of an audit. The existence and regular maintenance of SOPs demonstrates that a Reporting Entity is committed to minimizing variation in performing fundamental processes. |
| 6 | Obtain Provided By Client (PBC) Request List | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Using the KSD listings, the FIAR audit liaison team, with support from the Reporting Entity and Service Provider audit liaisons, should prepare sample "perfect packages" that include all requested journal vouchers and supporting documentation. These "perfect packages" should be shared so personnel can become familiar with the quality and type of documentation that could be requested by the audit team. Once the audit team has distributed the PBC lists, the FIAR audit liaisons will disseminate to the Reporting Entity and Service Provider audit liaisons. |
| 7 | Identify and Research Significant Account Fluctuations | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Before starting an audit, the FIAR audit liaison team should collaborate with Reporting Entity and Service Provider audit liaisons to analyze financial statement line items on a comparative basis. Significant year-over-year fluctuations should be identified and underlying causes researched. Documentation should also be obtained to support explanations for significant account fluctuations that are identified. |
| 8 | Obtain Intra-Departmental Supporting Documentation | DFAS**,** Reporting Entity Audit Liaisons | Reporting Entity audit liaisons should collaborate to obtain reconciliations, control documentation and MOUs to support intra-Departmental funding activity for applicable Reporting Entities. |

**Figure 6-2. Key Tasks and Supporting Parties for Planning Phase of Audit**

### 6.B.2 Internal Control Phase

During the internal control phase of an audit, the audit team will perform risk assessment procedures and expand its understanding of internal controls from the planning phase. For controls over financial reporting, the audit team will also assess the risk of internal control failures and the risk of material financial statement misstatements.

The audit team will seek to obtain an understanding of the design of information systems including those processes relevant to financial reporting for processing and reporting of accounting, budget, compliance, and operations data, and maintaining accountability for the related assets, liabilities and budgetary resources. FIAR, reporting entity and service provider audit liaisons will support this effort by ensuring that systems documentation is readily available to be provided to the audit team upon request. FIAR audit liaisons will obtain applicable SOC examination reports and relevant Federal Information System Controls Audit Manual (FISCAM) documentation so the audit team can confirm its understanding of significant systems. Audit liaisons must also coordinate system walkthroughs with the audit team.

As part of the internal control phase, the audit team will test the design and operating effectiveness of key internal control activities. This testing will include information system control tests. FIAR audit liaisons will coordinate these tests with reporting entity and service provider audit liaisons.

Based on the evaluation of the design and implementation of internal control and the results of control tests, the audit team will preliminarily assess the effectiveness of internal control. The audit team will reevaluate this preliminary assessment at the conclusion of the testing phase.

The following table identifies key tasks and supporting parties for the internal control phase of a financial statement audit.

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 1 | Compile Systems Documentation | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Flowcharts, narratives and any relevant SOPs or desktop manuals for significant information systems should be reviewed, organized and made readily available for the audit team. |
| 2 | Compile Process Documentation | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Flowcharts, narratives and any relevant SOPs or desktop manuals for significant business processes should be reviewed, organized and made readily available for the audit team. |
| 3 | Coordinate Systems Compliance Testing | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Coordination must occur between the FIAR, Reporting Entity, and Service Provider audit liaisons and the audit team so that tests for compliance of systems with FFMIA can be conducted. |
| 4 | Fulfill Ad Hoc Internal Control Requests | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Various ad hoc requests relating to the internal control environment of the Reporting Entity are likely to arise during this phase of the audit. A comprehensive understanding of the systems, business processes and control activities in place is required to be able to fulfill these responses in a timely fashion. |
| 5 | Coordinate Intra-Departmental Internal Control Review | Reporting Entity Audit Liaisons | Reporting Entity audit liaisons should collaborate to provide process flowcharts, narratives and internal control documentation to support intra-Departmental funding activity for applicable Reporting Entities. Process and system walkthroughs must also be coordinated with the audit team as requested. |

**Figure 6.3. Key Tasks and Supporting Parties for Internal Control Phase of Audit**

### 6.B.3 Testing Phase

The audit team will obtain evidence during the testing phase to report on the financial statements, internal control, systems compliance and compliance with significant provisions of laws and regulations. The audit team will gather evidence by performing various substantive audit procedures. It may also perform tests of control effectiveness at the relevant assertion level. Audit liaisons and operations personnel will assist the audit team in the performance of walkthroughs and respond to documentation requests arising from control tests. In responding to documentation requests, audit liaisons must ensure that documentation is submitted to the audit team within agreed upon timeframes and has undergone a multilevel quality assurance review.

Substantive analytical procedures consist of evaluations of both financial and nonfinancial data. Examples of substantive analytical procedures include scanning account details and recalculating estimates of account balances for reasonableness. Reporting entities and service providers must be prepared to respond to audit team requests for explanations and evidence for analytical procedures. The audit liaisons will perform quality assurance reviews to ensure documentation supports the requests of the audit team. The audit team will in turn determine whether explanations and corroborating evidence provide an acceptable level of assurance.

For detail tests, the audit team will select a sample of items from account balance populations or portions of account balances. For example, an auditor selecting individual expense amounts from a general ledger and then examining corresponding invoices for support would be a detail test. Audit liaisons must collaborate to provide detail testing support at this stage of the audit.

The audit team will conduct cutoff detail tests of transactions occurring near the end of the fiscal year. These tests will allow the audit team to obtain evidence that transactions for each year are included in the financial statements of the appropriate year.

Detail tests may require operational personnel at the reporting entities and service providers to obtain and provide substantial amounts of documentation. The performance of adequate quality assurance reviews is particularly important as the outcome of this phase will have a significant impact on the opinion to be rendered by the audit team.

The following table identifies key tasks and supporting parties for the testing phase of a financial statement audit.

| No. | Task | Supporting Parties | Description |
|---|---|---|---|
| 1 | Provide Internal Controls Testing Support | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Coordination must occur with the audit team so that internal control tests of operating effectiveness can be conducted. This coordination will include assisting in walkthroughs and providing supporting documentation to demonstrate the controls are operating effectively in response to audit team requests. |
| 2 | Provide Analytical Procedures Response Support | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | General ledger account balances must be reviewed for large or unusual fluctuations from one period to the next. In instances where such fluctuations are identified, documentation to explain and support the variance should be obtained and made available for the audit team. |
| 3 | Provide Detail Testing Support | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Reporting Entity audit liaisons and Service Provider audit liaisons should be prepared to fulfill a broad range and high volume of requests for documentation to support detail balances. These requests made by the audit team and communicated via FIAR audit liaisons will need to be fulfilled in a timely manner. Reporting Entity audit liaisons and Service Provider audit liaisons should perform thorough QA reviews of supporting documentation prior to submission to the FIAR audit liaison team. |
| 4 | Leverage Consolidated KSD Listings | FIAR Audit Liaison Team, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Leverage the Consolidated KSD Listings in an effective manner so that KSDs requested by the audit team during the testing phase can be retrieved in a timely manner within the agreed upon timeline. |
| 5 | Leverage Transaction Data Warehouse | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Leverage the transaction data warehouse in an effective manner so that transaction data requested by the audit team during the testing phase can be retrieved in a timely manner within the agreed upon timeline. |
| 6 | Conduct Regular Status Meetings | FIAR Audit Liaison Team | FIAR audit liaisons should coordinate weekly status meetings with the audit team and monthly status meetings with Reporting Entity and Service Provider audit liaisons to discuss the status of the audit, any challenges encountered and upcoming deadlines. |

**Figure 6-4. Key Tasks and Supporting Parties for Testing Phase of Audit**

### 6.B.4 Reporting Phase

Based upon the work performed in the preceding phases of the audit, the audit team will decide how to report on the financial statements taken as a whole during the reporting phase. The audit team will also evaluate management's discussion and analysis (MD&A), required supplementary and stewardship information, internal control over financial reporting, compliance with FFMIA and compliance with laws and regulations. The MD&A will be prepared by reporting entity leadership and will provide a narrative of overall financial performance and condition.

As the audit nears completion, the audit team will perform overall analytical procedures to determine if an adequate understanding of all fluctuations from expectations and relationships in the financial statements has been obtained. As part of overall analytical procedures, the audit team may determine it is necessary to conduct additional inquiries or request additional documentation to obtain an adequate understanding. Reporting entity and service provider audit liaisons should anticipate the need to coordinate these requests.

During the reporting phase, the audit team will obtain representations from the reporting entity's legal counsel regarding litigation, claims, and assessments. These representations will better enable the audit team to consider any liabilities, contingencies or uncertainties that may impact the reporting entity or its financial statements.

The audit team will perform procedures to identify subsequent events that may occur after the balance sheet date, but before the audit report is issued. Subsequent events that have a material impact on the financial statements will require adjustment to or disclosure in the financial statements. The audit team will perform subsequent event procedures near the completion of the audit.

During the reporting phase, the audit team will obtain written representations from reporting entity management. These representations will supplement other audit procedures performed by the audit team and clearly define management's responsibilities with respect to the reporting entity's financial statements and the audit.

A draft of the audit report will be provided to reporting entity leadership and/or the DCFO and FIAR Director prior to issuance. Upon receipt of the draft report, reporting entity leadership and/or the DCFO and FIAR Director should review the report and provide written comments back to the audit team regarding the findings, conclusions and recommendations contained within the draft report. Reporting entity leadership and/or the DCFO and FIAR Director should also include any corrective action plans that have been developed to address findings of the audit report. The audit team will subsequently include the written comments into its final report.

Audit fieldwork may result in the issuance of notifications of findings and recommendations (NFRs) by the audit team. Once reporting entity leadership and/or the DCFO and the FIAR Director has received final NFRs, meetings should be held internally to discuss the NFRs and develop corrective action plans to remediate control deficiencies, material weaknesses and other audit findings.

Corrective action plans should identify the cause of the finding, the impact or implications of the finding and specific measures to be taken to remediate the finding. Corrective action plans should also include timelines for implementation, parties responsible for implementation and specific measures for validating the implementation of a corrective action plan has occurred.

The following table identifies key tasks and supporting parties for the reporting phase of a financial statement audit.

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 1 | Support Overall Analytical Procedures | FIAR Audit Liaison Team, DFAS, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons | Adequate resources should be allocated to fulfilling documentation requests and providing responses to inquiries arising as the audit team performs overall analytical procedures necessary to complete the reporting phase of the audit. |
| 2 | Coordinate Exit Conference | FIAR Audit Liaison Team | An exit conference must be held with the audit team to review the results of the audit and provide feedback on conclusions reached and recommendations made. The DCFO, FIAR Director, Reporting Entity management and Service Providers should be in attendance. |

| No. | Task | Supporting Party | Description |
|---|---|---|---|
| 3 | Review Draft Audit Report | FIAR Audit Liaison Team, DFAS, Reporting Entity Leadership, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons, DCFO/FIAR Director | A draft audit report should be reviewed by appropriate personnel providing the opportunity to comment on findings or areas of concern. |
| 4 | Provide Responses to Audit Findings | FIAR Audit Liaison Team, DFAS, Reporting Entity Leadership, Reporting Entity Audit Liaisons, Service Provider Audit Liaisons, DCFO/FIAR Director | After reviewing the audit findings, responses to the findings must be developed and subsequently provided to the audit team. |

**Figure 6-5. Key Tasks and Supporting Parties for Reporting Phase of Audit**

The FIAR Directorate has developed a flowchart depicting the role of each stakeholder with respect to NFRs, which is shown below:

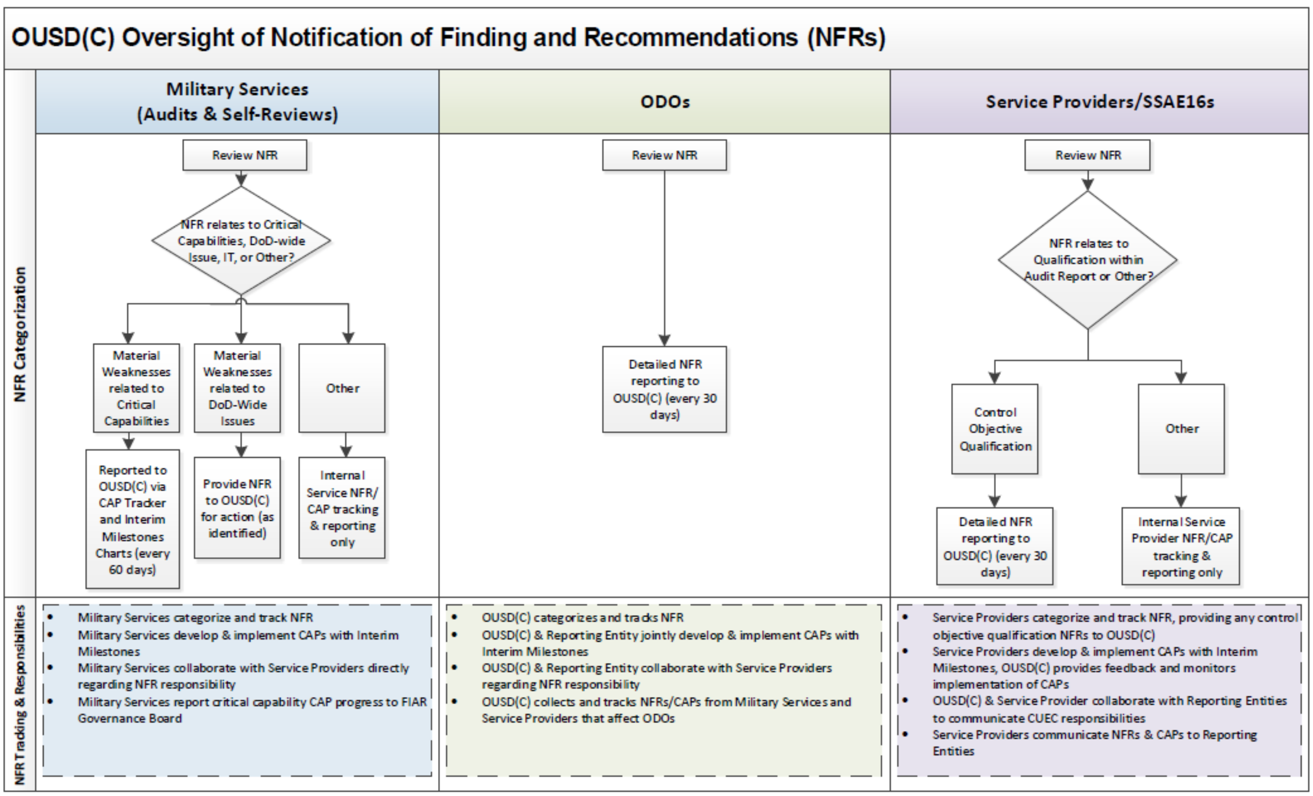


**Figure 6-6. ODCFO Oversight of Notice of Findings and Recommendations (NFRs)**

# 6.C Audit Execution and Sustainment

## 6.C.1 Audit Readiness Sustainment Requirements

Once reporting entities have achieved audit readiness for their assessable units and/or full financial statements, they are required to maintain that audit readiness state. Management maintains audit readiness by performing its annual internal control over financial reporting (ICOFR) activities, utilizing the processes and procedures described in OMB Circular A-123, Appendix A, and adhering to the requirements of the Department's MIC program. As part of their ongoing ICOFR activities, reporting entities are responsible for preparing and/or updating their process documentation (i.e., process narratives and flowcharts), assessing the design, and testing the operating effectiveness of its internal controls. As part of Sustainment, management of the reporting entity is also responsible for identifying and resolving internal control deficiencies noted during testing in a timely manner (e.g., before the next annual reporting cycle). Management does so by implementing concrete, measurable and attainable corrective action plans.

# APPENDIX A – FINANCIAL IMPROVEMENT BACKGROUND

It is important that U.S. taxpayers and their elected officials have confidence in the Department of Defense's (DoD or Department) ability to be good fiscal stewards and properly account for taxpayer dollars. The DoD's lack of auditable financial statements has chipped away at this public confidence, as the Department continues to invest in audit readiness efforts. Auditable DoD financial statements are important for three main reasons: (1) to increase public confidence in DoD stewardship; (2) to comply with applicable federal law; and (3) to provide DoD and congressional leaders with timely and reliable financial information for decision making.

## A.1 THE CHIEF FINANCIAL OFFICERS ACT

In November 1990, President George H. W. Bush signed *Public Law 101-576* into law, thus establishing one of the most significant pieces of financial management legislation ever enacted – the Chief Financial Officers Act of 1990 (CFO Act or Act). The CFO Act was passed to address congressional interest in improving fiscal accountability within the Federal government, and encompassed three important purposes (stated in Section 102 (b) of the Act):

- "1. Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the Office of Management and Budget a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.
- "2. Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.
- "3. Provide for the production of complete, reliable, timely and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs."

To accomplish these objectives, the CFO Act contained several key provisions including:

- Establishment of the Office of Federal Financial Management within the Office of Management and Budget (OMB), under the direction of the Deputy Director for Management.
- Establishment of a Chief Financial Officer and Deputy CFO at the 24 CFO Act agencies.[1]
- Requirement that each executive agency prepare and submit to OMB financial statements reflecting the agency's overall financial position, results of operations and cash flows, and providing a reconciliation to budget reports.[2]
- Requirement that each executive agency's financial statements, beginning with fiscal year (FY) 1992, be audited in accordance with applicable generally accepted government auditing standards.

The CFO Act granted authority to the OMB to establish the form and content of agency financial statements and OMB was charged with periodically reporting to Congress regarding agency progress in complying with the provisions of the Act.

In part due to its size and complexity, the Department of Defense (DoD or Department) is currently the only executive agency that has yet to receive an audit opinion on its DoD-wide, consolidated financial statements.

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[1] The Act lists 23 agencies in Section 205; the current 24 "CFO Act Agencies" include those 23, with the Federal Emergency Management Agency replaced by the Department of Homeland Security, plus the Social Security Administration.

[2] Excerpted from the CFO Act, Section 303.

## A.2 NATIONAL DEFENSE AUTHORIZATION ACTS

With the passage of the CFO Act, executive agencies began taking actions to comply with its provisions. After ten years of minimal progress within the DoD, Congress inserted requirements into the FY 2002 National Defense Authorization Act (NDAA) (*Public Law 107-107*), which elevated improved financial management as a Department priority. Specifically, the FY 2002 NDAA, Section 1008, required the DoD to "submit…a report on the reliability of the [DoD] financial statements" to include "a summary of the specific sections of [DoD's] annual Financial Management Improvement Plan…that detail the priorities, milestones, and measures of success that apply to the preparation of the financial statements…and provide an estimate of when each financial statement will convey reliable information."

While progress was made over the next eight years, in FY 2010 a new urgency was placed upon the Department's financial improvement efforts with the enactment of the FY 2010 NDAA (*Public Law 111-84*), which mandated creation of an audit readiness plan. As stated in Section 1003, DoD "shall…develop and maintain a plan to be known as the 'Financial Improvement and Audit Readiness Plan'." Furthermore, the FY 2010 NDAA established a clear deadline for achievement of audibility.

The Department's Financial Improvement and Audit Readiness Plan (FIAR Plan) was required to address several elements, including:

- Specific actions (and associated costs) for "correcting the financial management deficiencies that impair the ability of [DoD] to prepare timely, reliable, and complete financial management information; and ensuring the [Department's financial statements] are validated as ready for audit by not later than September 30, 2017"
- Correlate those specific actions "to process and control improvements and business systems modernization efforts described in the business enterprise architecture and transition plan…"
- Prioritization towards "improving the budgetary information of the [DoD], in order to achieve an unqualified audit opinion on the Department's statements of budgetary resources; and as a secondary goal, improving the accuracy and reliability of management information on the Department's mission-critical assets… and validating its accuracy through existence and completeness audits…"

Additionally, the FY 2010 NDAA established a requirement for semi-annual FIAR Plan status reports to Congress. These FY 2010 NDAA requirements are familiar and remain a primary focus of current audit readiness efforts. The Department also uses the semi-annual FIAR Plan status reports as its annual Financial Management Improvement Plan, as required by the FY 2002 NDAA, Section 1008.

In FY 2012, then-Secretary of Defense Leon Panetta set an internal deadline of September 30, 2014 for completion of audit readiness of the Statement of Budgetary Resources (SBR), a requirement that was written into the FY 2012 NDAA (*Public Law 112-81*, Section 1003). Currently, the Military Services are undergoing audits of current year appropriations reported in a Schedule of Budgetary Activity instead of the SBR.

The FY 2014 NDAA (*Public Law 113-66*) continued to mandate audit readiness and clarified the meaning of the September 30, 2017 deadline. Specifically, Section 1003 requires DoD to "[ensure] that [its] financial statements are validated as ready for audit by not later than September 30, 2017…a full audit is performed on the [DoD] financial statements for [FY 2018, and DoD] shall submit to Congress the results of that audit by not later than March 31, 2019."

As the DoD progresses along the path to auditability, note that the Department's efforts are rooted in the law and designed to demonstrate accountability to the public.

# APPENDIX B – FIAR STRATEGY, RISKS, FINANCIAL REPORTING OBJECTIVES, AND KEY SUPPORTING DOCUMENTS

This appendix provides tables that include specific key Risks of Material Misstatements (ROMMs), Financial Reporting Objectives (FROs) and Key Supporting Documents (KSDs) for Waves 2, 3 and 4. The baseline financial reporting risks and related outcomes in the Financial Statement Line Item tables in Section 5 of the FIAR Guidance have been cross-referenced to these specific ROMMs and FROs. The KSDs listed in this appendix are also included in the Section 5 line item tables.

## B.1 Wave 2 – SBR Audit

The SBR presents all budgetary resources that a reporting entity has available, the status of those resources at period end, a reconciliation of changes in obligated balances from the beginning to the end of the period, and cash collections and disbursements for the period reported. At this stage of the Department's FIAR Strategy, reporting entities need to focus on SBR balances brought forward in preparation for a full SBR audit in Wave 4. Section 5 of the FIAR Guidance includes key supporting documents and suggested test procedures regarding the specific SBR balances brought forward line items that reporting entities need to address.

### B.1.1 Risks, Financial Reporting Objectives and Key Supporting Documents

#### *Risks*

The following table presents the key ROMMs related to Wave 2 - SBR Audit, for each of the five financial statement assertions. The second table contains the same information for FBWT. A reference to the source of each risk is included in parentheses. **Reporting entities must review the listing of the FROs; identify the FROs relevant to the line item and/or assertion; and determine the combination of control activities and supporting documentation that must be implemented to achieve the FROs.** Refer to the FROs in separate tables following these risk tables for further details. Reporting entities may also refer to the GAO/PCIE FAM Sections 395B, 395F and 921C, or the GAO SBR Audit Guide for additional information about financial reporting risks.

| Wave 2 – SBR Audit<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertions** | **Key Risks of Material Misstatement** |
| Existence | 1. Recorded unobligated balances brought forward are not available for obligation in the current period because balances have been rescinded or are otherwise restricted (GAO-02-126G: p. 26)<br>2. Recoveries of prior year obligations are incorrect or are no longer available (GAO-02-126G; p.28)<br>3. Recorded budget authority does not exist (e.g., not authorized by Public Law) (FAM 395B: 4)<br>4. Spending authority from offsetting collections do not exist, are not supported by an authorized agreement or are not yet earned (FAM 395B: 4)<br>5. Recorded transfers are not properly authorized (FAM 395B: 1)<br>6. Budgetary resources not available for obligation are not properly reported (GAO-02-126G; p. 29)<br>7. Recorded obligations do not represent valid orders, contracts, or other events that will require future payment (GAO-02-126G; p. 31)<br>8. Obligations are recorded in bulk amounts not supported by binding agreements (FAM 395F: 01e)<br>9. Obligations are not properly liquidated when transactions are completed (GAO-02-126G; p. 34)<br>10. Recorded outlays are for invalid or unauthorized transactions and/or are not supported by disbursement evidence (GAO-02-126G: p. 35)<br>11. Recorded Collection or Receipt transactions are not valid or available for obligation during the year (GAO-02-126G: p. 27, 36)<br>12. Transactions are recorded in the current period, but the related economic events occurred in a different period (FAM 395B: 2)*<br>13. Transactions are summarized improperly, resulting in an overstated total (FAM 395B: 3)* |
| Completeness | 14. All unobligated available balances brought forward are not recorded (GAO-02-126G: p. 26)<br>15. All recoveries of prior year obligations that are available for obligation are not recorded as recoveries in |

| Wave 2 – SBR Audit<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertions** | **Key Risks of Material Misstatement** |
| | the SBR (GAO-02-126G: p. 28)<br>16. All new budget authority made available for obligation was not recorded (GAO-02-126G: p. 26)<br>17. All available and authorized spending authority is not recorded (GAO-02-126G: p. 27)<br>18. Transfers are not recorded in the correct period (FAM 395B: 6)<br>19. All canceled, restricted, or limited budgetary resources are not included as reductions on the SBR (GAO-02-126G: p. 27)<br>20. All obligations incurred are not properly recorded (GAO-02-126G: p. 31)<br>21. An agency may have placed an order for goods/services and not recorded the Undelivered Order (UDO) amount (GAO-02-126G: p. 34)<br>22. Goods or services may have been received, but the Delivered Orders /Accounts Payable (AP) has not been recorded and Undelivered Order amount reduced (GAO-02-126G: p. 34)<br>23. All appropriate outlays and adjustments are not recorded (FAM 395F: 01g)<br>24. All valid and authorized collection or receipt transactions are not recorded (GAO-02-126G: p. 27, 36)<br>25. Economic events occurred in the current period, but the related transactions are recorded in a different period (FAM 395B: 6)*<br>26. Transactions are summarized improperly, resulting in an understated total (FAM 395B: 7)* |
| Valuation | 27. Unobligated balances brought forward are recorded at incorrect amounts (GAO-02-126G: p. 26)<br>28. Recoveries of prior year obligations are incorrectly calculated (GAO-02-126G: p. 28)<br>29. New budget authority was recorded at incorrect amounts (GAO-02-126G: p. 25)<br>30. Apportionment amounts do not agree to the total appropriated amount (FAM 395F: 01b)<br>31. Allotted amounts do not agree to appropriated/apportioned amounts (FAM 395F: 01c)<br>32. Spending authority from offsetting collections is not recorded at the correct amount (GAO-02-126G: p. 27)<br>33. Transfers are not recorded at the correct amount (FAM 395B: 9)<br>34. Budgetary resources temporarily or permanently not available for obligation are recorded at incorrect amounts (FAM 395B: 9)<br>35. Obligations are not recorded at the proper amounts (GAO-02-126G: p. 31)<br>36. Inaccurate Uncollected Customer Payments/Accounts Receivable (AR) and Unfilled Customer Order (UFCO) amounts are included in the obligated balance, net end of period (FAM 395F: 01e)<br>37. Outlays and adjustments are reported at incorrect amounts (FAM 395F: 01g)<br>38. Collections or Receipts are misstated (GAO-02-126G: p. 27, 35) |
| Presentation and Disclosure | 39. Accumulated accounts or transactions are not properly classified and described in the SBR and SF-133 (FAM 395B: 15)<br>40. The current period SBR is based on accounting principles different from those used in prior periods presented (FAM 395B: 16)<br>41. Information needed for fair presentation in accordance with U.S. GAAP is not disclosed in the financial statements (including OMB and FASAB guidance) (FAM 395B: 17) |
| Rights and Obligations | 42. Agencies do not have rights to budgetary resources reported on the SBR, including collection and/or receipt activity (FAM 395F: 01a)<br>43. Unobligated balances are misstated and expired balances or errors are carried forward into next year's balances (GAO-02-126G: p. 32)<br>44. UFCOs related to expired agreements are included in the uncollected customer payments balance (FAM 395B: 13)<br>45. Agency is not contractually or legally bound to the obligation and therefore, related outlays should not be made, recorded or reported (FAM 395F: 01j) |
| * Risk Applies to all SBR line items. | |

| Wave 2 – SBR Audit<br>Fund Balance with Treasury<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertions** | **Key Risks of Material Misstatement** |
| Existence | 1. FBWT amounts recorded in the general ledger do not exist (FAM 921C: 1)<br>2. FBWT reconciliations to Treasury reports are not performed in a timely manner (FAM 395B: 3)<br>3. Unreconciled differences, including those that are temporarily recorded in budget clearing accounts are not researched and resolved in a timely manner (FAM 395B: 3) |
| Completeness | 4. Increases/decreases to FBWT are not appropriately and completely recorded (FAM 395B: 5)<br>5. FBWT balance exists but is omitted from the financial statements (FAM 921C: 2) |
| Valuation | 6. FBWT transactions are recorded at incorrect amounts (FAM 921C: 3) |
| Presentation and Disclosure | 7. FBWT is not properly classified and described in the financial statements (FAM 921C: 6)<br>8. The current period FBWT is based on accounting principles different from those used in prior periods presented (FAM 921C: 7)<br>9. Information needed for fair presentation in accordance with U.S. GAAP is not disclosed in the financial statements (including OMB and FASAB guidance) (FAM 921C: 8) |
| Rights and Obligations | 10. The reporting entity does not have rights to the recorded FBWT amounts (FAM 921C: 5)<br>11. Recorded FBWT is owned by others (FAM 921C: 4) |

### *Financial Reporting Objectives*

**Reporting entities must identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs relevant to the line item and/or assertion have been achieved.** Reporting entities should focus their audit readiness efforts on SBR balances brought forward line items. Each FRO has been linked to relevant financial statement assertions (as indicated with an "X" in the appropriate columns), including the FRO relationship to compliance with laws and regulations. At the end of each FRO is a source reference. This is not a complete listing of control objectives, but rather those FROs needed to address key risk areas most likely to be present based on the Department's experience. **Reporting entities must apply judgment to determine if additional FROs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B and 395F for a list of general control objectives based on financial statement assertions.

| Wave 2 – SBR Audit<br>Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Financial Reporting Objectives** | **Financial Statement Assertions** | | | | | | **Compliance** |
| | | **Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** | | |
| All Financial Statement Line Items | 1. Accounts and all the transactions they accumulate are properly classified and described in the SBR and SF-133 (FAM 395B: 15)* | | | | x | | | |
| | 2. The current period SBR is based on accounting principles that are consistently applied from period to period (FAM 395B: 16)* | | | | x | | | |
| | 3. SBR and related footnotes contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 17)* | | | | x | | | |

| Wave 2 – SBR Audit<br>Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Financial Reporting Objectives** | **Financial Statement Assertions**<br>**Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** | **Compliance** |
| All Financial Statement Line Items | 4. Recorded transactions, underlying events, and related processing procedures are authorized by federal laws, regulations, and management policy (FAM 395B: 1a) | x | | | | x | |
| | 5. Transactions recorded in the current period represent economic events that occurred during the current period (FAM 395B: 2) | x | | | | | |
| | 6. The summarization of recorded transactions is not overstated (FAM 395B: 3) | x | | | | | |
| | 7. All economic events that occurred in the current period are recorded as transactions in the current period (FAM 395B: 6) | | x | | | | |
| | 8. The summarization of recorded transactions is not understated (FAM 395B: 7) | | x | | | | |
| Unobligated Balance, Brought Forward, Oct 1<br>Adjustments to unobligated balance brought forward, Oct 1<br>Other changes in unobligated balances | 9. Recorded unobligated balances from prior periods remain available for obligation and pertains to the reporting entity (GAO-02-126G: p. 26) | x | | | | x | |
| | 10. All unobligated balances from prior periods are recorded and agree with prior year balances (GAO-02-126G: p. 27) | | x | x | | | |
| Recoveries of Prior Year Unpaid Obligations | 11. Recorded recoveries represent cancellations or downward adjustments of prior obligations, remain available, are recorded in the proper accounts and pertains to the reporting entity (GAO-02-126G: p. 28) | x | | | x | x | |
| | 12. All recoveries of prior years that are available for obligation were included in the SBR (GAO-02-126G: p. 28) | | x | | | | |
| Appropriations (discretionary and mandatory)<br>Borrowing Authority<br>Contract Authority | 13. Recorded appropriation (or other forms of budget authority) is the same as the appropriation or other legislation, that was made available for obligation (including restrictions on amount, purpose & timing) and pertains to the reporting entity (FAM 395F: 01a) | x | | x | | x | x |
| | 14. All new budget authority that was made available for obligation was recorded in the proper accounts and properly summarized (GAO-02-126G; p. 26) | x | x | | x | | |
| | 15. Recorded apportionments agree with the OMB apportionments (as indicated on the apportionment schedules), and the total amount apportioned does not exceed the total amount appropriated (FAM 395F: 01b) | x | | x | | x | x |
| | 16. The total amount allotted does not exceed the total amount apportioned (FAM 395F: 01c) | | | | | | x |

| Wave 2 – SBR Audit<br>Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| Spending Authority from Offsetting Collections (discretionary and mandatory)<br>Nonexpenditure Transfers, net, Anticipated and Actual<br>Temporarily not Available Pursuant to Public Law<br>Permanently not Available | 17. Spending authority from offsetting collections (anticipated and accepted orders) is available for obligation during the year, was recorded in the proper accounts and pertains to the reporting entity and is supported by proper documentation (GAO-02-126G: p. 27) | x | | | x | x | |
| | 18. All offsetting collections are available for obligation by reference to authorizing legislation (GAO-02-126G: p. 27) | | | | | x | x |
| | 19. All revenue and collections are recorded in the proper accounts (GAO-02-126G: p. 27) | | x | | x | | |
| | 20. Spending authority from offsetting collections was reconciled to reported revenue from third parties (GAO-02-126G: p. 27) | x | x | x | | x | |
| | 21. All available and authorized spending authority is recorded and at correct amounts (GAO-02-126G: p. 27) | | x | x | | | |
| | 22. Recorded non-expenditure transfers represent valid transfers authorized by OMB and pertain to the reporting entity (FAM 395B: 1a) | x | | | | x | |
| | 23. All transfers authorized by OMB are recorded in the proper period and at correct amounts (FAM 395B: 6, 9) | | x | x | | | |
| | 24. Reported amounts not available (temporarily or permanently) represent valid restrictions on the availability of budget authority or cancellations, pertain to the reporting entity and are supported by available documentation (GAO-02-126G: p. 26) | x | | | | x | |
| | 25. All amounts that are canceled, restricted, or limited are included as reductions of resources in the SBR (GAO-02-126G: p. 27) | | x | | | | |
| Recoveries of prior year unpaid obligations (for those FROs referencing “adjustments” to obligations) | 26. Obligations represent valid orders that will require future payment (FAM 395F: 01e) | x | | | | x | |
| | 27. Obligations are for the same purpose for which the appropriation was made (FAM 395F: 01e) | | | | | | x |
| | 28. Obligations are incurred within the time that the appropriation was available for new obligations (FAM 395F: 01e) | | | | | x | x |
| | 29. Obligations do not exceed the amount allotted or appropriated by statue, nor were the obligations incurred before the appropriation became law (unless otherwise provided by law) (FAM 395F: 01e) | | | | | x | x |
| Obligations Incurred<br>Unpaid | 30. Obligations comply with all other legally binding restrictions such as obligation ceilings or earmarks (FAM 395F: 01e) | | | | | x | |
| | 31. Obligations are not subsequently cancelled nor have the goods or services been received (FAM 395F: 01e) | x | | | | x | |
| | 32. Adjustments represent a “contract change” as defined in OMB Circular A-11 (FAM 395F: 01e) and satisfy reporting and approval requirements | | | | | | x |
| | 33. Adjustments do not cause the reporting entity to exceed the amount allotted or appropriated by statute (FAM 395F: 01e) | | | | | | x |

| Wave 2 – SBR Audit<br>Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| Obligations, Brought Forward, Oct 1 | 34. Adjustments are recorded during the period when the account is available for adjustments (5 years) and was made for a valid obligation incurred before the authority expired (FAM 395F: 01e) | x | | | | x | |
| | 35. New obligations are not recorded in expired accounts (FAM 395F: 01e) | | | | | x | |
| | 36. All new and valid obligations incurred during the period are recorded in the proper accounts (FAM 395F: 01e) | | x | | x | | |
| Unpaid Obligations, End of Period | 37. Obligations are recorded in the proper period (FAM 395F: 01e) | x | x | | | | |
| | 38. Obligations are recorded at the best available estimate of actual cost (FAM 395F: 01e) | | | x | | | |
| | 39. Obligations are recorded in the proper appropriation or fund accounts (also by program and by object, if applicable), including the proper appropriation year if the account is multiyear (FAM 395F: 01e) | | | | x | | |
| | 40. Commitment transactions: If commitment controls are relied upon to achieve objectives related to obligations and expenditures, commitment objectives are the same as obligations and expenditures (FAM 395F: 01d) | | | | | | x |
| | 41. Expended authority transactions recorded have occurred, as evidenced by appropriate supporting documentation (FAM 395F: 01f) | x | | | | | |
| | 42. For expended authority transactions in expired accounts, transactions do not cause the reporting entity to exceed the amount appropriated by statute (FAM 395F: 01f) | | | | | | x |
| | 43. For expended authority transactions in expired accounts, transactions are recorded during the period when the account is available for adjustment (5 years) (FAM 395F: 01f) | | | | | x | x |
| | 44. For expended authority transactions in expired accounts, transactions are not made out of closed accounts (FAM 395F: 01f) | | | | | x | x |
| | 45. All expended authority transactions and adjustments are recorded (FAM 395F: 01f) | | x | | | | |
| | 46. Expended authority transactions and adjustments are recorded at the correct amount(FAM 395F: 01f) | | | x | | | |
| | 47. Expended authority transactions and adjustments are recorded in the proper period (FAM 395F: 01f) | x | x | | | | |
| | 48. Expended authority transactions and adjustments are recorded in the proper appropriation or fund accounts (also by program and by object, if applicable), including the proper appropriation year if account is multiyear (FAM 395F: 01f) | | | | x | | |
| Unobligated Balance, end of year: Apportioned | 49. Unobligated balances exist and represent available or not available (expired) funds and pertain to the reporting entity (FAM 395B: 04a, 13) | x | | | | x | |
| | 50. Unobligated balances do not include any expired, canceled, or rescinded amounts (GAO-02-126G: p. 32) | x | | | | | |
| | 51. All unobligated funds are recorded (FAM 395B: 05) | | x | | | | |

| Wave 2 – SBR Audit<br>Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions: Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | Compliance |
| Unobligated Balance, end of year: Exempt from Apportionment | 52. Recorded balances as of a given date are supported by appropriate detailed records that are accurately summarized and reconciled to the appropriation or fund account balance, by year, for each account (FAM 395B: 4b) | x | x | x | x | | |
| | 53. Total undelivered orders plus total expended authority transactions do not exceed the amount of the appropriation or other statutory limitations (FAM 395F: 01h) | | | | | | x |
| Unobligated Balance, end of year: Unapportioned | 54. Fixed appropriation accounts are closed on September 30 of the 5th fiscal year after the end of the period that they are available for obligation, any remaining balance (whether obligated or unobligated) is canceled and no longer available for obligation or expenditure for any purpose (FAM 395F: 01h) | | | | | x | x |
| | 55. Indefinite appropriation accounts are closed if (1) the reporting entity head or President determines the purpose of the appropriation has been carried out, and (2) no disbursements have been made for two consecutive fiscal years (FAM 395F: 01h) | | | | | x | x |
| Unpaid Obligations, Brought Forward, Oct 1 | 56. Total payments of outstanding unliquidated obligations that relate to closed accounts do not exceed the limits described in OMB Circular No. A-11 (FAM 395F: 01h) | | | | | | x |
| Unpaid Obligations, End of Period | 57. Unpaid obligations and uncollected customer payments represent amounts for orders placed/received, contracts awarded, and similar obligating/ordering transactions for which goods and services have not been paid or agreements expired and pertain to the reporting entity (FAM 395B: 01a, 14) | x | | | | x | |
| Uncollected customer payments from Federal Sources, Brought Forward, Oct 1<br><br>Uncollected Customer Payments from Federal Sources, End of Period | 58. All unpaid obligations and uncollected customer payments are recorded in the proper accounts, the correct fiscal year, the correct amount and are properly classified and presented in the financial statement (FAM 395B: 9, 15) | | | x | x | | |
| Gross Outlays | 59. Outlays represent valid, authorized transactions and pertain to the reporting entity (FAM 395F: 01f) | x | | | | x | |
| | 60. Outlays are recorded against obligations made during the period of availability of the appropriation (as applicable) (FAM 395F: 01f) | | | | | x | x |
| | 61. All outlays are recorded (FAM 395F: 01f) | | x | | | | |
| | 62. Outlays are recorded at the correct amounts (FAM 395F: 01f) | | | x | | | |
| | 63. Outlays are recorded in the proper accounts (by both program and by object, if applicable), including the proper appropriation year if the account | | | | x | | |

| Wave 2 – SBR Audit Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Financial Reporting Objectives** | **Financial Statement Assertions** | | | | | **Compliance** |
| | | **Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** | |
| Gross Outlays | is multiyear-evidenced by matching outlay to the underlying obligation (if applicable) (FAM 395F: 01f) | | | | | | |
| | 64. Outlays are recorded in the proper period (FAM 395F: 01f) | x | x | | | | |
| | 65. Recorded balances of outlay for the fiscal year are supported by appropriate detail records that are accurately summarized for each account (FAM 395F: 01i) | x | | | x | | |
| | 66. Outlays are for the purposes for which the appropriation was provided and in an amount not exceeding the obligation, as adjusted, authorizing the outlay (FAM 395F: 01f) | | | | | | x |
| | 67. Outlays do not use "first-in, first out" or other arbitrary means to liquidate obligations, unless supporting evidence demonstrates it reasonably represents the manner in which costs are incurred (FAM 395F: 01f) | | | | | | x |
| Actual Offsetting Collections (discretionary and mandatory) | 68. Collections and receipts authorized or required to be credited to an appropriation account but not received before the account is closed are deposited in the Treasury as a miscellaneous receipt (FAM 395F: 01k) | | | | | | x |
| | 69. Recorded offsetting collections are available for obligation during the year and were recorded in the proper accounts (GAO-02-126G, p. 27) | x | | | | | |
| Distributed Offsetting Receipts | 70. Recorded receipts are valid and were recorded in the proper accounts (GAO-02-126G, p. 36) | x | | | | | |
| | 71. All current year offsetting receipts are recorded (GAO-02-126G, p. 36) | | x | | | | |
| | 72. All current year offsetting collections are recorded (FAM 395B:5) | | x | | | | |
| | 73. All current year offsetting collections and/or receipts are recorded at the correct amounts (FAM 395B: 9) | | | x | | | |
| | 74. The reporting entity has the rights to the recorded offsetting collections and/or receipts (FAM 395B: 13) | | | | | x | |
| | 75. Offsetting collections and/or receipts are appropriately summarized, classified and presented on the financial statement (FAM 395B: 15) | | | | x | | |
| *Components should review applicable sections of the GAO/PCIE FAM section 2010 Federal Accounting Checklist and 2020 Federal Reporting and Disclosure Checklists to ensure proper presentation and disclosures. | | | | | | | |
| FBWT | 76. Recorded FBWT amounts exist as of a given date. (FAM 921C: 1a) | x | | | | | |
| | 77. Financial events recorded in the general ledger FBWT accounts at a given date are supported by appropriate source documents and detailed records that are accurately summarized and reconciled to the account balance and are recorded in the proper period (FAM 921C: 1a and 1b) | x | x | x | x | | |
| Indirectly: Obligated and Unobligated | 78. FBWT reports submitted to Treasury for all funds and Disbursing Locations are supported by the reporting entity's general ledger and are submitted to Treasury in a timely manner (FAM 921C: 10)** | x | x | x | x | | |
| | 79. Reconciling items identified during the FBWT reconciliation process are researched and resolved in a timely manner (FAM 921C:18)** | x | x | x | | x | |

| Wave 2 – SBR Audit Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| Balances Brought Forward, Oct 1, and End of Period | 80. Transactions recorded in budget clearing and/or suspense accounts are researched and resolved/cleared in a timely manner (FAM 921C: 18)** | x | x | x | | x | |
| | 81. Access to FBWT, critical forms, records, and processing and storage areas is in accordance with laws, regulations, and management policy – Persons do not have uncontrolled access to both assets and records; they are not assigned duties to put them in a position that would allow them to both commit and conceal errors or fraud (i.e., segregation of duties) (FAM 921C: 1c) | | x | | | | |
| | 82. All FBWT balance amounts are included in the financial statements – and reconciles to activity/balances in monthly Treasury reports for the reporting period (FAM 921C: 2a)** | | x | | | | |
| | 83. FBWT transactions are accurately recorded (FAM 921C: 3a) | | | x | x | | |
| | 84. FBWT is properly classified and described in the financial statements (FAM 921C: 6a) | | | | x | | |
| | 85. FBWT is based on accounting principles that are applied consistently from period to period (FAM 921C: 7a) | | | | x | | |
| | 86. The reporting entity owns recorded FBWT – FBWT amounts represent legislative spending limits granted to the agency available for use during the current period (FAM 921C: 4a) | | | | | x | x |
| | 87. The reporting entity has the rights to recorded FBWT at a given date – FBWT balance is reflective of reporting entities' budget authority at a given date (FAM 921C: 5a) | | | | | x | |
| | 88. All required disclosures are made and are accurately reported (FAM 921C: 8a) | | | | x | | |
| Note: Other Defense Organizations must take into account the additional complexities of shared appropriations. ** FRO related to the FBWT Reconciliation Process | | | | | | | |

### *Key Supporting Documents*

**The following table lists the minimum internal control documentation and supporting documentation necessary to support activity and balances asserted as audit-ready for an SBR audit.** The table links each listed document to the potential financial statement assertions that it supports. Internal control documentation is marked as meeting all financial statement assertions, because the specific control activities described in the internal control documentation will determine which specific financial statement assertions are satisfied.

| Wave 2 – SBR Audit<br>Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Documentation Type** | **Key Supporting Documents** | **Financial Statement Assertions**<br>**Existence** | **Completeness** | **Validation** | **Presentation & Disclosure** | **Rights & Obligations** |
| All Financial Statement Line Items | Internal Control Documentation | 1. Statement-to-process analyses demonstrating the dollar amount and quantity of activity flowing through various processes and/or locations | x | x | x | x | x |
| | | 2. Applicable policies and procedures | x | x | x | x | x |
| | | 3. Process narratives and flowcharts | x | x | x | x | x |
| | | 4, Control worksheets, identifying risks, FROs and corresponding control activities | x | x | x | x | x |
| | | 5. Test plans documenting planned procedures used to test the operating effectiveness of control activities | x | x | x | x | x |
| | | 6. Control assessments with test results | x | x | x | x | x |
| | | 7. Evaluation of test results | x | x | x | x | x |
| | | 8. Documentation demonstrating the operation of internal control activities for the period under audit. Examples include:<br>• Approval signature documentation (electronic or manual) demonstrating accuracy reviews of appropriation transactions recorded in the general ledger (compared to supporting documentation such as Appropriation Act / Public Law)<br>• Delegation of Authority (e.g., Form DD-577) for approving officials<br>• Reconciliations of non-expenditure transfers recorded in the general ledger to OMB-approved Non-Expenditure Transfer Authorizations (SF-1151s) | x | x | x | x | x |
| | | 9. System inventory list, listing of system users and their access privileges (and supporting access request form/SAAR) | x | x | x | x | x |
| All Financial Statement Line Items (especially Unobligated Balances: Apportioned, and Unobligated Balances Not Available | Transaction Documentation | 10. Apportionment and Reapportionment Schedule (SF 132) | x | x | x | x | x |
| | | 11. Report on Budget Execution and Budgetary Resources (SF 133) | x | x | x | x | x |
| | | 12. Year-End Closing Statement (FMS 2108) | x | x | x | x | x |
| | | 13. Trial balance by fund code (Treasury account) corresponding to each appropriation | x | x | x | x | x |
| | | 14. Reconciliation of populations to general ledger and to the financial statements. Including the reconciliation of unadjusted trial balances to adjusted trial balances and support for journal vouchers posted to the adjusted trial balance | | x | | x | |
| | | 15. Journal vouchers, adjustments and corresponding supporting documentation | x | x | x | x | x |
| Unobligated Balance Brought Forward, Oct 1 | Transaction Documentation | 16. FIRST-TIME AUDITS ONLY – Analysis of unobligated balance brought forward that demonstrates the "age" of material appropriations | x | x | x | x | x |
| | | 17. FIRST-TIME AUDITS ONLY – Supporting documentation evidencing the beginning balances of Fund Balance with Treasury, Accounts Receivable, Unfilled Customer Orders, and Delivered Orders – Unpaid | | x | x | x | |

| Wave 2 – SBR Audit Key Supporting Documents | | | Financial Statement Assertions | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Existence | Completeness | Validation | Presentation & Disclosure | Rights & Obligations |
| Recoveries of Prior Year Unpaid Obligations | Transaction Documentation | 18. Original obligating documents (such as contracts, reimbursable agreements, MIPRs, purchase orders, travel orders, grant agreements, etc.) along with contract modification documents supporting the recovery, including explanation of why the recovery was made | x | x | x | | x |
| | | 19. Invoice/receiving report noting changes in payment amount (e.g., De-obligation of funds can result from receipt of goods or services with an invoice payment less than the obligation balance and no further activity is anticipated) | x | x | x | | x |
| Appropriations | Transaction Documentation | 20. Funding Authorization Documents (FADs) supporting Departmental Allotments | | | | | x |
| | | 21. Reporting entity-level sub-allotment documentation (if applicable) | | | | | x |
| Spending Authority from Offsetting Collections | | 22. Documentation demonstrating spending authority and collections from other Federal agencies such as Reimbursable Agreements, MIPRs, Intra-governmental Payment and Collection (IPACs), billing documents and related supporting documentation (including screenshots showing posting logic of sales orders, earned revenue and collection transactions, or other transactional support) | x | x | x | | x |
| | | 23. Documentation supporting amounts earned (invoices to customer agency, obligating document/receiving reports/invoices from vendor performing services, payroll (timesheets, official personnel files, etc.) for internal payroll charges, travel orders/vouchers, etc.) | | x | x | | x |
| | | 24. Cash collection documentation (for amounts earned and advances received) such as deposit tickets, IPACs, etc. | x | x | x | | |
| Nonexpenditure Transfers, net | | 25. Non-expenditure Transfer Authorization (SF 1151) | x | x | x | | x |
| | | 26. Appropriation Act (Public Law) (including any enacting temporary restrictions on budgetary resources or permanent rescission) | x | x | x | x | x |
| | | 27. Treasury Warrants (including negative [rescission]) | x | x | x | x | x |
| Obligations Incurred: Direct and Reimbursable | | 28. Obligating document and related modifications such as contract purchase order, MIPR, explanation of foreign exchange rate used for obligation if applicable (e.g., budget rate memo), etc. Note: for payroll transactions SF-52s (Request for Personnel Action), SF-50s (Notifications of Personnel Action), timesheets used to support disbursement transactions also support payroll obligations incurred | x | x | x | | x |
| Unpaid Obligations, Brought Forward, Oct 1 | | 29. Unpaid Obligations (Undelivered Orders) brought forward and at end of period are supported by valid obligating documents such as delegation of authority letters, contracts, reimbursable agreements, MIPRs, purchase orders, etc. (first-year audits only). For any portions of the order delivered, see supporting documentation requirements for Delivered Orders | x | x | x | | x |
| Unpaid Obligations, End | | Unpaid Obligations (Delivered Orders/Accounts Payable) brought forward and at the end of period are supported by the following: | x | x | x | | x |

| Wave 2 – SBR Audit Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions | | | | |
| | | | Existence | Completeness | Validation | Presentation & Disclosure | Rights & Obligations |
| of Period | | 30. Delegation of authority letter (e.g., Form DD-577)<br>31. Receiving Report, and<br>32. Billing document such as vendor invoice (or equivalent), or<br>33. Accrual estimate support (if invoice has not been received or support for payroll accrual calculations) | | | | | |
| Unfilled Customer Payments, Brought Forward, Oct 1 | Transaction Documentation | 34. Uncollected Customer Payments (Unfilled Customer Orders) brought forward and at end of period are supported by valid orders from other Federal agencies such as Reimbursable Agreements | x | x | x | | x |
| Unpaid Customer Payments, End of Period | Transaction Documentation | 35. Uncollected Customer Payments (Accounts Receivable) brought forward and at end of period are supported by subsequent IPAC collection documents | x | x | x | | x |
| Gross Outlays<br>Offsetting Collections<br>Distributed Offsetting Receipts | Transaction Documentation | 36. Cash disbursement document (invoice, receiving report, IPAC, travel voucher, screenshots, credit card statements, explanation of foreign exchange rate used for payment as applicable (e.g., local bank rate), etc.). Note: for payroll transactions SF-52s (Request for Personnel Action), SF-50s (Notifications of Personnel Action), approved timesheets and any supporting screenshots (e.g., for manual entry of time in DCPS), pay histories, leave/earnings statements, benefit documentation and special pay/entitlements support documents used to support obligations incurred transactions also support payroll disbursements | x | x | x | | x |
| | | 37. Cash collection document (deposit ticket, IPAC, billing document, etc.) | x | x | x | | x |
| | | 38. Statement of Accountability (SF 1218/1219 – appropriation level only; not available at the TI-97 limit level) | x | x | x | | x |
| | | 39. Statement of Transactions (SF 1220/1221 – appropriation level only; not available at the TI-97 limit level) | x | x | x | | x |
| | | 40. Statement of Interfund Transactions (DD 1400) | x | x | x | | x |
| | | 41. Statement of Transactions (DD 1329) | x | x | x | | x |
| | | 42. Government-wide Accounting (GWA) Account Statement | x | x | x | | x |
| | | 43. Treasury Annual Report Appendix Part 7, Other Information B Receipts by Department | x | x | | | x |
| | | 44. Cash collection document (deposit ticket, IPAC, billing document, etc., to support basis for receipt) | x | x | x | | x |
| **Refer to the *[MilPay FIAR guidance supplement]* located within the FIAR Guidance website for KSDs related to Military Pay** | | | | | | | |
| FBWT | Internal Control Documentation | 45. Statement-to-process analyses demonstrating the dollar amount and quantity of activity flowing through various processes and/or locations | x | x | x | x | x |
| | | 46. Applicable policies and procedures | x | x | x | x | x |
| | | 47. Process narratives and flowcharts | x | x | x | x | x |
| | | 48. Control worksheets, identifying risks, FROs and corresponding control activities | x | x | x | x | x |

| Wave 2 – SBR Audit Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions | | | | |
| | | | Existence | Completeness | Validation | Presentation & Disclosure | Rights & Obligations |
| | | 49. Test plans documenting planned procedures used to test the operating effectiveness of control activities | x | x | x | x | x |
| | | 50. Control assessments with test results | x | x | x | x | x |
| | | 51. Evaluation of test results | x | x | x | x | x |
| FBWT | Internal Control Documentation | 52. Documentation evidencing the operation of internal control activities for the period under audit. Examples include:<br>• A supervisory review is performed monthly to verify monthly Treasury reconciliations were performed timely and signed/dated by the completer, supervisor evidences review by signing and dating reconciliation.<br>• All reconciling items are aged monthly to ensure all differences are resolved within 60 days. Supervisor randomly selects items cleared from the aging and reviews supporting documentation (and entry recorded in system) to verify reconciling item was appropriately resolved. | x | x | x | x | x |
| | Transaction Documentation | 53. Monthly FBWT reconciliations | x | x | x | x | x |
| | | 54. General ledger and subsidiary ledgers identifying individual FBWT transactions within each Treasury account | x | | | x | |
| | | 55. Supporting documentation for individual transaction differences and adjustments between the agency and Treasury's records, including supporting documentation for cash disbursements, cash collections and adjustments as described in the preceding sections. | x | x | x | | x |
| | | 56. Check Issue Discrepancy (FMS 5206) | x | x | x | | |

## B.1.2 Example Work Products

Refer to the FIAR Guidance website for Wave 2 specific work product examples and related guidance.

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

**Mission Critical Asset Existence and Completeness (E&C) Audits** focus on the E&C financial statement assertions, but also include the Rights assertion and portions of the Presentation and Disclosure assertion. That is, **reporting entities must ensure that all accountable assets recorded in their Accountable Property System of Record (APSR) or equivalent exist (Existence), all of the reporting entities' accountable assets are recorded in their APSR or equivalent (Completeness), reporting entities have the right to report these assets (Rights), and assets are consistently categorized, summarized and reported period to period (Presentation and Disclosure). The asset categories include General Equipment (GE), Internal Use Software (IUS), Real Property (RP), Inventory, and Operating Materiel and Supplies (OM&S).** This wave will allow the Department and its reporting entities to demonstrate the existence and completeness of its assets prior to focusing on the reported value of the assets. [Note: Components should begin working on the Wave 4 valuation assertion concurrently during this wave.]

### B.2.1 Readiness Scope

Successful execution of the Department's military missions depends on a properly equipped and supplied force. Achieving accurate and reliable accountable systems of record through E&C audits is the objective of Wave 3 and is a critical step towards achieving successful financial statement audits.

Mission critical assets consist of accountable property. In other words, mission critical assets are not simply assets that exceed the capitalization threshold (refer to Section 2.C.4 for information on capitalization thresholds) but are all assets greater than the property accountability threshold (refer to DoDI 4165.14 for information on RP accountability, DoDI 5000.64, para 6.2.1 for GE accountability threshold, and DoDM 4140.01 for Inventory and OM&S accountability thresholds). Mission critical assets are defined broadly as: General Equipment, Internal Use Software, Real Property (Land, Buildings, Structures and Facilities, and Construction in Progress), Inventory, and OM&S.

As of September 30, 2013, these five asset categories comprise over 99 percent of the Department's total reported acquisition costs or amounts for General Property, Plant and Equipment (G-PP&E) and Inventory/OM&S. Please note that coverage of these asset categories and Wave 3 now includes Internal Use Software within the required scope. The OUSD(C) will continue to periodically re-evaluate coverage and will separately communicate with reporting entities if changes in scope are required.

The Department will demonstrate progress towards audit readiness when independent auditors render unmodified opinions on the existence and completeness of mission critical assets. To ensure success, it is important for both the reporting entity and auditor to understand the audit scope. These audits are to determine whether (1) all the assets the reporting entity lists in its APSR or equivalent exist; and (2) the reporting entity reports all of its assets.

Auditors performing government financial statement audits in the United States must adhere to professional standards promulgated by Government Accountability Office (GAO) and the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board. The GAO has codified its standards for financial statement and performance audits in the Government Auditing Standards (Yellow Book). The AICPA has codified its professional standards in the *Codification of Statements on Auditing Standards* (clarified and referred to as AU-Cs), which are incorporated by reference into the Government Auditing Standards. These professional standards require that the auditor be satisfied that elements, accounts, or items that are interrelated with those on which he or she has been engaged to express an opinion have been considered in expressing that opinion.

The GAO/PCIE FAM Section 235, *Identify Significant Line Items, Accounts, Assertions, and RSSI*, paragraph 02, defines the Existence or Occurrence assertion as "recorded transactions and events occurred during the given period, are properly classified, and **pertain to the [reporting] entity**. [A reporting] entity's assets, liabilities, and net position exist at a given date." (Emphasis added) The bolded text (which is the essence of the definition of the Rights assertion) demonstrates the interrelationship of the Rights and Existence assertions.

Presentation and Disclosure is the other assertion that is interrelated with E&C audits. Specifically, the summarization and classification elements of Presentation and Disclosure are directly related to E&C audits, because these are the assertions that ensure accurate quantities of assets are presented and correctly classified (e.g., assets reported as GE versus OM&S) on summary schedules covered by E&C audits.

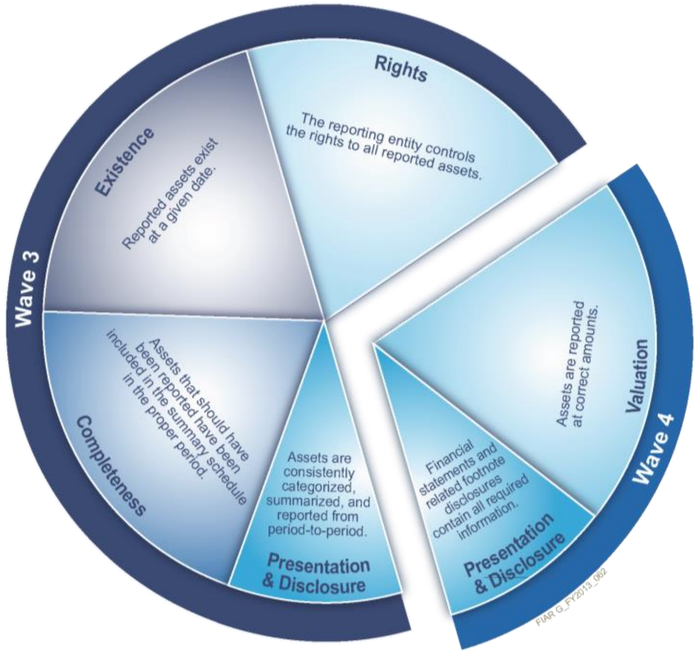


**Figure B-1. Audit scope of Wave 3, Existence and Completeness of Mission Critical Assets**

Because of the interrelationship among the E&C and Rights assertions, along with elements of the Presentation and Disclosure assertion, it is necessary to include these assertions in the scope of E&C audit readiness preparation and resulting E&C audits, as shown in **Figure B-1**.

### *Mission Critical Financial Management Data*

The Department will have auditors test financial management data maintained in the reporting entity's APSR. This testing is in addition to the auditors determining whether assets recorded in the APSR physically exist and whether the population of assets in the APSR is complete, i.e., includes all assets to which the reporting entity has rights that meet the property accountability threshold.

For a full listing of the financial management data that must be included in the scope of an E&C audit, see Section B.2.3, Financial Management Data. Ensuring that this information is accurate and reliable is important not only for managing mission critical assets, but also for proper financial reporting and future financial statement audits. For example, "Placed-in-Service Date" is important to ensure the completeness of asset records at the end of a reporting period.

### *Note Regarding Internal Controls*

When determining the scope of audit readiness efforts for Wave 3, reporting entities must consider whether using a substantive, supporting documentation approach (given the nature/size of the population) is more efficient than developing extensive process and internal control documentation. There will be instances when a reporting entity and OUSD(C) conclude it is more efficient and effective to use a substantive approach to support an E&C audit-readiness assertion for specific assessable units (combined with a periodic physical inventory count control activity). For example, a reporting entity has a space satellites assessable unit with eight asset items and can substantively demonstrate the existence/completeness/ rights to all eight assets even though the reporting entity has not completed the process and internal control documentation (or without controls fully functioning). In this example, audit readiness may be asserted without completing extensive process and internal control documentation, in addition to the periodic physical inventory count.

However, it may not be practical for the auditor to rely on substantive testing, and instead the auditor needs to evaluate, test and place reliance on a reporting entity's relevant internal control activities. For example, if a reporting entity has large quantities of OM&S that are geographically dispersed with a high volume of acquisition and/or disposal activity, it may not be practical for an auditor to substantively test sufficient OM&S to render an opinion (since the OM&S balance is constantly changing). However, if the auditors determine they can rely on the design and operating effectiveness of the reporting entity's control activities over the OM&S balance, the auditor can significantly reduce testing and rely on the control activities. The result is a significant reduction in the quantity of testing and duration of the E&C audit, lower direct cost, and reduced effort for both the reporting entity and its auditor.

Therefore, flexibility is needed with respect to process and controls documentation for E&C audits. When practical, a primarily substantive evidence approach can be used, but depending on the nature and quantity of assets and the potential need to remediate processes and control activities related to acquisition, maintenance and disposals of assets, reporting entities may need to plan for complete process and internal control evaluations and documentation. The distinction will largely depend on the complexity of the business area and the quantity of assets and financial events. The following table identifies the major processes that are likely to affect the E&C of assets and potential segments of those processes that the reporting entity should consider.

| Major Processes | Segments |
|---|---|
| Acquisitions (purchases, in- house construction, takings, transfers-in) | Key processes and internal controls that ensure the existence, completeness, and rights of assets should be included in an E&C assertion. These include: (a) controls to ensure all asset acquisitions (capital and accountable) are appropriately flagged or fed into asset/accountability/inventory systems; (b) controls to ensure assets are recorded when control of the asset passes to the reporting entity or when placed into service (for constructed assets); and (c) controls to ensure only assets to which the reporting entity has financial reporting responsibility (the reporting entity has the ability to control the benefits of the asset) are recorded. |
| Disposals (sales, destructions, donations, excesses, transfers- out) | Key processes and internal controls that ensure all disposals are correctly recorded in the APSR and disposals are only recorded when the reporting entity has transferred or otherwise ended its ability to control the asset. |
| Periodic physical inventory counts | Entire process is "in-scope" and the principal control to ensure E&C. |
| APSR maintenance (IT general and application level controls surrounding the APSR) | Entire process is "in-scope" and relevant to ensure information in the system of record is not incorrectly adjusted (especially subsequent to physical inventory counts) and that unauthorized personnel cannot make adjustments. For situations where supporting documentation is generated and/or retained electronically (e.g., transaction history within a system), then it is likely the system must also be scoped into audit readiness efforts. |

## B.2.2 Risks, Financial Reporting Objectives and Key Supporting Documents

### *Risks*

The following table presents the key ROMMs related to the Wave 3, Mission Critical Assets E&C Audit. A reference to the source of each risk is included in parentheses. **Reporting entities must mitigate these risks by designing and implementing control activities.** Refer to the FROs in the table following this risk table for further details. Reporting entities may also refer to the GAO/PCIE FAM Section 395B for additional information about financial reporting risks.

| Wave 3 – Mission Critical Asset E&C Audit<br>Key Risks of Material Misstatements | |
|---|---|
| **Financial Statement Assertion** | **Key Risks of Material Misstatements** |
| Existence | 1. Recorded transactions do not represent economic events that actually occurred. (FAM 395B: 1)<br>2. Recorded assets are not properly classified. (FAM 395B: 1c and 5)<br>3. Recorded assets do not exist at a given date (FAM 395B: 4)<br>4. Recorded assets may not be properly supported with adequate supporting documentation (FAM 395B: 4)<br>5. Transactions are recorded in the current period, but the related economic events occurred in a different period (FAM 395B: 2)<br>6. Transactions are summarized improperly, resulting in an overstated total (FAM 395B: 3) |

| Wave 3 – Mission Critical Asset E&C Audit<br>Key Risks of Material Misstatements | |
|---|---|
| **Financial Statement Assertion** | **Key Risks of Material Misstatements** |
| Completeness | 7. Assets of the reporting entity exist but are omitted from the APSR and/or summary schedules (financial statement equivalent) (FAM 395B: 8)<br>8. Economic events occurred in the current period, but the related transactions are recorded in a different period (FAM 395B: 6)<br>9. Transactions are summarized improperly, resulting in an understated total (FAM 395B: 7) |
| Presentation and Disclosure | 10. Accumulated accounts or assets are not properly classified and described in the summary schedules (FAM 395B: 15)<br>11. The current period summary schedules (various classes of assets) are based on accounting principles different from those used in prior periods presented (FAM 395B: 16)<br>12. The reporting entity is exposed to loss of assets and various potential misstatements, including certain of those above, as a result of inadequate segregation of duties (FAM 395B: 18) |
| Rights and Obligations | 13. Recorded assets are owned* by others because of sale, consignment, or other contractual arrangements (FAM 395B: 12)<br>14. The reporting entity does not have certain rights to recorded assets because of liens, pledges, or other restrictions (FAM 395B: 13)<br>* Note: Refer to the OUSD(C) policy memorandum dated September 30, 2015 for additional information on real property reporting responsibilities. |

### *Financial Reporting Objectives*

**Reporting entities must identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs, relevant to the subject matter, assertion, or processes, (e.g., contract pay) have been achieved.** Each FRO has been linked to its relevant financial statement assertions (as indicated with an "X" in the relevant columns), including if the FRO relates to compliance with laws and regulations. At the end of each FRO is a source reference. This is not a complete listing of control objectives, but rather those FROs needed to address key risk areas most likely to be present based on the Department's experience. **Reporting entities must apply judgment to determine if additional FROs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B for a list of general control objectives based on financial statement assertions.

| Wave 3 – Mission Critical Asset E&C Audit<br>Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Financial Reporting Objectives** | **Financial Statement Assertions** | | | | | | **Compliance** |
| | | **Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** | | |
| Inventory and Related Property | 1. Accounts and all the transactions (or assets) they accumulate are properly classified and Accounting principles are consistently applied from period to period (FAM 395B: 15, 16). | | x | | x | | | |
| | 2. Ensure recorded transactions represent economic events that actually occurred and are properly classified (FAM 395B: 1c, 2). | x | | | | | | |
| | 3. Ensure recorded assets exist at a given date (FAM 395B: 4a). | x | | | | | | |
| | 4. Ensure recorded assets at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance (FAM 395B: 4b). | x | | | | | | |
| General | 5. Ensure recorded assets are owned by the reporting entity. The reporting entity has rights to the recorded asset at a given date (FAM 395B: 12, 13). | | | | | x | | |

| Wave 3 – Mission Critical Asset E&C Audit<br>Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions: Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | Compliance |
| Property, Plant and Equipment | 6. Ensure all existing assets, as of the reporting date, including property in the custody of third parties, are included in the general ledger (FAM 395B: 8). | | x | | | | |
| | 7. Asset transactions recorded in the current period represent economic events that occurred during the current period (FAM 395B: 2) | x | | | | | |
| | 8. The summarization of recorded assets is not overstated (FAM 395B: 3) | x | | | | | |
| | 9. All asset related events that occurred in the current period are recorded as transactions in the current period (FAM 395B: 6) | | x | | | | |
| | 10. The summarization of recorded assets is not understated (FAM 395B: 7) | | x | | | | |

### *Key Supporting Documents*

Two types of documentation are needed to prepare for E&C audits. The first type of documentation, direct supporting documentation, includes internal control documentation and substantive, supporting documentation used by a reporting entity to directly demonstrate financial statement assertions (e.g., a land deed directly supports the Rights assertion). The second type of documentation, financial management data, represents supported data fields in the APSRs that substantiate financial reporting assertions and management/budget information (e.g., a tract map supports location information, which indirectly supports the Existence assertion). **Both types of documentation are required to demonstrate to management and decision makers the accuracy and reliability of E&C information.** Because supporting management with better information is the goal of the E&C audits, both categories of information are included in the scope of E&C audit readiness and therefore will be validated by auditors.

**The following table presents a detailed listing by relevant financial statement assertion of minimum internal control and direct supporting documentation that a reporting entity must make readily available for auditors.** For some financial statement assertions different levels or tiers of documentation exist, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. **Please note this list is not all-inclusive.** Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the items detailed in the table.

| Wave 3 – Mission Critical Asset E&C Audit Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions | | | | |
| | | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations |
| All Financial Statement Line Items | Internal Control Documentation | 1. Statement-to-process analyses demonstrating the dollar amount and quantity of activity flowing through various processes and/or locations | x | x | | x | x |
| | | 2. Applicable policies and procedures | x | x | | x | x |
| | | 3. Process narratives and flowcharts | x | x | | x | x |
| | | 4. Control worksheets, identifying risks, FROs and corresponding control activities | x | x | | x | x |
| | | 5. Test plans documenting planned procedures used to test the operating effectiveness of control activities | x | x | | x | x |
| | | 6. Control assessments with test results | x | x | | x | x |
| | | 7. Evaluation of test results | x | x | | x | x |
| | | 8. Documentation demonstrating the operation of internal control activities for the period under audit. Examples include:<br>• Approval signature documentation (electronic or manual) demonstrating accuracy reviews of appropriation transactions recorded in the general ledger (compared to supporting documentation such as Appropriation Act/Public Law)<br>• Reconciliations of non-expenditure transfers recorded in the general ledger to OMB-approved Non-Expenditure Transfer Authorizations (SF-1151s) | x | x | | x | x |
| | | 9. System inventory list, listing of system users and their access privileges (and supporting access request form/SAAR) | | | | x | x |
| | Tier 1 Asset Documentation | 10. Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "book" and physically inspected on the "floor"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 4140.01) | x | | | | |
| | | 11. Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "floor" and traced back to the "book"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD (AT&L) requirements | | x | | | |
| | | 12. Detailed listing of all assets from APSRs | | | | x | |
| | | 13. Summary schedule reporting the amounts/quantities by class of assets | | | | x | |
| | | 14. Reconciliation of the summary schedule of assets to the general ledger | | | | x | |
| | | 15. Policies and procedures relevant to the assets, demonstrating the consistency of accounting treatment across all years presented | | | | x | |
| | | 16. Written definitions of asset classes and assessable units | | | | x | |

| Wave 3 – Mission Critical Asset E&C Audit<br>Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Documentation Type** | **Key Supporting Documents** | **Financial Statement Assertions** | | | | |
| | | | **Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** |
| All Financial Statement Line Items | Tier 2 Asset Documentation | 17. Documentation demonstrating efforts made to obtain supporting documentation in cases where Tier 1 documentation is not used. Examples include data call requests, email traffic, meeting documentation, site visit inspection notes, etc. | | | | x | |
| | | 18. Contract documentation, including (for base assets and asset modifications):<br>• Statement of Work<br>• Contract clauses that define who owns assets and when the reporting entity takes possession<br>• Purchase Orders<br>• Receiving report or other acceptance document (e.g., DD250 (Materiel Inspection and Receiving Report) or DD1354 (Transfer and Acceptance of DoD Real Property))<br>• Support Agreements and Assignment Documents<br>• Deeds/titles (for Land only)<br>• Lease, Occupancy Agreement, Reversion Legal Document, Judgment Legal Document (for condemnation), Letter of Withdrawal (for withdrawal from Public Domain) | | | | | x |
| | | 19. Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the APSR, demonstrating the completeness of the APSR population | x | | | | |
| | | 20. Mission-management/logistics data (if different from the APSRs) used by leadership to track, deploy or distribute assets, reconciled to the APSR demonstrating the completeness of the APSR population | | x | | | |
| | | 21. Tract maps, land plats, space management systems, utilities maps, or facility diagrams that are reconciled to the APSR, demonstrating the completeness of the APSR population | | | | | x |
| | | 22. Other estimation techniques that can be used to estimate the size of the population with tolerable precision and then compared to the APSR population to demonstrate completeness | | | | | x |
| | | 23. Physical indicators of ownership or financial reporting rights, including:<br>• Assets located on reporting entity facility<br>• Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership<br>• Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset<br>• Support Agreements and Assignment Documents<br>• Other evidence of exclusive rights to use assets | | | | | x |

When performing KSD testing, reporting entities may need to apply judgment when determining what documentation is sufficient to support all FROs, especially in instances where original source documentation is unavailable. In instances when reporting entities determine Tier 1 documentation does not exist, reporting entities must consult with the FIAR Directorate prior to commencing KSD testing, to ensure both parties reach the same conclusion on the sufficiency of available documentation.

### B.2.3 Financial Management Data

**During physical inventory counts, reporting entities must support and verify key data fields in the APSR to ensure that all information required for financial statement and management reporting is recorded and accurate.** As part of the physical inventory counts, data should be recorded and testing performed for all selected items to confirm that the information in these data fields is accurate. The specific data fields that will be reviewed during an existence and completeness specified elements audit are summarized in the following table (refer to the FIAR Guidance website for the ***Existence & Completeness Financial Management Data Fields definitions and supporting documentation***). The table separates data fields according to those that relate to financial statements, referred to as Financial Statement Data, and those that are primarily used as important management information, referred to as Management and Budget Data.

**Both categories of data are mandatory and must be validated in the APSR, because their reliability and accuracy are important for decision making. Prior to an assertion of audit readiness, management must ensure that the data is accurate in the APSR.** The scope of an E&C audit will include a review of the data fields in the Financial Statement Data category (No. 1 through No. 16), in the following table. Auditors will then apply separate agreed-upon procedures on the Management and Budget data fields to validate the accuracy of the management information. Note that some data fields may not apply to all asset types within the categories.

| No. | General Title & Purpose | GE | RP | Inventory/OM&S |
|---|---|---|---|---|
| **Financial Statement Data** | | | | |
| 1 | Individual Item Identifier – Used by the auditor to link the APSR asset record to the physical asset | Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier | Real Property Site Unique Identifier (RPSUID), Real Property Unique Identifier (RPUID), Facility Number | Unique Item Identifier (for serially managed assets only) |
| 2 | Category/Asset Type – Used by the auditor to link the APSR asset record to the physical asset | National Stock Number (NSN), or if no NSN is available: Noun Name, Part Number, Manufacturer and Item Description | RPA Type Code; RPA Predominant Current Use CATCODE Code | NSN, Local Stock Number (LSN) when NSN is not available, |
| 3 | Location – Used by the auditor to link the APSR asset record to the location of the physical asset | Location information contained in data fields 7 and 8 | Address Street Direction Code, Address Street Name, Address Street Number, Address Street Type Code, Country Code, County Code, City Code, Location Directions Text, State or Country Primary Subdivision Code, Postal Code | DoDAAC |
| 4 | Unit of Measure/Unit of Issue – Used by the auditor to count the quantity of items during physical inspection | N/A | RPA Total Unit of Measure Code | Unit of Issue |
| 5 | Quantity – Used by the auditor to confirm the quantity of physical items during physical inspection | N/A | RPA Total Unit of Measure Quantity | Quantity in APSR, Physical Quantity |
| 6 | Item Description – Used by the auditor to link the APSR asset record to the physical asset | Item Description | RPA Description Text | Item Description if NSN is not on item |
| 7 | Controlling/Financial Reporting Organization – Used by the auditor to confirm the reporting entity has rights to the asset | Accountable Organization | RPA Command Claimant Code; RPA Financial Reporting Organization Code | Owning Organization |
| 8 | Custodial/User Organization – Used by the auditor to confirm the reporting entity has rights to versus use of the asset | Custodial Organization | **Custodial:** RPA Financial Reporting Org Code; **User:** Asset Allocation User Organization Code | Accountable Organization, Custodial Organization |

| No. | General Title & Purpose | GE | RP | Inventory/OM&S |
|---|---|---|---|---|
| 9 | Interest Code – Used by the auditor to confirm the reporting entity has rights to the asset | N/A | RPA Interest Type Code | N/A |
| 10 | Operational Status – Used by the auditor to confirm whether the asset is useable and correctly classified in the APSR | Status | RPA Operational Status Code | Current Condition Code |
| 11 | Placed-In-Service, Title Transfer, or Acquisition Date – Used by auditors to confirm the reporting entity's rights to the asset at a specific date | GE Placed in Service and Acquisition Date | RPA Placed In Service Date, Acquisition Date | Title Transfer Date, Receipt Date for FOB Destination |
| 12 | Real Property Asset Historic Status Code – Used by auditors to confirm the asset is correctly classified as a heritage asset | N/A | RPA Historic Status Code | N/A |
| 13 | Real Property Asset Historical Status Date – Used by auditors to confirm the asset was correctly classified as a heritage asset at a specific date | N/A | RPA Historical Status Date | N/A |
| 14 | APSR – Used by the auditor to confirm the asset record is included in the reporting entity's APSR | APSR | APSR | APSR |
| 15 | Asset Review Date – Used by the auditor to confirm the most recent date the asset was physically inspected by management as part of its physical inventory control | Inventory Date | Asset Review Date | Inventory Date |
| 16 | Asset Review Type – Used by the auditor to confirm the type of review management performed over the asset as part of its physical inventory control | N/A | Asset Review Type Code | N/A |
| **Management and Budget Data** | | | | |
| 17 | Condition – Used by auditors to verify the asset's current condition | Current Condition Code | Facility Condition Index | |
| 18 | Acquisition Cost – Used by auditors to confirm the recorded asset acquisition cost is adequately supported | Original Acquisition Cost | Acquisition Basic Cost Amount, Acquisition Original Asset Recorded Cost Amount | |
| 19 | Usage – Used by the auditor to confirm the operational status of the asset | Usage Data | RPA Operational Status Code | |
| 20 | Secondary Unique Identifier – Used by the auditor to link the APSR asset record to the physical asset | UII or DoD recognized IUID | | Controlled Inventory Item Code (CIIC), if applicable |
| 21 | Replacement Value – Used by auditors to confirm the recorded replacement value is supported | | Facility Plant Replacement Value Amount | |
| 22 | Utilization Rate – Used by the auditor to verify the accuracy of utilization data used in capital planning | | RPA Utilization Rate | |

| No. | General Title & Purpose | GE | RP | Inventory/OM&S |
|---|---|---|---|---|
| 23 | Allocation Quantity – Used by the auditor to confirm the quantity of physical items during physical inspection | | Asset Allocation Size Quantity | |
| 24 | Allocation Unit of Measure– Used by the auditor to count the quantity of items during physical inspection | | Asset Allocation Size Unit of Measure Code | |
| 25 | Grantee – Used by the auditor to confirm the reporting entity has rights to the asset | | Grantee Organization Code | |
| 26 | Grantor – Used by the auditor to confirm the reporting entity has rights to the asset | | Grantor Organization Code | |
| 27 | Grant Start Date – Used by auditors to confirm the reporting entity's rights to the asset at a specific date | | Grant Start Date | |
| 28 | Grant End Date – Used by auditors to confirm the reporting entity's rights to the asset at a specific date | | Grant End Date | |

### B.2.4 Example Work Products

Refer to the FIAR Guidance website for Wave 3 specific work products and related guidance.

### B.2.5 Wave-Specific Audit Execution

Wave 3 focuses primarily on the E&C financial statement assertions for select asset accounts (GE, IUS, RP, Inventory, and OM&S). Reporting entities should break these general asset categories into subsidiary assessable units that they deem appropriate and logical given their asset composition.

**Reporting entities must prepare and submit assertion documentation (i.e., risk assessments, control assessments, process narratives, test plans, etc.) to reporting entity management as they complete the key tasks and activities in the Discovery and Corrective Action Phases. Once a reporting entity asserts that its Wave 3 assessable unit(s) are audit-ready, management will validate that all audit readiness critical capabilities (i.e., reconciled population, sufficient testing of control activities, etc.) have been sufficiently addressed.**

**At that point, the reporting entity may consider an optional Wave 3 (E&C only) audit/examination; the optional audit/examination may also include valuation of mission critical assets, which would allow the reporting entity (if desired) to complete a full line item examination encompassing all five assertions.**

## B.3 Wave 4 – Full Financial Statements Audit

Assertions for this wave include all material reporting entity line items, account balances and financial transactions impacting the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position not covered by Waves 2 or 3 (e.g., Environmental and Disposal Liabilities, Accounts Receivable-Intragovernmental, Investments, Other Liabilities, etc.).

In addition, this wave requires that the valuation assertion for fixed assets (i.e., General Equipment, Internal Use Software, Real Property, Inventory, and Operating Materiel and Supplies) be achieved. One significant and potentially very costly challenge in Wave 4 is obtaining auditable values for the significant amount of existing DoD assets located worldwide and procured many years ago, well before passage of the CFO Act and other legislation mandating auditability. To address and overcome this impediment to achieving auditability, OUSD Comptroller has issued several policy memoranda to assist reporting entities in asserting audit readiness by the end of Fiscal Year 2017. Please see Section 2.C.4 for additional information.

### B.3.1 Readiness Scope

**Reporting entity audit readiness efforts must include all remaining processes, controls, and supporting documentation that result in financial transactions and balances that are material to their financial statements.** FIAR has developed a crosswalk which maps financial statement line items to their applicable assessable units to assist reporting entities in ensuring that the scope of their audit readiness activities sufficiently addresses all key areas necessary to achieve audit readiness. Please see the FIAR Guidance website for the ***Crosswalk of Financial Statements to Assessable Units*** document.

The OUSD(C) and AT&L jointly issued a memorandum in September 2013 outlining new requirements for the valuation of G-PP&E. More recently, OUSD(C) has issued additional policies affecting valuation of General Equipment, Internal Use Software and Real Property assets. For more information on the new reporting requirements for G-PP&E, please see Section 2.C.4 of the FIAR Guidance.

In addition, the ability to successfully value new asset acquisitions requires the implementation of effective business processes and controls for recording, processing and reporting new asset acquisitions.

### B.3.2 Risks, Financial Reporting Objectives, and Key Supporting Documents

***Risks***

The following table presents the key ROMMs related to Wave 4, including those specific to the valuation of new asset acquisitions. A reference to the source of each risk is included in parentheses. **Reporting entities must achieve the FROs relevant to the line item and/or assertion to demonstrate audit readiness**. Refer to the FROs in the table following this table for further details. Reporting entities may also refer to the **GAO/PCIE FAM** Section 395B for additional information about financial reporting risks.

| Wave 4 – Full Financial Statements Audit<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertion** | **Key Risks of Material Misstatement** |
| Existence | 1. Recorded Military Retirement and Other Federal Employment Benefits are not representative of benefits earned by employees (FAM 395B: 1)<br>2. Recorded Environmental and Disposal Liabilities do not exist at a given date, do not pertain to the reporting entity, or are not representative of legal environmental and disposal costs incurred by the reporting entity (FAM 395B: 1, 4)<br>3. Recorded Other Liabilities, including Advances from Others, Accrued Unfunded Annual Leave, Contingent Liabilities, Custodial Liabilities, Disbursing Officer Cash, Deposit Funds, Suspense Accounts, Contract Holdbacks, and Other Payroll Related liabilities do not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>4. Recorded Non-Exchange Revenue does not represent economic events that actually occurred or do not pertain to the reporting entity (FAM 395B: 1) |

| Wave 4 – Full Financial Statements Audit<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertion** | **Key Risks of Material Misstatement** |
| | 5. Recorded Exchange Revenue does not represent economic events that actually occurred or do not pertain to the reporting entity (FAM 395B: 1)<br>6. Recorded costs of goods or services used to calculate customer rates do not represent economic events that actually occurred or do not pertain to the reporting entity. (FAM 395B: 1)<br>7. Recorded Investments do not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>8. Recorded Cash and Other Monetary Assets do not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>9. Recorded Other Assets do not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>10. Recorded Accounts Receivable - Intragovernmental does not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>11. Recorded Accounts Receivable – Non - Intragovernmental does not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>12. Recorded Accounts Payable – Intragovernmental do not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>13. Recorded Accounts Payable – Non - Intragovernmental do not exist at a given date or do not pertain to the reporting entity (FAM 395 B: 1, 4)<br>14. Recorded Loans Receivable, Guarantees and Related Debt do not exist at a given date or do not pertain to the reporting entity (FAM 395B: 1, 4)<br>15. Recorded Gross Costs do not represent economic events that actually occurred or do not pertain to the reporting entity (FAM 395 B: 1)<br>16. Imputed Financing costs do not represent economic events that actually occurred or do not pertain to the reporting entity (FAM 395B: 1)<br>17. Real Property, Equipment, Internal Use Software, Inventory, and OM&S transactions do not represent economic events that actually occurred or do not pertain to the reporting entity (FAM 395B: 1)<br>18. Recorded Depreciation or Amortization Expense is not valid or does not represent depreciation or amortization cost incurred by the related asset (FAM 395B: 1)<br>19. Transactions are recorded in the current period but the related economic events occurred in a different period (FAM 395B: 2)*<br>20. Transactions are summarized improperly, resulting in an overstated total (FAM 395B: 3)*<br>21. Recorded assets and liabilities are not properly classified (FAM 395B: 1c, 5)**<br>22. Recorded assets and liabilities do not exist at a given date or may not be properly supported with adequate supporting documentation (FAM 395B: 4)**<br>23. Adjusting entries are not representative of events that actually occurred, are not properly classified or supported by valid supporting documentation (FAM 395B: 1c)* |
| Completeness | 24. Valid Military Retirement and Other Federal Employment Benefits are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>25. Valid Environmental and Disposal Liabilities are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>26. Valid Other Liabilities, including Advances from Others, Accrued Unfunded Annual Leave, Contingent Liabilities, Custodial Liabilities, Disbursing Officer Cash, Deposit Funds, Suspense Accounts, Contract Holdbacks, and Other Payroll Related liabilities are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>27. Valid Non – Exchange Revenue transactions are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>28. Valid Exchange Revenue transactions are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>29. Valid costs have not been included in the calculation of customer rates (FAM 395B: 5)<br>30. Investments of the reporting entity exist but are omitted from the financial statements (FAM 395B: 8)<br>31. Cash and Other Monetary Assets of the reporting entity exist but are omitted from the financial |

| Wave 4 – Full Financial Statements Audit<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertion** | **Key Risks of Material Misstatement** |
| | statements (FAM 395B: 8)<br>32. Other Assets of the reporting entity exist but are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>33. Accounts Receivable - Intragovernmental exist but are omitted from the financial statements or is improperly summarized (FAM 395B: 5, 7)<br>34. Accounts Receivable - Non- Intragovernmental exist but are omitted from the financial statements or is improperly summarized (FAM 395B: 5, 7)<br>35. Accounts Payable - Intragovernmental exist but are omitted from the financial statements, or are improperly classified or summarized (FAM 395B: 5, 7, 8)<br>36. Accounts Payable - Non - Intragovernmental exists but are omitted from the financial statements, or are improperly classified or summarized (FAM 395B: 5, 7, 8)<br>37. Valid Loans Receivable, Guarantees and Related Debt are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>38. Valid Gross Costs are not recorded or are improperly classified (FAM 395B: 5)<br>39. Valid Imputed Financing costs are not recorded or are improperly summarized (FAM 395B: 5, 7)<br>40. Real Property, Equipment, Internal Use Software, Inventory, and OM&S transactions exists but are omitted from the financial statements or are improperly classified or summarized (FAM 395B: 5, 7, 8).<br>41. Valid Depreciation or Amortization Expense is not recorded or is improperly summarized (FAM 395B: 5, 7)<br>42. Economic Events occurred in the current period, but the related transactions are not recorded or are recorded in a different period (FAM 395B: 5, 6)*<br>43. Transactions are summarized improperly, resulting in an understated total (FAM 395B: 7)*<br>44. Assets and liabilities of the reporting entity exist but are omitted from the financial statements (FAM 395B: 8)** |
| Valuation | 45. Military Retirement and Other Federal Employment Benefits are recorded at incorrect amounts, or valued on an inappropriate basis (FAM 395B: 9, 10)<br>46. Environmental and Disposal Liabilities reported in the financial statements are recorded at incorrect amounts or valued incorrectly, using an inappropriate valuation basis (FAM 395B: 9, 10)<br>47. Other Liabilities, including Advances from Others, Accrued Unfunded Annual Leave, Contingent Liabilities, Custodial Liabilities, Disbursing Officer Cash, Deposit Funds, Suspense Accounts, Contract Holdbacks, and Other Payroll Related liabilities are recorded at incorrect amounts, or valued on an inappropriate basis (FAM 395B: 9, 10)<br>48. Non-Exchange Revenue transactions are recorded at incorrect amounts or measured improperly (FAM 395B: 9, 11)<br>49. Exchange Revenue transactions are recorded at incorrect amount or measured improperly (FAM 395B: 9, 11)<br>50. Customer rates are calculated on an inappropriate basis (FAM 395B: 10)<br>51. Investments included in the financial statements are valued on an inappropriate basis (FAM 395B: 10)<br>52. Cash and Other Monetary Assets included in the financial statements are valued on an inappropriate basis or measured improperly (FAM 395B: 10, 11)<br>53. Other Assets included in the financial statements are valued on an inappropriate basis (FAM 395B: 10)<br>54. Accounts Receivable - Intragovernmental included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 9, 10)<br>55. Accounts Receivable - Non - Intragovernmental included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 9, 10)<br>56. Accounts Payable - Intragovernmental included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 9, 10)<br>57. Accounts Payable - Non - Intragovernmental included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 9, 10) |

| Wave 4 – Full Financial Statements Audit<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertion** | **Key Risks of Material Misstatement** |
| | 58. Imputed Financing costs are recorded at incorrect amounts or measured improperly (FAM 395B: 9, 11)<br>59. Loans Receivable, Guarantees and Related Debt are estimated and recorded at incorrect amounts, or valued using an inappropriate basis (FAM 395B: 9, 10)<br>60. Gross Costs are recorded at incorrect amounts, or are measured improperly (FAM 395B: 9, 11)<br>61. Imputing Financing costs are recorded at incorrect amounts, or are measured improperly (FAM 395B: 9, 11)<br>62. Real Property, General Equipment, Internal Use Software, Inventory, and OM&S included in the financial statements are valued on an inappropriate basis, or are measured improperly (FAM 395B: 10, 11)<br>63. Depreciation or Amortization expense is calculated improperly and recorded at incorrect amounts (FAM 395B: 9, 11)<br>64. Transactions are recorded at incorrect amounts (FAM 395B: 9)*<br>65. Assets and liabilities included in the financial statements are valued on an inappropriate basis (FAM 395B: 10)**<br>66. Assets and related book values included in the financial statements are valued on an inappropriate basis (FAM 395B: 10)**<br>67. Revenues and expenses included in the financial statements are measured improperly (FAM 395B: 11) |
| Presentation and Disclosure | 68. Accounts or the transactions they accumulate are not properly classified and described in the financial statements (FAM 395B: 15)*<br>69. The current period financial statement components are based on accounting principles different than those used in the prior periods presented (FAM 395B: 16)*<br>70. Information needed for fair presentation in accordance with U.S. GAAP is not disclosed in the financial statements or in the related footnotes (FAM 395B: 17)* |
| Rights and Obligations | 71. The reporting entity does not own or have the rights to recorded assets at a given date, because of liens, pledges or other restrictions (FAM 395B: 12, 13)<br>72. The reporting entity does not have an obligation for recorded liabilities at a given date (FAM 395B: 14) |
| * Risks applies to all line items<br>** Risks apply to balance sheet line items. | |

### *Financial Reporting Objectives*

**Reporting entities must identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs, relevant to the line item and/or assertion have been achieved**. Each FRO has been linked to its relevant financial statement assertions (as indicated with an "X" in the relevant columns), including if the FRO relates to compliance with laws and regulations. At the end of each FRO is a source reference. This is not a complete listing of control objectives, but rather those FROs needed to address key risk areas most likely to be present based on the Department's experience. **Reporting entities must apply judgment to determine if additional FROs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B for a list of general control objectives based on financial statement assertions.

| Wave 4 – Full Financial Statements Audit<br>Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial Statement Assertions | | | | | |
| **Financial Statement Line Items** | **Financial Reporting Objectives** | **Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** | **Compliance** |
| Cash and Other Monetary Assets | 1. Recorded Cash and Other Monetary Assets exist at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. (FAM 395B: 4b) | x | | | | | |
| | 2. All valid Cash and Other Monetary Assets that exist as of the end of the reporting period are recorded in the general ledger and financial statements and are valued using an appropriate valuation basis. (FAM 395B: 8, 10) | | x | x | | | |
| | 3. The reporting entity has the rights to recorded Cash and Other Monetary Assets at a given date. (FAM 395B: 13) | | | | | x | |
| | 4. The financial statements and related footnotes contain all required disclosures for fair presentation of Cash and Other Monetary Assets in accordance with U.S. GAAP. (FAM 395B: 17) ** | | | | x | | |
| Investments | 5. Recorded Investments exist at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. (FAM 395B: 4b) | x | | | | | |
| | 6. All valid Investments that exist as of the end of the reporting period are recorded in the general ledger and financial statements and are valued using an appropriate valuation basis. (FAM 395B: 8, 10) | | x | x | | | |
| | 7. The reporting entity has the rights to recorded Investments at a given date. (FAM 395B: 13) | | | | | x | |
| | 8. The financial statements and related footnotes contain all required disclosures for fair presentation of Investments in accordance with U.S. GAAP. (FAM 395B: 17) ** | | | | x | | |
| Other Assets | 9. Recorded Other Assets exist at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. (FAM 395B: 4b) | x | | | | | |
| | 10. All valid Other Assets that exist as of the end of the reporting period are recorded in the general ledger and financial statements, are valued using an appropriate valuation basis, and are properly classified and described, (FAM 395B: 8, 10, 15) | | x | x | x | | |
| | 11. The reporting entity has the rights to recorded Other Assets at a given date (FAM 395B: 13) | | | | | x | |
| | 12. The financial statements and related footnotes contain all required disclosures for fair presentation of Other Assets in accordance with U.S. GAAP (FAM 395B: 17) ** | | | | x | | |

| Wave 4 – Full Financial Statements Audit Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| Real Property<br><br>General Equipment[1]<br><br>Internal Use Software | 13. General Property, Plant and Equipment[1] assets are recorded at full capitalized cost in the general ledger, using an appropriate valuation basis that is in accordance with U.S. GAAP (FAM 395B: 0) | x | x | x | | x | |
| | 14. General Property, Plant and Equipment[1] balances and all the transactions they accumulate are recorded at correct amounts, are properly classified and described in the financial statements. (FAM 395B: 9, 15) | x | x | x | | x | |
| | 15. General Property, Plant and Equipment[1] asset balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 17)** | | | | x | | |
| Inventory<br><br>Operating Materiel and Supplies (OM&S) | 16. Inventory and OM&S assets included in the financial statements are recorded at correct amounts. (FAM 395B: 9) | | | x | | | |
| | 17. Inventory and OM&S assets included in the financial statements are valued using an appropriate valuation basis (e.g., Latest Acquisition Cost, Standard Price, Actual Cost, Net Realizable Value, Moving Average Cost) in accordance with U.S. GAAP (FAM 395B: 10) | | | x | | | |
| | 18. Inventory and OM&S balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 17)** | | | | x | | |
| Accounts Payable – Intragovernmental***<br><br>Accounts Payable – Non-Intragovernmental*** | 19. Recorded Accounts Payable exist at a given date and pertain to the reporting entity (FAM 395B: 1c) | x | | | | | |
| | 20. Valid Accounts Payable that exist as of the reporting date are recorded in the financial statements (FAM 395B: 8) | | x | | | | |
| | 21. Accounts Payable included in the financial statements are valued correctly, using an appropriate valuation basis (FAM 395B: 9. 10) | | | x | | | |
| | 22. Recorded Accounts Payable are the reporting entity's obligation at a given date (FAM 395B: 14) | | | | | x | |
| | 23. Accounts Payable balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 15, 16) | | | | x | | |
| Military Retirement and Other Federal Employment Benefits | 24. Actuarial calculations related to Military Retirement and Other Employment Benefits are accurately recorded, supported by complete and accurate data, and valid assumptions that comply with specified laws and regulations. (FAM 395B: 9, 10) | x | x | x | | | |
| | 25. All Military Retirement and Other Employment Benefits accruals that exist as of the reporting date are recorded in the financial statements. (FAM 395B: 8) | | x | | | | |

[1] The G-PP&E category for Wave 4 as it relates to Real Property and General Equipment only addresses the financial reporting objectives for the Accuracy & Valuation and Presentation & Disclosure assertions. However, the G-PP&E category for Wave 4 as it relates to Internal Use Software addresses the financial reporting objectives for all five financial statement assertions. The financial reporting objectives addressing Existence, Completeness, and Rights & Obligations for Real Property and General Equipment are discussed in Wave 3, "Mission Critical Asset E&C Audit."

| Wave 4 – Full Financial Statements Audit Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | | |
| | 26. Military Retirement and Other Employment Benefits liability exists at a given date, is valued and summarized on an appropriate basis and is properly described and described in the financial statements (FAM 395B: 3, 7, 15) | x | | x | x | | | |
| | 27. Military Retirement and Other Employment Benefits non-actuarial liabilities agree to the amounts allocated by the Department of Labor, Office of Personnel Management or other agencies, and the related expense is calculated correctly, summarized and recorded in the financial statements accurately (FAM 395B: 3, 7, 9) | | | x | x | | | |
| | 28. Military Retirement and Other Employment Benefits accrual balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 17)** | | | | x | | | |
| Imputed Financing Costs | 29. Imputed Financing costs represent economic events that occurred, and are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. (FAM 395B: 4b) | x | | | | | | |
| | 30. Recorded Imputed Financing costs that exist as of the end of the reporting period are recorded in the general ledger and financial statements, are valued using an appropriate valuation basis, and are properly classified and described, (FAM 395B: 8, 10, 15) | | x | x | x | | | |
| | 31. The financial statements and related footnotes contain all required disclosures for fair presentation of Imputed Financing costs in accordance with U.S. GAAP (FAM 395B: 17) ** | | | | x | | | |
| Environmental and Disposal Liabilities | 32. Environmental and Disposal Liabilities balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 17)** | | | | x | | | |
| | 33. All potential Environmental and Disposal Liabilities are recorded at correct amounts and are valued on an appropriate valuation basis in the general ledger. (FAM 395B: 9, 10) | | x | x | | | | |
| | 34. Methodologies for valuing Environmental and Disposal Liabilities are appropriate and used consistently. (FAM 395B: 16) | | | x | x | | | x |
| | 35. Recorded Environmental and Disposal Liabilities exist at a given date, and are properly classified and described in the financial statements. (FAM 395B: 4a, 15) | x | | | x | | | |
| | 36. Recorded Environmental and Disposal liabilities are the reporting entity's obligations at a given date. (FAM 395B: 14) | | | | | x | | |
| | 37. Environmental and Disposal Liabilities are valued on an appropriate valuation basis and are based on accounting principles that are applied consistently from period to period recorded in the financial statements accurately. (FAM 395B: 10, 16) | | | x | | x | | |

| Wave 4 – Full Financial Statements Audit Financial Reporting Objectives | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| **Other Liabilities**<br>Includes:<br>Advances from Others<br>Accrued Unfunded Annual Leave<br>Contingent Liabilities<br>Custodial Liabilities<br>Contract Holdbacks<br>Disbursing Officer Cash<br>Deposit Funds and Suspense Accounts<br>Other Payroll-related Liabilities | 38. Recorded Other Liabilities exist at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance are properly classified, and pertain to the reporting entity.(FAM 395B: 4b, 1c) | x | | | | | |
| | 39. All Other Liabilities that exist as of the reporting date are included in the financial statements and are properly allocated across appropriate reporting periods. (FAM 395B: 8) | | x | | | | |
| | 40. Other Liabilities are valued on an appropriate valuation basis, and are properly classified and described in the financial statements (FAM 395B: 10, 15) | | | x | x | | |
| | 41. Recorded Other Liabilities are the reporting entity's obligation at a given date. (FAM 395B: 14) | | | | | x | |
| | 42. All Other Liabilities balances and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 17) ** | | | | x | | |
| Accounts Receivable/ Revenue – Non-Intragovernmental | 43. Recorded Accounts Receivable and related non-exchange/exchange revenue transactions, underlying events, and related processing procedures are authorized by federal laws, regulations, and management policy. (FAM 395B: 1a) | x | | | | | |
| | 44. Recorded Accounts Receivable and related non-exchange/exchange revenue exist at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the account balance (FAM 395B: 4) | x | | | | | |
| | 45. Accounts Receivable and related non-exchange/exchange revenue is properly classified and described in the financial statements, and related footnotes contain all information needed for fair presentation in accordance with U.S. GAAP(FAM 395B: 15, 17) | | | | x | | |
| | 46. All valid Accounts Receivable and related non-exchange/exchange revenue transactions are summarized properly and recorded in the financial statements accurately. (FAM 395B: 3, 5, 7, 9) | | x | x | | | |
| | 47. Accounts Receivable and related non-exchange/exchange revenue included in the financial statements are measured properly. (FAM 395B: 11) | | | x | | | |
| Accounts Receivable/ Revenue – Intra-governmental | 48. The reporting entity has the rights to the recorded Accounts Receivable and related non-exchange/exchange revenue. (FAM 395B: 13) | | | | | x | |
| | 49. Accounts Receivable and related non-exchange/exchange revenue balances and disclosures contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 17) ** | | | | x | | |

| Wave 4 – Full Financial Statements Audit Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | | |
| | 50. Recorded costs of goods or services used to calculate customer rates, underlying events, and related processing procedures are authorized by federal laws, regulations, and management policy. (FAM 395B: 1a) | x | | | | | | |
| | 51. Appropriate individuals approve recorded costs of goods or services used to calculate customer rates in accordance with management's general or specific criteria. (FAM 395B: 1b) | x | | | | | | |
| | 52. Recorded costs of goods or services used to calculate customer rates represent events that actually occurred, are properly classified, and pertain to the reporting entity. (FAM 395B: 1c) | x | | | | | | |
| | 53. All valid costs included in the calculation of customer rates have been recorded and classified properly. (FAM 395B: 5) | | x | | | | | |
| | 54. Customer rates have been calculated on an appropriate basis. (FAM 395B: 10) | | | x | | | | |
| | 55. Costs of goods or services that have been included in the calculation of customer rates are actual obligations of the reporting entity. (FAM 395B: 14) | | | | | x | | |
| | 56. Customer rates are based on accounting principles that are applied consistently from period to period. (FAM 395B: 16) | | | | x | | | |
| Loans Receivable, Guarantees and Related Debt | 57. Recorded Loans Receivable, Guarantees and Related Debt exists at a given date, represent events that actually occurred, is supported by appropriate detailed records that are accurately classified and summarized (FAM 395B: 1,4b) | x | | | | | | |
| | 58. All valid Loans Receivable, Guarantees and Related Debt that exist as of the reporting date are included in the financial statements, and are valued using an appropriation valuation basis (FAM 395B: 8, 10) | | x | x | | | | |
| | 59. The reporting entity has rights to the recorded Loans Receivable and all Guarantees and Related Debt are the reporting entity's obligations at a given date (FAM 395B: 13, 14) | | | | | x | | |
| | 60. Loans Receivable, Guarantees and Related Debt asset and liability balances are properly classified and described in the financial statements, and disclosures contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 15, 17) ** | | | | x | | | |
| Gross Costs*** | 61. Recorded Gross Costs represent economic events that actually occurred, are properly classified, and pertain to the reporting entity (FAM 395B: 1c) | x | | | | | | |
| | 62. Valid Gross Costs are recorded and classified properly (FAM 395B: 5) | | x | | | | | |
| | 63. Gross Costs are recorded at correct amounts and are measured properly (FAM 395B: 9, 11) | | | x | | | | |
| | 64. Gross Costs in the Statement of Net Cost and related footnote disclosures contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 15, 16, 17) | | | | x | | | |

| Wave 4 – Full Financial Statements Audit Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | | |
| Depreciation Expense<br><br>Amortization Expense | 65. Recorded Depreciation or Amortization Expense represents valid costs incurred by the asset, is properly classified and pertains to the reporting entity (FAM 395B: 1c) | x | | | | | | |
| | 66. All valid Depreciation or Amortization Expense is calculated, accumulated and recorded at correct amounts and is classified properly. (FAM 395B: 5) | | x | | | | | |
| | 67. Depreciation or Amortization Expense is recorded at correct amounts, based on the capitalized cost, useful life, date of service, and salvage value of the asset, and is measured properly. (FAM 395B: 9, 11) | | | x | | | | |
| | 68. The financial statements and related footnote disclosures include all depreciation and amortization information (i.e., depreciation and amortization methods and expense amounts, asset useful life and salvage value) needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 17)** | | | | x | | | |
| All Line Items | 69. Adjusting entries are representative of events that actually occurred, are properly classified and described in the financial statements, and are supported by valid supporting documentation. (FAM 395B:1c, 15) | x | | | x | | | |
| | 70. Appropriate individuals approve recorded transactions in accordance with management's general or specific criteria. (FAM 395B:1b) | x | | | | | | |
| | 71. All accounts, assets and liabilities that exist as of the reporting date that belong in the financial statements are included in the financial statements. There are no undisclosed assets or liabilities (FAM 395B: 8) | | x | | | | | |
| | 72. The financial statement components are based on accounting principles that are applied consistently from period to period (FAM 395B: 16) | | | | x | | | |
| | 73. The financial statements and related footnotes contain all information needed for fair presentation in accordance with U.S. GAAP. (FAM 395B: 17) | | | | x | | | |
| | 74. Recorded assets and related processing procedures are authorized by federal laws, regulations, and management policy. (FAM 395B: 1a) | x | | | | | | x |
| | 75. Access to assets, critical forms, records, and processing and storage areas is permitted only in accordance with laws, regulations, and management policy. (FAM 395B: 4c) | x | | | | | | x |
| | 76. Persons do not have uncontrolled access to both assets and records, and are not assigned duties to put them in a position that would allow them to both commit and conceal errors or fraud. (FAM 395B: 18) | x | x | x | | x | | |
| | 77. All recorded assets and liabilities are properly summarized and classified. (FAM 395B: 5) | | x | | | | | |
| | 78. Recorded assets and liabilities are properly classified as either Intragovernmental or Non-Federal. (FAM 395B: 1c, 5) | x | x | | | | | |

| Wave 4 – Full Financial Statements Audit Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| ** Components should review applicable sections of the GAO/PCIE FAM section 2010 Federal Accounting Checklist and 2020 Federal Reporting and Disclosure Checklists to ensure proper presentation and disclosures.<br><br>*** The Line Item tables in Section 5 identify financial reporting risks and related audit readiness outcomes for all material financial statement line items, including Accounts Payable (Intragovernmental and Non-Intragovernmental) and Gross Costs. Reporting entities should have considered the audit readiness impact for these financial statement line items while completing their Wave 2 activities. Transactions affecting these line items are recorded in both budgetary and proprietary accounts, which should have been addressed in Wave 2 assessable units such as contract pay, vendor pay, civilian pay and military pay. If proprietary accounts were not considered during Wave 2, reporting entities are required to ensure they have identified financial reporting risks and objectives, and tested control activities to mitigate those risks and meet those objectives, in Wave 4. | | | | | | | |

### *Key Supporting Documents*

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

| Wave 4 – Full Financial Statement Audit Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions | | | | |
| | | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations |
| All Financial Statement Line Items | Internal Control Documentation | 1. Statement-to-process analyses quantifying the dollar amount and volume of activity flowing through various processes and/or locations | x | x | x | x | x |
| | | 2. Applicable policies and procedures | x | x | x | x | x |
| | | 3. Process narratives and flowcharts | x | x | x | x | x |
| | | 4. Control worksheets, identifying risks, financial reporting objectives (FROs) and corresponding control activities | x | x | x | x | x |
| | | 5. Test plans documenting detailed procedures used to test the operating effectiveness of control activities | x | x | x | x | x |
| | | 6. Control assessments with test results | x | x | x | x | x |
| | | 7. Evaluation of test results | x | x | x | x | x |

| Wave 4 – Full Financial Statement Audit<br>Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Statement Line Items** | **Documentation Type** | **Key Supporting Documents** | **Financial Statement Assertions** | | | | |
| | | | **Existence** | **Completeness** | **Valuation** | **Presentation & Disclosure** | **Rights & Obligations** |
| | | 8. Documentation evidencing the operation of internal control activities for the period under audit. Examples include:<br>• Approval signature documentation (electronic or manual) demonstrating authorization for an acquisition<br>• Delegation of Authority (e.g., Form DD-577) for approving officials<br>• System edit checks alerting users that new obligations are for proper purpose and amount<br>• APSRs balances that reconcile to general ledger balances | x | x | x | x | x |
| | | 9. System inventory list, listing of system users and their access privileges (and supporting access request form/SAAR) | x | x | x | x | x |
| | Transaction Documentation | 10. Journal vouchers, adjustments and corresponding supporting documentation | x | x | x | x | x |
| Real Property<br><br>Equipment<br><br>Inventory<br><br>Operating Materiel and Supplies<br><br>Internal Use Software (including amortization expense) | | 11. Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/ statements of work, work orders, reimbursable agreements, support agreements, assignment documents, MIPRs, purchase orders, bills of lading, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset. | x | x | x | | x |
| | | 12. Documentation supporting transfer of cost information from Construction in Progress (CIP) accounts to the fixed asset account (DD-1354 Transfer and Acceptance of Real Property) | | | x | x | |
| | | 13. Documentation supporting "placed-in-service" date (e.g., DD 1354, "Transfer and Acceptance of Real Property", DD-250, Material Receiving and Inspection Report", receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense | | | x | | x |
| | | 14. Documentation supporting mathematical calculations for recorded depreciation/amortization (demonstrating that the system is correctly calculating depreciation/amortization expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives and acquisition costs over the life of assets) | | | x | | |
| Depreciation Expense | | 15. Reconciliation of detailed listing of all assets from APSRs/ source systems to trial balance and general ledger | | | x | | |
| | | 16. Summary schedule reporting the amounts/quantities by class of assets | | | x | | |
| | | 17. Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule | | | x | | |
| | | 18. Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete or otherwise unusable assets such as: | | | | | |

| Wave 4 – Full Financial Statement Audit Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions: Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations |
| | Transaction Documentation | • Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334)<br>• Declaration of Excess document<br>• Approval documentation (to include disposal of land)<br>• Documents supporting disposal start date<br>• Documents supporting determination of impairment from performance of physical asset/ inventory counts | | | x | | x |
| | | 19. Documentation supporting the allocation methodology for direct labor costs and the distribution methodology for indirect labor costs and overhead costs for internally developed software (software development stage only) | x | x | x | | x |
| | | 20. Documentation supporting the purchase of commercial off-the-shelf (COTS) purchases, plus any costs incurred for implementation | x | x | x | | x |
| | | 21. Documentation supporting the amounts paid to the contractor to design, program, install, and implement new software or to modify existing software, plus any costs incurred for implementation | x | x | x | | x |
| | | 22. The fixed assets, inventory and OM&S reported in the financial statements and related footnotes contain all information needed for fair presentation in accordance with U.S. GAAP (FAM 395B: 17) | | | | x | |
| Accounts Payable – Intragovernmental<br><br>Accounts Payable – Non Intragovernmental | | 23. Billing document such as vendor invoice or equivalent | x | x | x | | x |
| | | 24. Delegation of authority letter (e.g., Form DD-577) | x | x | x | | x |
| | | 25. Receiving Report | x | x | x | | x |
| | | 26. Accrual estimate support (in instances where invoice has not been received or to support payroll accrual calculation) | x | x | x | | x |
| Military Retirement and Other Employment Benefits | | 27. Memoranda from a determining federal agency (e.g., Office of Personnel Management and Department of Labor) showing the reporting entity's allocation of employment related liabilities (funded and unfunded) such as civilian pension, FECA and unemployment | x | | x | | x |
| | | 28. Schedule(s) detailing calculation of current year expenses | | | x | | |
| | | 29. Detail listing of factors, data, assumption, and formulas used to prepare the actuarial calculations for each sub-process involved in the projection | | x | x | | |
| Imputed Financing Sources | | 30. Documentation supporting any significant changes in actuarial calculations from prior year | | | x | | |

| Wave 4 – Full Financial Statement Audit<br>Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions | | | | |
| | | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations |
| | Transaction Documentation | 31. Documentation supporting evaluation of actual to expected results supporting accuracy of models used | | | x | | |
| | | 32. Documentation supporting the terms of any intra-departmental agreements (e.g., MOA, MOU, operating agreement, etc.) | x | | | | x |
| | | 33. Detail listing of amounts paid during the fiscal year from the Federal Judgment Fund to settle lawsuits and claims against the reporting entity | | | x | | |
| | | 34. Detail calculations and support for other imputed financing costs | | | x | | |
| Environmental and Disposal Liabilities | | 35. Reconciliation of the detail listing of Environmental and Disposal Liabilities to the amounts reported in the general ledger and financial statements, including appropriate explanations for reconciling items | x | x | x | | x |
| | | 36. Record of Decision (ROD) | x | | x | | x |
| | | 37. Contract, invoices, receiving reports/status reports | x | | x | | x |
| | | 38. Documentation supporting clean-up cost estimates and related facts and assumptions | | | x | | |
| | | 39. Documentation supporting site identification and clean-up actions, such as results of site inspections, comparisons to EPA listings, and publicly available RCRA/CERCLA supporting documentation | | x | | | |
| **Other Liabilities** Includes: | | 40. Ordering Document: MIPR, Reimbursable Agreement, Customer Order, etc. (including screenshots showing posting logic of sales orders, earned revenue and collection transactions, system purchase orders or other transactional support) | x | | | | x |
| Advances from Others | | 41. Advice of collection, deposit ticket, photocopies of checks received for advances received | x | | x | | |
| | | 42. IPAC/Goals report evidencing amounts advanced | | | x | | |
| Accrued Unfunded Annual Leave | | 43. Reconciliations of advances from others showing amounts received, revenue earned and remaining liabilities | x | x | x | | |
| Contingent Liabilities | | 44. Invoices and calculations of penalties, interest or administrative fees collected | x | | x | | |
| Custodial Liabilities | | 45. Invoices, IPAC billings (using GOALS reports) supporting any reductions of advances for amounts earned | x | | x | | |
| Disbursing Officer Cash | | 46. Reconciliation of Disbursing Officer Cash to general ledger account balance or equivalent, evidence of foreign exchange rates, receipts for disbursements and requests for replenishment | x | x | x | x | |
| Deposit Funds Suspense Accounts | | 47. Individual employee-level listing of hours, hourly rates, and total dollar amount of unfunded leave liability that reconciles to amount recorded in the financial statements | | x | x | | x |

| Wave 4 – Full Financial Statement Audit<br>Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions | | | | |
| | | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations |
| Other Payroll-related Liabilities | Transaction Documentation | 48. Timesheets & leave earning reports that support the amount of leave taken and earned, respectively, by pay period for individual employees | | | x | | x |
| | | 49. SF-50s & SF-52s that support the hourly rate for leave liability calculation (supporting the grade/step/locality) for individual employees | x | | x | | |
| | | 50. Legal representation letter prepared by the Office of General Counsel (in accordance OMB Bulletin No. 15-02, Section 9) | x | x | x | | x |
| | | 51. Management's schedule of legal liabilities (in accordance OMB Bulletin No. 15-02, Section 9) | x | x | x | | x |
| | | 52. Reconciliation of Custodial and Deposit Fund assets to the associated liabilities | | | x | | |
| | | 53. Reconciliation and aging of Suspense Account items | | | x | | |
| Accounts Receivable/ Revenue– Intragovernmental | | 54. Public law demonstrating authority to collect non-exchange revenue | | | | | x |
| | | 55. Deposit tickets (SF-215s), IPAC/GOALs reports, supporting cash collection dollar amounts | x | | x | | |
| | | 56. Other support to demonstrate completeness of reported revenue (e.g., reconciliation to trust fund collections) | | x | | | |
| | | 57. Documentation supporting collection of exchange revenue (e.g., MIPR acceptance, reimbursable agreements, vendor invoices, contracts) | x | | x | | |
| Accounts Receivable/ Revenue-Non-intragovernmental | | 58. Invoices, collection histories, other documentation supporting an accounts receivable. | x | | x | | |
| | | 59. Copy of Treasury Report of Receivables and documentation supporting preparation and contents of the report | x | | x | x | |
| | | 60. Schedule of calculation of allowance for uncollectible accounts (non-intragovernmental only) and documentation supporting the methodology and assumptions used | | | x | | |
| | | 61. Cost accounting records including a detailed listing of factors, data, assumptions and formulas used in the calculation of current year customer rates | x | | x | | |
| | | 62. Budget-to-actual analysis of data used to calculate prior year customer rates | | | x | | |
| | | 63. Timecards, SF-50s and SF-52s supporting any labor costs that have been included in the calculation of customer rates | x | | x | | |
| | | 64. Contracts and invoices supporting any direct or indirect costs that have been included in the calculation of customer rates | x | | x | | x |

| Wave 4 – Full Financial Statement Audit Key Supporting Documents | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | Documentation Type | Key Supporting Documents | Financial Statement Assertions: Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations |
| Cash and Other Monetary Assets | Transaction Documentation | 65. Deposit tickets (SF-215s), IPAC/GOALs reports, supporting cash collection dollar amounts<br>66. Cash receipts logs, foreign exchange rate tables (if applicable)<br>67. Bank reconciliations and bank cutoff statements<br>68. Checks, IPAC statements | x | x | x | | |
| Investments | Transaction Documentation | 69. Bureau of Public Debt account statement or investment report<br>70. Investment subsidiary ledger with detailed investment activity including all purchases, interest income, discount/amortization, redemptions, etc. | x | | x | | |
| Loans Receivable, Guarantees and Related Debt | Transaction Documentation | 71. Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories and any historical documents that support underlying assumptions | x | | x | | x |
| | | 72. Documentation supporting calculation of subsidy cost allowances, subsidy expense and loan guarantee liabilities including desk procedures, default rates, discount factors and loan histories, including support for any changes in assumptions, actuarial studies | | | x | | |
| | | 73. Worksheets documenting computation of subsidy estimates and loan guarantee liabilities | | | x | | |
| Gross Costs | Transaction Documentation | 74. Documents supporting expenses incurred such as: invoices or other billing documents, receiving reports, IPACs, travel orders, vouchers and receipts, screenshots, credit card statements, explanation of foreign exchange rate used for payment if applicable (e.g., local bank rate), etc. Note: For payroll transactions, SF 52s (Request for Personnel Actions), SF 50s (Notification of Personnel Action), approved timesheets and any supporting screenshots (e.g., for manual entry of time in DCPS), pay histories, leave/earnings statements, benefit documentation and special pay/entitlements support documents support recorded payroll expenses. | x | x | x | | x |
| | | 75. Documents to support accrual estimates recorded (in instances where invoice has not been received or to support payroll accrual calculations) | x | x | x | | x |
| | | 76. Documents used to support transportation costs such as: EDI 858, EDI 859, DD 1149, DD 1348-1A, DD 1384, DD 361 | x | x | x | | x |

### B.3.3 Statement of Changes in Net Position Risks and Financial Reporting Objectives

#### *Risks*

The following table presents the key ROMMs related to material line items for the Statement of Changes in Net Position (SCNP). A reference to the source of each risk is included in parentheses. **Reporting entities must achieve the FROs relevant to the line item and/or assertion to demonstrate audit readiness.** Refer to the FROs in the table following this table for further details. Reporting entities may also refer to the GAO/PCIE FAM Section 395B for additional information about financial reporting risks.

| Wave 4 – Full Financial Statements Audit<br>Statement of Changes in Net Position<br>Key Risks of Material Misstatement | |
|---|---|
| **Financial Statement Assertions** | **Key Risks of Material Misstatement** |
| Existence | 1. Appropriations Used may not pertain to the reporting entity, may not be representative of amounts expended by the reporting entity, or may be improperly classified and summarized (FAM 395B: 1, 3, 4)<br>2. Other Financing Sources - Other may not pertain to the reporting entity, may not be representative of amounts of transactions entered into by the reporting entity, or may be improperly classified and summarized (FAM 395B: 1, 3, 4)<br>3. Recorded Appropriations Received may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (FAM 395B: 1, 3, 4)<br>4. Other Adjustments may not pertain to the reporting entity, may not be representative of amounts of transactions entered into by the reporting entity, or may be improperly classified and summarized (FAM 395B: 1, 3, 4) |
| Completeness | 5. Recorded Appropriations Used may not include all amounts used by the reporting entity, or may not be summarized accurately in the financial statements (FAM 395B: 5, 7)<br>6. Recorded Other Financing Sources - Other may not include all amounts used by the reporting entity, or may not be summarized accurately in the financial statements (FAM 395B: 5, 7)<br>7. Valid Appropriations Received may be omitted from the financial statements or may be improperly classified and summarized (FAM 395B: 5, 7)<br>8. Recorded Other Adjustments may not include all amounts used by the reporting entity, or may not be summarized accurately in the financial statements (FAM 395B: 5, 7) |
| Valuation | 9. Appropriations Used included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 10)<br>10. Other Financing Sources - Other included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 10)<br>11. Appropriations Received included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 10)<br>12. Other Adjustments included in the financial statements are recorded at incorrect amounts or valued on an inappropriate basis (FAM 395B: 10) |
| Rights and Obligations | 13. The reporting entity does not have rights to recorded Appropriations Used at a given date (FAM 395B: 13)<br>14. The reporting entity does not have rights to or obligations for amounts posted to Other Financing Sources – Other at a given date (FAM 395B: 13, 14)<br>15. The reporting entity does not have rights to recorded Appropriations Received at a given date (FAM 395B: 13)<br>16. The reporting entity does not have rights to or obligations for amounts posted to Other Adjustments at a given date (FAM 395B: 13, 14) |

### *Financial Reporting Objectives*

**Reporting entities must identify and implement a combination of control activities and supporting documentation to demonstrate that the Statement of Changes in Net Position FROs relevant to the line item and/or assertion have been achieved.** Each FRO has been linked to its relevant financial statement assertions (as indicated with an “X” in the relevant columns), including if the FRO relates to compliance with laws and regulations. At the end of each FRO is a source reference. This is not a complete listing of control objectives, but rather those FROs needed to address key risk areas most likely to be present based on the Department’s experience. **Reporting entities must apply judgment to determine if additional FROs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B for a list of general control objectives based on financial statement assertions.

| Wave 4 – Full Financial Statements Audit<br>Statement of Changes in Net Position<br>Financial Reporting Objectives | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Statement Line Items | | Financial Reporting Objectives | Financial Statement Assertions | | | | | Compliance |
| | | | Existence | Completeness | Valuation | Presentation & Disclosure | Rights & Obligations | |
| Appropriations Used | 1. | Recorded Appropriations Used pertain to the reporting entity, are representative of amounts expended by the reporting entity and are properly classified and summarized (FAM 395B: 1, 3, 4) | x | | | | | |
| | 2. | All Appropriations Used are recorded in the correct period and are properly summarized (FAM 395B: 5,7) | | x | | | | |
| | 3. | Appropriations Used included in the financial statements are valued correctly, using an appropriate valuation basis (FAM 395B: 10) | | | x | | | |
| | 4. | The reporting entity has the rights to the recorded Appropriations Used at a given date (FAM 395B: 13) | | | | | x | |
| Other Financing Sources - Other | 5. | Recorded Other Financing Sources - Other represent amounts of transactions actually entered into by the reporting entity and are properly classified (FAM 395B: 1, 3, 4) | x | | | | | |
| | 6. | All Other Financing Sources - Other are recorded in the correct period and are properly summarized (FAM 395B: 5,7) | | x | | | | |
| | 7. | Other Financing Sources - Other included in the financial statements are valued correctly, using an appropriate valuation basis (FAM 395B: 10) | | | x | | | |
| | 8. | The reporting entity has rights to or obligations for amounts posted to Other Financing Sources – Other at a given date (FAM 395B: 13, 14) | | | | | x | |
| Appropriations Received | 9. | Recorded Appropriations Received represent amounts actually received by the reporting entity and are properly classified (FAM 395B: 1, 3, 4) | x | | | | | |
| | 10. | All Appropriations Received are recorded in the proper accounting period and are accurately classified and summarized (FAM 395B: 5,7) | | x | | | | |
| | 11. | Appropriations Received included in the financial statements are valued correctly, using an appropriate valuation basis (FAM 395B: 10) | | | x | | | |
| | 12. | The reporting entity has rights to recorded Appropriations Received at a given date (FAM 395B: 13) | | | | | x | |
| Other Adjustments | 13. | Recorded Other Adjustments represent amounts of transactions actually entered into by the reporting entity and are properly classified (FAM 395B: 1, 3, 4) | x | | | | | |
| | 14. | All Other Adjustments are recorded in the correct period and are properly summarized (FAM 395B: 5,7) | | x | | | | |
| | 15. | Other Adjustments included in the financial statements are valued correctly, using an appropriate valuation basis (FAM 395B: 10) | | | x | | | |
| | 16. | The reporting entity has rights to or obligations for amounts posted to Other Adjustments at a given date (FAM 395B: 13, 14) | | | | | x | |

### B.3.4 Example Work Products

Refer to the FIAR Guidance website for Wave 4 specific work product examples and related guidance.

# APPENDIX C – IMMATERIAL CONSOLIDATED LINE ITEMS

The Department of Defense (Department or DoD), with its many reporting entities preparing stand-alone financial statements, has a complex reporting structure. Its reporting entities vary significantly from a financial statement perspective (e.g., the Military Departments are few in number but material to the Department, versus the other Defense Agencies, which are large in number but less material than the Military Departments). Accordingly, as the Department approaches the fiscal year 2017 deadline for full financial statements audits, it is more effective or efficient to focus limited audit readiness resources on financial statement line items that are material to the DoD consolidated statements. These material line items are included in **Section 5** of the FIAR Guidance.

To determine materiality with respect to the consolidated statements, the FIAR office applied the approach recommended in the GAO/PCIE FAM.[1] Specifically, materiality was calculated at one percent (1%) of consolidated non-federal assets. The following balance sheet line items fell below this materiality threshold:

- Cash and Other Monetary Assets
- Loans Receivable
- Debt
- Loan Guarantee Liability

**While these line items are immaterial at the consolidated level, reporting entities should include the following balance sheet line items within the scope of their Wave 4 audit readiness efforts if these line items are individually material to the reporting entities' financial statements.**

[1] Reporting entities should refer to the GAO/PCIE FAM Section 230 for details regarding materiality. DoD consolidated materiality of $9.775 billion was calculated based on the FY 2015 consolidated balance sheet.

## C.1 CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets consist of coins, paper currency, undeposited collections, imprest funds, readily negotiable instruments, amounts on demand deposit, foreign currencies, gold and special drawing rights. Reporting entities must be able to assert that any reported Cash and Other Monetary Asset balances can be readily substantiated.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Cash and Other Monetary Assets are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 1 (and amendments)<br>• Treasury Financial Manual<br>• DoD FMR: Volume 4, Chapter 2<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Cash and Other Monetary Assets line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| Army GF | $ 862,975,714 | 75.5% |
| Air Force GF | 64,239,737 | 5.6% |
| Navy GF | 100,402,469 | 8.8% |
| Marine Corp GF | 5,631,565 | 0.5% |
| Navy WCF | 3,778,089 | 0.3% |
| Army WCF | 4,149,885 | 0.4% |
| USACE – Civil Works Program | 577,114 | 0.1% |
| **Subtotal - OMB Design. Audit** | **$ 1,041,754,572** | **91.2%** |
| **DoD Designated Audit** | | |
| DHA - Contract Resource Mgmt | 21,187 | 0.0% |
| DHA - SMA/Army | 206,064 | 0.0% |
| MERHCF | 28,942 | 0.0% |
| DoD Component Level Accounts | 1,912,499 | 0.2% |
| DeCA WCF | 90,548,932 | 7.9% |
| DeCA GF | 4,527,447 | 0.4% |
| **Subtotal - DoD Design. Audit** | **$ 97,245,072** | **8.5%** |
| **Mid-Sized Defense Agencies** | | |
| Other TI-97 Funds - Army | $ 3,173,594 | 0.3% |
| **Subtotal – Mid-Sized Defense Agencies** | **$ 3,173,594** | **0.3%** |
| **Remaining Defense Agencies and Funds** | | |
| Other Reporting Entities | 113,991 | 0.0% |
| | | |
| **Total** | **$ 1,142,287,230** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, FROs and KSDs specific to Cash and Other Monetary Assets. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the FROs relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Cash and Other Monetary Assets, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Cash and Other Monetary Assets** | | | | |
| CA.1 | Recorded Cash and Other Monetary Assets may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #8, #19, #20, #21, and #22) | Recorded Cash and Other Monetary Assets represent amounts actually received by the reporting entity and are properly classified (Wave 4, FRO #1) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts (Wave 4, KSD #64)<br><br>Cash receipts logs (Wave 4, KSD #65)<br><br>Bank reconciliations and bank cutoff statements (Wave 4, KSD #66)<br><br>Checks, IPAC statements (Wave 4, KSD #67) | Select a sample of recorded cash receipt transactions and perform an inquiry and examine documentation to determine whether:<br>a) the corresponding cash receipt log, deposit ticket, and bank cutoff statement exist and substantiate amount recorded<br>b) receipts are properly classified as cash, cash equivalents, or other monetary assets in the proper general ledger accounts<br>c) receipts were recorded in the proper accounting period (compare date on deposit ticket to date recorded in general ledger).<br><br>Obtain or prepare a year-end bank reconciliation and trace cash transactions (receipts, transfers, disbursements) to the general ledger and determine whether:<br>• any cash was used/expended in the normal course of operations<br>• reconciling items (deposits in transit or outstanding checks) noted are reasonable.<br><br>Observe physical receipt and handling of cash to determine whether:<br>• cash and other monetary assets are adequately safeguarded<br>• adequate segregation of duties over the physical receipt, documentation, recording, and processing of cash exists. |
| CA.2 | Valid Cash and Other Monetary Assets may be omitted from the Balance Sheet or may be improperly classified and summarized (C) (Wave 4, ROMM #31, #42, #43 and #44) | All Cash and Other Monetary Assets are recorded in the proper accounting period and are accurately classified and summarized (Wave 4, FRO #2 and #77) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts (Wave 4, KSD #64)<br><br>Cash receipts logs (Wave 4, KSD #65) | Obtain or prepare a year-end bank reconciliation and trace cash transactions (receipts, transfers, disbursements) to the general ledger and determine whether:<br>• all cash received during the year was deposited |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Cash and Other Monetary Assets** | | | | |
| | | | Bank reconciliations and bank cutoff statements (Wave 4, KSD #66)<br><br>Checks, IPAC statements (Wave 4, KSD #67)<br><br>DD Form 2657 – Daily Statement of Accountability | • all deposited cash was recorded in the general ledger.<br><br>Select a sample of Disbursing Officers and perform test cash counts by comparing cash amounts on hand to the daily cash log or reconciliation (e.g., DD Form 2657 – Daily Statement of Accountability) utilized by the Disbursing Officer to account for cash on hand.<br><br>See also Suggested Test Procedures for CA.1 |
| CA.3 | Cash and Other Monetary Assets included in the financial statements may be recorded at incorrect amounts, or are valued on an inappropriate basis (V) (Wave 4, ROMM #52, #64, #65, and #66) | Cash and Other Monetary Assets are recorded at correct amounts and valued on an appropriate valuation basis (Wave 4, FRO #2) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts (Wave 4, KSD #64)<br><br>Cash receipts logs (Wave 4, KSD #65)<br><br>Bank reconciliations and bank cutoff statements (Wave 4, KSD #66)<br><br>Checks, IPAC statements (Wave 4, KSD #67)<br><br>Applicable currency exchange rate tables, including explanation of foreign exchange rate used for obligation (e.g., budget rate memo) and payment (e.g., local bank rate) | For any foreign currencies held, review and recalculate translations of foreign currencies to determine whether foreign currency was translated accurately (using the current and correct exchange rates).<br><br>See also Suggested Test Procedures for CA.1 |
| CA.4 | The reporting entity may not have rights to recorded Cash and Other Monetary Assets due to liens, pledges, or other restrictions (R) (Wave 4, ROMM #71) | The reporting entity has the rights to recorded Cash and Other Monetary Assets at a given date (Wave 4, FRO #3) | Deposit tickets (SF-215s), IPAC/GOALs reports supporting cash collection dollar amounts (Wave 4, KSD #64)<br><br>Bank reconciliations and bank cutoff statements (Wave 4, KSD #66) | Select a sample of recorded cash receipt transactions and perform an inquiry and examine documentation to determine whether the corresponding cash receipt log, deposit ticket, and bank cutoff statement exist and substantiate amount recorded. |
| CA.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Cash and Other Monetary Assets** footnote disclosures included in **Note 7** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Cash and Other Monetary Asset footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## C.2 LOANS RECEIVABLE

Loans Receivable consists of receivables due from the private sector as a result of loans made by the Department as part of the Military Housing Privatization Initiative (MHPI). Reporting entities must be able to assert the audit readiness of all business processes and sub-processes including loan disbursements, collection of principal and interest payments and adjustments for estimated defaults, prepayments, fees, penalties and recoveries.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Loans Receivable are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 2, 18, 19 (and amendments)<br>• Technical Release (TR): 6<br>• DoD FMR: Volume 12, Chapter 4<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Loans Receivable line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **Remaining Defense Agencies and Funds** | | |
| Military Housing Privatization Initiative | $ 1,526,361,453 | 100.0% |
| | | |
| **Total** | **$ 1,526,361,453** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, FROs and KSDs specific to Loans Receivable. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the FROs relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Loans Receivable, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Loans Receivable** | | | | |
| LR.1 | Recorded Loans Receivable may not exist at a given date, do not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #14, #19, #20, #21, and #22) | Recorded Loans Receivable exist at a given date, represent transactions and events that actually occurred or may occur due to contractual performance, are appropriately classified, and pertain to the reporting entity (Wave 4, FRO #57) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70) | Select a sample of cohorts, and then select a sample of loans from each cohort for detail testing and determine whether direct loans, loan guarantee liabilities, subsidy cost allowances, re-estimates, and related expenses are recorded in the proper period at the correct amounts. |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Loans Receivable** | | | | |
| | | | Documentation supporting accruals or disbursements related to the loans<br><br>Documentation supporting foreclosures and any related expenses | Select a sample of loan modifications and determine whether the cost of the modification is recorded in the proper period at the correct amount.<br><br>Select a sample of foreclosures and determine whether the foreclosed property is recorded as an asset in the proper period for the correct amount. |
| LR.2 | All Loans Receivable may not be summarized and recorded in the financial statements accurately (C) (Wave 4, ROMM #37, #42, #43 and #44) | All valid Loans Receivable are summarized and recorded in the financial statements accurately (Wave 4, FRO #58 and #77) | Loans Receivable general ledger account reconciliation and associated supporting documentation<br><br>Loan contracts, guarantee agreements, modifications, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)<br><br>Documentation supporting accruals or disbursements related to the loans<br><br>Documentation supporting foreclosures and any related expenses | See Suggested Test Procedures for LR.1 |
| LR.3 | Loans Receivable may be calculated incorrectly (V) (Wave 4, ROMM #59, #64, #65, and #66) | The reporting entity has calculated and recorded the Loans Receivable in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees* (Wave 4, FRO #58) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)<br><br>Loans Receivable general ledger account reconciliation and associated supporting documentation<br><br>Documentation supporting accruals or disbursements related to the loans<br><br>Documentation supporting foreclosures and any related expenses | Select a sample of cohorts, and then select a sample of loans from each cohort for detail testing and determine whether:<br>• program assumptions are applied for each cohort<br>• cash flow assumptions are supported by reliable data (including information on defaults, prepayments, and recoveries) of the reporting entity<br>• reasonable and systematic methods are used to project key cash flow assumptions<br>• interest rates agree to the rates approved by OMB<br>• outputs for the reporting entity from OMB Credit Subsidy Calculator 2 are valid and accurate |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Loans Receivable** | | | | |
| | | | | • direct loans, loan guarantee liabilities, subsidy cost allowances, re-estimates, and related expenses are recorded in the proper period at the correct amounts<br><br>See also Suggested Test Procedures for LR.1 |
| LR.4 | The reporting entity may not have rights to recorded Loans Receivable due to liens, pledges, or other restrictions (R) (Wave 4, ROMM #71) | The reporting entity has rights to the recorded Loans Receivable (Wave 4, FRO #59) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70) | Select a sample of recorded Loans Receivable and review the corresponding loan contract or loan agreement to substantiate that the reporting entity has valid rights to the receivable. |
| LR.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Loans Receivable** footnote disclosures included in **Note 8** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for loan related footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## C.3 DEBT

Debt consists of interest and principal payments due to the U.S. Treasury for funds borrowed by the Department for the Military Housing Privatization Initiative (MHPI) and the Washington Aqueduct Capital Improvements Project. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes related to borrowing including principal payments, interest payments, adjustments and prepayments.

### Intragovernmental vs. Non-Federal

Reporting entities are required to reconcile Intragovernmental transactions and balances with their federal trading partners throughout the course of the fiscal year. The suggested test procedures for DT.1 – DT.2 and DT.4 – DT.6 can be leveraged to test both Intragovernmental and Non-Federal Debt. The suggested test procedures provided in DT.3 are for Intragovernmental Debt only. Specific considerations that apply to the presentation and disclosure assertion for Intragovernmental transactions, including Debt related transactions, are covered in the Financial Reporting assessable unit.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Debt are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 5 (and amendments)<br>• DoD FMR: Volume 4, Chapter 11; Volume 6B, Chapter 4<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Debt line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **OMB Designated Audit** | | |
| USACE – Civil Works Program | $ 1,259,886 | 0.1% |
| **Subtotal - OMB Design. Audit** | **$ 1,259,886** | **0.1%** |
| **Remaining Defense Agencies and Funds** | | |
| Military Housing Privatization Initiative | $ 1,507,285,374 | 99.9% |
| | | |
| **Total** | **$ 1,508,545,260** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, FROs and KSDs specific to Debt. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the FROs relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Debt, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Debt** | | | | |
| DT.1 | Recorded Debt does not pertain to the reporting entity, is not representative of obligations owed by the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #14, #19, #20, #21 and #22) | Recorded Debt exists at a given date, represents transactions and events that actually occurred or may occur due to contractual performance, are appropriately classified, and pertain to the reporting entity (Wave 4, FRO #57) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70) | Select a sample of Debt transactions and obtain appropriate supporting documentation to validate the existence of the recorded transaction |
| DT.2 | All Debt may not be summarized and recorded in the financial statements accurately (C) (Wave 4, ROMM #37, #42, #43 and #44) | All valid Debt is summarized and recorded in the financial statements accurately (Wave 4, FRO #58 and #77) | Debt confirmations and debt agreements | Confirm the amounts of Debt obligations for the reporting entity with Treasury.<br><br>Review Debt agreements and validate that corresponding liabilities have been completely recorded in the general ledger. |
| DT.3 | Debt may not be properly classified as either Intragovernmental or Non-Federal (E, C) | Recorded assets and liabilities are properly classified as either Intragovernmental or Non-Federal (Wave 4, FRO #78) | Debt confirmations, repayment schedules, account reconciliations | Select a sample of Debt transactions from the general ledger and obtain supporting documentation to validate that the Debt is properly classified as either Intragovernmental or Non-Federal. |
| DT.4 | Debt may be calculated incorrectly (V) (Wave 4, ROMM #59, #64, #65, and #66) | The reporting entity has calculated and recorded the Debt in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees* (Wave 4, FRO #58) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)<br><br>Documentation supporting calculation of subsidy cost allowances, subsidy expense, and loan guarantee liabilities including desk procedures, default rates, discount factors, and loan histories, including support for any changes in assumptions, actuarial studies (Wave 4, KSD #71)<br><br>Worksheets documenting computation of subsidy estimates and loan guarantee liabilities (Wave 4, KSD #72)<br><br>Debt confirmations and debt agreements, repayment schedules, account reconciliations | Review available Debt agreements to verify accurate recording.<br><br>See also Suggested Test Procedures for DT.2 |

| | Financial Reporting Risks | Outcomes Demonstrating Audit Readiness | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Debt** | | | | |
| DT.5 | The obligation for Debt may not apply to the reporting entity (R) (Wave 4, ROMM #72) | Recorded Debt is the reporting entity's obligation at a given date (Wave 4, FRO #59) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories and any historical documents that support underlying assumptions (Wave 4, KSD #70)<br><br>Debt confirmations and debt agreements | See Suggested Test Procedures for DT.2 |
| DT.6 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

## Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Debt** footnote disclosures included in **Note 13** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Debt footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

## C.4 LOAN GUARANTEE LIABILITY

Loan Guarantee Liabilities represent potential payments by the Department relating to the Military Housing Privatization Initiative (MHPI) to cover defaults and delinquencies, interest subsidies, or other payments; offset by payments to the Department including origination and other fees, penalties and recoveries.

There is an interdependent relationship between loans receivable and loan guarantee liabilities. Reporting entities should account for loan guarantee liabilities at the present value of estimated net cash outflows of loan guarantees. The discount rate should be the average interest rate on marketable Treasury securities of similar maturity to the cash flows of the loan guarantee for which the estimate is being made. Disclosure should be made for the face value of guaranteed loans outstanding and the amount guaranteed. The Federal Credit Reform Act of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991.

### Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Loan Guarantee Liabilities are contained in the following table.

| Financial Management and Accounting Guidance | Record Retention Policies |
|---|---|
| • SFFAS No. 2, 18, 19 (and amendments)<br>• Technical Release (TR): 6<br>• DoD FMR: Volume 12, Chapter 4<br>• Federal Credit Reform Act of 1990<br>• DCFO Memorandum: *Accurate and Reliable DoD Component-level Financial Management Trial Balances* | • National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1<br>• DoD FMR: Volume 1, Chapter 9 |

### Balance By Reporting Entity

The following reporting entities comprise the Loan Guarantee Liability line item.

| Reporting Entities | FY 2015 Balance | % of Total |
|---|---|---|
| **Remaining Defense Agencies and Funds** | | |
| Military Housing Privatization Initiative | $ 66,541,849 | 100.0% |
| | | |
| **Total** | **$ 66,541,849** | **100.0%** |

Source: FY 2015 Reporting Entity DDRS-AFS Balance Sheets

### Line Item Audit Readiness Considerations

The following table presents financial reporting risks, FROs and KSDs specific to Loan Guarantee Liabilities. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the FROs relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Loan Guarantee Liabilities, and assess the availability of KSDs that support the controls and amounts recorded.

| | Financial Reporting Risks | Financial Reporting Objectives | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Loan Guarantee Liability** | | | | |
| LG.1 | Recorded Loan Guarantee Liabilities do not pertain to the reporting entity, are not representative of obligations owed by the reporting entity, or may be improperly classified and summarized (E) (Wave 4, ROMM #14, #19, #20, #21 and #22) | Recorded Loan Guarantee Liabilities for direct loans, subsidies, and loan guarantees represent transactions and events that actually occurred or may occur due to contractual performance, are appropriately classified, and pertain to the reporting entity (Wave 4, FRO #57) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70) | Select a sample of Loan Guarantee transactions and obtain appropriate supporting documentation to validate the existence of the recorded Loan Guarantee Liability. |
| LG.2 | All Loan Guarantee Liabilities may not be summarized and recorded in the financial statements accurately (C) (Wave 4, ROMM #37, #42, #43 and #44) | All valid Loan Guarantee Liabilities are summarized and recorded in the financial statements accurately (Wave 4, FRO #58 and #77) | Loan contracts, guarantee agreements, modifications (Wave 4, KSD #70)<br><br>Debt confirmations and debt agreements | Confirm loan guarantees for the reporting entity with lenders.<br><br>Review loan guarantee agreements and validate that corresponding Loan Guarantee Liabilities have been completely recorded in the general ledger. |
| LG.3 | Loan Guarantee Liabilities may be calculated incorrectly (V) (Wave 4, ROMM #59, #64, #65, and #66) | The reporting entity has calculated and recorded Loan Guarantee Liabilities in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees* (Wave 4, FRO #58) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)<br><br>Documentation supporting calculation of subsidy cost allowances, subsidy expense and loan guarantee liabilities including desk procedures, default rates, discount factors and loan histories, including support for any changes in assumptions, actuarial studies (Wave 4, KSD #71)<br><br>Worksheets documenting computation of subsidy estimates and loan guarantee liabilities (Wave 4, KSD #72)<br><br>Debt confirmations, debt agreements, repayment schedules, account reconciliations | Select a sample of Loan Guarantee Liabilities and review supporting documentation to determine whether:<br>• cash flow assumptions are supported by reliable data (including information on defaults, prepayments and recoveries) of the reporting entity<br>• reasonable and systematic methods are used to project key cash flow assumptions<br>• direct loans, loan guarantee liabilities, subsidy cost allowances, re-estimates, and related expenses are recorded in the proper period at the correct amounts.<br><br>See also Suggested Test Procedures for LG.2 |

| | Financial Reporting Risks | Financial Reporting Objectives | Key Supporting Documents | Suggested Test Procedures |
|---|---|---|---|---|
| **Loan Guarantee Liability** | | | | |
| LG.4 | The obligation for Loan Guarantee Liabilities may not apply to the reporting entity (R) (Wave 4, ROMM #72) | Recorded Debt is the reporting entity's obligation at a given date (Wave 4, FRO #59) | Loan contracts, guarantee agreements, modifications, project status reports, loan servicing histories, and any historical documents that support underlying assumptions (Wave 4, KSD #70)<br><br>Loan contracts, guarantee agreements, modifications (Wave 4, KSD #70)<br><br>Debt confirmations and debt agreements | Review available Loan Guarantee agreements to verify that recorded Loan Guarantee Liabilities are obligations of the reporting entity.<br><br>See also Suggested Test Procedures for LG.2 |
| LG.5 | IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM) | All material systems achieve the relevant FISCAM IT general- and application-level general control objectives. | See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities | |

### Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Loan Guarantee Liability** footnote disclosures included in **Note 8** of the FY 2014 DoD Agency Financial Report. Section 11.4.9.8 of OMB Circular A-136, *Financial Reporting Requirements*, provides detailed requirements for direct loans and loan guarantees that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance, Section 5, provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

# APPENDIX D – ACRONYM LIST

| Acronym | Definition |
|---|---|
| A&FP | Accounting and Finance Policy |
| AFR | Annual Financial Report |
| AICPA | American Institute of Certified Public Accountants |
| AMC | Army Materiel Command |
| AP | Accounts Payable |
| APSR | Accountable Property System of Record |
| AR | Accounts Receivable |
| ARRA | American Recovery and Reinvestment Act of 2009 |
| ASB | Auditing Standards Board |
| ASD | Assistant Secretary of Defense |
| AT&L | Acquisition, Technology and Logistics |
| AU | Auditing Standards |
| BEA | Business Enterprise Architecture |
| BIO | Business Integration Office |
| BTA | Business Transformation Agency |
| CAP | Corrective Action Plan |
| CFO | Chief Financial Officer |
| CIIC | Controlled Inventory Item Code |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CUEC | Complementary User Entity Controls |
| DCFO | Deputy Chief Financial Officer |
| DCMO | Deputy Chief Management Officer |
| DCPS | Defense Civilian Pay System |
| DDRS | Defense Departmental Reporting System |
| DFAS | Defense Finance and Accounting Service |
| DIACAP | DoD Information Assurance Certification and Accreditation Process |
| DLA | Defense Logistics Agency |
| DoD | Department of Defense |
| DoD OIG | Department of Defense Office of Inspector General |
| DoDAAC | Department of Defense Activity Address Code |
| DoDI | Department of Defense Instruction |
| DPAS | Defense Property Accountability System |
| DUSD | Deputy Under Secretary of Defense |
| E&C | Existence and Completeness |
| ERM | Enterprise Risk Management |
| ERP | Enterprise Resource Planning |
| ESOH | Environmental, Safety and Occupational Health |
| ETP | Enterprise Transition Plan |
| FAD | Funding Authorization Documents |
| FAM | Financial Audit Manual |
| FASAB | Federal Accounting Standards Advisory Board |
| FBWT | Fund Balance with Treasury |
| FFMIA | Federal Financial Managers' Improvement Act |
| FIAR | Financial Improvement and Audit Readiness |
| FIAR-PT | Financial Improvement and Audit Readiness- Planning Tool |
| FIE | Financial Improvement Element |
| FIP | Financial Improvement Plan |
| FISCAM | Federal Information System Controls Audit Manual |
| FMFIA | Federal Management Financial Integrity Act |
| FMR | Financial Management Regulation |
| FMS | Financial Management Service |
| FRO | Financial Reporting Objective |
| FY | Fiscal Year |
| GAGAS | Generally Accepted Government Auditing Standards |

| Acronym | Definition |
|---|---|
| **GAO** | Government Accountability Office |
| **GE** | General Equipment |
| **GF** | General Fund |
| **GMRA** | Government Management Reform Act |
| **GPRA** | Government Performance and Results Act |
| **GWA** | Government-wide Accounting |
| **HC** | Human Capital |
| **I&E** | Installations and Environment |
| **ICOFR** | Internal Control over Financial Reporting |
| **INV** | Inventory |
| **IPA** | Independent Public Accountant |
| **IPAC** | Intra-governmental Payment and Collection |
| **IRB** | Institutional Review Board |
| **ITGC** | Information Technology General Controls |
| **IUS** | Internal Use Software |
| **KSD** | Key Supporting Document |
| **LM&R** | Logistics & Materiel Readiness |
| **LSN** | Local Stock Number |
| **MDAP** | Major Defense Acquisition Program |
| **MICPP** | Managers' Internal Control Program Procedures |
| **MIPR** | Military Interdepartmental Purchase Request |
| **MOU** | Memorandum of Understanding |
| **NARA** | National Archives and Records Administration |
| **NAVFAC** | Naval Facilities Engineering Command |
| **NDAA** | National Defense Authorization Act |
| **NSN** | National Stock Number |
| **ODCFO** | Office of the Deputy Chief Financial Officer |
| **ODCMO** | Office of the Deputy Chief Management Officer |
| **ODO** | Other Defense Organizations |
| **OM&S** | Operating Materiel & Supplies |
| **OMB** | Office of Management and Budget |
| **OUSD(C)** | Office of the Under Secretary of Defense (Comptroller) |
| **PCIE** | President's Council on Integrity and Efficiency |
| **PEP** | Property & Equipment Policy Office |
| **PMO** | Project Management Office |
| **POAM** | Plan of Actions and Milestones |
| **PP&E** | Property, Plant & Equipment |
| **REMIS** | Reliability and Maintainability Information System |
| **RFP** | Request For Proposal |
| **RMD** | Resource Management Decision |
| **ROMM** | Risk of Material Misstatement |
| **RP** | Real Property |
| **RPUID** | Real Property Unique Identifier |
| **RSI** | Required Supplementary Information |
| **RSSI** | Required Supplementary Stewardship Information |
| **SAS** | Statement on Auditing Standards |
| **SAT** | Senior Assessment Team |
| **SBR** | Statement of Budgetary Resources |
| **SFFAS** | Statement of Federal Financial Accounting Standards |
| **SLA** | Service Level Agreement |
| **SOA** | Statement of Assurance |
| **SOC** | Service Organization Control |
| **SSAE** | Statements on Standards for Attestation Engagements |
| **SSN** | Social Security Number |
| **STANFINS** | Standard Financial System |
| **U.S.** | United States |

| Acronym | Definition |
|---|---|
| **UDO** | Undelivered Order |
| **UFCO** | Unfilled Customer Order |
| **USACE** | U.S. Army Corps of Engineers |
| **USD(C)** | Under Secretary of Defense (Comptroller) |
| **USMC** | United States Marine Corps |
| **WCF** | Working Capital Fund |

# APPENDIX E – GLOSSARY

**Agreed-Upon Procedures –** An attestation engagement in which a practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or conclusion on it. The parties to the engagement (specified party), agree upon and are responsible for the sufficiency of the procedures for their purposes.

**Assertions (Financial Statement) –** Management representations that are embodied in transactions. The financial statement assertions can be either explicit or implicit and can be classified into the following broad categories:

*Existence and Occurrence:* Recorded transactions and events occurred during the given period, are properly classified and pertain to the reporting entity. A reporting entity's assets, liabilities, and net position exist at a given date.

*Completeness:* All transactions and events that should have been recorded are recorded in the proper period. All assets, liabilities, and net position that should have been recorded have been recorded in the proper period and properly included in the financial statements.

*Rights and Obligations:* The reporting entity holds or controls the rights to assets and liabilities are the obligations of the reporting entity at a given date.

*Accuracy/Valuation or Allocation:* Amounts and other data relating to recorded transactions and events have been recorded appropriately. Assets, liabilities, and net position are included in the financial statements at appropriate amounts, and any resulting valuation or allocation adjustments are properly recorded. Financial and other information is disclosed fairly and at appropriate amounts.

*Presentation and Disclosure:* The financial and other information in the financial statements is appropriately presented and described and disclosures are clearly expressed. All disclosures that should have been included in the financial statements have been included. Disclosed events and transactions have occurred and pertain to the reporting entity.

**Assertion Supporting Documentation Package–** Documentation that demonstrates the reporting entity has designed and implemented an appropriate combination of control activities and supporting documentation to limit the risk of material misstatements by meeting the Financial Reporting Objectives. The documentation is prepared throughout execution of the Discovery and Corrective Action phases of the FIAR Methodology. Reporting entity management reviews the documentation to determine whether an assessable unit and/or financial statement is audit-ready.

**Auditability –** Management's ability to assert that its financial statements, a financial statement line item, or a process/sub-process has sufficient control activities and adequate documentation to begin an examination or a financial statement audit by an independent auditor.

**Control Activity –** An action established through policies and/or procedures that helps to ensure that directives of management to mitigate risks to the achievement of objectives are carried out.

**Corrective Action Plan –** A written document that spells out the specific steps a reporting entity will take to resolve a deficiency in its internal control, including targeted milestones and completion dates. Also referred to as a remediation plan, this plan is a result of following the requirements of OMB Circular A-123, Appendix A. Material reporting entities must integrate their corrective action plans into their Financial Improvement Plans (FIPs).

**Critical Capability –** The basic capabilities a DoD reporting entity must demonstrate to management to proceed into annual financial statement audits.

**Deficiency –** A deficiency that exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements in a timely manner (per AU-C Section 265.07).

**Department of Defense Activity Address Code –** A six position code that uniquely identifies a unit, activity, or organization that has the authority to requisition and/or receive material. The first position designates the particular Service/Agency element of ownership. These codes are particularly important for Defense Department financial, contracting and auditing records.

**Enterprise Transition Plan –** A plan that organizes and prioritizes efforts to modernize DoD's business, financial processes, systems, and tracks the transformation strategy to achieve the business architecture of the BTA.

**Examination –** An attestation engagement performed by auditors that consists of obtaining sufficient, appropriate evidence to express an opinion, in accordance with Generally Accepted Government Auditing Standards (GAGAS), on whether the subject matter is based on (or in conformity with) the criteria in all material respects, or the assertion is presented (or fairly stated), in all material respects, based on the criteria.

**Executive Agents –** The head of a DoD reporting entity to whom the Secretary of Defense or the Deputy Secretary of Defense has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operations missions, or administrative or other designated activities that involve two or more of the DoD reporting entities.

**Federal Accounting Standards Advisory Board (FASAB) –** A federal advisory committee established in 1990 by the Secretary of the Treasury, the Director of the Office of Management and Budget and the Comptroller General of the United States to develop accounting standards and principles for the U.S. government. In 1999, the American Institute of Certified Public Accountants (AICPA) designated FASAB as the standards-setting body for generally accepted accounting principles (GAAP) for federal reporting entities.

**FIAR Governance Structure –** A top-down view of financial improvement and audit readiness, which includes roles and stakeholders, and provides the vision and oversight necessary to align financial improvement and audit readiness efforts across the Department.

**FIAR Guidance –** A document that defines the Department's goals, strategy and methodology for becoming audit ready, including roles and responsibilities, and processes for reporting entities, service providers, and executive agents.

**FIAR Methodology –** The Business Rules (presently referred to as the FIAR Methodology) including key tasks, underlying detailed activities and resulting work products that all reporting entities should follow to become audit ready.

**FIAR Plan Status Report –** A document published bi-annually that summarizes the current status, at a point in time, of the Department and its reporting entities.

**FIAR Strategy –** The critical path for the Department's audit readiness and financial improvement efforts. The Strategy balances the need to achieve short-term accomplishments with the long-term goal of an unqualified opinion on the Department's financial statements.

**Financial Improvement Plans (FIPs) –** A standard framework/template that organizes and prioritizes the financial improvement efforts of the reporting entities and aligns to the FIAR Methodology. It provides a consistent, structured approach for measuring auditability progress, allows transparency into the challenges facing DoD, and highlights progress.

**Financial Management Information –** Information needed to manage the Department's mission critical assets.

**Financial Statement Audits –** Financial statement audits provide reasonable assurance through an opinion (or disclaimer of opinion) about whether a reporting entity's financial statements are presented fairly in all material respects in conformity with U.S. GAAP, or with a comprehensive basis of accounting other than U.S. Generally Accepted Accounting Principles.

**Generally Accepted Accounting Principles (GAAP) –** Standards, conventions and rules accountants follow in recording and summarizing transactions as well as the preparation of financial statements.

**Generally Accepted Auditing Standards (GAAS) –** Sets of standards against which the quality of audits is performed and may be judged.

**Information Technology General Controls (ITGCs) –** The structure, policies and procedures that apply to the overall computer operations of a reporting entity. These controls include an entity-wide security program, access controls, application development and change controls, segregation of duties, system software controls, and service continuity controls.

**Key Capabilities –** Key indicators that demonstrate a reporting entity's audit readiness.

**Financial Reporting Objectives (FROs) –** Objectives that capture the outcomes needed to achieve proper financial reporting and serve as a point against which the effectiveness of financial controls can be evaluated.

**Key Supporting Documents (KSDs) –** Documentation retained to demonstrate control activities are properly designed and operate to satisfy FROs, as well as support individual financial transactions and accounting events.

**Material Reporting Entities –** All DoD reporting entities needed to achieve coverage of at least 99 percent of the Department's total Budgetary Resources or assets.

**Material Weakness –** A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the reporting entity's financial statements will not be prevented, or detected and corrected on a timely basis (per AU-C Section 265.07).

**Micro-application –** Computer based tool(s), such as spreadsheets or databases, which generate financial reporting data and operate as key financial controls or processes outside of the security boundaries of a standard financial application.

**Mission Critical Assets –** Assets deemed necessary to perform the primary missions of the Department. For purposes of this definition, mission critical assets include: Real Property (e.g., land, buildings, structures, and utilities), Inventory (e.g., rations, supplies, spare parts, and fuel), OM&S (e.g., ammunition, munitions, and missiles), Internal Use Software and General Equipment (e.g., ships, aircraft, combat vehicles, training equipment, special tooling, and special test equipment).

**Risk of Material Misstatement (ROMM) –** The risk that a reporting entity fails to prevent or detect a material omission or misstatement on a timely basis for a specific financial statement assertion.

**Reporting Entity –** An entity or fund within the Department of Defense that prepares stand-alone financial statements included in the DoD Agency-wide financial statements. All reporting entities are working to become audit ready or their financial statements are currently being audited. A reporting entity that has outsourced business tasks or functions to a service organization is also referred to as a user entity.

**Responsible Party –** The party(or parties) responsible for the subject matter. If the nature of the subject matter is such that no such party exists, a party who has a reasonable basis for making a written assertion about the subject matter may be deemed to be the responsible party.

**SSAE No. 16 Examination –** An attestation in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. An SSAE No. 16 report includes the following sections:

1. A service auditor's report
2. A written assertion from management of the service organization confirming
    a. the description fairly presents the system during some or all of the period
    b. the description includes relevant details of changes to the service organization's "system" and
    c. the controls related to the control objectives stated in the description were suitable designed and operated effectively throughout the period
3. A description of the service organization's "system."
4. The control objectives and tests of controls and results of tests
5. Other information provided by the service provider (unaudited)

The SSAE No. 16 was finalized by the Auditing Standards Board of the AICPA in January 2010 and replaces SAS 70 as the authoritative guidance for reporting on service organizations for reports with an issue date of June 15, 2011 or later.

**Sensitive Activity –** Any transactional data or activity that is not unclassified.

**Service Auditor –** The auditor who is retained by the service provider to issue an opinion report on controls of the service provider that may be relevant to a reporting entity's internal control as it relates to an audit of financial statements (e.g., SSAE No. 16 examination report).

**Service Organization's System –** The policies and procedures designed, implemented and documented by management of the service organization to provide user entities with the services covered by the service auditor's report.

**Service Provider –** The entity (or segment of an entity) that provides services to a reporting entity that are part of the reporting entity's manual and/or automated processes for financial reporting (also referred to as a service organization).

**Significant Deficiency –** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance (per AU-C Section 265.07).

**Specified Party –** The intended user(s) to whom use of the written practitioner's report is limited.

**Statement of Federal Financial Accounting Standards (SFFAS) –** A standard promulgated by FASAB that provides a frame of reference for resolving accounting issues encountered by federal reporting entities.

**Subject Matter –** The phenomenon that is measured or evaluated by applying criteria.

**Subservice Organization –** A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting.

**User Auditor –** The financial statement auditor who issues an audit report opining on the financial statements of the user (reporting) entity.

**Working Capital Fund (WCF) –** A fund established to finance inventories of supplies and industrial-type activities that provide common services such as repair, manufacturing or remanufacturing. Unlike profit-oriented commercial businesses, the goal of a working capital fund is to break even by returning any monetary gains to appropriated fund customers through lower rates or collecting any monetary losses from customers through higher rates.

# APPENDIX F – CRITICAL TASKS AND CAPABILITIES

The OUSD(C) has developed a DoD-wide audit strategy to provide the Department with its best chance for achieving full financial statement auditability in fiscal year (FY) 2018. The strategy includes critical tasks and capabilities that each Component must perform and achieve, which are described in **Figure F-1**.

The Military Departments have self-identified completion dates for critical path tasks for both their general funds and working capital funds in coordination with their service providers. These tasks and associated milestones are published in the biannual FIAR Plan Status Report. For the DoD Designated Audit entities (Tier 2) and Mid-Sized Defense Agencies (Tier 3 ODOs), OUSD(C) is closely monitoring each reporting entity to ensure sufficient progress for audit readiness by FY 2018. Reporting requirements for the Remaining TI-97 reporting entities requirements are presented in **Figure F-2**. Note that each TI-97 reporting entity must plan to achieve its critical capabilities no later than the milestone dates presented in the FIAR Plan Status Report for all ODOs. FIAR Plan Status Reports can be found at http://comptroller.defense.gov/fiar/plan.aspx.

All DoD reporting entities and service providers must adhere to the proposed strategy. The Department's approach to achieving full financial statement auditability by the FY 2017 deadline relies upon each DoD reporting entity and service provider completing the critical path tasks in a timely manner. Failure to achieve these critical capabilities will put the entire Department's strategy at risk.

The DoD-wide audit strategy further accomplishes two additional objectives:

1. Shifts audit readiness focus onto remaining financial statements for both General Funds (GF) and Working Capital Funds (WCF) and;
2. Establishes Component audit categories using a risk-based approach.

The audit capabilities for reporting entities and service providers are discussed further in FIAR Guidance sections 4.A.6 and 4.B.3, respectively.

## Audit / Attestation Categories

An important element of the DoD-wide audit strategy is the grouping of the DoD reporting entities according to the expected type of engagement to be performed (DoD Components currently under audit are not listed in this section). The engagement types and designations are:

### *Engagement Types*

- **Agreed-Upon Procedures:** An attestation engagement in which a practitioner performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it.
- **Audit:** An "Audit" is a financial statement audit performed by Independent Public Accountants (IPAs) in accordance with U.S. generally accepted auditing standards and GAO's generally accepted government auditing standards.
- **Examination:** An "Examination" is an audit readiness examination performed by IPAs in accordance with attestation standards issued by the American Institute of Certified Public Accountants. The criteria used to assess reporting entity management's assertions will be the FIAR Guidance.
- **Mock Audit:** "Mock Audits" do not require the auditor to be independent of the reporting entity. Mock Audits are performed using audit-like procedures and programs and will help reporting entities understand what independent audits or examinations will entail.

### *Designations*

- **OMB Designated Audits (Tier 1):** The Office of Management and Budget (OMB) has designated select DoD reporting entities to prepare and issue audited financial statements annually, mandated by OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. These entities account for about 72% of FY 2016 budgetary resources provided by the Congress.
- **DoD Designated Audits (Tier 2):** In addition to the OMB-directed reporting entities, DoD management has directed certain material Defense Agencies and Funds to be audited on a stand-alone basis. These entities account for about 23% of FY 2016 budgetary resources provided by the Congress.
- **Mid-Sized Defense Agencies (Tier 3):** DoD management has directed the remaining material Defense Agencies and Funds to undergo annual examinations. These entities account for about 4% of FY 2016 budgetary resources provided by the Congress.
- **Remaining Defense Agencies and Funds (Tier 4):** The Remaining Defense Agencies and Funds not included in one of the categories above are not material to the DoD-wide financial statements. These entities will continue their audit readiness efforts to improve their internal controls and will be included in the DoD's FY 2017 consolidated financial statement audit. These entities account for about 1% of FY 2016 budgetary resources provided by the Congress.

The following table illustrates the Reporting Entity Audit Structure for the Department of Defense. Entities will undergo audit or examination[1] per the below. Entities must continue with their audit readiness efforts and complete the assertion tasks shown in **Figure F-2**.

| Tiers | Description |
|---|---|
| **Tier 1: OMB Designated Audits** | • Mandated by OMB Bulletin No. 15-02 to prepare and issue audited financial statements annually<br>• Includes Military Departments (GF and WCF), USACE, and Military Retirement Trust Fund |
| **Tier 2: DoD Designated Audits** | • Directed by DoD to prepare and issue audited financial statements annually on a stand-alone basis<br>• Includes DLA (GF, WCF, and Strategic Materials), USSOCOM, DISA (GF and WCF), DHP, USTRANSCOM, MERHCF (including Payments to MERHCF), MRF Payments, DeCA (GF and WCF), DFAS (WCF), DCAA, and DoD OIG |
| **Tier 3: Mid-Sized Defense Agencies** | • May be directed by DoD to undergo annual audit readiness examinations<br>• Includes WHS, MDA, DSCA, DoDEA, DARPA, CBDP, DTRA, DCMA, and JCS |
| **Tier 4: Remaining Defense Agencies and Funds** | • Identified as not material to DoD agency-wide financial statements either individually or collectively<br>• Includes all remaining Reporting Entities in the Fourth Estate not identified in the other Tiers |

[1] In an audit, the auditor expresses an opinion on historical financial statements. An examination is an engagement in which the auditor provides a high level of assurance regarding an assertion by a reporting entity about a subject matter.

As noted above, an essential part of the DoD-wide audit strategy involves completion of specific assertion tasks by all DoD reporting entities in accordance with the milestone dates reported in the FPSR. The figures on the following pages specify the tasks for each group. Reporting entities must strive to accomplish these tasks so the Department can achieve its audit readiness objective.

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task *(Note 1)*** | **Assertion Task Description** |
| **Pre-Assertion** | **1.A** | Present Assertion Strategy and Schedule to reporting entity management for Addressing *(FIAR Meth. 1.2.5)*:<br><br>(1) SBR Balances Brought Forward;<br><br>(2) All Open Appropriations on SBR;<br><br>(3) Any Remaining Budgetary Resources on SBR;<br><br>(4) Critical Financial Statement Line Items (Fund Balance with Treasury; Inventory and Related Property (*Note 2*); General Property, Plant, and Equipment (G-PP&E) (*Note 3*); and Environmental and Disposal Liabilities); to include producing a complete universe of transactions;<br><br>(5) Remaining ("Non-Critical") Material Financial Statement Line Items on the Full Financial Statements (e.g., Accounts Receivable, Other Assets, Accounts Payable, Other Liabilities, Gross Costs, Earned Revenue). | The assertion strategy should document the Reporting Entity's planned approach for addressing audit capabilities including tasks 1.A.1 and below.<br><br>The assertion strategy format should generally be a detailed written narrative document that identifies the critical path/milestones that need to be met to achieve the assertion tasks and specifies roles and responsibilities for achieving the assertion tasks. The assertion strategy should be comprised of two parts:<br><br>(1) The first part of the assertion strategy will focus on critical financial statement line items (Fund Balance with Treasury; Inventory and Related Property; General Property, Plant, and Equipment; Environmental and Disposal Liabilities). When presenting the strategy for these items, the Reporting Entity must specify dates for periodic follow up and review.<br><br>(2) The second part of the assertion strategy will include all remaining ("non-critical") material financial statement line items (e.g., Accounts Receivable, Other Assets, Accounts Payable, Other Liabilities, Gross Costs, Earned Revenue). |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task *(Note 1)*** | **Assertion Task Description** |
| **Pre-Assertion** | **1.A.1** | • ***CRITICAL PATH TASK (Fund Balance with Treasury):*** Perform Aging Analysis on Total Budgetary Resources, Along with Plan for Reconciling Fund Balance with Treasury *(FIAR Meth. 1.4.4)* | Determine how many past years of supporting documentation are needed to support balances brought forward on the SBR by aging current total budgetary resources by budget fiscal year, going back as far as necessary to get 99% coverage of the total balance. See the DoD FMR, Volume 4, Chapter 2, Annex 1 for requirements and further information on the aging analysis.<br><br>*Also see Section 5.C.1 of the FIAR Guidance for further information related to balances brought forward, and Section 5.D.1.1 of the FIAR Guidance for further information related to Fund Balance with Treasury.* |
| | **1.A.2** | • ***CRITICAL PATH TASK (Fund Balance with Treasury):*** Plan for performing complete reconciliation (including all controls in place to support, age, and resolve differences) for outlays/Fund Balance with Treasury/ unobligated balances between general ledger (G/L), disbursing systems, and Treasury for all material active/expired appropriations | Describe plan for implementing reconciliation from accounting system (G/L) to source feeder system for disbursements and to Treasury records for Fund Balance with Treasury, ensuring that--for all open appropriations and all available budgetary resources--disbursements recorded in the accounting system exist, that all disbursements are recorded accurately in the accounting system, and that Fund Balance with Treasury amounts recorded in the accounting system reconcile to Treasury records.<br><br>This plan should include reconciling:<br><br>• differences between the G/L accounts (proprietary and budgetary) and Treasury's Government Wide Accounting (GWA) account statement;<br>• transactions posted to budget clearing accounts ("suspense" accounts); and<br>• transactions reported on Treasury's Statement of Differences (e.g., deposits, EFT, and checks issued). |
| | **1.A.3** | • Plan for supporting open obligations SBR balance brought forward with appropriate supporting documentation as of the audit start date. | Describe plan for supporting open obligations SBR balance brought forward with appropriate supporting documentation as of the audit start date. Supporting documentation for open obligations should be substantiated through recurring triannual reviews of open obligations. |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** ***(Note 1)*** | **Assertion Task Description** |
| | **1.A.4** | • ***CRITICAL PATH TASK (Universe of Accounting Transactions):*** Plan for producing a universe of transactions from accountable property systems of record (APSRs) reconciled from universe to the accounting system to the financial statements | Describe process for producing a universe of APSR details. The universe must reconcile to the accounting system. Implement processes and controls to identify differences, track and age those differences, and resolve the differences.<br><br>*See Section 2.C.3 of the FIAR Guidance for further information on this assertion task.* |
| **Pre-Assertion** | **1.A.5** | • ***CRITICAL PATH TASK (Historical Property Existence, Completeness, and Valuation):*** Plan for identifying all historical property (existence and completeness) and establishing historical property values (including Inventory and Related Property *(Note 2)* and G-PP&E *(Note 3)*) | Document strategy/methodology for identifying all historical property (existence and completeness) and validating/supporting original acquisition cost, depreciation method and accumulated depreciation, placed-in-service date, and useful life of historical assets. |
| | **1.A.6** | • ***CRITICAL PATH TASK (Sustaining Property Existence, Completeness, and Valuation):*** Plan for sustaining processes to identify all property (existence and completeness) and processes to value property (including Inventory and Related Property *(Note 2)* and G-PP&E *(Note 3)*) | Document strategy/methodology for supporting and sustaining business processes to identify all property (existence and completeness) and business processes to support asset valuation, including determination of acquisition cost, appropriate depreciation method, placed-in-service date, and useful life of assets, on a go-forward basis. |
| | **1.A.7** | • ***CRITICAL PATH TASK (Environmental Liabilities):*** Plan for identifying and valuing environmental liabilities | Document strategy/methodology for ensuring all environmental liabilities pertaining to the Reporting Entity are properly valued and included on the Reporting Entity's financial statements. |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** *(Note 1)* | **Assertion Task Description** |
| | **1.A.8** | • ***CRITICAL PATH TASK (Universe of Accounting Transactions):*** Plan for producing a universe of accounting transactions and details for all line items, including line items with balances brought forward and sensitive activities, reconciled from the universe to the general ledger (G/L) trial balances produced by the accounting systems to all financial statement lines | Describe planned process for producing a universe of accounting transaction details and details for line items with balances brought forward, including sensitive activities. The universe details must reconcile to the G/L trial balances produced by the accounting systems and to all lines on the SBR, Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Discuss plan for implementing processes and controls to identify differences, track and age those differences, and resolve the differences.<br><br>For transaction-based lines, plan to produce a listing of accounting transactions for a period of time (e.g., a complete fiscal year). For line items with balances brought forward, plan to produce a listing of open balances that comprise the balances brought forward as of a point in time (e.g., end of the fiscal year).<br><br>*See Sections 2.C.2 & 2.C.4 of the FIAR Guidance for further information.* |
| **Pre-Assertion** | **1.A.9** | • ***CRITICAL PATH TASK (Feeder System Reconciliations):*** Plan for performing complete reconciliations (including all controls in place to support, age, and resolve differences) for: | Describe plan for implementing processes and controls to support complete reconciliations from accounting system (G/L)) to feeder systems and financial statements. A complete reconciliation should include processes to identify differences, track and age those differences, and resolve the differences. Responsibility for performing individual reconciliations should be determined through coordination between the Reporting Entity and any Service Providers. |
| | **1.A.9.a** | ○ ***CRITICAL PATH TASK (Feeder System Reconciliations):*** Funding between accounting system and funds distribution systems | Describe plan for implementing reconciliation from accounting system (G/L) to source feeder system for funds distribution, ensuring that--for all open appropriations and all available budgetary resources--appropriations recorded in the accounting system exist and that all appropriations received are recorded accurately in the accounting system. |
| | **1.A.9.b** | ○ ***CRITICAL PATH TASK (Feeder System Reconciliations):*** Obligations between accounting system and obligating systems (e.g., contract writing) | Describe plan for implementing reconciliation from accounting system (G/L) to source feeder system for obligations, ensuring that--for all open appropriations and all available budgetary resources--obligations recorded in the accounting system exist and that all obligations are recorded accurately in the accounting system. |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task *(Note 1)*** | **Assertion Task Description** |
| **Pre-Assertion** | **1.A.9.c** | ○ ***CRITICAL PATH TASK (Feeder System Reconciliations):*** Accounting system to feeder systems | Describe plan for implementing reconciliations from accounting system (G/L) to all relevant feeder systems. |
| | **1.A.9.d** | ○ ***CRITICAL PATH TASK (Feeder System Reconciliations):*** Accounting system to full financial statements | Plan for implementing reconciliation from accounting system (G/L) to financial statements produced from the Defense Department Reporting System – Audited Financial Statements (DDRS-AFS). |
| | **1.A.10** | • ***CRITICAL PATH TASK (Journal Vouchers):***<br><br>○ Plan for analyzing Journal Vouchers, performing root cause analysis of Journal Vouchers, and implementing corrective actions to address root causes<br>○ Plan for implementing processes and controls to review, approve, and support remaining Journal Vouchers | Describe plan for:<br><br>• performing root cause analysis of Journal Vouchers;<br>• identifying categories of causes for material Journal Vouchers (e.g., Fund Balance with Treasury, elimination entries, tie-points);<br>• assigning responsibilities and timelines for addressing root causes of Journal Vouchers;<br>• implementing corrective actions to address root causes; and<br>• implementing processes and controls to ensure Journal Vouchers are reviewed, approved, and supported. |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** *(Note 1)* | **Assertion Task Description** |
| **Pre-Assertion** | **1.A.11** | • Plan for aligning applicable financial reporting objectives (FROs) to assertion strategy and how those FROs will be addressed | Identify FROs relevant to an assertion including:<br>(1) SBR balances brought forward, including open obligations (which should be substantiated through recurring triannual reviews of open obligations);<br>(2) all open appropriations on the SBR;<br>(3) any remaining budgetary resources on the SBR (e.g., unobligated balances from prior periods remain available for obligation and pertain to the reporting entity);<br>(4) existence and completeness for Inventory and Related Property and G-PP&E; and<br>(5) all remaining assertions for all financial statement lines (e.g., G-PP&E balances and all the transactions they accumulate are recorded at correct amounts, and are properly classified and described in the financial statements).<br><br>Map relevant FROs to the tasks in the assertion strategy, describing how each of those FROs will be addressed. All relevant FROs must be achieved through a combination of control activities and/or key supporting documents (KSDs). |
| | **1.A.12** | • Plan for aligning Service Provider roles and systems with the Reporting Entity's assertion in a coordinated plan to document, test, and remediate controls | Identify all Service Providers performing a role in assertion processes/systems/controls, identify processes/systems/controls in assertion affected by each Service Provider, and determine level/types of support in audit readiness efforts. Ensure there is a strategy to document, test, and remediate processes/systems/controls either by the Service Provider or by the Reporting Entity. |
| | **1.A.13** | • Plan for integration of tie-points between budgetary and proprietary accounts | Identify key budgetary to proprietary tie-points and plan for validation. |
| | **1.A.14** | • ***CRITICAL PATH TASK (IT Controls):*** Plan for addressing effectiveness of information technology (FISCAM) controls over all relevant systems meeting FISCAM criteria (including APSRs and systems relevant to working capital funds (working capital fund accounting systems, working capital fund feeder systems, etc.)) *(FIAR Meth. 1.2.5)* | Describe plan for assessing effectiveness of information technology (FISCAM) controls (e.g., APSRs, working capital fund-specific accounting systems, working capital fund-specific feeder systems). |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** *(Note 1)* | **Assertion Task Description** |
| **Pre-Assertion** | **1.A.15** | • Plan for developing a sufficient audit infrastructure to respond to auditors' requests (requirements for human capital, tools, etc.), including being able to provide key supporting documents (KSDs), including Journal Vouchers, supporting:<br>(1) SBR balances brought forward;<br>(2) all open appropriations on SBR;<br>(3) any remaining budgetary resources on SBR;<br>(4) existence, completeness, and rights assertions; and<br>(5) all remaining financial statement line items. | Describe plan to put resources in place to build and maintain audit infrastructure. Identify organizations responsible for supporting responses to auditors' requests, and document roles and responsibilities among those organizations.<br><br>Describe plan for testing ability to provide all major types of KSDs, including Journal Vouchers, in response to auditor requests. Plan should document strategy for developing and implementing an automated/IT solution for a KSD repository (in order to maintain KSDs that do not currently have a central storage and retrieval location, which will help the Reporting Entity respond to auditor requests for KSDs in a timely manner).<br><br>*The line item tables in Section 5 of the FIAR Guidance identify KSD requirements for material financial statement line items.* |
| | **1.B** | • Present Test Results from Initial Controls/KSD Testing for:<br>Remaining Assertions for SBR Balances Brought Forward, All Open Appropriations on SBR, and Any Remaining Budgetary Resources on SBR (FIAR Meth. 1.3.4 & 1.4.6)<br>Remaining Assertions for All Non-Critical, Material Financial Statement Line Items (Full Financial Statements—including material line items such as Accounts Receivable, Other Assets, Accounts Payable, Other Liabilities, Gross Costs, Earned Revenue) (FIAR Meth. 1.3.4 & 1.4.6)<br>Develop and Execute Corrective Action Plans (FIAR Meth. 2.2) | Perform tests of controls for all controls in the “as-is” environment that will be relied on for assertion in Task 1.C. These tests only relate to the non-critical items and do not include processes, procedures, and controls related to the critical line items identified in Tasks 1.A.1 – 1.A.15. Also, perform tests of existence of KSDs.<br><br>Summarize results for both tests of controls and tests of existence of KSDs and present test results to management. For tests of controls, determine whether testing exceptions are the result of design deficiencies or operating deficiencies.<br><br>Develop detailed corrective action plans (reflecting the “to-be” environment) that will remediate identified internal controls and KSD deficiencies. Corrective action plans must include timelines for implementing the “to-be” solution and describe how the "to-be" solution will be implemented, such as by updating policies and procedures, preparing systems design documents, or drafting documentation templates. |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Assertion Task Category | Assertion Task Number | Assertion Task *(Note 1)* | Assertion Task Description |
|---|---|---|---|
| **Corrective Actions Completed and Reporting Entity Assertion** | **1.C** | Implement Procedures, Processes, and Controls (from Tasks 1.A.1 – 1.A.15) Related to Critical Financial Statement Line Items *(FIAR Meth. 2.1.1 & 2.1.2)*<br><br>Implement Corrective Action Plans (from Task 1.B) Related to Non-Critical, Material Financial Statement Line Items (All Remaining Items from Task 1.A (Tasks 1.A.11 – 1.A.15))<br><br>Verify Corrective Actions Plans Have Been Implemented and Confirm Audit Capabilities Have Been Addressed *(FIAR Meth. 2.4)*<br><br>Assertion (*FIAR Meth 3.0*) | Implement all procedures, processes, and controls items (Tasks 1.A.1 – 1.A.15 above) that will be relied on for assertion.<br><br>Implement corrective action plans (from Task 1.B) to remediate identified internal controls and KSD deficiencies for material financial statement line items.<br><br>As corrective actions are implemented and are verified to be operating as designed for both critical and non-critical items, individual Reporting Entities prepare assertion supporting documentation packages for management, confirming audit readiness of their financial statements (including SBR balances brought forward, all open appropriations on SBR, any remaining budgetary resources on SBR not previously asserted, existence and completeness for Inventory and Related Property and G-PP&E, and any remaining assertions for all financial statement line items). |

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-1: Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task *(Note 1)*** | **Assertion Task Description** |
| **Corrective Actions** | **1.D** | Reporting Entity Implements Corrective Actions, Updates the FIAR Directorate on Plan and Progress for Addressing Corrective Actions | Reporting Entities implement any necessary corrective action plans and update FIAR Directorate of corrective action plan implementation in accordance with the guidelines in sections 2.D and 6.B. |
| **Audit Start** | **1.E** | Perform "Dry Runs" in Preparation for Start of Audit | Reporting Entities perform "dry runs" to verify processes and audit infrastructure are in place and operating effectively in advance of start of audit. The intent of the "dry run" is to help reduce the risk of the Reporting Entity not being prepared for the financial statement audit. |
| **Audit Start** | **1.F** | Full Financial Statement Audit | Reporting Entities undergo financial statement audit of their full financial statements in accordance with the audit structure outlined in the DoD Consolidated Audit Strategy. See Section 2.C. |

*Note 1 – Where applicable, the Assertion Task references steps in the FIAR Methodology. Section 4 of the FIAR Guidance, which presents the detailed FIAR Methodology, provides detailed descriptions of each of the FIAR Methodology steps and identifies specific assertion work products related to each of the steps.*

*Note 2 – Inventory and Related Property includes Inventory, Operating Materiel and Supplies, and Stockpile Materiel*

*Note 3 – G-PP&E includes Land; Buildings, Structures, and Facilities; Capital/Leasehold Improvements; Internal-Use Software; General Equipment; Military Equipment; Assets Under Capital Lease; and Construction in Progress*

**Figure F-1 Waves 2/3/4 Assertion Tasks – Tier 1/Tier 2/Tier 3 Reporting Entities**

| Figure F-2: Waves 2/3/4 Assertion Tasks – Tier 4 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** | **Assertion Task Description** |
| **Pre-Assertion** | **2.A** | Satisfy Audit Capabilities, including: | Based on lessons learned from past audit readiness efforts, there are certain audit capabilities that prevent Reporting Entities from demonstrating audit readiness or succeeding in audits. The audit capabilities below (Tasks 2.A.1 - 2.A.8) are the significant areas that should be addressed by "Remaining Defense Agencies and Funds" (Tier 4) and DFAS jointly so that they can fully support the DoD consolidated audit. |
| | **2.A.1** | • Ability to perform complete reconciliation (including all controls in place to support, age, and resolve differences) for outlays/Fund Balance with Treasury/unobligated balances between general ledger (G/L), disbursing systems, and Treasury for all material active/expired appropriations. | Plan for implementing processes and controls to support complete reconciliations from accounting system (G/L) to feeder systems and financial statements. A complete reconciliation should include processes to identify differences, track and age those differences, and resolve the differences.<br><br>Describe plan for implementing reconciliation from accounting system (G/L) to source feeder system for disbursements and to Treasury records for Fund Balance with Treasury, ensuring that--for all open appropriations--disbursements recorded in the accounting system exist, that all disbursements are recorded accurately in the accounting system, and that Fund Balance with Treasury amounts recorded in the accounting system reconcile to Treasury records.<br><br>This plan should include reconciling:<br><br>• differences between the G/L accounts (proprietary and budgetary) and Treasury's Government Wide Accounting (GWA) account statement,<br>• transactions posted to budget clearing accounts ("suspense" accounts), and<br>• transactions reported on Treasury's Statement of Differences (e.g., deposits, EFT, and checks issued).<br><br>Responsibility for performing individual reconciliations should be determined through coordination between the Reporting Entity and any Service Providers. |
| | **2.A.2** | • Ability to produce universe of accounting transactions and details for line items with balances brought forward, including sensitive activities, reconciled from the universe to the general ledger (G/L) trial balances produced by the accounting systems to all financial statement lines | Describe process for producing a universe of accounting transaction details and details for line items with balances brought forward, including sensitive activities. The universe details must reconcile to the G/L trial balances produced by the accounting systems and to all lines on the SBR financial statement. Implement processes and controls to identify differences, track and age those differences, and resolve the differences.<br><br>For transaction-based lines, produce a listing of accounting transactions for a period of time (e.g., a complete fiscal year). For line items with balances brought forward, produce a listing of open balances that comprise the balances brought forward as of a point in time (e.g., end of the fiscal year). |

**Figure F-2 Waves 2/3/4 Assertion Tasks – Tier 4 Reporting Entities**

| Figure F-2: Waves 2/3/4 Assertion Tasks – Tier 4 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** | **Assertion Task Description** |
| **Pre-Assertion** | **2.A.3** | • Documentation of process flows, including all relevant control points, and testing of key control activities and key supporting documents (KSDs) | Fully document all financially relevant process flows, including documenting key control activities. Perform and document tests of internal controls and relevant KSDs. |
| | **2.A.4** | • Ability to produce universe of transactions from accountable property systems of record (APSRs) reconciled from universe to the accounting system to the financial statements | Describe process for producing a universe of APSR details. The universe must reconcile to the accounting system. Implement processes and controls to identify differences, track and age those differences, and resolve the differences. |
| | **2.A.5** | • Ability to perform complete reconciliations (including all controls in place to support, age, and resolve differences) between accounting systems and funding systems, obligating systems, feeder systems, full financial statements | Describe plan for implementing reconciliations from accounting systems to all financially relevant feeder systems, including funding systems, obligating systems, and other feeder systems, as well as plan for implementing reconciliations from accounting systems to full financial statements. A complete reconciliation should include processes to identify differences, track and age those differences, and resolve the differences. Responsibility for performing individual reconciliations should be determined through coordination between the Reporting Entity and any Service Providers. |
| | **2.A.6** | • Plan for providing KSDs, including Journal Vouchers, supporting existence, completeness, and rights assertions, and all remaining financial statement line items | Describe plan for having ability to provide all major types of KSDs, including Journal Vouchers, in response to auditor requests. Plan should document strategy for developing and implementing an automated/IT solution for a KSD repository (in order to maintain KSDs that do not currently have a central storage and retrieval location, which will help the Reporting Entity respond to auditor requests for KSDs in a timely manner). |

**Figure F-2 Waves 2/3/4 Assertion Tasks – Tier 4 Reporting Entities**

| Figure F-2: Waves 2/3/4 Assertion Tasks – Tier 4 Reporting Entities | | | |
|---|---|---|---|
| **Assertion Task Category** | **Assertion Task Number** | **Assertion Task** | **Assertion Task Description** |
| | **2.A.7** | • Plan for analyzing Journal Vouchers, performing root cause analysis of Journal Vouchers, and implementing corrective actions to address root causes<br><br>• Plan for implementing processes and controls to review, approve, and support remaining Journal Vouchers | Describe plan for:<br><br>• performing root cause analysis of Journal Vouchers;<br>• identifying categories of causes for material Journal Vouchers (e.g., Fund Balance with Treasury, elimination entries, tie-points);<br>• assigning responsibilities and timelines for addressing root causes of Journal Vouchers;<br>• implementing corrective actions to address root causes; and<br>• implementing processes and controls to ensure Journal Vouchers are reviewed, approved, and supported. |
| **Pre-Assertion** | **2.A.8** | • Any other Audit Capabilities | Satisfy any other audit capabilities identified in the assertion strategy. |
| | **2.B** | Provide FIAR Directorate Status of Audit Capabilities | • Reporting Entities provide the FIAR Directorate status updates towards addressing the audit capabilities during monthly Tier 4 update meetings. The updates provide the FIAR Directorate with an understanding of the Reporting Entity's current audit readiness status and an awareness of any impediments/risks encountered by the Reporting Entity that could impact the audit readiness timeline. |
| | **2.C** | Perform "Dry Runs" in Preparation for Start of Audit | Reporting Entities perform "dry runs" to verify processes and audit infrastructure is in place and operating effectively in advance of start of audit. The intent of the "dry run" is to help reduce the risk of the Reporting Entity not being prepared for the financial statement audit. |
| **Audit Start** | **2.D** | Audit Start | Reporting Entities are subject to financial statement audit of their full financial statements in accordance with the audit structure outlined in the DoD Consolidated Audit Strategy. See Section 2.C. |

**Figure F-2 Waves 2/3/4 Assertion Tasks – Tier 4 Reporting Entities**