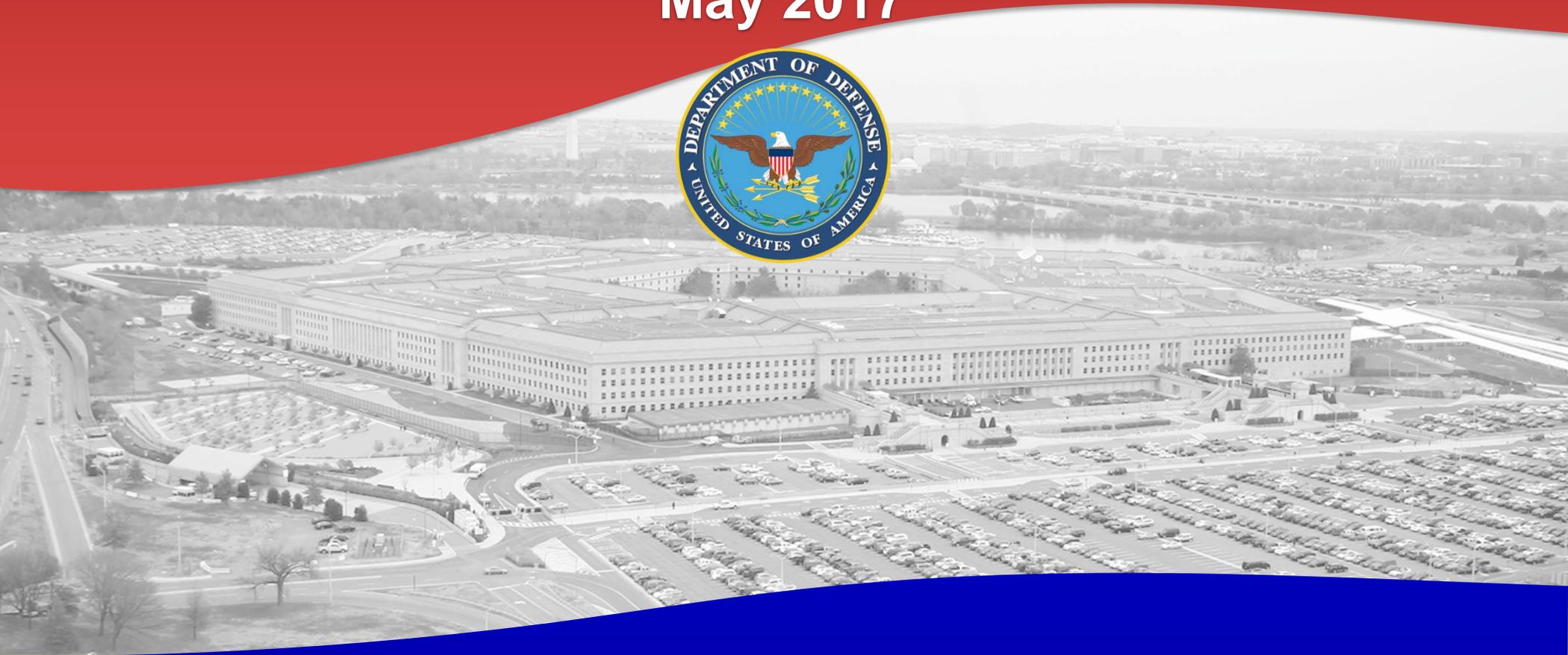


Financial Improvement and Audit Readiness (FIAR) Plan Status Report

May 2017



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

United States Department of Defense

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Message from the Under Secretary of Defense (Comptroller)

As we approach fiscal year 2018, we are culminating our journey to achieve audit readiness and entering an era of regular annual financial statement audits. Getting to this point has been one of the Department's highest priorities. Secretary Mattis and the new administration are committed to going under audit and demonstrating progress toward a positive opinion. I share that commitment.

Although we still have work to do to improve controls, and strengthen our business process and systems, being under audit is our best tool. From these audits, we will gain actionable feedback to transform business processes, improve operations, and overall positively change the way we do business. Initial audits are already helping to accelerate this change throughout the Department and simultaneously providing our financial managers and functional leaders with valuable experience.

We know from the experience of other federal agencies that achieving a clean audit opinion will take time. It requires a change in attitude, increased rigor in daily operations, and a commitment from senior leaders to make remediating problems a top priority. Only then will we realize our strategic goal of achieving a clean audit opinion consistently and over time. We must not lose focus as we continue to improve our processes and controls to ensure sound stewardship of the resources entrusted to us.



A handwritten signature in blue ink that reads "John P. Roth".

John P. Roth
Performing the Duties of
Under Secretary of Defense (Comptroller)
Chief Financial Officer

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Message from the Deputy Chief Management Officer

Let me start by thanking the men and women of the Department who have worked tirelessly to stay the course as we prepare to begin full financial statement audits in FY 2018. As the new administration has taken the reins, attention to detail has not wavered—a testament to the importance of this task to everyone in the Department of Defense.

The Military Departments and Defense Agencies have measurably improved their controls, systems, and processes. That success, plus objective feedback from our auditors, will help the Department improve the overall business environment. I am committed to working with senior leaders of the Military Services and other Defense organizations to institutionalize sound business practices and systems that can consistently produce reliable business and financial information.

Starting these audits is only the beginning, and we still face significant challenges. We are arguably the largest organization in the world. Resolving challenges will take time and continued dedication so that we achieve our ultimate goal of a Department-wide, clean audit opinion. Making annual audits a routine business practice will help us achieve greater effectiveness and efficiency in meeting our mission. It is our duty to ourselves and the American people we serve.



A handwritten signature in black ink, appearing to read 'D. Tillotson III', positioned above the printed name.

David Tillotson III
Acting Deputy Chief Management Officer

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The FIAR Plan Status Report was prepared in accordance with section 1003 of the National Defense Authorization Act for Fiscal Year 2010, as amended.

Preparation of this report cost the Department of Defense approximately \$203,000.

Executive Summary

Ten years ago, the Department of Defense (DoD) first projected its full financial statements would be audit ready by September 30, 2017. Congress later codified that projection in the National Defense Authorization Act of Fiscal Year (FY) 2010. Today, the Department is on track to begin full financial statement audits in FY 2018. This is a great achievement given the global magnitude and complexity of the Department.

Secretary Mattis assumed office in January, and he has affirmed his commitment to continuing the work of his predecessors and going under full audit. In a March 22, 2017, appearance before the Senate Appropriations Committee, the secretary spoke to his priorities, including reforming businesses practices so the Department can show it is spending the money entrusted to it in a responsible way. Deputy



Defense Secretary Jim Mattis testifies on the Defense Department's FY 2017 budget proposal before the Senate Appropriations Committee's defense subcommittee in Washington, D.C., March 22, 2017. (DoD photo by Navy Petty Officer 2nd Class Dominique A. Pineiro.)

Secretary Work, who was asked by the President to continue his duties through the transition, has continued to keep audit readiness at the forefront of the Department's management agenda. As importantly, financial and functional managers across the Department did not slow their pace as leadership transitioned, a testimony to their hard work and commitment, and evidence of the cultural change underway.

"We're keenly aware of the sacrifices made by the American people and the other departments, in terms of providing the military budget that we're getting. And I owe you a good audit and to gain your confidence that we're spending that money wisely."

*– Secretary James N. Mattis
before the Senate Appropriations Committee
March 22, 2017*

WHAT IT MEANS TO BE AUDIT READY

"Audit ready" means each DoD reporting entity has the capabilities in place to allow an auditor to scope and perform a full financial statement audit that results in *actionable feedback*. The Department has made substantial progress to get to this point, especially in the last seven years. Achieving audit readiness has involved significant changes to all elements of DoD's business environment including people, processes, controls, and systems. Still, audit ready does not mean initial audits will result in clean opinions. Experience of other federal agencies shows it often takes many years of being under annual financial audits before an organization achieves a clean opinion.

Actionable feedback from auditors forms the cornerstone of DoD's audit strategy going forward—remediating auditor findings is the most certain and cost-effective path to achieving a clean opinion.

THE VALUE OF BEING UNDER AUDIT

In addition to forming an opinion on an entity’s financial statements, an audit tests the entity’s ability to respond timely to an auditor’s requests for information; identifies areas that still need improvement; validates corrective actions; and provides feedback from which actionable milestones can be developed, prioritized, and assigned.

For the auditors, initial audits help familiarize them with the Component’s culture, structure, and terminology, as well as its business processes and systems. The Military Departments and large defense agencies exceed the size and complexity of many multinational companies. It takes time for the auditors to understand each organization and the dependencies that exist between DoD Components and their service providers.

The audits are also proving valuable to the U.S. Government as a whole. DoD audits are bringing to light issues that cut across federal agencies and could impede the ability to audit the U.S. Government’s Consolidated Financial Statements, such as the methods used to reconcile financial transactions between federal agencies. By uncovering these issues now, organizations responsible for making improvements can begin remediating issues and planning for audit.

CURRENT AUDIT OPINIONS

The U.S. Army Corps of Engineers (USACE), the DoD Office of Inspector General (DoD OIG), as well as six defense agencies and funds, are already sustaining positive opinions on their full financial statements. Together, these Components represent 19 percent of the Department’s total budgetary resources. Organizations under full financial statement audit, including the U.S. Marine Corps, Defense Logistics Agency (DLA), and Defense Information Systems Agency (DISA), represent another 10 percent of DoD total budgetary resources. Figure ES-1 lists the Components that have received positive audit opinions on their FY 2016 financial statements.

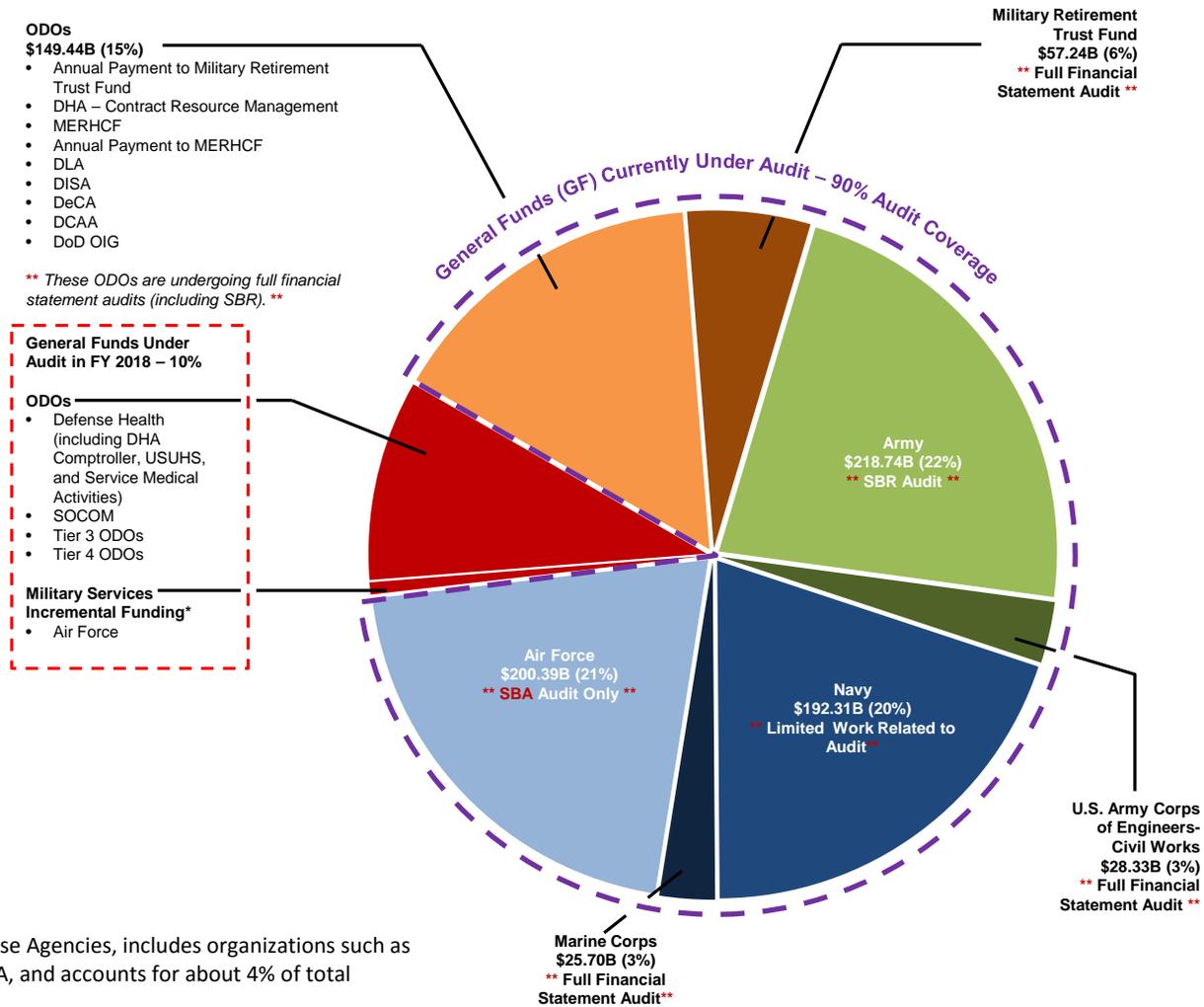
Figure ES-1. Financial Statement Audit Opinions

FY 2016 Unmodified Audit Opinions
U. S. Army Corps of Engineers – Civil Works
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Health Agency – Contract Resource Management
Military Retirement Fund
Office of Inspector General
FY 2016 Modified Audit Opinions
Medicare-Eligible Retiree Health Care Fund

The Military Departments are continuing to prepare for full financial statement audits in FY 2018. The Army expanded the scope of its audit in FY 2017 to cover elements of other financial statements, and the Air Force is continuing to audit its schedule of budgetary activities, or SBA. Independent public accounting firms (IPAs) competing for the Department of the Navy audit contract filed protests with the Government Accountability Office (GAO) on the FY 2017 audit contract. The solicitation was withdrawn, and a revised solicitation was issued in April, so the Navy could be under audit in FY 2017.

As the scope of audits across the Department expands, so does the amount of funds under audit. Currently, 90 percent of General Fund budgetary resources, and 55 percent of Working Capital Fund budgetary resources are under audit. Figure ES-2 and ES-3 show the General Funds under audit in FY 2017 and the Working Capital Funds under audit in FY 2017, respectively. Several defense agencies have also expanded the scope of audit readiness examinations in FY 2017. See the respective Military Department, Other Defense Organizations, and Service Providers section of this report for more detailed information on the status and results of the audits.

Figure ES-2. General Funds Under Audit in FY 2017

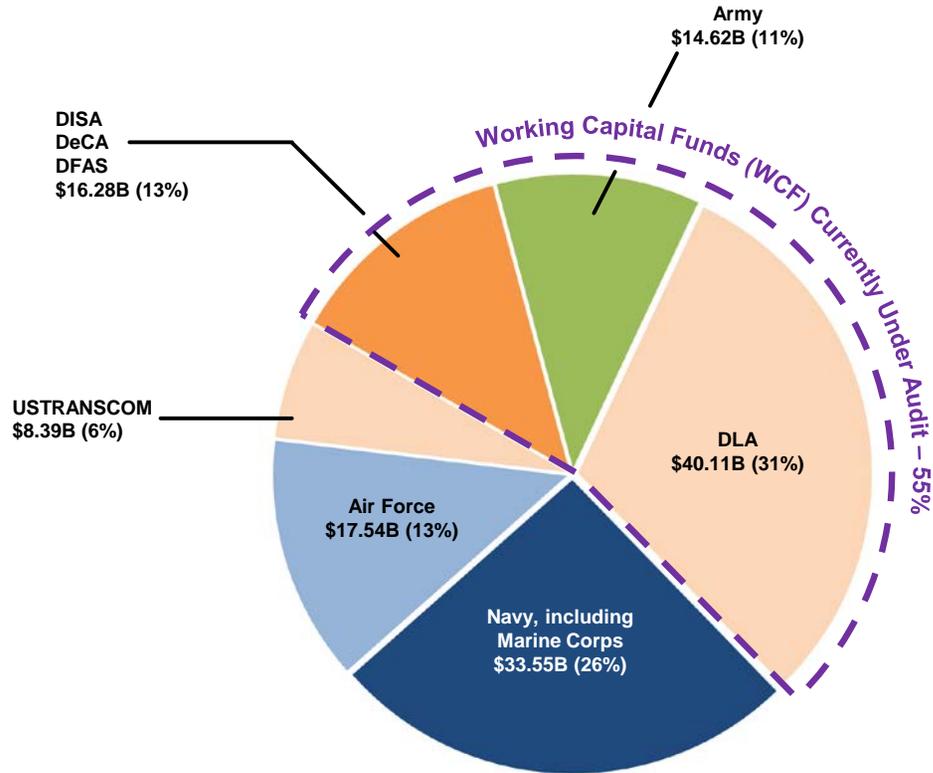


Note:

Tier 3, Mid-Sized Defense Agencies, includes organizations such as DARPA, DTRA, and MDA, and accounts for about 4% of total budgetary resources.

Tier 4, Remaining Defense Agencies and Funds, includes organizations such as DTIC and NDU, and accounts for about 1% of total budgetary resources.

Figure ES-3. Working Capital Funds Under Audit in FY 2017



Note:
Figure based on FY 2016 Total Budgetary Resources.

PREPARING FOR THE DOD-WIDE AUDIT

As the Department pivots from audit readiness to being under full financial statement audit and remediating findings, the audit experience is helping the Department refine its audit infrastructure and address problems in the way DoD business is conducted.

Refining an Audit Infrastructure

Each of the Components is strengthening its audit infrastructure to respond to auditor requests more timely, improve overall efficiency, and, over time, reduce audit costs. Both at the Component-level and at the DoD-level, processes have been put in place to prioritize, assign, and track audit findings and remediation activities. The Office of the Under Secretary of Defense (Comptroller) OUSD(C) and the Office of the Deputy Chief Management Officer (ODCMO) continue to monitor these activities, and Components are improving their ability to provide information and documentation for audit, as well as broadening their understanding of auditor expectations.

Building Audit Capabilities

To better measure progress toward audit readiness and focus on areas that still need improvement, the Department identified capabilities that each reporting entity must be working to have in place. Critical capabilities are the Universe of Transactions; Fund Balance with Treasury; Journal Vouchers; Existence and Completeness of Material Assets; Valuation of Material Assets; Environmental and Disposal Liabilities, and Information Technology (IT). Each Component's progress against milestones that support the capability are detailed in its respective section of this report.

Training

Attracting and retaining qualified personnel to help the Department achieve audit readiness and sustain an audit ready state has been an ongoing challenge. Contractors with specialized skills have helped fill in gaps in knowledge. However, DoD personnel must have the skills needed to complete audit readiness work, and prepare for and support

audits. The DoD Financial Management Certification Program is a course-based program designed to help DoD personnel build those skills. Currently, more than 36,000 financial management members, 66 percent of the DoD financial management workforce, have achieved certification, and training is continually being developed and offered to further advance the DoD workforce's skills.

Defense Accounting Solutions Board

The OUSD(C) is establishing the Defense Accounting Solutions Board, comprised of members with deep technical knowledge of accounting practices, to facilitate efficient and timely remediation of Department-wide issues. The board is tasked with prioritizing issues identified and communicated by DoD Components or their auditors, researching the issue and related authoritative guidance, and providing a path forward to remediate the issue. The path forward could be in the form of revised policy, implementation guidance, or clarification memoranda.

FY 2018 AUDITS

The Department will undergo an audit of all four of its financial statements (i.e., Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources) in FY 2018, including activity for both General Funds and Working Capital Funds. The audit strategy combines individual reporting entity audits with infrastructure and support from the DoD Office of the Deputy Chief Financial Officer (ODCFO) to sustain a consolidated DoD audit. For audit purposes, each reporting entity is assigned to one of four tiers:

- Tier 1 – Military Services and the Military Retirement Fund (Office of Management and Budget (OMB) Designated Audits)
- Tier 2 – Large Defense Agencies (DoD Designated Audits)
- Tier 3 – Mid-Sized Defense Agencies
- Tier 4 – Remaining Defense Agencies and Funds

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Tier assignments are based on a combination of two factors:

1. The materiality or visibility of each reporting entity when compared to the Department as a whole.
2. Whether the reporting entity is currently undergoing a stand-alone financial statement audit.

Tier 1 and Tier 2 reporting entities account for more than 95 percent of the DoD budget, and each will undergo a stand-alone audit of its financial statements. The “Group Auditor,” the auditor responsible for auditing the DoD Consolidated Financial Statements, will rely on the audits of the Component auditors to assist with rendering a final opinion on the DoD Consolidated Financial Statements.

Tier 3 and Tier 4, though less material to the overall Department, will be subject to internal controls and substantive testing by the Group Auditor. Likewise, the elimination entries, those intragovernmental and intra-Departmental balances that must be eliminated during the consolidation process, will be subject to internal controls and substantive testing. The Group Auditor will assume responsibility for the Component auditors’ work and combine that with its own internal controls and substantive testing to express an opinion on the overall DoD Consolidated Financial Statements.

The ODCFO is providing audit infrastructure support for Tiers 2, 3, and 4 activities and DoD eliminations. The ODCFO is also supporting the development of a universe of transactions, reconciliations, supporting documents, and audit liaison activities for Tier 3 and Tier 4.

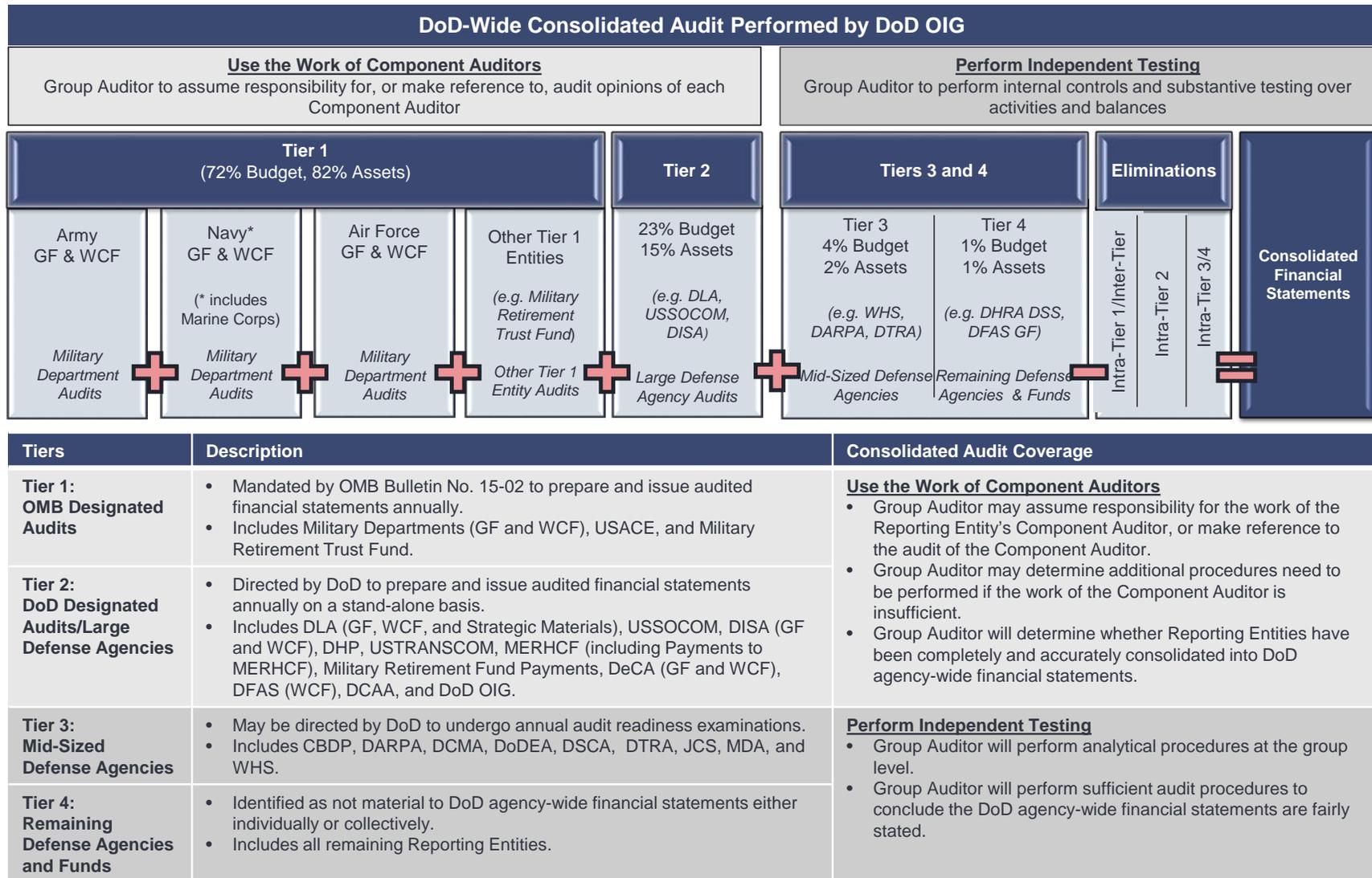
Although Components and the DoD OIG have programmed substantial resources to support audit readiness and conduct audits, current resource reductions will likely constrain the Department’s ability to address deficiencies and corrective actions will have to be carefully prioritized across the enterprise. Auditor capacity also continues to be a significant constraint.

The Military Departments and defense agencies are working with the DoD OIG to establish contract vehicles for the full financial statement audits. However, the potential for contractual protest and lack of sufficient and capable independent public accounting firms continue to be risk factors over which the Department has limited control.

Figure ES-4 shows the proposed audit structure by tiers and reporting entities.

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Figure ES-4. Reporting Entity Audit Structure



CHALLENGES AND IMPEDIMENTS

Audits help the Department demonstrate accountability, even though initial, limited-scope audits are revealing significant deficiencies still exist. Components are shifting their focus from audit readiness to prioritizing and remediating auditor-identified weaknesses with the goal of moving closer to a clean audit opinion in the future. Work to address critical capabilities and challenges to audit readiness identified in previous Financial Improvement and Audit Readiness (FIAR) Plan Status Reports also continues. Overarching challenges to achieving a clean audit opinion in the future derive from both external and internal factors.

External Factors Affecting Audit

Some of the Department's biggest audit readiness challenges are rooted in actions external to DoD operations. The Department must appropriately balance audit readiness requirements against existing and emerging legislation, standards and regulations, resource requirements, contract constraints, and external reporting requirements.

Legislation

Some impediments result from legislative requirements or how legislation was written. For example, some funding is appropriated to DoD centralized accounts. These funds may move through several organizations before ultimately reaching the organization responsible for executing the funding. This movement of funds significantly increases the difficulty in showing the auditor the flow of funds; one entity's financial activity may reside in multiple accounting and feeder systems. Existing U.S. Code also gives the Military Departments accountability over almost all DoD real property, even though the defense agencies are responsible for funding the construction and maintenance of their facilities. This disconnect complicates and increases the risk of error in reporting real property.

Standards and Regulations

Other external challenges result when applying accounting guidance to DoD's unique environment, or where existing standards and regulations are challenging to implement. The Department has been working closely with the Federal Accounting Standards Advisory Board (FASAB) on the effects and applicability of existing standards, and has been actively participating in and providing input through FASAB's established processes for soliciting input on emerging standards. The FASAB has been supportive in providing guidance and pronouncements to address DoD's challenges in preparing for its first full audit.

Internal Changes Needed to Support Audit

The size, global presence, and complexity of the Department are the root of many of the Department's biggest internal challenges to audit—resistance to change; contract constraints and resources; and IT systems and business processes.

Resistance to Change

The Department's national security mission will always remain DoD's highest priority. This often translates to a culture of "complete the mission first; fix the problems later." The Department identified a series of business practices that impede audit readiness without affecting mission readiness. The Secretary of Defense's business reform agenda is addressing these business practices, and senior leaders are exploring ways to incentivize the workforce to more actively support audit readiness and audits.

Because DoD's work is so mission-oriented, its operational structure was established to support functional capabilities. Transforming these silos and integrating business processes poses a significant challenge to the established culture and requires the full cooperation and involvement of all organizations. With over 2 million military members and civilian employees, a considerable amount of time is needed for the workforce to learn and implement new policies, business operations, and internal control procedures.

Contract Constraints and Resources

The Military Departments and defense agencies are working with the DoD OIG to establish contract vehicles for the full financial statement audits. However, the potential for contractual protests and lack of sufficient and capable independent public accounting firms continue to be risk factors over which the Department and the Components have no control. Current resource reductions, especially for individuals with accounting and finance backgrounds, also constrain the Department's ability to address deficiencies.

IT Systems and Business Processes

Findings from initial audits confirm that IT systems and documentation are the most pervasive challenges. The Department has hundreds of financial and feeder systems affecting the financial statements. It is nearly impossible to ensure data are completely and accurately feeding between these various systems. Furthermore, the Department still relies on some systems designed and implemented in the 1960s. These legacy systems lack the basic capabilities required to successfully undergo audit, and the Department is accelerating legacy system migration as much as possible. Enterprise Resource Planning (ERP) systems will help, but these systems need maturing and their functionalities are not being fully utilized. As the Department replaces legacy systems and moves more functions into ERP systems, more internal controls can be automated to better support audits as well as reduce errors, ease operations, and better support DoD's cybersecurity goals.

Auditors have also found that documentation to support the transaction or support the authority for the transaction is too often missing. Each day, the Department completes hundreds of thousands of transactions—from purchasing lightbulbs to deploying troops worldwide. For each transaction, proper documentation must exist and be readily available for auditor inspection. The Department is using the results of various audits and examinations performed over the past several years to build and expand its list of mandatory documentation that all entities must maintain.

The magnitude of these internal challenges requires the Department to rely on legacy business practices and manual work arounds in order to meet various accountability and reporting requirements. Work arounds, such as manual corrections in the form of journal vouchers, may solve one person's immediate challenge, but these work arounds are slowing the work of the auditors and significantly impeding the Department's ability to achieve a clean opinion.

DOD AUDIT READINESS RESOURCES

The Department is continuing to track and refine resource requirements. Resource needs for financial statement audits will likely increase for a few years after FY 2018 as the scope of the audits expand and work to correct audit findings increases. However, the amount of resources needed for audit activities is expected to decline as corrections are sustained and annual audits become a standard part of DoD's business practices.

Supporting new financial statement audits also increases demand on headquarters staff. Mandatory headquarters reductions, which must be completed by FY 2020, exacerbate the challenge. Because much of the audit effort is led and conducted by financial management personnel as a headquarters function, the Components must work within these constraints to prioritize remaining work. When making resource decisions, DoD leaders must weigh competing priorities while minimizing any risk to achieving an audit opinion, and document any resource shortfalls. The Department must continue to focus resources in ways that obtain the most sustainable value.

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The FIAR activities funded by the amounts in Figure ES-5 include:

Audit Readiness, Validations, and Audits

- Audit readiness management and oversight activities conducted by the OUSD(C).
- Evaluation, discovery, and corrective actions of the Components and their service providers.
- Support for IPA audit readiness validations and financial statement audits, including tools and data repositories.
- Examinations and financial statement audits conducted by IPAs for DoD service providers.

Financial Systems

- Design, development, and deployment of audit-ready compliant systems and changes to legacy systems that will be part of the systems environment.
- Data conversion and verification and controls testing.

Changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls and may not be captured under audit readiness resources. Similarly, ERP systems are being deployed to modernize functional as well as financial processes and support objectives independent of audit readiness. ERP costs are reported in Section VI, Enterprise Resource Planning Systems.

Figure ES-5. DoD Audit Readiness Resources (Dollars in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Readiness, Validations, and Audits	717	749	725	716	718	718
Financial Systems	101	93	89	87	85	85
Total Resources	818	842	814	802	803	802

Note: Numbers may not sum to total due to rounding.

REPORTING FUTURE AUDIT PROGRESS

Since 2005, the semi-annual FIAR Plan Status Report has been the primary vehicle for reporting progress toward audit readiness. When full financial statement audits begin in FY 2018, the Department's focus will shift from preparing for audit to prioritizing and remediating audit findings with the goal of moving closer to a positive opinion. It is expected that future reports will likewise change in focus from

reporting progress on discreet milestones to reporting progress on remediating overall findings and completing corrective actions. Over the next few months, the Department will work with its stakeholders on ensuring it is capturing and tracking complete information so that future reports present the right information at an appropriate level of detail.

Message from the Department of the Army

Audit Readiness remains a top priority for the Army. Our Army leadership and personnel continue demonstrating tireless efforts to deepen our culture of financial transparency and accountability. As the congressionally mandated 30 September, 2017 audit readiness deadline quickly approaches, the Army continues to make progress with its resolve deficiencies by undergoing audits and improving Army business processes.

In November 2016, the Army received a disclaimer of opinion from an independent auditor for the fiscal year 2016 (FY16) Schedule of Budgetary Activity (SBA) audit. These results showed progress in closing 100 findings from the prior year audit and validating 191 of the 316 corrective action plans. The Army will remain diligent to close any identified findings and deficiencies in order to become more auditable.

The Army works to apply lessons learned from the prior SBA audit and develop, implement, and test corrective actions, concurrently while undergoing the Statement of Budgetary Resources (SBR) audit. By incorporating improvements in our Enterprise Resource Planning (ERP) systems, such as General Fund Enterprise Business Systems (GFEBS), auditors now have complete visibility of the universe of transactions which will result in better transparency and auditability.

The Army will continue to prioritize audit readiness through our biweekly synchronization calls with senior responsible officials and exercising our monthly Business Mission Area Champion governance board because we recognize that the Army still faces some challenges with educating our workforce on auditability, implementing critical changes to our systems, standardizing business practices across our ERPs and the Army, and continuing to resolve deficiencies.

We continue to appreciate the support of Congress in providing needed resources to achieve this mission. Our leadership are able to make better decision as a result of improved data accuracy, a greater culture of accountability across all levels, and fostering greater confidence from taxpayers and Congress in the Army's management of resources. For these reasons, the Army will continue to strive towards achieving audit readiness.




Karl F. Schneider
Senior Official Performing the Duties of the
Under Secretary of the Army and Chief Management
Officer

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I. Army Audit Readiness

The Army is instilling a culture of accountability and transparency, and working to achieve auditable full financial statements by September 30, 2017. In FY 2017, the Army accelerated its efforts by entering into an audit of the full FY 2017 Statement of Budgetary Resources. Initial results are highlighting areas that still need improvement and helping the Army to prioritize remediation work.

The Army also continues to improve its monitoring of corrective actions. The Office of the Assistant Secretary of the Army Financial Management and Comptroller (OASA(FM&C)) Accountability and Audit Readiness Directorate put additional procedures in place and conducts biweekly meetings with senior responsible officials to evaluate the progress and status of critical corrective actions.

Progress Since the November 2016 FIAR Report

Highlights since the November 2016 FIAR report include:

- Established a sustainable and readily adaptable environment to house a complete universe of transactions in support of financial statement audit requirements. This capability provided auditors with a universe of transactions for the first quarter of FY 2017, which was not possible during the FY 2016 SBA audit.
- Began the FY 2017 Statement of Budgetary Resources audit on February 2, 2017.
- Developed and implemented corrective actions to address auditor-identified deficiencies noted during the FY 2016 audit. The Army continues to validate previously implemented corrective actions to confirm deficiencies are being addressed.
- Initiated the first full Army Working Capital Fund Statement of Budgetary Resources audit and four General Fund line-item audits for Property, Plant, and Equipment, including a Statement on Standards for Attestation Engagements No. 18 evaluation of the management of ordnance for the other Services.



Soldiers deliver ammunition with an M992 supply vehicle at a tactical assembly area at Hamam al-Alil to support the start of the Iraqi security forces' offensive in West Mosul, Iraq, Feb. 19, 2017. (Army photo by Staff Sgt. Jason Hull.)

Challenges to Audit Readiness

Challenges primarily include the need to acquire additional personnel and resources, improve internal controls, and document and correct ERP posting logic in order to reduce the number and amount of unsupported adjustments. Additional challenges include:

- Insufficient resources with the requisite accounting background and knowledge.
- Standardizing business processes across a sizeable, geographically dispersed organization that relies on service providers for critical financial reporting related activities.
- Critical system changes needed across multiple systems.

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- Balancing the demands of responding to a full Statement of Budgetary Resources audit while correcting deficiencies and preparing for a full financial statement audit in FY 2018.

SBA AUDIT RESULTS

The Army completed the second audit of the General Fund SBA audit in November 2016. The scope of the audit included FY 2015 and FY 2016 appropriation activity as well as an evaluation of IT controls over the general ledgers in various systems. The IPA did not issue an opinion but closed 100 findings from the prior year audit and noted Army's success in remediating audit impediments. The Army also enhanced coordination with service providers and worked closely with the IPA to help them better understand Army business processes.

During the FY 2016 SBA audit, the Army responded to nearly 24,500 audit samples and auditor requests. Compared to the FY 2015 audit, the Army reduced the number of requests for follow-up information and improved IT system controls. The Army expects the FY 2017 Statement of Budgetary Resources audit to show continued improvement. Areas demonstrating improvement include:

- **Revenue.** More consistent and higher quality documentation supporting transaction samples, increased response rate to missing documentation, and improved responses to follow-up questions.
- **Military and Civilian Pay.** More effective walkthroughs, including live transactions and controls demonstrations.
- **Procurement.** Improved site visits and walkthroughs for better understanding of the overall end-to-end process. Interactions with auditors focused on specific areas of concern.
- **Systems.** Continued focus and improvement around access control, segregation of duties, and configuration management for ERPs and feeder systems.
- **Corrective Action Plans.** Validated 191 of its 316 corrective action plans related to the SBA.

Areas with continued findings include:

- **Beginning Balances.** Inability to support beginning balances.
- **Universe of Transactions.** Inability to provide certain data populations and reconciliations.
- **Journal Vouchers.** Inability to provide journal voucher logs and supporting documentation.
- **Missing Documentation.** Inability to provide requested supporting documentation for SBA balances.
- **IT Controls.** Ineffective general IT controls for ERPs and feeder systems.

Notices of Findings and Recommendations

The IPA issues a Notice of Findings and Recommendations (NFRs) as part of the audit report. These findings and recommendations must be addressed before the Army can reasonably expect to achieve a clean audit opinion. To address each finding, the Army analyzed the root cause, and prepared a corrective action plan or plans, supporting milestones, and completion dates. When all supporting milestones and corrective action plans are complete, the Army will report the finding as closed. Closed findings may be retested by a future auditor to validate the issue has been resolved and no longer impedes a clean audit opinion.

Figure II-1, "Notices of Findings and Recommendations from Initial Audits," shows the number of corrective action plans and milestones being worked and projects a completion date. Findings and corrective action plans are tied to critical capabilities and DoD material weaknesses to improve the tracking of DoD-wide issues and help the Components build on existing improvement efforts and share lessons learned. Charts detailing the status of the critical capabilities follow the figure.

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Figure I-1. Notices of Findings and Recommendations from Initial Army Audits

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					Completion
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	
Universe of Transactions	Budget-to-Report	Financial Reporting Compilation	17	11	84	68	81	01/01/2019
Fund Balance with Treasury	Budget-to-Report	Fund Balance with Treasury	14	11	70	61	87	01/01/2019
	Entity-Wide	Fund Balance with Treasury	3	3	13	13	100	✓
Journal Vouchers	Budget-to-Report	Financial Reporting Compilation	35	19	171	121	71	03/01/2019
	Order-to-Cash	Financial Reporting Compilation	1	0	5	4	80	01/01/2019
	Procure-to-Pay	Financial Reporting Compilation	2	1	9	7	78	06/30/2017
Information Technology	Budget-to-Report	Financial Management Systems	2	1	12	5	42	03/31/2019
	Information Technology		316	171	1014	646	64	12/31/2020
N/A	Budget-to-Report	Civilian Pay	1	0	5	3	60	03/31/2018
	Hire-to-Retire	Civilian Pay	26	13	113	73	65	10/10/2019
		Military Pay	36	20	203	165	81	06/01/2021
	Order-to-Cash	Accounts Receivable - Public	6	4	29	24	83	01/01/2019
		Reimbursable Work Orders	8	1	42	25	60	01/01/2019
	Procure-to-Pay	Contract/Vendor Pay	6	5	29	26	90	03/31/2019
		Transportation of People	1	1	3	3	100	✓
Procure-to-Pay, Hire-to-Retire	Civilian Pay	2	0	8	4	50	01/01/2019	

Universe of Transactions

General Fund

Critical Capability	Completion
Schedule of Budgetary Activity	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017
C) Implement feeder and source systems reconciliations.	03/2018
Statement of Budgetary Resources	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
C) Implement feeder and source systems reconciliations.	03/2018
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
C) Implement feeder and source systems reconciliations.	03/2018

Working Capital Fund

Critical Capability	Completion
Statement of Budgetary Resources	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
C) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017
Reconcile contract obligations to LMP.	09/2017
Reconcile disbursements from feeder systems to LMP.	09/2017
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Able to reconcile population of transaction details to feeder, source, and originating systems.	06/2018
Transfer the universe of transactions from GCSS-A to the ALTESS database.	✓
Develop reconciliation for the accounting transactions to the feeder systems.	03/2018
Reconcile material locations for GCSS-A, DSS, and contractor systems to LMP for inventory.	06/2018

Fund Balance with Treasury

General Fund

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓
Finalize standard operating procedures and resolve differences.	✓
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts (suspense accounts).	✓
DFAS identify root cause and remediation.	✓
C) Process and tools to identify, age, and resolve transactions reported on Treasury's Statements of Differences (e.g., deposits, EFT, and check issue).	✓
Incorporate transactions on Statement of Differences into reconciliation process.	✓
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓
Perform reconciliation back to FY 2013.	✓

Working Capital Fund

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts (suspense accounts).	✓
C) Process and tools to identify, age, and resolve transactions reported on Treasury's Statements of Differences (e.g., deposits, EFT, and check issue).	✓
D) Perform aging analysis and apply reconciliations backwards to any years possible.	09/2017
Continue to work pre-2015 Treasury to accounting out of balances outside of Defense Reconciliation and Reporting Tool through normal uncleared and daily status process.	09/2017

Journal Vouchers

General Fund

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	✓
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	12/2018
Prepare decision memorandum regarding erroneous trading partner data interfacing with GFEBs.	✓
Determine courses of action for trading partner issues beyond Army’s control.	06/2017
Implement GFEBs update to trading partner derivation rules.	06/2018
Validate GFEBs update to trading partner derivation rules.	12/2018
Support G-Invoicing.	12/2018
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	12/2018
Perform root cause analysis and develop corrective actions for all journal voucher types.	✓
Implement corrective action plans and necessary system changes to GFEBs and DDRS.	06/2017
Validate testing of DFAS corrective actions.	09/2017

Working Capital Fund

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	✓
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	06/2018
Implement system change requests to populate trading partner fields in LMP.	03/2018
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	09/2017
Perform root cause analysis including identification of system change requests required. Develop corrective action plans.	06/2017
Implement corrective action plans to increase the percentage of journal vouchers that are appropriately supported.	09/2017

Existence and Completeness (Material Assets)

General Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
Implement corrective actions.	06/2018
B) Establish an auditable process for go-forward activity.	09/2017
Implement corrective actions.	06/2018
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	✓
Determine universe of Government Furnished Equipment.	09/2017
Complete corrective actions.	06/2018
B) Establish an auditable process for go-forward activity.	09/2017
Complete corrective actions.	06/2018
Internal Use Software	
A) Establish an auditable baseline.	09/2017
Complete corrective actions.	06/2018
B) Establish an auditable process for go-forward activity.	✓
Complete corrective actions.	✓
Inventory and Related Property	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
Perform discovery on Contractor-Owned Contractor-Operated facilities.	09/2017

Working Capital Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	09/2017
Implement OUSD(C) policy related to the rights assertion.	09/2017
Develop and implement internal guidance on what constitutes a base asset for real property.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Ensure controls over acceptance and disposal of real property assets are in place.	09/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	09/2017
Improve reconciliations between WebDPAS and LMP.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Develop corrective actions for issues identified during the FY 2016 limited scope audit.	✓
Ensure controls over acceptance and disposal of general equipment assets are in place.	09/2017
Internal Use Software	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	09/2017
Determine appropriate treatment for Internal Use Software (capital versus expense costs).	✓
Develop a plan to implement new FASAB guidance.	✓
Implement internal controls over the recording of Internal Use Software.	09/2017

Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
Develop a template for performing inventory reconciliations.	✓
Implement reconciliation procedures at high priority locations.	✓
Implement procedures to reconcile inventory held by contractors to LMP.	09/2017
Implement changes to GCSS-A to LMP interface to improve accuracy of on-hand balances.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017

Valuation (Material Assets)

General Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
Implement alternative valuation approach.	09/2017
Complete corrective actions.	06/2018
B) Establish an auditable process for go-forward activity.	09/2017
Complete corrective actions.	06/2018
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	✓
Implement IT controls over asset value entry.	09/2017
Implement full cost valuations estimates for new acquisitions.	09/2017
B) Establish an auditable process for go-forward activity.	06/2017
Complete corrective actions	06/2018
Internal Use Software	
A) Establish an auditable evaluation baseline.	✓
Complete corrective actions.	06/2018
B) Establish an auditable process for go-forward activity.	09/2017
Complete corrective actions.	06/2018
Inventory and Related Property	
A) Establish an auditable baseline.	✓
Complete corrective actions.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Complete corrective actions.	06/2018

Working Capital Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	06/2018
Calculate the alternative valuation methodology for all assets.	03/2018
B) Establish an auditable process for go-forward activity.	06/2018
Implement internal controls to ensure accurate values are recorded for all new Real Property.	06/2018
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	06/2018
Calculate the alternative valuation methodology for all assets.	03/2018
B) Establish an auditable process for go-forward activity.	06/2018
Implement internal controls to ensure accurate values are recorded for all new General Equipment.	06/2018
Internal Use Software	
A) Establish an auditable baseline.	09/2017
Prepare and post the journal voucher to write-off Internal Use Software.	06/2018
B) Establish an auditable process for go-forward activity.	06/2018
Publish Internal Use Software financial management policy.	✓
Publish implementation guidance.	12/2017
Implement internal controls over the recording and disposal of Internal Use Software.	09/2017

Inventory and Related Property	
A) Establish an auditable baseline.	06/2018
Identify root causes of inaccurate Moving Average Cost values.	09/2017
Implement system-based process to recognize excess inventory at net realizable value.	09/2017
B) Establish an auditable process for go-forward activity.	06/2018
Address issues that negatively affect the accuracy of Moving Average Cost values.	06/2018
Implement system controls to prevent manual entry of transactions that negatively affect Moving Average Cost values.	06/2018

Environmental and Disposal Liabilities

General Fund

Critical Capability	Completion
Real Property for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	✓
Complete corrective actions.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	✓
Document process narratives and flows to detail auditable process.	✓
General Equipment and Chemical Weapons Disposal for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	09/2018
Complete corrective actions.	09/2018
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2018

Working Capital Fund

Critical Capability	Completion
Real Property for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017
General Equipment and Chemical Weapons Disposal for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	✓
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	✓

IT SYSTEMS CRITICAL TO AUDIT

To efficiently audit financial statements, auditors must be able to rely on the Army’s IT control environment. Most Army systems were designed to serve a business purpose (e.g., procurement, property management, or logistics) and not designed to support auditable financial statements. Meeting audit needs requires many manual work-arounds. Manual work-arounds are not a viable, long-term solution to audit, and put substantial demands on limited resources while failing to address underlying root causes of audit deficiencies. The Army must reduce its number of systems by eliminating redundancy and legacy systems. Surviving systems must be modernized to meet audit, data, and cybersecurity standards. Controls must be in place and strictly adhered to, including supervisory reviews, access forms, and removing those users who no longer require system access.

During the FY 2016 SBA audit, the IPA tested general and application-level IT controls on systems material to the financial statements, including ERPs, Army feeder systems, and Defense Finance and Accounting Services (DFAS) feeder system. The IPA is determining whether any additional financially-relevant systems will be in scope for the FY 2017 Statement of Budgetary Resources audit.

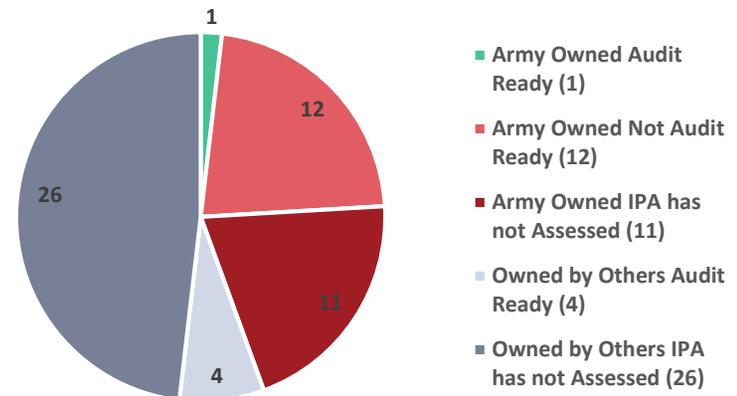
Status of Critical Systems

Achieving an audit ready systems environment requires extensive discovery and coordination among stakeholders and user communities. Currently, there are 165 Notices of Findings and Recommendations for both ERPs and feeder systems. The Army developed FY 2016 corrective action plans, and remediation activities are in progress. Activities include identifying systemic vulnerabilities and control weaknesses with coordination from multiple Army stakeholder communities, testing controls over the IT systems environment, performing corrective actions, and developing new system documentation, including policies and procedures. The Army is also developing and delivering training to address knowledge gaps and regularly meets with system commands to enforce accountability,

measure progress of corrective actions, and address challenges to audit readiness.

Figure I-2 summarizes the audit readiness status of systems relevant to the Army financial statement audit, including systems owned and maintained by the Army and systems owned and maintained by other organizations. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

Figure I-2. Status of Systems Relevant to Army Audit Readiness



Information Technology

General Fund

Critical Capability	Completion
A) Establish adequate information technology general controls for financially- significant accounting, reporting, and feeder systems used to process business and accounting transactions and generate reports and documentation.	03/2018
Implement process to review SOC Reports and validate complementary user entity controls.	✓
Implement corrective actions related to FY 2016 IPA findings for ERP and feeder systems.	06/2017
Address entity-level IT finding.	12/2017
Complete corrective actions.	03/2018
B) Establish adequate information technology business application controls for financially- significant accounting, reporting, and feeder systems used to process business and accounting transactions, perform material calculations, and generate reports and documentation.	03/2018
Implement process to review SOC Reports and validate complementary user entity controls.	✓
Implement corrective actions related to FY 2016 IPA findings for ERP and feeder systems.	06/2017
Address entity-level IT finding.	12/2017
Complete corrective actions.	03/2018

Working Capital Fund

Critical Capability	Completion
A) Establish adequate information technology general controls for financially- significant accounting, reporting, and feeder systems used to process business and accounting transactions and generate reports and documentation.	06/2018
Assess results of the first DLA SSAE No. 16 for Service-Owned Items in DLA custody.	06/2017
Identify material, financially-relevant systems undergoing an SSAE No. 18 and assess the results.	05/2017
Remediate high-risk findings from the FY 2016 SBA audit.	12/2017
Implement remaining corrective actions for systems not undergoing an SSAE No. 18 examination.	03/2018
B) Establish adequate information technology business application controls for financially- significant accounting, reporting, and feeder systems used to process business and accounting transactions, perform material calculations, and generate reports and documentation.	09/2018
Assess results of the first DLA SSAE No. 16 for Service-Owned Items in DLA custody.	06/2017
Identify material, financially-relevant systems undergoing an SSAE No. 18 and assess the results.	05/2017
Remediate high-risk findings from the FY 2016 SBA audit.	12/2017
Implement remaining corrective actions for systems not undergoing an SSAE No. 18 examination.	03/2018

ARMY AUDIT READINESS RESOURCES

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

Audit Readiness, Validations, and Audits

- Completing evaluation, discovery, and corrective actions of the commands and their service providers.
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions.
- Supporting audit infrastructure to sustain audit readiness and to support IPA audits, including tools and data repositories.

Financial Systems

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

Changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls and may not be captured under audit readiness resources. Similarly, ERP systems are being deployed to modernize functional as well as financial processes and support objectives independent of audit readiness. ERP costs are reported in Section VI, Enterprise Resource Planning Systems.

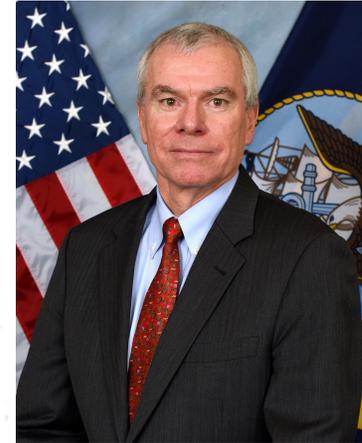
Figure I-3. Army Audit Readiness Resources (Dollars in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Readiness, Validations, and Audits	69	89	91	94	96	96
Financial Systems	6	4	4	2	2	2
Total Resources	75	93	95	96	98	98

Note: Numbers may not sum to total due to rounding.

Message from the Department of the Navy

The Department of the Navy (DON) enters its third year of financial statement audit with the added benefit of insight from our SBA audits. These audits have allowed our business managers and system owners to gain experience in a true audit environment. Our enterprise now more fully understands the focus and discipline that a successful audit requires. More importantly, we have pivoted to emphasize business reform. This involves improving processes and controls to support both audit readiness objectives and long-term sustainable financial reporting. As part of this shift, we performed a comprehensive review of current reporting capabilities and identified remaining gaps impeding the FY 2018 full financial goals. We're moving out aggressively to close these gaps.



Substantial progress has been made, but much hard work remains. By undergoing an audit of all four financial statements in FY 2018, we will realize a major milestone; yet our real goal has always been to continue strengthening our business controls and sustain the progress indefinitely. Nevertheless, as with any self-improvement project, the quick fixes are already complete and increasingly complex adjustments face us now and in the future.

Accordingly, difficult transformation efforts lie ahead. The DON is now tackling the arduous and multi-year mission of simplifying and streamlining Navy's IT environment. Equally challenging, the Department is substantially reducing the number of journal vouchers used to record transactions. These major fixes will not be easy to implement and will require the collaborative support of our leaders and our workforce. To succeed, we must continue to widen the circle of accountability incorporating more and more of our Senior Executives and Flag Officers to lead effective business processes. Furthermore, each year our audits will progressively probe deeper into our financial processes and systems providing added opportunities for efficiencies in our operations.

In summary, DON is on track to accomplish its financial improvement goals and achieve the necessary capabilities to support a full financial statement audit in FY 2018. Through this rigor, we will realize a higher level of financial performance and funds accountability. We remain committed, and confident to the success of our audit goals. Finally, this report is an assessment of readiness for audit, given we have been under audit since FY 2015 this report should shift from readiness to outlining audit results and remediation of material weaknesses.

Thomas P. Dee

Performing the Duties of the Under Secretary of the Navy

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II. Department of the Navy Audit Readiness

The Department of the Navy (DON) comprises the Navy and the Marine Corps. This section of the report covers the progress and status of audit readiness and initial audit results for first the Navy then the Marine Corps.

NAVY AUDIT READINESS

In FY 2017, the Navy entered its third year of limited-scope audits as part of its long-term audit strategy. The FY 2015 and FY 2016 SBA audits were instrumental in helping to deconstruct financial issues down to root causes. By undergoing limited-scope audits, the Navy has strengthened its business discipline and established audit response



The USS John S. McCain conducts a routine patrol in the South China Sea, Jan. 22, 2017. The guided-missile destroyer is supporting security and stability in the Indo-Asia-Pacific region. (Navy photo by Navy Petty Officer 3rd Class James Vazquez.)

processes that support full financial statement audits. These recurring financial audits will continue to enhance Navy's financial stewardship through corrective actions and ongoing improvements.

To prepare for full financial statement audits, the Navy remains focused on building beginning balance support for the Balance Sheet and the Statement of Budgetary Resources. These efforts are improving long-term and sustainable financial reporting processes and providing insight into the effectiveness of current and legacy business processes. Work is also ongoing to improve financial and operational controls to reduce inefficiencies, minimize financial operational costs, and streamline Navy financial management. As DoD leadership has made clear, the American taxpayer, and our men and women in uniform deserve nothing less than accurate financial information and auditable annual financial statements.

Progress Since the November 2016 FIAR Report

Highlights of Navy progress since the November 2016 FIAR Report include:

- Integrated transaction history from multiple, disparate accounting general ledgers into a centralized universe of transactions to support Navy financial statement compilation, and auditor substantive testing and sampling.
- Implemented feeder system reconciliation processes, enhancing completeness controls for the universe of transactions.
- Validated baseline existence and completeness for Navy major asset classes, including aircraft, vessels, satellites, and Real Property.
- Reduced journal vouchers by 25 percent by completing a comprehensive assessment of root causes.

FIAR Plan Status Report

Challenges to Audit Readiness

Although the Navy has made progress toward audit readiness, significant challenges remain:

- IT systems that were designed to support operations and budget must be modified to support financial reporting in compliance with the federal accounting standards. As a result, systems require significant changes and the number of changes needed continues to grow.
- Properly reporting assets under construction require significant changes to existing systems and processes. The scope of the work makes completing and validating these changes by 09/2017 challenging.
- Extensive cross-servicing within DoD creates complex reporting entity dependency issues.
- Material but dormant undelivered orders balances needing contract closeout increases supportability risks.
- High reliance on the audit readiness of service providers affects Navy's audit readiness.
- Demonstrating completeness of asset populations is complex (multiple unique classes of assets) and is difficult to adequately substantiate.

SBA AUDIT RESULTS

The Navy's FY 2016 SBA audit included the Navy's FY 2015 and FY 2016 appropriations and associated budgetary activity. During the audit, the IPA tested the Navy's audit support infrastructure, systems reliability, and process controls. Second year audits, particularly audits of entities as large and complex as the Navy, often do not result in unmodified opinions, and the outcome and results of the FY 2016 SBA audit were similar to the results of the FY 2015 SBA audit.

The IPA issued a disclaimer of opinion in FY 2016 based, in part, on the results of the FY 2015 SBA audit. The FY 2015 audit concluded

in mid-FY 2016, and there was not adequate time, prior to beginning the FY 2016 audit, to correct the identified deficiencies, especially those concerning IT system controls and internal controls over the completeness of the universe of transactions. The ability of auditors to rely on IT controls and confirm the completeness of the universe of transactions is essential to successfully completing an audit.

The independent audit firm notified the Navy of their intent to issue a disclaimer of opinion early in the FY 2016 audit. The Navy, therefore, requested that auditors focus on certain targeted areas and stress test areas where progress had been made since the FY 2015 SBA audit. Additionally, the Navy has made significant strides in correcting FY 2015 deficiencies by developing a process to assess corrective action plans and monitor progress toward successful remediation of the findings.

Following the completion of the FY 2016 SBA audit, the Navy hosted a lessons learned event with all audit stakeholders. The event was designed to reflect on the results and observations of the audit, promote learning and awareness, and advance audit response capabilities and collaboration across the Navy. Objectives of the event included conveying the value of being under audit and recapping the many improvements and accomplishments achieved in FY 2016. The event gave audit stakeholders across the enterprise the opportunity to speak with auditors and with each other to better understand inherent audit issues and develop solutions.

Continuing annual audits is an essential step to reaching the ultimate goal of achieving an unmodified opinion. Continual audit presence helps instill the rigor and focus necessary to support annual financial statement audits, while providing valuable insight for future improvements. The SBA audits have brought awareness to various process owners on how their actions affect financial execution. The Navy continues to remediate material weaknesses and pursue sustainable solutions for challenges, and is positioned to enter into full-scope financial statement audit in FY 2018.

FIAR Plan Status Report

Notices of Findings and Recommendations

The IPA issues a Notice of Findings and Recommendations as part of the audit report. These findings and recommendations must be addressed before the Navy can reasonably expect to achieve a clean audit opinion. To address each finding, the Navy analyzed the root cause, and prepared a corrective action plan or plans, supporting milestones, and completion dates. When all supporting milestones and corrective action plans are complete, the Navy will report the finding as closed. Closed findings may be retested by a future auditor to validate the issue has been resolved and no longer impedes a clean audit opinion. Navy’s auditors have elected to keep many Notices of Findings and Recommendations open and expand corrective actions

as needed. Because of this choice by the auditors, Navy Notices of Findings and Recommendations may remain open, even though milestones and corrective action plans are being completed.

Figure II-1, “Notices of Findings and Recommendations from Initial Audits,” shows the number of corrective action plans and milestones being worked and projects a completion date. Findings and corrective action plans are tied to critical capabilities and DoD material weaknesses to improve the tracking of DoD-wide issues and help the Components build on existing improvement efforts and share lessons learned. Charts detailing the status of the critical capabilities follow the figure.

Figure II-1. Notices of Findings and Recommendations from Initial Navy Audits

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					Completion
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	
Universe of Transactions	Budget-to-Report	Financial Reporting Compilation	3	1	74	43	58	12/31/2017
Fund Balance with Treasury	Budget-to-Report	Fund Balance with Treasury	9	4	84	51	61	03/31/2018
Journal Vouchers	Budget-to-Report	Civilian Pay	3	0	19	0	0	03/31/2019
		Financial Reporting Compilation	4	1	24	12	50	12/31/2018
Information Technology	IT Systems Material to Audit	Financial Management Systems	69	19	238	110	46	12/31/2019*
Other - Assertion Package Documentation	Budget-to-Report	Financial Reporting Compilation	3	1	27	10	37	03/31/2018
Other - Entity-Level Controls	Budget-to-Report	Financial Reporting Compilation	7	1	65	21	32	12/31/2018*

FIAR Plan Status Report

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	Completion
Other - Key Supporting Documentation and Internal Controls	Budget-to-Report	Civilian Pay	3	1	27	10	37	12/31/2017
		Contract/Vendor Pay	3	1	11	5	45	12/31/2017*
		Financial Reporting Compilation	7	0	60	10	17	12/31/2017
		Military Standard Requisitioning and Issue Procedures, Contract/Vendor Pay, Reimbursable Work Orders (Budgetary), Transportation of Things, Transportation of People	4	2	29	7	24	12/31/2019
		Military Standard Requisitioning and Issue Procedures, Contract/Vendor Pay, Reimbursable Work Orders (Budgetary), Transportation of Things, Transportation of People, Military Pay, Civilian Pay	2	1	12	12	100	TBD
		Military Standard Requisitioning and Issue Procedures, Contract/Vendor Pay, Transportation of Things	2	1	12	3	25	09/30/2018

FIAR Plan Status Report

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	Completion
Other - Key Supporting Documentation and Internal Controls	Budget-to-Report	Military Standard Requisitioning and Issue Procedures, Contract/ Vendor Pay, Reimbursable Work Orders (Budgetary), Transportation of Things	2	1	15	4	27	09/30/2018
		Reimbursable Work Orders (Budgetary)	15	6	98	38	39	06/30/2018*
		Transportation of People	3	0	53	20	38	09/30/2019
		Transportation of Things	1	1	4	4	100	✓
	Hire-to-Retire	Civilian Pay	2	1	10	7	70	09/30/2017
		Military Pay	1	0	11	5	45	12/31/2017

* Completion dates for corrective action plans and milestones are still being developed.

Universe of Transactions

General Fund

Critical Capability	Completion
Schedule of Budgetary Activity	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	✓
Implement recurring data reconciliations.	✓
Statement of Budgetary Resources	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
Implement recurring data reconciliations.	✓
C) Implement feeder and source systems reconciliations.	✓
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
Implement recurring data reconciliations.	✓
C) Implement feeder and source systems reconciliations.	✓

Working Capital Fund

Critical Capability	Completion
Statement of Budgetary Resources	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
C) Implement feeder and source systems reconciliations.	✓
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	✓
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	✓
C) Implement feeder and source systems reconciliations.	✓

Fund Balance with Treasury

General Fund

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓
Alternate (manual) procedures implemented until systematic solution is in production.	✓
DFAS implementation of Navy Fund Balance Tool in production.	08/2017
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	09/2017
DFAS and OSD initiative to improve Statement of Difference reconciliation and clearing of over aged items scheduled for completion end of FY17. Navy will partner with DFAS to update/implement procedures and resolve Statement of Difference transactions as part of the initiative	09/2017
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓
Implement recommendations from aging analysis.	✓

Working Capital Fund

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	08/2017
Implement Working Capital Fund consolidated reconciliation as repeatable process (implement a revised aging capability and improved automation).	06/2017
Validate that all Navy Working Capital Fund activities (subheads) are generating monthly recurring reconciliations.	08/2017
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	09/2017
DFAS and OSD initiative to improve Statement of Difference reconciliation and clearing of over aged items scheduled for completion end of FY17. Navy will partner with DFAS to update/implement procedures and resolve Statement of Difference transactions as part of the initiative.	09/2017

Journal Vouchers

General Fund

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	06/2017
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	09/2018
OSD delivers data standards and GEX translation capabilities.	09/2017
Develop, implement, and recommend corrective actions (when feasible) for supporting documentation.	✓
Publish revised DON reimbursable work orders policy.	✓
Revise G-invoicing implementation plan to address eliminations.	✓
Budget submitting offices begin implementing G-invoicing.	09/2018
C) All Other Journal Vouchers –Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	✓

Working Capital Fund

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	06/2017
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	09/2018
OSD delivers data standards and GEX translation capabilities.	09/2017
Develop, implement, and recommend corrective actions (when feasible) for supporting documentation.	✓
Publish revised DON reimbursable work orders policy.	✓
Revise G-invoicing implementation plan to address eliminations.	✓
Budget submitting offices begin implementing G-invoicing.	09/2018
C) All Other Journal Vouchers –Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	✓

Existence and Completeness (Material Assets)

General Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	09/2017
Validate interim, manual process for Construction-in-Progress.	✓
Establish auditable baselines for aircraft and vessels.	✓
B) Establish an auditable process for go-forward activity.	09/2017
Validate interim process for Construction-in-Progress.	09/2017
Establish auditable process for aircraft and vessels.	✓
Internal Use Software	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Determine projects to be capitalized post 09/2017.	09/2017
Accumulate and report software in development.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Implement and validate Operating Materials and Supplies existence and completeness corrective actions.	09/2017

Working Capital Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Internal Use Software	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Determine projects to be capitalized post 09/2017.	09/2017
Accumulate and report software in development.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓

Valuation (Material Assets)

General Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	✓
Research for historical value.	09/2017
Update accountable property system of record.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Conduct Government Furnished Property testing.	✓
Validate and implement interim solution for Construction-in-Progress.	✓
Internal Use Software	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Determine projects to be capitalized post 09/2017.	09/2017
Accumulate and report software in development.	✓
Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
Finalize deemed cost approach (replacement cost).	06/2017
B) Establish an auditable process for go-forward activity.	09/2017
Turn on Moving Average Cost functionality.	09/2017

Working Capital Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Internal Use Software	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	09/2017
Determine projects to be capitalized post 09/2017.	09/2017
Accumulate and report software in development.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	09/2018
B) Establish an auditable process for go-forward activity.	09/2018
Implement corrective action plans.	09/2018
Validate Moving Average Cost calculation.	09/2018

Environmental and Disposal Liabilities

General Fund

Critical Capability	Completion
Real Property for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	✓
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	✓
General Equipment and Chemical Weapons Disposal for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	09/2017
Validate and update Vessels estimation methodology.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017
Reconcile Vessels environmental and disposal liabilities universe.	09/2017

Working Capital Fund

Critical Capability	Completion
Real Property for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017
General Equipment and Chemical Weapons Disposal for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	12/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	12/2017

IT SYSTEMS CRITICAL TO AUDIT

The Navy IT systems environment includes numerous legacy systems supporting business operations across budget submitting offices and commands. Navy efforts to ensure audit readiness for financial systems include both short- and long-term approaches.

The Navy continues to consolidate data center operations to reduce IT control assessment requirements at the database and operating-systems levels. The Navy is also finding opportunities to reduce the number of legacy systems and consolidate application controls by reducing, consolidating, migrating, and retiring IT systems affecting audit readiness. A financial information systems working group works to ensure stakeholders are involved in the decision process and facilitates cooperation and collaboration between IT and financial management.

Since 2012, the Navy has worked to identify control deficiencies across all material financial systems. Using a risk-based approach, the Navy assessed the audit readiness of systems most critical to audit readiness and developed corrective action plans to address control deficiencies. Teams led by experienced IT audit professionals assessed critical IT general- and application-level controls and identified 628 IT control deficiencies across systems currently identified as material to audit; 179 (28 percent) have been remediated and closed. The Navy projects 95 percent completion of the Federal Information System Controls Audit Manual (FISCAM) assessment corrective action plans by December 31, 2017. The FY 2015 SBA audit resulted in 181 IT NFRs. For the 2016 SBA audit, 123 (68 percent) of the NFR corrective action plans were remediated and submitted for testing.

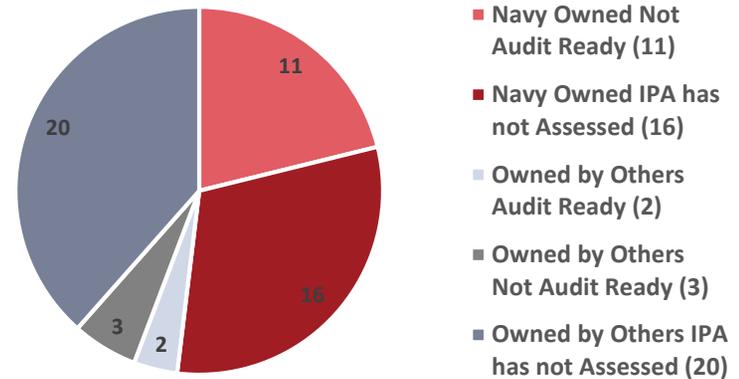
The Department of the Navy Chief Information Officer and the Assistant Secretary of the Navy (Financial Management and Comptroller) jointly developed enterprise IT control standards covering all 18 control families (National Institute of Standards and

Technology (NIST) Special Publication 800-53). These IT control supplemental guidance publications provide system owners with a set of standards for effective IT control activities for financially-relevant systems and provide the overall framework for designing, implementing, and operating effective systems controls. This initiative focuses on critical IT controls that system owners need to implement to sufficiently mitigate risks in their operating environments and satisfy audit requirements.

Status of Critical Systems

Figure II-2 summarizes the audit readiness status of systems relevant to the Navy financial statement audit, including systems owned and maintained by the Navy and systems owned and maintained by other organizations. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

Figure II-2. Status of Systems Relevant to Navy Audit Readiness



Information Technology

General Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	04/2019
Implement critical IT general and application-level controls across the IT portfolio with complete implementation of the risk management framework:	04/2019
Implement corrective actions for 75% of the FY 2015 SBA IT NFRs.	06/2017
Implement corrective actions for 85% of the FY 2015 SBA IT NFRs.	09/2017
Implement corrective actions for 95% of the FY 2015 SBA IT NFRs.	06/2018
Implement corrective actions for 100% of the FY 2015 SBA IT NFRs.	04/2019
Implement 80% of the FISCAM corrective action plans.	✓

Working Capital Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	04/2019
Implement critical IT general and application-level controls across the IT portfolio with complete implementation of the risk management framework:	04/2019
Implement corrective actions for 75% of the FY 2015 SBA IT NFRs.	06/2017
Implement corrective actions for 85% of the FY 2015 SBA IT NFRs.	09/2017
Implement corrective actions for 95% of the FY 2015 SBA IT NFRs.	06/2018
Implement corrective actions for 100% of the FY 2015 SBA IT NFRs.	04/2019
Implement 80% of the FISCAM corrective action plans.	✓

NAVY AUDIT READINESS RESOURCES

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

Audit Readiness, Validations, and Audits

- Completing evaluation, discovery, and corrective actions of the commands and their service providers.
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions.
- Supporting audit infrastructure to sustain audit readiness and support IPA audits, including tools and data repositories.

Financial Systems

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

Changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls and may not be captured under audit readiness resources. Similarly, ERP systems are being deployed to modernize functional as well as financial processes and support objectives independent of audit readiness. ERP costs are reported in Section VI, Enterprise Resource Planning Systems.

Figure II-3. Navy Audit Readiness Resources (Dollars in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Readiness, Validations, and Audits	162	161	155	150	148	150
Financial Systems	61	55	51	50	49	50
Total Resources	223	216	206	200	197	200

Note: Numbers may not sum to total due to rounding.

U.S. MARINE CORPS AUDIT READINESS

The full financial statement audit of the Marine Corps started in September 2016. Similar to previous efforts, such as the audits of the Statement of Budgetary Resources and the SBA, the Marine Corps is leading the way for the Department on a multi-year mission to achieve an audit opinion on its full financial statements.

Progressing through a first year audit has been difficult and challenging, but the audit is identifying improvements needed in both the execution of funds and asset accountability. The Marine Corps anticipates multiple audit findings from the audit of the FY 2017 financial statements. While it has not received official NFRs to date, the Marine Corps expects to receive NFRs during FY 2017 and will diligently analyze and prioritize corrective action activities. The Marine Corps will initially measure itself not by the opinion received, but by the reduction in number of corrective actions from year to year, velocity of corrective action remediation, improved execution of funds, and improved property accountability and utilization in support of the warfighter.

Progress Since the November 2016 FIAR Report

The Marine Corps continued executing a priority-driven, risk-based approach to achieving audit readiness. This risk-based approach focused on efforts to produce fully reconciled financial statement balances, a complete universe of transactions, and the valuation of mission-critical assets. This approach was validated in the early stages of the audit as the Marine Corps has responded to over 1,100 provided-by-client requests, conducted hundreds of business process and data reconciliation walkthroughs, and made it through early rounds of “probe testing” at selected sites across the Marine Corps. The Marine Corps actively engaged system owners, service providers, and fund holders and is working to improve the timely, accurate, and complete reporting of financial statement balances.

Challenges to a Successful Audit

The Marine Corps works in a dynamic operating environment affected by the drawdown of forces abroad, reductions in the operating force, and requirement for equipment reset. Due to the volume and complexity of requirements to support the warfighter, the Marine Corps will continue to strengthen the internal control environment during early audit cycles and make adjustments to financial statement balances, as necessary. In addition to locating and valuing a complex asset base, challenges include:

- **IT Systems Owned and Operated by Others.** The Marine Corps is dependent on IT systems not owned or operated by the Marine Corps, which may affect audit results. Such systems may have incomplete corrective actions or may not have undergone an audit.
- **Audit Readiness of Service Providers.** The Marine Corps relies on third-party service providers for significant portions of its operations and has limited control over the service providers’ compliance with Generally Accepted Accounting Principles (GAAP), DoD, and federal financial management policy, guidance, and regulations. Many service providers are still unaudited or undergoing initial audits.
- **Offline Reporting Processes.** The Marine Corps is using offline reporting until DoD-wide systems and processes change and are able to provide required accounting information for Real Property, General Equipment, and Operating Materials and Supplies. Offline processes compensate for system limitations and will be phased out as systems become compliant.

Despite these challenges, the Marine Corps continues to value the feedback the audit has provided to date, and will continue to improve business processes and financial reporting as the audit continues.

MARINE CORPS STRATEGIC OBJECTIVES FOR AUDIT SUCCESS

The Marine Corps' audit is complex and resource intensive, especially during the first audit cycles. However, other federal agencies that achieved audit success followed a similar path. Success for the Marine Corps should be measured by incremental progress toward strategic objectives, not simply on achieving an audit opinion.

Strategic objectives provide leadership and stakeholders with tangible goals and milestones for each audit cycle. The Marine Corps is working through Objective 1 with its auditors and is cautiously optimistic that field testing (Objective 2) will begin during the current fiscal year.

Objective 1: Get the Auditors to the Field

Marine Corps financial managers put in place procedures for reconciling data universes for proprietary and budgetary accounts across the General Fund financial statements. The General Fund financial statement balances were assessed and validated, and corrective actions implemented prior to going under audit. Applying lessons learned from previous audits, the Marine Corps is well positioned to provide transaction universes and the large volume of artifacts and documentation requested at the start of the full audit. The Marine Corps prepositioned artifacts and datasets, and worked with DFAS to complete similar preparations. The Marine Corps is working with its auditors to understand the entity, business processes, accounting procedures used to record and report financial transactions, and how the transactions are compiled into the financial statements.

The compiled financial statement balances are accompanied by the complete transaction universe for all general ledger and financial statement line items. The Marine Corps gathered this information from the core accounting system (Standard Accounting, Budgeting, and Reporting System – SABRS) and the numerous accountable property systems of record. The Marine Corps, together with DFAS, provided the auditors with compilation documentation to illustrate

movement of detailed transaction data and journal voucher information through to the Defense Departmental Reporting System (DDRS), which produces the reconciled financial statements.

The auditors are in the process of validating the financial statement compilation process and the completeness of data universes. Once complete, the auditors will begin validating beginning balances and transactions through field-level sampling over the population. Objective 1 will be achieved when the auditors can fully reconcile and tie-out the financial statements, and start field-level testing.

Objective 2: Take the Field

Objective 2 is to further improve business processes based on NFRs provided by the auditors and weaknesses identified during Marine Corps internal reviews. Additionally, the alternate valuation and estimation methodologies used for beginning balances will be subject to thorough audit scrutiny for the first time and may produce findings. The Marine Corps anticipates balance adjustments based on audit findings and activities.

Early identification of these issues is critical to advancing toward audit success in a timely manner. The auditor-identified weaknesses provide focus to specific issues and process deficiencies until financial statement account balances are materially correct, and material weaknesses reduced year after year. Achievement of Objective 2 will be evidenced by the auditors' validation of all material account balances. While areas for improvement may still exist, an unmodified opinion will signify achievement of this objective.

Objective 3: Sustain Audit Gains

The Marine Corps' first unmodified opinion may be the result of enhanced substantive testing procedures with a limited reliance on internal controls. This approach will achieve initial audit success but will not be sustainable from a resource and timeline perspective. The goal is to continue to reduce auditor-identified material weaknesses and reportable conditions while simultaneously implementing an internal control plan and an organization to test these controls.

In order to fully shift the audit focus to an internal controls and IT controls based approach, the Marine Corps will continue to strengthen and build its OMB Circular A-123 program. At the headquarters-level, the Marine Corps established a risk and compliance organization to oversee the internal controls over financial reporting and the managers' internal control program.

To sustain command-level audit readiness of Real Property, the Marine Corps hired 19 Real Property accountability officers to strengthen the business process and is using the existing resource evaluation and analysis organization to review changes to Real Property data. To sustain audit readiness of General Equipment, Internal Use Software, and Operating Materials and Supplies at the command-level, the enterprise ground equipment managers' internal controls and audit readiness team is working closely with the field supply and maintenance analysis office to review asset balances. The combined building and strengthening of these programs over time will sustain audit success.

These programs will be the cornerstone of future audit successes and include increased internal controls testing and evaluation at the entity, process, and transaction levels. Achievement of Objective 3 will be evidenced by the elimination of material weaknesses, a controls-based audit that is completed within OMB timelines (November 15 each year), and a steady reduction in reportable conditions.

These three strategic objectives are effective gauges of audit progress and success. Each objective builds on previous accomplishments until an effective control environment is established and unmodified audit opinions are routine. The Marine Corps is cautiously optimistic that Objective 1 will be achieved by fiscal year end, and is ready to support field-level testing.

PROGRESS REPORTING

The Marine Corps is tracking and reporting progress in five areas:

- **Significant NFRs from Full Financial Statement Audit (Business Process and Information Technology).** Marine Corps leadership is fully aware that the FY 2017 audit will produce findings and require corrective actions. Findings identified during the current audit will be tracked and reported.
- **Remediation Status (Business Process and Information Technology).** The Marine Corps will actively track and report the status of remediation efforts and controls implemented to improve audit results.
- **Identification of Service Provider Trading Partner, and DoD-Wide NFRs.** The Marine Corps shares business processes, systems, data, and controls with multiple DoD Components and federal agencies, including findings resulting from service provider and trading partner activities.
- **Evolving DoD Policy and Guidance.** Marine Corps audits may highlight DoD policy or guidance that is not GAAP compliant. These findings will be reported to assist other Components, facilitating remediation activities.
- **Report Lessons Learned.** The first Military Service under full financial statement audit comes with the responsibility to share knowledge, shortfalls, and other information that can help accelerate or improve audit efforts across the Department.

The Marine Corps auditors have not provided official NFRs. Once received and accepted, information on NFRs will be reported.

IT SYSTEMS CRITICAL TO AUDIT

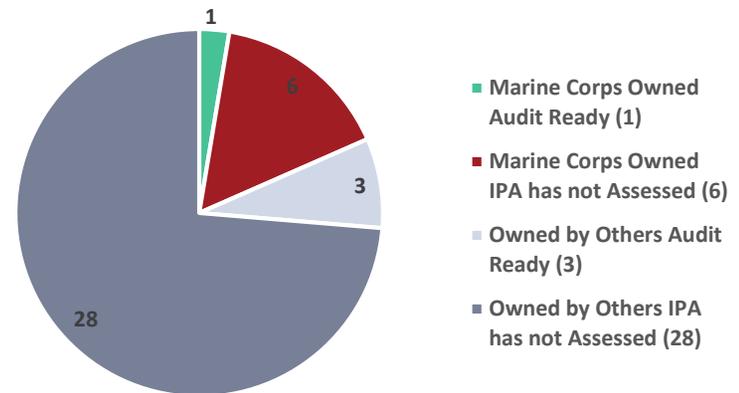
The Marine Corps developed an internal control test plan for performing FISCAM and complementary user entity control reviews of relevant and material Marine Corps-owned financial systems. The reviews determined the effectiveness of general, application-level, and third-party IT controls, as well as assisted in early detection and remediation of system deficiencies. The Marine Corps has also undergone an annual IPA SBA audit since FY 2010, providing IPA-identified IT issues and deficiencies for Marine Corps remediation.

The Programs and Resources, Risk and Compliance Branch conducted an internal materiality assessment to identify systems relevant and material to audit readiness, as well as the Marine Corps audit. The Marine Corps has completed FISCAM reviews for Marine Corps-owned systems and is coordinating with IT system service providers to ensure audit requirements are met.

IT Systems Status

Figure II-4 summarizes the audit readiness status of systems relevant to the Marine Corps financial statement audit, including systems owned and maintained by the Marines Corps and systems owned and maintained by other organizations. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

Figure II-4. Status of Systems Relevant to Marine Corps Audit Readiness



U.S. MARINE CORPS AUDIT READINESS RESOURCES

Despite budget constraints, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure II-5 include:

Audit Readiness, Validations, and Audits

- Completing evaluation, discovery, and corrective actions of the commands and their service providers.
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions.
- Supporting audit infrastructure to sustain audit readiness and to support IPA audits, including tools and data repositories.

Financial Systems

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

Changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls and may not be captured under audit readiness resources. Similarly, ERP systems are being deployed to modernize functional as well as financial processes and support objectives independent of audit readiness. ERP costs are reported in Section VI, Enterprise Resource Planning Systems.

Figure II-5. Marine Corps Audit Readiness Resources (Dollars in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Readiness, Validations, and Audits	27	34	34	34	34	34
Financial Systems	1	1	1	1	1	1
Total Resources	28	35	35	35	35	35

Note: Numbers may not sum to total due to rounding.

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Message from the Department of the Air Force Chief Management Officer

The Air Force has made significant progress in our drive to produce auditable financial statements by September 30, 2017. We are sustaining accountability of our assets, improving our business processes, eliminating duplication, and modernizing our systems by leveraging the implementation of the Defense Enterprise Accounting and Management System (DEAMS). We continue to aggressively correct audit findings and eliminate material weaknesses. Being under an annual audit regimen is critical and helps target deficient areas and prioritize remediation efforts.

The 2015, 2016, and 2017 Schedule of Budgetary Activity audits are helping drive change. Our Airmen across all functional areas are engaged and receiving valuable real-world audit experience. We better understand auditor's expectations and the higher level of consistency and rigor that successful audits require.

Undergoing full financial statement audit is a great achievement, and we recognize achieving a clean audit opinion will take the Air Force several more years. As we continue to build on past success, we are maturing our efforts and sustaining our progress. The Air Force remains committed to effective financial management and efficiently using resources in direct support of our Airmen!



A handwritten signature in black ink, appearing to read 'Lisa S. Disbrow', written over a white background.

Lisa S. Disbrow
Acting Secretary and Chief Management Officer
Department of the Air Force

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III. Air Force Audit Readiness

In preparation for the full financial statement audit that begins in less than six months, the Air Force successfully completed two General Fund SBA audits and is currently undergoing a third SBA audit. Armed with lessons learned and best practices from these audits, the Air Force continues to enhance its preparation for the full financial statement audit while refining its strategy to achieve auditability.

Air Force senior leadership is making prudent financial improvement decisions and ensuring Air Force personnel are accomplishing their mission in air, space, and cyberspace. Air Force senior leadership also continues to support the enterprise-wide audit readiness goals and objectives, while focusing on meeting upcoming milestones through corrective actions. For both the Air Force General Fund and Working Capital Fund, financial and functional managers are sustaining



An Air Force F-22 Raptor takes off at Yokota Air Base, Japan, Feb. 13, 2017, as Mount Fuji looms behind. F-22 Raptors stopped at the base before traveling to an Australian base. (Air Force photo by Yasuo Osakabe.)

accountability of assets, improving business processes, eliminating inefficiencies and duplications, and modernizing systems.

Progress Since the November 2016 FIAR Report

Highlights since the November 2016 FIAR report include:

- Designed and implemented corrective actions to address material weaknesses and NFRs resulting from the SBA audits.
- Focused on internal controls to achieve long-term compliance and support audit readiness sustainment and business process re-engineering efforts.
- Implemented corrective actions to: 1) achieve population completeness for existence and completeness, including reconciliations between the accountable property system of record (APSR) and feeder systems and general ledger; 2) establish a valuation baseline; and 3) implement go-forward processes that meet accounting standards.
- Achieved auditable baselines for existence and completeness, and valuation in Military Equipment (Priority One Programs), Inventory and Related Property, and Real Property Phase I (initial 12 installations).
- Began remediating baseline to achieve a logistics universe of transactions by prioritizing material APSR and feeder systems; validating end-to-end transactional flows between feeder systems, accountable property systems, and general ledger; and identifying significant gaps.
- Began validating Real Property Phase I installations audit (performed by Air Force Audit Agency); Inventory/Operating Materials and Supplies Base Possessed existence and completeness examination (performed by DoD OIG); and Military Equipment valuation methodology review (performed by DoD OIG).

- Improved Air Force Working Capital Fund by:
 - Initiating three examinations: Contract Authority, Spending Authority and Revenue, and Inventory, covering 52 percent of Working Capital Fund budgetary resources, 42 percent of revenue, and 28 percent of total assets.
 - Completing a 73 percent reduction in unsupported journal vouchers and implementing an action plan to resolve unsupported issues by September 30, 2017.
 - Improving universe of transactions infrastructure, which increased match rates between legacy IT system general ledger and feeder systems.

Challenges to Audit Readiness

While the Air Force continues to make progress, challenges remain:

- Identifying and extracting old transactions from legacy systems and obtaining supporting documentation is extremely difficult and requires extensive effort by the Air Force and its service providers.
- Establishing existence and completeness, and valuation baselines for Government Furnished Equipment and Contractor Managed Possessed; and implementing compliant go-forward processes for all mission-critical assets requires significant business process changes and improvements as well as resources.
- Supporting beginning balances is time consuming and difficult.
- Establishing a universe of transactions, including recurring reconciliations from the general ledger to various APSRs and feeder systems, requires extensive resources.
- Collecting and reconciling transactional activity from 22 systems is not a viable, long-term solution, and Air Force Working Capital Fund business activities must continue to operate in the legacy IT business environment until an integrated IT solution is implemented.

SBA AUDIT RESULTS

The Air Force received a disclaimer of opinion on its FY 2016 SBA audit. The Report on Internal Control identified five material weaknesses, three of which are reissuances from the FY 2015 SBA audit. The two new material weaknesses relate to DoD and Air Force accounting policies and procedures. The accounting-type issues identified by the IPA during FY 2016 SBA audit are a positive indicator of Air Force progress, versus only the audit-type issues identified in the FY 2015 SBA audit.

The Air Force is carrying this momentum into the current FY 2017 SBA audit by continuing to resolve deficiencies based on established priorities, and focusing on areas with the greatest impact on the Air Force's goal of achieving full financial statement auditability.

Notices of Findings and Recommendations

The IPA issues a Notice of Findings and Recommendations as part of the audit report. These findings and recommendations must be addressed before the Air Force can reasonably expect to achieve a clean audit opinion. To address each finding, the Air Force analyzed the root cause, and prepared a corrective action plan or plans, supporting milestones, and completion dates. When all supporting milestones and corrective action plans are complete, the Air Force will report the finding as closed. Closed findings may be retested by a future auditor to validate the issue has been resolved and no longer impedes a clean audit opinion.

Figure III-1, "Notices of Findings and Recommendations from Initial Audits," shows the number of corrective action plans and milestones being worked and projects a completion date. Findings and corrective action plans are tied to critical capabilities and DoD material weaknesses to improve the tracking of DoD-wide issues and help the Components build on existing improvement efforts and share lessons learned. Charts detailing the status of the critical capabilities follow the figure.

FIAR Plan Status Report

Figure III-1. Notices of Findings and Recommendations from Initial Air Force Audits

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					Completion	
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Total Milestones	Number of Milestones Closed	Percent Complete		
Universe of Transactions	Budget-to-Report	Financial Reporting Compilation	8	1	32	23	72	05/25/2018	
Fund Balance with Treasury	Budget-to-Report	Fund Balance with Treasury	4	3	20	18	90	09/30/2017	
Journal Vouchers	Budget-to-Report	Financial Reporting Compilation	5	2	25	19	76	08/31/2017	
Information Technology	IT Systems Material to Audit	Financial Management Systems	275	207	827	626	76	04/30/2020	
N/A	Budget-to-Report	Financial Reporting Compilation	45	24	188	147	78	10/01/2019*	
	Hire-to-Retire	Civilian Pay	7	2	28	11	39	11/08/2017	
		Military Pay	6	3	24	20	83	09/29/2017	
	Order-to-Cash	Reimbursable Work Orders (Budgetary)	7	3	28	23	82	10/15/2017	
	Procure-to-Pay	Contract/Vendor Pay		19	4	80	50	63	09/30/2017
		Military Standard Requisitioning and Issue Procedures		4	2	16	14	88	05/15/2018
Transportation of People			3	2	12	11	92	04/30/2018	

* Completion dates for corrective action plans and milestones are still being developed.

Universe of Transactions

General Fund

Critical Capability	Completion
Schedule of Budgetary Activity	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	✓
Statement of Budgetary Resources	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	09/2017
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Implement feeder and source systems reconciliations.	✓
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	09/2017
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Implement feeder and source systems reconciliations.	09/2017

Working Capital Fund

Critical Capability	Completion
Statement of Budgetary Resources	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	09/2017
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	09/2017
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017

Fund Balance with Treasury

General Fund

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	✓
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓

Working Capital Fund

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	✓
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓

Journal Vouchers

General Fund

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	✓
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	12/2017
Improve support for buyer-side elimination entries journal vouchers.	✓
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	✓
Develop and implement corrective actions.	✓

Working Capital Fund

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	✓
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	12/2017
Publish standards and business processes developed to support journal vouchers.	✓
Validate implementation of corrective actions.	12/2017
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	09/2017
Develop and implement corrective actions.	09/2017

Existence and Completeness (Material Assets)

General Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	09/2017
Correct finding for physical inventory within APSR for 12 installations.	✓
Complete physical inventory, documentation collection, and PRV for remaining installations.	07/2017
Update APSR to include major findings and changes for remaining installations.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Design and Construct – Stakeholders develop strategy that includes policy revisions, process improvements, and system updates.	✓
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	09/2017
Validate – Test go-forward processes to verify operational effectiveness.	09/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	09/2017
Complete existence and completeness, rights, internal control, and supporting documentation testing of Government Furnished Equipment assets.	09/2017
Complete remaining subclasses.	✓
B) Establish an auditable process for go-forward activity.	✓

Working Capital Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	09/2017
Correct finding for physical inventory within APSR for 12 installations.	✓
Complete physical inventory, documentation collection, and PRV for remaining installations.	07/2017
Update APSR to include major findings and changes for remaining installations.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Design and Construct – Stakeholders develop strategy that includes policy revisions, process improvements, and system updates.	✓
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	09/2017
Validate – Test go-forward processes to verify operational effectiveness.	09/2017
General Equipment	
A) Establish an auditable baseline.	09/2017
Complete existence and completeness, rights, internal control, and supporting documentation testing of Government Furnished Equipment assets.	✓
Complete remaining subclasses.	✓
B) Establish an auditable process for go-forward activity.	✓

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Internal Use Software	
A) Establish an auditable baseline.	09/2017
Air Force will report an Internal Use Software balance of zero, per OUSD(C) guidance.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Design the to-be business process.	✓
Implement go-forward process.	09/2017
Validate go-forward process.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
Complete asset accountability assertion for existence, completeness, and rights of Operating Materials and Supplies – Base Possessed.	✓
Complete asset accountability assertion for existence, completeness, and rights of Operating Materials and Supplies – Contractor Managed and Possessed.	✓
Complete asset accountability assertion for existence, completeness, and rights of Operating Materials and Supplies – Contractor Managed and Possessed is dependent on timeline of current existence and completeness discovery efforts.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Develop and design auditable processes and system requirements updates, compliant with SFFAS No. 3, for each asset group.	09/2017
Implement SFFAS 3-compliant processes and complete system updates.	09/2017
Validate go-forward activity.	09/2017

Internal Use Software	
A) Establish an auditable baseline.	✓
Air Force will report an Internal Use Software balance of zero, per OUSD(C) guidance.	✓
B) Establish an auditable process for go-forward activity.	09/2017
Design the to-be business process.	✓
Implement go-forward process.	06/2017
Validate go-forward process.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	✓
Complete asset accountability assertion for existence, completeness, and rights of Inventory (Depot, Based Possessed, and Medical/Dental).	✓
B) Establish an auditable process for go-forward activity.	09/2017
Develop and design auditable processes and system requirements updates, compliant with SFFAS No. 3, for each asset group.	✓
Implement SFFAS 3-compliant processes and complete system updates.	09/2017
Validate go-forward activity.	09/2017

Valuation (Material Assets)

General Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	09/2017
Correct finding for physical inventory within APSR and complete PRV calculation for 12 installations.	06/2017
Complete physical inventory, documentation collection, and PRV for remaining installations.	07/2017
Update APSR to include major findings and changes for remaining installations.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Design and Construct – Stakeholders develop strategy that includes policy revisions, process improvements, and system updates.	✓
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	09/2017
Validate – Test go-forward processes to verify operational effectiveness.	09/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	06/2017
Complete Priority 2 Military Equipment programs and General Equipment programs valuation.	✓
B) Establish an auditable process for go-forward activity.	09/2017
Internal Use Software	
A) Establish an auditable baseline.	09/2017

Working Capital Fund

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	09/2017
Correct finding for physical inventory within APSR and complete PRV calculation for 12 installations.	06/2017
Complete physical inventory, documentation collection, and PRV for remaining installations.	07/2017
Update APSR to include major findings and changes for remaining installations.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Design and Construct – Stakeholders develop strategy that includes policy revisions, process improvements, and system updates.	✓
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	09/2017
Validate – Test go-forward processes to verify operational effectiveness.	09/2017
General Equipment	
A) Establish an auditable baseline.	06/2017
B) Establish an auditable process for go-forward activity.	09/2017
Internal Use Software	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017

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B) Establish an auditable process for go-forward activity.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
Complete baseline valuation package for Operating Materials and Supplies Contractor Managed/Possessed and update the APSR.	09/2017
Complete baseline valuation package for Aerial Targets, Cruise Missiles, Munitions, Uninstalled Missile Motors, and Spare Engines	✓
B) Establish an auditable process for go-forward activity.	09/2017

Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
Complete inventory (Depot, Base, and Medical/Dental)	09/2017
B) Establish an auditable process for go-forward activity.	09/2017

Environmental and Disposal Liabilities

General Fund

Critical Capability	Completion
Real Property for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	07/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017
General Equipment and Chemical Weapons Disposal	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	07/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017

Working Capital Fund

Note: Environmental and Disposal Liabilities are not applicable to Working Capital Funds.

IT SYSTEMS CRITICAL TO AUDIT

The Air Force defined five critical activities where IT needs to be improved to make business and audit processes more efficient and support accountability of financial data:

1. Complete FISCAM assessments for application controls.
2. Complete FISCAM assessments for general controls.
3. Complete DFAS Blue Book assessments for accounting conformance.
4. Analyze assessment results, and develop and implement corrective actions to resolve issues or mitigate risks.
5. Validate corrective actions have been completed and systems are audit ready.

Assessments (FISCAM and Blue Book)

All Air Force-owned systems that support financial processes are assessed based on control objectives in FISCAM and on system requirements in the DFAS Financial Management Systems Requirements Manual (DFAS 7900.4-M) (Blue Book). Deficiencies are analyzed against established control frameworks to determine weaknesses and prioritize corrective actions, prepare Air Force system owners for the rigor of a financial audit, and provide an auditor’s perspective on controls effectiveness and system security.

Corrective Action and Validation

Functional system owners and program offices develop corrective actions to address issues identified in the assessments. The Air Force closely tracks and monitors corrective action progress to ensure all issues are resolved. By monitoring and validating corrective actions in one system, lessons learned can be applied to other systems, saving time and resources.

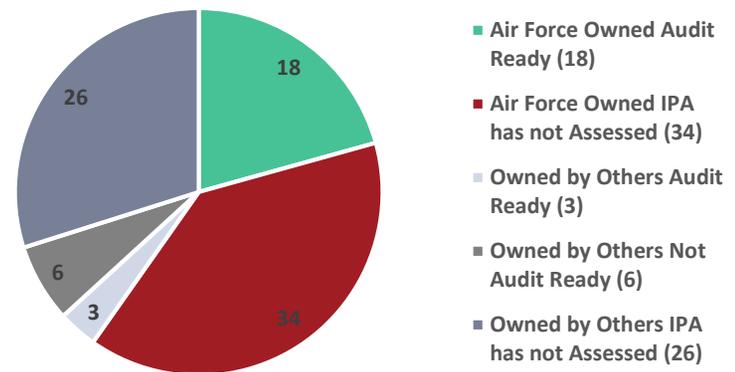
- 46 of 49 IT Systems completed application and general control FISCAM assessments.

- 300 of 339 FISCAM critical issues self-reported as closed.
- 248 FISCAM corrective action plans closure memorandums signed; validation in progress.
- 72 FY 2016 IT findings corrective action plans closure memorandums signed and forwarded to the external auditor for validation.
- 42 IT systems completed Blue Book assessments.
- 25 of 71 Blue Book critical issues self-reported as closed.

IT Systems Status

Figure III-2 summarizes the audit readiness status of systems relevant to the Air Force financial statement audit, including systems owned and maintained by the Air Force and systems owned and maintained by other organizations. The figure shows the number of systems that have not yet been included in an IPA audit and still need to be assessed.

Figure III-2. Status of Systems Relevant to Air Force Audit Readiness



Information Technology

General Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	06/2017
Complete IT general and application control assessments.	✓

Working Capital Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	06/2017
Complete IT general and application control FISCAM procedures.	✓

AIR FORCE AUDIT READINESS RESOURCES

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

Audit Readiness, Validations, and Audits

- Completing evaluation, discovery, and corrective actions of the commands and their service providers.
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting audit infrastructure to sustain audit readiness and support IPA audits, including tools and data repositories

Financial Systems

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

Changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls and may not be captured under audit readiness resources. Similarly, ERP systems are being deployed to modernize functional as well as financial processes and support objectives independent of audit readiness. ERP costs are reported in Section VI, Enterprise Resource Planning Systems.

Figure III-3. Air Force Audit Readiness Resources (Dollars in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Readiness, Validations, and Audits	79	102	121	124	126	126
Financial Systems	30	30	30	30	30	30
Total Resources	109	132	151	154	156	156

Note: Numbers may not sum to total due to rounding.

Message from the DoD Deputy Chief Financial Officer

The other Defense organizations (ODOs), commonly referred to as the “fourth estate,” comprise over 50 DoD organizations and funds, and account for nearly one-fifth of all budgetary resources. These organizations vary greatly in size and complexity, from those with comparatively small budgets, to very large organizations, such as USTRANSCOM and DLA, which in terms of budget and global presence dwarf many multi-national companies.

As the Department moves from working to achieve audit readiness to being under an annual audit regimen so, too, does the work of the ODOs. Seven of the ODOs, representing 19 percent of total DoD budgetary resources, are already sustaining positive audit opinions. These entities and the large defense agencies will continue to be separately audited in fiscal year (FY) 2018. The mid-sized defense agencies will be audited using a combination of examinations and internal reviews. The remaining defense agencies and funds will be audited as part of the FY 2018 DoD Consolidated Financial Statements. As the DoD headquarters’ entity that presents the consolidated agency-wide financial statements for audit, our teams of experienced accountants and auditors are guiding all ODOs through the process of preparing for and supporting a financial statement audit or examination. We also work closely with these organizations to identify common findings and develop repeatable solutions for greater efficiencies.

Many years of hard work at all levels of these organizations has brought us collectively to this point of audit readiness. Although corrective actions will continue, Secretary Mattis has affirmed his commitment to beginning Department-wide financial statement audits in FY 2018. Annual audits are a critical part of his reform agenda, and the ODOs are integral to DoD’s overall success. I am confident we are on the right track to support DoD’s long-term audit goals and help achieve Secretary Mattis’ vision for business excellence.



A handwritten signature in black ink, appearing to read 'Mark E. Easton', written in a cursive style.

Mark E. Easton
Deputy Chief Financial Officer
Department of Defense

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IV. Other Defense Organizations Audit Readiness

Seven other Defense organizations (ODOs) have received audit opinions on their FY 2016 financial statements. As shown in Figure V-1, six ODOs are sustaining unmodified opinions, and one is correcting deficiencies and strengthening controls with the goal of receiving an unmodified opinion. Since the November 2016 FIAR Report, the DoD Office of Inspector General received an unmodified opinion.

Figure IV-1. Financial Statement Audit Opinions

FY 2016 Unmodified Audit Opinions
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Health Agency – Contract Resource Management
Military Retirement Fund
Office of Inspector General
FY 2016 Modified Audit Opinion
Medicare-Eligible Retiree Health Care Fund

Defense Intelligence Agencies

The Defense Intelligence Agencies are demonstrating progress to achieving an unmodified audit opinion on their full financial statements. Program managers have certified to the Director of National Intelligence and Congress that audit readiness is a priority, and they continue to dedicate the resources necessary to achieve this objective.

In FY 2016, the National Reconnaissance Office sustained its eighth unmodified opinion. The National Security Agency, Defense

Intelligence Agency, and National Geospatial-Intelligence Security Agency received a disclaimer of opinion. The Defense Intelligence Agencies are currently under full financial statement audit for FY 2017.

Although significant work remains, the Defense Intelligence Agencies are better informed and positioned to manage risk, regulate the pace of critical improvements, and align increasingly limited personnel and resources to achieve results. The agencies continue to remediate findings in major focus areas, such as Property, Plant, and Equipment; Fund Balance with Treasury; and intragovernmental transactions.

THE DOD AND ODO AUDIT STRATEGY

The DoD audit strategy groups the Military Departments, Defense Agencies, and other reporting entities into four tiers based on materiality, and whether the entity is required by OMB to undergo an audit or is already undergoing a stand-alone audit of its financial statements. The ODO audit strategy also uses these tiers and applies a combination of internal examinations, mock audits, and IPA examinations and full financial statement audits. The four tiers under the DoD audit strategy are:

- Tier 1 – Military Services and the Military Retirement Fund (OMB Designated Audits)
- Tier 2 – Large Defense Agencies (DoD Designated Audits)
- Tier 3 – Mid-Sized Defense Agencies
- Tier 4 – Remaining Defense Agencies and Funds

Tier 1 – Military Services and the Military Retirement Fund

Tier 1 does not include any ODOs. It includes the Military Services’ General Funds and Working Capital Funds, USACE, and the Military Retirement Fund. OMB Bulletin No. 15-02 mandates that these entities prepare and issue audited financial statements annually. The financial statements of USACE and the Military Retirement Fund

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have consistently received unmodified audit opinions. Tier 1 entities account for about 72 percent of FY 2016 budgetary resources and 82 percent of assets.

Tier 2 – Large Defense Agencies

Tier 2 ODOs include material defense agencies, U.S. Special Operations Command (USSOCOM), U.S. Transportation Command (USTRANSCOM), and funds that will be separately audited beginning with their FY 2018 financial statements. Tier 2 entities account for about 23 percent of FY 2016 budgetary resources and 15 percent of assets.

Tier 3 – Mid-Sized Defense Agencies

Tier 3 ODOs include the remaining material Defense Agencies and funds. These entities will confirm audit readiness through a combination of efforts under their Managers' Internal Controls Program, internal mock audits, and IPA examinations. Tier 3 entities account for about 4 percent of FY 2016 budgetary resources and 2 percent of assets.

Tier 4 – Remaining Defense Agencies and Funds

The Defense Agencies, organizations, and funds not included in one of the first three categories are not material to the DoD-wide financial statements. These entities will continue to improve internal controls and will be included in the audit of the FY 2018 DoD Consolidated Financial Statements. Tier 4 entities account for about 1 percent of FY 2016 budgetary resources and 1 percent of assets.

This section of the report contains detailed audit readiness information and accomplishments for the Tier 2, Tier 3, and Tier 4 ODOs.

OUSD(C) SUPPORT TO THE ODOs

The OUSD(C) supports ODO audit readiness work to address the critical capabilities and ensure the Department will meet the September 30, 2017, deadline for audit readiness. Previously,

OUSD(C)'s primary support was through tiger teams organized around issues with the greatest impact on the Department's audit readiness goals. As the Department shifts its focus from audit readiness to an annual audit regimen and the remediation of audit findings, OUSD(C) likewise shifted its support to the ODOs from broad issue areas to helping the ODOs remediate issues.

Because developing a complete universe of transactions continues to be a challenge, OUSD(C) has continued to help pilot a universe of transactions solution through USSOCOM that reconciles to agency trial balances and financial statements.

Universe of Transactions Pilot

The OUSD(C), working with the DoD Deputy Chief Management Officer (DCMO), DoD Chief Information Officer (CIO), DFAS, and USSOCOM, is conducting a pilot project to develop and provide an automated capability that will be used by other Defense agencies for the Defense-wide appropriate General Fund to produce a complete, accurate, and reconcilable universe of transactions from numerous, disparate accounting and feeders systems.

The pilot project has:

- Defined the approach for feeder system transaction reconciliations.
- Defined the technical and functional requirements.
- Completed the initial architecture and basic functionality of the universe of transaction tool.
- Tested the capability to reconcile general ledger details to the unadjusted trial balances from seven Military Service accounting systems and one Defense Agency accounting system.

Upon successful completion of the pilot, the capability will be implemented for other General Fund Tier 2, Tier 3, and Tier 4 ODOs.

Tier 2 – Large Defense Agencies

Large Defense Agencies includes 10 material ODOs and funds that account for approximately 23 percent of DoD budgetary resources and 15 percent of assets. Three of the Tier 2 ODOs and one component of the Defense Health Program are currently under annual full financial statement audits and are receiving unmodified audit opinions:

- Defense Commissary Agency (DeCA)
- Defense Contract Audit Agency (DCAA)
- Defense Finance and Accounting Service (DFAS)
- Defense Health Agency – Contract Resource Management (DHA-CRM)

The FY 2016 General Fund and Working Capital Fund financial statements for the Defense Information Systems Agency and the FY 2017 General Fund, Working Capital Fund, and Transaction Fund financial statements for the Defense Logistics Agency are also under full financial statement audits. The Medicare-Eligible Retiree Health Care Fund received a modified opinion on its FY 2016 financial statements and is remediating issues to achieve an unmodified opinion. Audit readiness work continues for the remaining Tier 2 ODOs. The following agencies will undergo full financial statement audit for the first time in FY 2018:

- Defense Health Program (DHP)
- U.S. Special Operations Command (USSOCOM)
- U.S. Transportation Command (USTRANSCOM)

DEFENSE INFORMATION SYSTEMS AGENCY

DISA’s FY 2016 General Fund and Working Capital Fund financial statements are currently under full financial statement audit, and audit results are expected later this year.

Progress Since the November 2016 FIAR Report

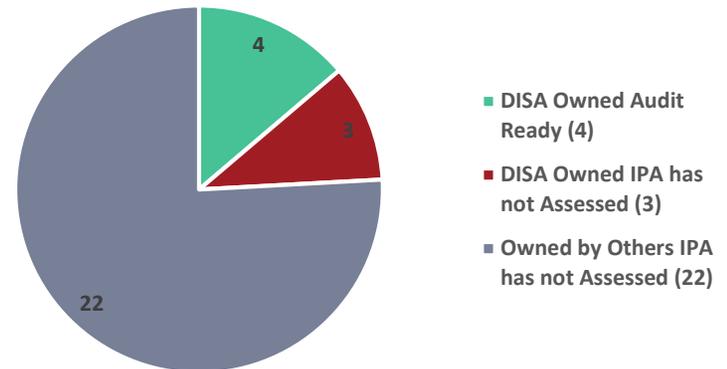
The IPA is completing substantive testing, which includes 36 site visits to test Property, Plant, and Equipment existence and completeness assertions. Other highlights since the November 2016 FIAR report include:

- Provided multiple detailed walkthroughs of major processes.
- Responded timely to 492 Prepared by Client requests.
- Received 1,104 internal control sample requests and provided 5,600 artifacts.
- Received 3,692 substantive samples and provided 47,968 artifacts.

IT Systems

Figure IV-2 summarizes the audit readiness status of systems relevant to DISA, including systems owned and maintained by DISA and systems owned and maintained by other organizations. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

Figure IV-2. Status of Systems Relevant to DISA Audit Readiness



DEFENSE LOGISTICS AGENCY

In August 2016, an IPA began auditing DLA’s FY 2017 General Fund, Working Capital Fund, and Transaction Fund financial statements. According to the IPA, DLA has demonstrated significant progress in audit preparation, and there has been good cooperation and communication between DLA and the IPA. The IPA has not, thus far, issued any findings.

Progress Since the November 2016 FIAR Report

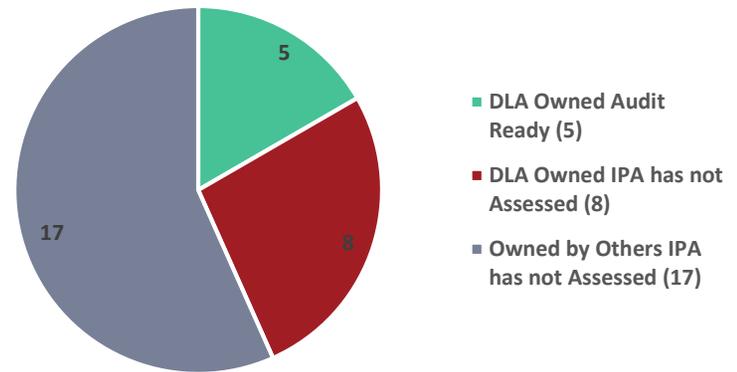
Highlights since the November 2016 FIAR report include:

- The IPA performed end-to-end business process and key control walkthroughs at DLA Headquarters, DLA field sites, DLA primary-level field activities, and DFAS, documenting their understanding of DLA's end-to-end processes in cycle memos and concluding on their ability to place reliance on DLA and DFAS internal controls.
- The IPA is testing inventory beginning balances with inventory existence and completeness testing in progress at multiple locations.
- The IPA is performing the audit's current year activity testing phase, selecting statistical samples from current-year transactions and balances and requesting supporting documents.

IT Systems

Figure IV-3 summarizes the audit readiness status of systems relevant to DLA, including systems owned and maintained by DLA and systems owned and maintained by other organizations. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

Figure IV-3. Status of Systems Relevant to DLA Audit Readiness



DEFENSE HEALTH PROGRAM

DHP comprises the Defense Health Agency (DHA) directorates and the Military Departments' Service Medical Activities (SMAs). DHP provides worldwide health care for the Armed Forces, family members, and others entitled to health care. DHP also includes the Medicare-Eligible Retiree Healthcare Fund and Contract Resource Management; both receive standalone audits.

DHP is preparing for an audit of its FY 2018 financial statements and is working to remediate remaining deficiencies, strengthen internal controls, and ensure it has a responsive and effective audit support infrastructure.

Progress Since the November 2016 FIAR Report

Highlights since the November 2016 FIAR report include:

- Developed an entity-level control matrix and implementing controls to strengthen risk management of the DHP.
- Worked with DFAS to improve the financial statement compilation process and documentation (including journal voucher oversight and documentation), and complete the Fund Balance with Treasury reconciliation process.
- Began internal FISCAM review of the Defense Medical Logistics Standard System (DMLSS) and standardizing and providing guidance to all DHP components on complementary user entity controls from Statement on Standards for Attestation Engagements (SSAE) No. 16/18 examinations.
- Started General Property Plant & Equipment mock audits, including the development of complete asset listings and select inventory testing (floor to book, book to floor), at select medical treatment facilities.
- Continued to improve and strengthen the universe of transaction data controls and compilation process to provide adequate audit

trails. DHP is working with DFAS and OUSD(C) on a universe of transactions repository and reconciliation tool to reconcile general ledger and unadjusted trial balance.

- Continued collaboration and progress with DFAS on feeder data reconciliations. DHP is continuing to make significant progress in complying with DoD-directed system modernization and other reforms. DHP has strengthened audit response and review infrastructure to support all future audit requirements.
- Contract Resource Management received an unmodified audit opinion for FY 2016, and the Medicare-Eligible Retiree Health Care Fund (MERHCF) received a modified audit opinion for FY 2016.

Challenges

Challenges to achieving audit readiness include:

- Coordination across multiple components and system owners creates a unique layer of complexity, and continued dependencies on Military Services' processes and systems limit implementation of those respective corrective actions.
- Military Service and other service provider's financial systems are unable to report complete historical data, including some beginning balance data.
- Limitations exist with integration and communication with some legacy systems that may lead to manual entries and adjustments in the accounting system and financial statement. Dependencies on Military Service and other service provider's processes limit the implementation of corrective actions.
- Complexity in reconciling General Property Plant & Equipment Construction-in-Progress and costs complicates maintaining an audit trail.

FIAR Plan Status Report

Notices of Findings and Recommendations

The IPA issues NFRs as part of the audit report. These findings and recommendations must be addressed before DHP can reasonably expect to achieve a clean audit opinion. To address each finding, the DHP analyzed the root cause, and prepared a corrective action plan or plans, supporting milestones, and completion dates. When all supporting milestones and corrective action plans are complete, DHP will report the finding as closed. Closed findings may be retested by a future auditor to validate the issue has been resolved and no longer impedes a clean audit opinion.

Figure IV-4, “Notices of Findings and Recommendations from Initial Audits,” shows the number of corrective action plans and milestones being worked and projects a completion date. Findings and corrective action plans are tied to critical capabilities and DoD material weaknesses to improve the tracking of DoD-wide issues and help the Components build on existing improvement efforts and share lessons learned. Charts detailing the status of the critical capabilities follow the figure.

Figure IV-4. Notices of Findings and Recommendations from Initial DHP Audits

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					Completion
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	
Universe of Transactions	All	Financial Reporting Compilation	1	0	2	0	0	12/01/2017
Fund Balance with Treasury	Budget to Report	Fund Balance with Treasury	4	0	TBD	TBD	0	11/24/2017
Information Technology	All	Financial Management Systems	4	1	18	3	17	09/01/2020
N/A	Hire-to-Retire	Civilian Pay	1	1	7	7	100	✓
	Budget-to-Report	Financial Reporting Compilation	3	1	10	4	40	11/30/2017
	Procure-to-Pay	Reimbursable Work Orders (Budgetary)	1	0	6	0	0	09/30/2017

Defense Health Program

Universe of Transactions

Critical Capability	Completion
Schedule of Budgetary Activity	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2018
Statement of Budgetary Resources	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	06/2017
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Implement feeder and source systems reconciliations.	03/2018
Balance Sheet	
A) Able to produce population of transaction details, for each financial statement line item, including sensitive activities and opening balances.	06/2017
B) Able to reconcile population of transaction details to individual financial statement line items (existence).	09/2017
C) Implement feeder and source systems reconciliations.	03/2018

Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	09/2017
OUSD(C) and DFAS develop standard process for DCAS daily reconciliations and reporting.	07/2017
DFAS implements DRRT Increment 3+.	09/2017
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	09/2017
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	09/2017
DFAS implements standard processes for Check Issue Statement of Differences.	09/2017
DFAS implements standard processes for IPAC Statement of Differences.	09/2017
DFAS validates controls for standard processes.	09/2017
D) Perform aging analysis and apply reconciliations backwards to any years possible.	09/2017
DFAS determines how to support balances and document any unsupported balances.	09/2017

Defense Health Program

Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	✓
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	12/2017
DHP components implement interim six-point control plan.	✓
DHP components publish ERP schedule for compliance with G-Invoicing business architecture.	✓
DHP components fund and build interfaces to include compliance with data standards.	12/2017
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	09/2017
Tier 3 and Tier 4 Entities, OUSD(C), system owners, DFAS Implement corrective actions for DDRS journal vouchers.	✓
Complete corrective actions to support manual journal vouchers.	09/2017

Existence and Completeness (Material Assets)

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	09/2017
DHP components validate asset listing.	✓
Validate existence and condition of facility with DHP components, and validate project status with construction agents.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Internal Use Software	
A) Establish an auditable baseline.	09/2017
Complete accountable asset listing and validate software under development and enhancement.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Assess data capability and quality.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017

Defense Health Program

Valuation (Material Assets)

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable valuation baseline.	09/2017
Implement PRV cost baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Document control environment.	✓
Implement corrective actions.	09/2017
General Equipment, including Military Equipment	
A) Establish an auditable valuation baseline.	09/2017
Validate historical costs and recalculate depreciation.	✓
Adjust APSR and financial statements.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Implement to-be controls and corrective actions.	09/2017
Internal Use Software	
A) Establish an auditable valuation baseline.	09/2017
Complete baseline cost of software under development and enhancement.	09/2017
Adjust APSR and financial statements.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Implement to-be controls and corrective actions.	09/2017
Inventory and Related Property	
A) Establish an auditable baseline.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017

Environmental Liabilities

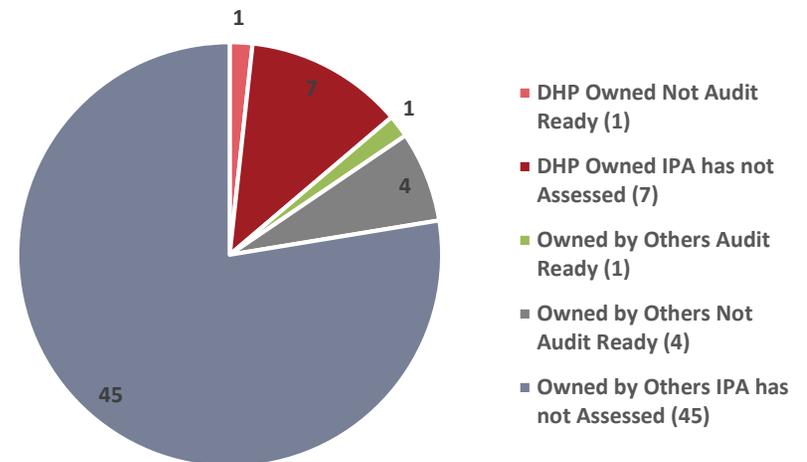
Critical Capability	Completion
Real Property for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	09/2017
Identify real property assets.	09/2017
Complete validation testing of estimation methodologies.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017
General Equipment and Chemical Weapons Disposal for Material Liabilities	
A) Provide a listing of environmental and disposal liabilities reconciled to the financial statements, and establish auditable processes to determine clean-up costs for environmental liabilities.	09/2017
Identify real property assets.	09/2017
Complete validation testing of estimation methodologies.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017

Defense Health Program – Information Technology

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially-relevant systems.	09/2017
SSAE No. 16 examination System CUECs: Complete testing of control operating effectiveness.	09/2017
SSAE No. 16 examination System CUECs: Corrective actions Implemented.	09/2017
Self-Review CUECs: Complete documentation of control design and complete test of control design effectiveness.	09/2017
Self-Review CUECs: Complete testing of control operating effectiveness and corrective actions developed.	06/2017
Self-Review CUECs: Corrective actions implemented.	09/2017

Figure IV-5 summarizes the audit readiness status of systems relevant to DHP, including systems owned and maintained by DHP and systems owned and maintained by other organizations. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

Figure IV-5. Status of Systems Relevant to DHP Audit Readiness



U.S. SPECIAL OPERATIONS COMMAND

USSOCOM is the unified command for the worldwide use of Special Operations elements of the Army, Navy, Air Force, and Marine Corps. Each Service has a unique Special Operations Command capable of performing its own operations. However, USSOCOM becomes the joint component command of operations when the different Special Operations Forces need to work together for an operation.

USSOCOM is preparing for an audit of its FY 2018 financial statements. Due to dependencies, USSOCOM is working with the Services to remediate deficiencies, strengthen internal controls, and implement a responsive and effective audit support infrastructure.

Progress Since the November 2016 FIAR Report

Highlights since the November 2016 FIAR report include:

- Continued to support the OUSD(C) universe of transactions pilot program for reconciling DoD accounting system and feeder system data. This solution will allow USSOCOM to effectively produce and maintain a fully reconciled universe of transactions from over 10 different accounting systems and hundreds of feeder systems that together process millions of transactions a year.
- Reconciled 100 percent of journal vouchers to the fourth quarter FY 2016 financial statements.
- Performed substantive tests of supporting documentation received from the Cash Management Reporting (CMR) system and from the TI-97 Department Reconciliation and Reporting Tool (DRRT) to ensure presentation of a complete and accurate Fund Balance with Treasury amounts on the Balance Sheet.
- Overcame Service system limitations by compiling General Equipment capital asset data to build a consolidated capital asset valuation database with the ability to report capital asset and depreciation balances.

- Identified financial reporting improvements with service providers related to the Real Property construction-in-progress transfer and elimination process, proper tracking and reporting of canceled year balances, and the development of a reporting methodology to support open USSOCOM construction-in-progress projects. These improvements will benefit all ODOs.
- Developed a financial reconciliation process to balance Real Property Construction-in-Progress reported from feeder systems to USSOCOM consolidated financial statements. The identification and correction of the reconciling items eliminates the need for quarterly Construction-in-Progress journal vouchers, which have averaged approximately \$228 million each quarter.

Challenges

Challenges to achieving audit readiness include:

- Implementation of corrective actions is dependent on Military Services' and DFAS' processes and system.
- Reporting historical data, including some beginning balance data, is dependent on Military Service accounting systems capabilities.
- The ability to provide a reconciled universe of transactions, including beginning balances and feeder systems, is dependent on the projected time table for the OUSD(C) pilot project.
- Complete and accurate financial statement presentation is dependent on DFAS and reporting entities receiving financial information and recording data timely in accounting systems.
- Elimination and supportability of journal vouchers is dependent on DFAS and reporting entities fully executing solutions to support both manual and system-generated journal vouchers.
- Historic documentation availability is limited due to Service document retention policies that did not support auditability.

Notices of Findings and Recommendations

The IPA issues NFRs as part of the audit report. These findings and recommendations must be addressed before USSOCOM can reasonably expect to achieve a clean audit opinion. To address each finding, USSOCOM analyzed the root cause, and prepared a corrective action plan or plans, supporting milestones, and completion dates. When all supporting milestones and corrective action plans are complete, USSOCOM will report the finding as closed. Closed findings may be retested by a future auditor to validate the issue has been resolved and no longer impedes a clean audit opinion.

Figure IV-6, “Notices of Findings and Recommendations from Initial Audits,” shows the number of corrective action plans and milestones being worked and projects a completion date. Findings and corrective action plans are tied to critical capabilities and DoD material weaknesses to improve the tracking of DoD-wide issues and help the Components build on existing improvement efforts and share lessons learned. Charts detailing the status of the critical capabilities follow the figure.

Figure IV-6. Notices of Findings and Recommendations from Initial USSOCOM Audits

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					Completion
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	
Universe of Transactions	All	Financial Reporting Compilation	1	0	2	0	0	12/01/2017
Fund Balance with Treasury	Budget-to-Report	Fund Balance with Treasury	4	0	TBD	TBD	0	11/24/2017
Information Technology	All	Financial Management Systems	1	0	3	2	67	09/30/2017
N/A	Hire-to-Retire	Civilian Pay	1	1	6	6	100	✓
	Budget-to-Report	Financial Reporting Compilation	3	2	14	13	93	05/31/2017

U.S. Special Operations Command

Universe of Transactions

Critical Capability	Completion
Schedule of Budgetary Activity	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2017
Design reconciliations for all remaining financial statement line items (DFAS/DCFO TT).	✓
Basic system functionality developed with a limited population of feeder and accounting system data.	✓
Full system functionality developed with a full population of feeder and accounting system data.	12/2017
Statement of Budgetary Resources	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2017
Design reconciliations for all remaining financial statement line items (DFAS/DCFO TT).	✓
Basic functionality of the system developed with a limited population of feeder and accounting system data.	✓
Full functionality of the system developed with a full population of feeder and accounting system data.	12/2017

Universe of Transactions (cont.)

Critical Capability	Completion
Balance Sheet	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	06/2017
Obtain transaction details that fully reconcile to month-end DDRS general ledger submission.	06/2017
Reconcile to individual financial statement line items.	✓
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2017
Design reconciliations for all remaining financial statement line items (DFAS/DCFO TT).	✓

U.S. Special Operations Command

Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	09/2017
DFAS to change the funding source for the Cash Management Report.	✓
DFAS implements DRRT Increment 3+.	09/2017
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	09/2017
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	09/2017
DFAS implements standard processes for IPAC Statement of Differences.	09/2017
DFAS validates controls for standard processes.	09/2017
D) Perform aging analysis and apply reconciliations backwards to any years possible.	12/2017
DFAS assesses ability to perform monthly reconciliations and support balances.	06/2017
DFAS performs monthly reconciliations and test supporting documentation for prior years.	10/2017

Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements.	✓
Customers to receive logs from DDRS-B, DDRS-AFS, and Accounting Systems to include system generated JVs, beginning balances, trial balance input adjustments, pre-processing, ELECTRA, memo, and all other adjustments	✓
UTB to ATB reconciliation to reconcile with amounts - all adjustments: 1) UTB to ATB, 2) Accounting Systems, 3) UTB in DDRS-B, and 4) ATB in DDRS-AFS	✓
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	N/A
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	✓
Tier 3 and Tier 4 Entities, OUSD(C), system owners, DFAS Implement corrective actions for DDRS journal vouchers.	✓

U.S. Special Operations Command

**Existence and Completeness
(Material Assets)**

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	✓
Perform book-to-floor and floor-to-book assessment to validate baseline, including occupancy percentages.	✓
B) Establish an auditable process for go-forward activity for Construction in Progress.	✓
Test real property, including Construction in Progress, acquisition, management, and disposition business processes to validate controls are in place and effective; and supporting documentation is available to support go-forward activities.	✓
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	✓
Perform assessment to validate existence and completeness baseline.	✓
B) Establish an auditable process for go-forward activity including Construction in Progress.	✓
Test the General Equipment processes.	✓

Valuation (Material Assets)

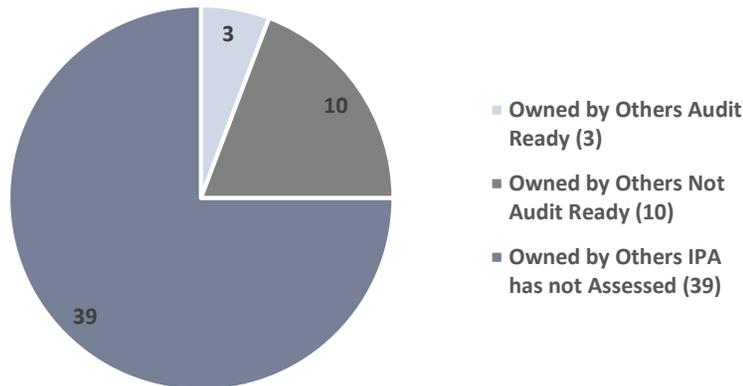
Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	06/2017
Based on existence and completeness results, identify most time and cost effective GAAP-compliant valuation methodology available for imputed cost.	05/2017
B) Establish an auditable process for go-forward activity.	06/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	✓
Determine valuation methodology and value assets	✓
Reconcile APSR and financial statements	✓
B) Establish an auditable process for go-forward activity.	07/2017
Define sustained process for full cost for General Equipment	✓

U.S. Special Operations Command – Information Technology

USSOCOM does not own any financial systems including general ledger or accounting and feeder systems. For USSOCOM, progress toward improving systems relevant to audit readiness will only improve as the system owners make improvements.

Figure IV-7 summarizes the audit readiness status of systems relevant to USSOCOM. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

Figure IV-7. Status of Systems Relevant to USSOCOM Audit Readiness



U.S. TRANSPORTATION COMMAND

USTRANSCOM is the single manager of the U.S. Global Defense Transportation System. It is tasked with coordinating the transportation of people and assets to allow the U.S. to project and sustain forces, whenever, wherever, and for as long as they are needed.

USTRANSCOM is preparing for an audit of its FY 2018 financial statements. Due to dependencies on the Military Services, USTRANSCOM is working with the Services to remediate deficiencies, strengthen internal controls, and implement a responsive and effective audit support infrastructure.

Progress Since the November 2016 FIAR Report

Highlights since the November 2016 FIAR report include:

- Worked with DFAS and contract support to conduct an in-depth analysis of the audit status and challenges for Property, Plant, and Equipment. Results included a detailed task list.
- Implemented new journal voucher business procedures across all components for documenting enhanced internal controls, and identified roles and responsibilities surrounding an auditable journal voucher process that enables USTRANSCOM to identify and support its universe of journal vouchers.
- Submitted an Internal Use Software go-forward plan to OSD. This plan has become the outline for other agencies to follow and is now the methodology for all Internal Use Software invoices.
- Developed an entity-level controls matrix containing 106 controls that cover the principles and attributes of the GAO Green Book. USTRANSCOM designed 100 percent of the required entity-level controls, and the matrix is being used as a best practice.
- Developed a cross-functional working group to prepare for transition to the G-Invoicing platform and facilitate changes to the transportation working capital fund business processes.

- Expanded the internal testing plan to include Revenue, FISCAM sustainment, and Property, Plant, and Equipment.
- USTRANSCOM/Surface Deployment and Distribution Command identified feeder and source systems in the universe of transactions for the transportation financial management system.
- Analyzed 115 journal vouchers and identified 45 as preventable. Eliminated 5 monthly department-level journal vouchers by re-engineering the additional annual operating budget process.

Challenges

Challenges to achieving audit readiness include:

- Implementing DoD Directive 5100.03, which supports USTRANSCOM's decision to move Real Property buildings back to the Air Force inventory, and OSD policy regarding the reporting of Real Property is challenging, and the proper accounting treatment of minor construction and improvements needs to be determined.
- Transactions from DEAMS to GAFS-R experience a low match rate creating difficulty to demonstrate a universe of transactions. Improvement is dependent on direct interface from DEAMS to DDRS.
- Real Property existence and completeness continues to be a challenge. Research includes tracking down incomplete or missing documentation, and rebuilding asset listings where documentation is not available.
- Fund Balance with Treasury is an ongoing issue of resolving systemic or process problems, and manual clean-up of impacted transactions. Current backlog of historical transactions is significant and resource heavy in execution.
- The use of legacy systems continues to create challenges in obtaining data that is reconcilable to SFIS, and the retention and availability of legacy data is not consistent with ERP standards.

U.S. Transportation Command

Universe of Transactions

Critical Capability	Completion
Statement of Budgetary Resources	
A) Population of transaction details for each financial statement line item, including sensitive activities and opening balances.	09/2017
B) Reconciliations to individual financial statement line items (existence).	09/2017
Develop corrective action plans for known feeder systems issues.	✓
Identify variances and perform root cause analysis.	09/2017
Complete identification and resolution of variances.	09/2017
C) Reconciliations to feeder and source systems	09/2017
Balance Sheet	
A) Population of transaction details for each financial statement line item, including sensitive activities and opening balances.	09/2017
B) Reconciliations to individual financial statement line items (existence).	09/2017
Develop corrective action plans for known feeder system issues.	✓
Identify variances and perform root cause analysis.	09/2017
Complete identification and resolution of variances.	09/2017
C) Reconciliations to feeder and source systems	09/2017

Fund Balance with Treasury

Critical Capability	Completion
Balance Sheet	
A) Process and tools to identify, age, and resolve differences between the General Ledgers and Treasury.	09/2017
Establish goals for decreasing unmatched transactions and develop action plans with DFAS for clearing all aged lines for DEAMS and legacy systems.	09/2017
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	09/2017
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	09/2017
D) Perform aging analysis and apply reconciliation backwards to any years possible.	09/2017

U.S. Transportation Command

Journal Vouchers

Critical Capability	Completion
Universe of Journal Vouchers	
A) Ability to provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and processes and tools are in place to identify, age, and resolve the root causes of journal vouchers.	06/2017
Elimination Entries	
B) Eliminate or support material journal vouchers and other adjustments.	09/2021
Build GT&C in G-invoicing.	06/2017
Release G-Invoicing permission target and update gap analysis.	09/2017
Fund, design, and build all accounting system interfaces.	09/2021
G-Invoicing releases 2/1 GT&C.	03/2018
All Other Journal Vouchers – Service Provider	
A) Reduce the volume and/or dollar value of journal vouchers and other adjustments.	✓
All Other Journal Vouchers – Component Responsibilities	
A) Ability to provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and processes and tools are in place to identify, age, and resolve the root causes of journal vouchers.	06/2017

Existence and Completeness (Material Assets)

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	06/2017
Obtain full listing of Component properties, including documentation, and perform validation of existence.	06/2017
B) Establish an auditable process for go-forward activity for Construction in Progress.	06/2017
Provide clear and consistent guidance to Components regarding Real Property KSDs and inclusion.	06/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	06/2017
B) Establish an auditable process for go-forward activity.	06/2017
Internal Use Software	
A) Establish an auditable existence and completeness baseline.	06/2017
B) Establish an auditable process for go-forward activity.	✓
Inventory and Related Property	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity including Construction in Progress.	✓

U.S. Transportation Command

Valuation (Material Assets)

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable baseline.	06/2017
B) Establish an auditable process for go-forward activity.	06/2017
General Equipment, including Military Equipment	
A) Establish an auditable baseline.	06/2017
Conduct sample tests to validate valuation methodology.	09/2017
Valuation of equipment complete.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Establish consistent processes and procedures to ensure a complete auditable process to support General Equipment assets.	03/2017
Internal Use Software	
A) Establish an auditable baseline	✓
B) Establish an auditable process for go-forward activity.	✓
Inventory and Related Property	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓

Environmental and Disposal Liabilities

Critical Capability	Completion
Real Property for Material Liabilities	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
General Equipment and Chemical Weapons Disposal for Material Liabilities	
A) Establish an auditable baseline.	✓
B) Establish an auditable process for go-forward activity.	✓

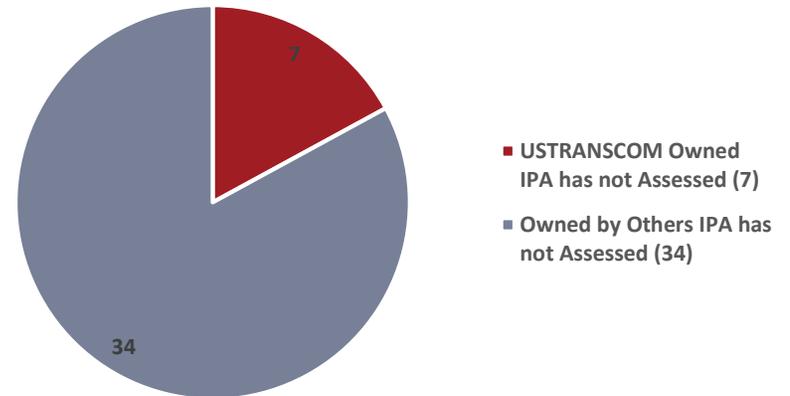
U.S. Transportation Command – Information Technology

Critical Capability	Completion
A) Implement critical IT general and application controls for material, financially-relevant systems.	06/2017
Remediate final corrective actions for TFMS and TCAQ-SPS.	03/2017
100% corrective action plans remediation of all Transportation of Things systems.	06/2017

Note: FISCAM assessment of SPS adding corrective action plans. All other USTRANSCOM owned systems have been assessed and are complete. USTRANSCOM relies heavily on DEAMS and is working closely with the Air Force to ensure complementary user entity controls are covered.

Figure IV-8 summarizes the audit readiness status of systems relevant to USTRANSCOM, including systems owned and maintained by USTRANSCOM and systems owned and maintained by other organizations. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

Figure IV-8. Status of Systems Relevant to USTRANSCOM Audit Readiness



Tier 3 and Tier 4 Reporting Entities Audit Readiness

The Department's strategy for achieving audit readiness for Tier 3 reporting entities is through a combination of efforts under their Managers' Internal Controls Program, internal mock audits, and IPA examinations. The scope of the examinations is expanding each year to ensure complete audit readiness in preparation for the audit of the DoD Consolidated Financial Statements. Some financial statement examinations are planned for FY 2017 and FY 2018 and will focus on the Statement of Budgetary Resources and material lines on the Balance Sheet. The strategy also includes monthly internal control testing by the OUSD(C) Managers' Internal Controls Program teams and ODO audit readiness teams.

The strategy for Tier 4 entities is to undergo a combination of audit readiness self-assessments and IPA examinations and to make improvements to business processes, test and strengthen controls, and work with service providers to implement corrective actions.

Tier 3 – Mid-Sized Defense Agencies

Tier 3 includes the other material ODOs, which account for 4 percent of DoD budgetary resources and 2 percent of assets. In FY 2017, ODOs under a combination of self-assessments or IPA examinations for selected financial statements or material financial line items are:

- Chemical Biological Defense Program (CBDP)
- Defense Advanced Research Projects Agency (DARPA)
- Defense Contract Management Agency (DCMA)
- Defense Security Cooperation Agency (DSCA)
- Defense Threat Reduction Agency (DTRA)
- DoD Education Activity (DoDEA)

- Missile Defense Agency (MDA)
- Office of the Chairman of the Joint Chiefs of Staff (OCJCS)
- Washington Headquarters Services (WHS)

Tier 4 – Remaining Defense Agencies and Funds

Reporting entities not included in the other ODO categories are conducting self-assessments. Together, these ODOs account for less than 1 percent of the Department's budgetary resources and 1 percent of assets. These ODOs will continue audit readiness work and strengthen internal controls, but will only be audited as part of the FY 2018 DoD Consolidated Financial Statements audit. This approach ensures all ODOs are audit ready when the Department begins the audit of the FY 2018 DoD Consolidated Financial Statements. The strategy also allows for growing an effective ODO audit support infrastructure as the Department progresses to full financial statement audit readiness.

The Tier 4 ODOs are:

- Burden Sharing Account by Foreign Allies, Defense
- Business Transformation Agency
- Defense Acquisition University (DAU)
- Defense Cooperation Account
- Defense Finance and Accounting Service (DFAS), General Fund
- Defense Gift Fund
- Defense Human Resources Activity (DHRA)
- Defense Media Activity (DMA)
- Defense Micro Electronics Agency (DMEA)
- Defense POW/MIA Accounting Agency (DPAA)
- Defense Technical Information Center (DTIC)

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- Defense Technology Security Administration (DTSA)
- Defense Security Service (DSS)
- Director, Office of Operational Test and Evaluation
- Defense Support for U.S. Relocation to Guam Activities
- DoD Education Benefits Fund
- DoD Office of Inspector General (DoD OIG)
- Emergency Response Fund, Defense
- Homeowners Assistance Fund, Defense
- Host Nation Support for U.S. Relocation Activities, Defense
- Military Housing Privatization Initiative
- Mutually Beneficial Construction
- National Security Education Trust Fund
- Office of Economic Adjustment (OEA)
- Other TI-97 funds provided to the Navy by the Office of the Secretary of Defense
- Other TI-97 funds provided to the Air Force by the Office of the Secretary of Defense
- Uniformed Services University of the Health Sciences (USUHS)
- Voluntary Separation Incentive Trust Fund

Progress Since the November 2016 FIAR Report

Highlights since the November 2016 FIAR report include:

- Tier 3 ODOs achieved a Triannual Review package submission rate of 88 percent during the last FY 2016 Triannual Review period. The timeliness of submission and quality of the Triannual Review process continue to improve. The OUSD(C) continues to provide guidance, training, and support to the ODOs to ensure submissions continue to improve and meet all necessary requirements.
- The NFR Tracker Tool has been rolled out to Tier 3 ODOs. The tool enables the OUSD(C) to monitor progress of corrective action plans for material weaknesses and significant deficiencies, and elements of OMB A-123 requirements.
- Tier 3 ODOs successfully identified and documented entity-level controls and documentation in preparation for upcoming audits and examinations, and their controls matrices achieved the minimum scoring requirement of 90 percent. OUSD(C) continues to provide guidance, training, and support to ensure action officers understand how to use the controls matrix to timely respond to auditor requests.
- Tier 3 ODOs held preparation meetings with Service Providers and sub-allottees, staged assertion documentation, and established and tested the FIAR Audit Response Center Tool infrastructures in preparation for FY 2017 examinations of the Statement of Budgetary Resources and material Balance Sheet lines.
- Tier 3 ODOs improved their audit infrastructure as evidenced by improving their document submission rate during monthly testing from 54 percent to 98 percent.

Challenges to Audit Readiness

- **Sensitive Activities.** Underlying transactions to amounts reported on many DoD financial statements contain dollar amounts from sensitive activities, which adds a significant challenge since the auditors need access to sensitive financial information and supporting documentation. The Department must balance the need for transparency in providing access to transactions to financial statement auditors and the need to maintain and protect national security.
- **Feeder System Reconciliations.** The Department has numerous legacy nonintegrated, nonstandard feeder systems impacting the financial statements. Completeness of financial transactions cannot be proven without reconciliations of the material feeder systems to the accounting systems.
- **Beginning Balances.** Some Tier 3 and Tier 4 entities may not be able to fully obtain supporting detailed transactions or sufficient documentation to support all opening balances. Reconciling opening balances may be difficult, because there are many years of prior balances that have never been reconciled, and supporting documentation may no longer be available.
- **Shared Appropriations.** Tier 3 and Tier 4 entities share the same appropriations or Treasury accounts, which complicate reconciliations at the ODO-level.
- **Unsupported Elimination Adjustments.** The Department's automated solution to reconcile trading partner data will not be implemented until after the FY 2018 audit has started. Most entities are adjusting financial transactions to trading partner's data without detailed support.

- **Sub-Allotments.** Sub-allotting funds from one Component to another adds to the complexity of business processes and contributes to the inability to reconcile detailed transactions to the financial statements and produce timely supporting documentation. The reporting entities data from sub-allotments could be in several accounting and feeder systems, which makes ensuring controls are designed and operating effectively challenging.

Notices of Findings and Recommendations

In FY 2015, CDBP, DARPA, DTRA, MDA, and WHS completed IPA SBA examinations. The IPA issues NFRs as part of the audit report. These findings and recommendations must be addressed before Tier 3 Entities can reasonably expect to achieve a clean audit opinion. To address each finding, Tier 3 Entities and OUSD(C) analyzed the root cause, and prepared a corrective action plan or plans, supporting milestones, and completion dates. When all supporting milestones and corrective action plans are complete, the finding will be reported as closed. Closed findings may be retested by a future auditor to validate the issue has been resolved and no longer impedes a clean audit opinion.

Figure IV-9, “Notices of Findings and Recommendations from Initial Audits,” shows the number of corrective action plans and milestones being worked and projects a completion date. Findings and corrective action plans are tied to critical capabilities and DoD material weaknesses to improve the tracking of DoD-wide issues and help the Components build on existing improvement efforts and share lessons learned. Charts detailing the status of the critical capabilities follow the figure.

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Figure IV-9. Notices of Findings and Recommendations from Initial Tier 3 Audits, Examinations, and Self-Reviews

Critical Capability	Statement of Assurance Area		Corrective Action Plans (CAPs)					Completion
	End-to-End Process	Material Weakness Area	Number of CAPs	Number of CAPs Closed	Number of Milestones	Number of Milestones Closed	Percent Complete	
Universe of Transactions	All	Financial Reporting Compilation	1	-	2	0	0	12/01/2017
Fund Balance with Treasury	Budget-to-Report	Fund Balance with Treasury	4	0	37	24	65	11/24/2017
Information Technology	All	Financial Management Systems	5	4	28	26	93	12/30/2017
N/A	Budget-to-Report	Financial Reporting Compilation	15	15	65	65	100	✓
	Hire-to-Retire	Civilian Pay	11	10	41	38	93	06/30/2017
	Procure-to-Pay	Contract/Vendor Pay	14	14	67	67	100	✓
	Procure-to-Pay	Reimbursable Work Orders (Budgetary)	3	2	10	7	70	12/30/2017

Tier 3 and Tier 4 Entities

Universe of Transactions

Critical Capability	Completion
Schedule of Budgetary Activity	
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2018
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2018
Statement of Budgetary Resources	
A) Able to produce population of transaction and beginning balance details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2018
B) Able to reconcile population of transaction and beginning balance details to feeder, source, and originating systems.	03/2018
Balance Sheet	
A) Able to produce population of transaction and beginning balance details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2018
B) Able to reconcile population of transaction and beginning balance details to feeder, source, and originating systems.	03/2018

Note: Basic functionality of the system was developed with a limited population of feeder and accounting system data. OUSD(C) experienced a delay in acquisition and funding, therefore, full operationalization will not be achieved until Quarter 2 of FY 2018.

Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	09/2017
DFAS addresses CMR 99UF unallocated funding and CMR 99SA Pre-2005 differences.	06/2017
OUSD(C) and DFAS develop standard process for DCAS daily reconciliations and reporting.	07/2017
DFAS addresses CMR 99SD/99SC differences and CMR valid unfunded differences.	09/2017
DFAS completes requirements, development, and testing for DRRT Increment 3+.	09/2017
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	09/2017
DFAS implements new policy for clearing aged suspense transactions.	✓
DFAS coordinates establishing trademark account.	09/2017
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	09/2017
DFAS standardizes processes and internal controls.	09/2017
D) Perform aging analysis and apply reconciliations backwards to any years possible.	11/2017
DFAS develops processes for unsupported balances.	06/2017
DFAS coordinates write-off process for unsupported balances.	11/2017

Tier 3 and Tier 4 Entities

Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers and other adjustments that reconciles to the financial statements, and have the processes and tools in place to identify, age, and resolve the root causes for journal vouchers.	06/2017
Customers to receive logs from DDRS-B, DDRS-AFS, and accounting systems that include system generated journal vouchers, beginning balances, trial balance input adjustments, pre-processing, ELECTRA, memo, and other adjustments.	✓
UTB to ATB reconciliation to reconcile with amounts - all adjustments: 1) UTB to ATB, 2) Accounting Systems, 3) UTB in DDRS-B, 4) ATB in DDRS-AFS.	06/2017
B) All Other Journal Vouchers – Service Provider: Reduce the volume and/or dollar value of journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements.	09/2017
DFAS and system owners complete all corrective actions to support manual and system journal vouchers.	09/2017
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	09/2017
Components complete corrective actions to support manual and system journal vouchers.	09/2017

Existence and Completeness (Material Assets)

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable existence and completeness baseline.	09/2017
B) Establish an auditable process for go-forward activity.	03/2017
General Equipment, including Military Equipment	
A) Establish an auditable existence and completeness baseline.	09/2017
Validate corrective actions.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017
Internal Use Software	
A) Establish an auditable existence and completeness baseline.	N/A
B) Establish an auditable process for go-forward activity.	09/2017
Inventory and Related Property	
A) Establish an auditable existence and completeness baseline.	09/2017
Validate corrective actions.	09/2017
B) Establish an auditable process for go-forward activity.	09/2017

Tier 3 and Tier 4 Entities

Valuation (Material Assets)

Critical Capability	Completion
Real Property, including Construction-in-Progress	
A) Establish an auditable valuation baseline.	06/2017
Validate PRV model.	06/2017
B) Establish an auditable process for go-forward activity.	06/2017
General Equipment, including Military Equipment	
A) Establish an auditable valuation baseline.	09/2017
B) Establish an auditable process for go-forward activity.	✓
Internal Use Software	
A) Establish an auditable valuation baseline.	✓
B) Establish an auditable process for go-forward activity.	✓
Inventory and Related Property	
A) Establish an auditable valuation baseline.	✓
B) Establish an auditable process for go-forward activity.	✓

Environmental and Disposal Liabilities

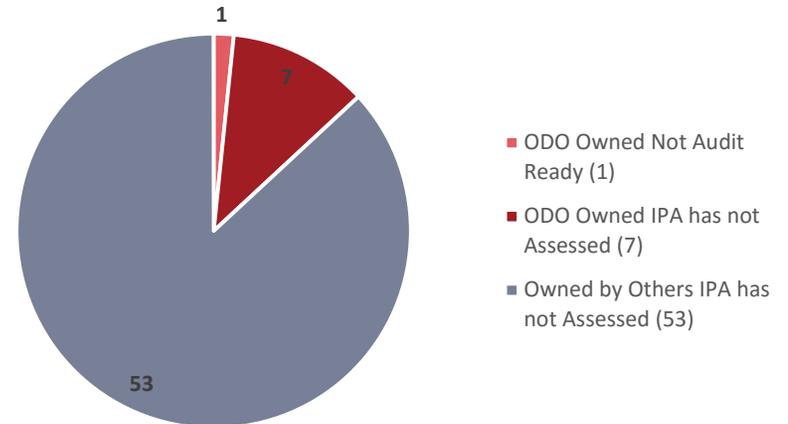
Critical Capability	Completion
Real Property for Material Liabilities	
A) Ability to provide a listing of environmental and disposal liabilities reconciled to the financial statements, and begin implementing a plan to establish auditable processes to support clean-up costs for environmental liabilities.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017
General Equipment and Chemical Weapons Disposal for Material Liabilities	
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.	09/2017
B) Establish an auditable process for estimating and recording environmental liabilities (DERP and non-DERP) and demonstrate completeness.	09/2017

Tier 3 and Tier 4 Entities – Information Technology

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially-relevant systems.	09/2017
Remediate findings from SSAE No. 16 examinations.	09/2017

Figure IV-10 summarizes the audit readiness status of systems relevant to Tier 3 ODOs, including systems owned and maintained by a Tier 3 entity and systems owned and maintained by other organizations. (Tier 4 entities are not included.) For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

Figure IV-10. Status of Systems Relevant to Tier 3 ODOs Audit Readiness



ODO AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure IV-11 include:

Audit Readiness, Validations, and Audits

- Completing evaluation, discovery, and corrective actions of the Components and their service providers.
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions.
- Supporting audit infrastructure to sustain audit readiness and to support IPA audits.

Financial Systems

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

Changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls and may not be captured under audit readiness resources. Similarly, ERP systems are being deployed to modernize functional as well as financial processes and support objectives independent of audit readiness. ERP costs are reported in Section VI, Enterprise Resource Planning Systems.

Figure IV-11. Other Defense Organizations Audit Readiness Resources (Dollars in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Audit Readiness, Validations, and Audits	304	282	245	239	240	240
Financial Systems	3	3	3	3	3	2
Total Resources	308	286	248	243	243	241

Note: Numbers may not sum to total due to rounding.

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Message from the Director, Defense Contract Management Agency

For the Defense Contract Management Agency (DCMA), audit readiness related activities as a reporting entity and as a service provider are routine. We are committed to making this inherent in our operational tempo—an everyday way of doing business.

We continue to recognize the importance of a steady state of audit readiness by maintaining its place as one of DCMA's four strategic goals. The agency's senior executive level leadership team understands that tone at the top is critical, and each of us is committed to ensuring every level of the organization understands this effort is an agency priority. We communicate the importance of audit readiness and demonstrating good fiscal stewardship to our field level Commanders and Directors at training conferences and during periodic performance reviews.

DCMA has completed three Statements on Standards for Attestation Engagements No. 16 (SSAE No. 16) examinations during fiscal years (FYs) 2014, 2015, and 2016. These examinations provided valuable insight to the operational activities and applicable internal controls of our organization. We used the examination results to help us isolate and understand problem areas, identify areas where we could get out in front and improve our internal controls over contract management processes, and to highlight—then celebrate—what our workforce is doing well. We corrected a number of areas that were great candidates for changes and improvements that otherwise may not have been surfaced.

We are now into our FY 2017 service provider examination and looking forward to the insight and valuable feedback this process provides. Of particular interest will be the feedback we receive regarding our compliance to the new audit standards: SSAE No. 18 and ways we can use the new standards to engage our sub-service providers. As always, we stand ready to partner with our customers in support of their internal control testing and examination requirements. DCMA recognizes that our success directly impacts our customers' success. We are: One team, one voice, delivering global acquisition insight that matters. Audit readiness matters!



Wendy M. Masiello
Wendy M. Masiello, Lt Gen, USAF
Director

Message from the Director, Defense Finance and Accounting Service

As the Department of Defense (DoD) prepares for full financial statement audits to begin in fiscal year (FY) 2018, the Defense Finance and Accounting Service (DFAS) remains committed to supporting the Department in achieving and sustaining its audit goals. As a financial service provider, DFAS plays an integral role in supporting the Military Services' and Defense Agencies' end-to-end processes. We continue to improve the auditability of our business processes and system controls by adopting audit strategies, accounting principles, and internal control toolsets into our daily business practices. We stand ready to support our customers as they undergo full financial statement audits and I am proud of the joint accomplishments we've achieved in support of the Department's Financial Improvement and Audit Readiness Plan.



Since FY 2012, DFAS has achieved success through our Statements on Standards for Attestation audits. To date, we have received 19 favorable opinions across six DFAS services, including Civilian Pay, Military Pay, Contract Pay, Disbursing, Financial Reporting, and the Defense Cash Accountability System. In FY 2017, we have added an additional examination for our Vendor Pay Service and expanded scope in our Disbursing Service to include Indianapolis and Columbus disbursing offices. DFAS strives to achieve and sustain unmodified opinions, and we seek opportunities to expand the scope of our examinations to increase our audit readiness effectiveness. Additionally, we continue to conduct self-reviews on our processes and systems in accordance with our Managers' Internal Control Program and the Federal Information Systems Control Audit Manual.

Looking ahead, DFAS is committed to helping the DoD improve financial processes, controls, and information. As one of our Agency's strategic priorities, DFAS is taking actions to ensure the long-term sustainability and achievement of audit steadiness goals through a framework of effective business management, effective internal controls, and readily accessible documentation. We remain dedicated to the Department's auditability while continuing to provide the first-class pay, accounting, and reporting services that our customers deserve!

A handwritten signature in black ink that reads "Teresa McKay". The signature is fluid and cursive.

Teresa A. McKay
Director

Message from the Defense Information Systems Agency

DISA fully supports the Department's goal to achieve auditable financial statements by September 30, 2017. DISA, as a Service Provider, hosts more than 100 financial systems throughout the Department of Defense. DISA demonstrates the commitment to audit efforts through annual examinations by independent public accountants. For the fifth consecutive year, DISA received a clean opinion on the Hosting Services platform.

The Agency continuously strives to improve processes, enhance controls, and validate information. At DISA, audit is an enterprise-wide endeavor. The entire DISA workforce actively embraces the day-to-day challenges associated with audit readiness in order to sustain our audit posture. We continue to work with the DoDIG and our IPA on our financial statement audit with results expected in the upcoming weeks.




LTG Alan R. Lynn
Director

Message from the Defense Logistics Agency

The Defense Logistics Agency (DLA) is a DoD service provider in a variety of areas. Our preparation for full financial statement audit has improved DLA's internal controls and processes. DLA's ability to meet our service provider responsibilities has benefited from those improvements.

The DLA is a service provider to the Military Services for the receiving, storing, and issuance of Military Service-owned items in DLA custody. The Military Services are dependent upon the processes and procedures at DLA's depots. This area underwent its first Independent Public Accountant (IPA) examination and DLA has discussed the Service Organization Control (SOC) 1 Report results in depth with the Military Services. DLA is working to update the memorandum of understandings for this area as a result of the examination and discussions with the Military Services. In addition, DLA is working closely with the Military Services to define an IPA attestation engagement that addresses the Military Service-owned items quantity balances in a manner that directly supports their financial statement audits.

The DoD-wide business systems DLA provides for the Department are undergoing their annual IPA examinations. DoD agencies must rely on these systems to pass their own financial statement audits. DLA remediated last year's IPA findings and continues to monitor and sustain enterprise wide control policies and procedures. Our customers and their auditors can rely on DLA systems to provide accurate, timely and secure information.

In its human resources service provider role, DLA supports 12 Fourth Estate reporting entities. DLA is responsible for the employee record set-up and maintenance of 45,000 civilian personnel and, for some of these civilians, is also responsible for permanent duty travel services. We support these agencies' financial statement audits through the timely response to all audit-related requests.

The DLA supports DoD in multiple service provider roles. Through IPA examinations, we continue to improve by addressing each IPA-identified finding. We are firmly committed to supporting DoD's goal of auditable financial statements.



Edward J. Case
EDWARD J. CASE
Vice Director

V. Service Providers Audit Readiness

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

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

To support a Component customer's audit readiness efforts, service providers are working to obtain reasonable assurance their controls over financial business operations and IT systems are designed and operating effectively. In addition, service provider IT systems must be interoperable with Component customer systems to provide the financial data needed for accounting transactions and supporting documentation. The Department is closely monitoring progress to ensure service provider align with the DoD audit strategy and timeline.

The DoD service providers are:

- Department of the Army
- U.S. Army Corps of Engineers (USACE)
- Naval Facilities Engineering Command (NAVFAC)
- Defense Contract Management Agency (DCMA)
- Defense Finance and Accounting Service (DFAS)
- Defense Human Resources Activity (DHRA)

- Defense Information Systems Agency (DISA)
- Defense Logistics Agency (DLA)

AUDIT READINESS STRATEGY AND SERVICE PROVIDERS

When service providers complete audit readiness work for systems and business processes that are common to multiple Components, an IPA completes a controls examinations in accordance with SSAE No. 16, "Reporting on Controls at a Service Organization." In April 2016, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued SSAE No. 18, "Attestation Standards: Clarification and Recodification." SSAE No. 18 is in effect for IPA examination reports dated after May 1, 2017.

To improve Department-wide efficiency, service providers that provide common, standard services to three or more Component customers must strive to obtain an IPA examination on controls. The IPA provides the results of the examination in a SOC 1 Report (Service Organization Controls Report). That report can then be used by Component customers and their financial statement auditors, reducing redundant testing of controls, saving time and money.

Service providers that do not conduct controls examinations must work with their Component customers to determine how they will support their Component-customers' audit readiness and financial reporting standards compliance efforts. Service providers are responsible for discovery and corrective actions for the processes, controls, and systems that affect a Component customer's financial reporting objectives. Service providers must achieve financial reporting objectives by implementing control activities and providing supporting documentation that will be audited as part of a Component customer's financial statement audit.

To ensure the service providers are audit ready when their Component customers are under audit, the OUSD(C):

- Issued specific service provider guidance in the FIAR Guidance.

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- Directed the service providers to identify material systems and provide regular updates on system audit readiness activities.
- Requires service providers to standardize services, to the extent possible, and undergo a controls examination by an IPA after completing financial improvement work.
- Monitors IPA examinations and tracks Notices of Findings and Recommendations and remediation progress.
- Conducts three Service Provider Working Group meetings per year to discuss the status of SSAE No. 16/18 examinations, additional SSAE No. 16/18 examinations and changes in scope, and the status of corrective actions to address DoD-wide dependencies.

Service Provider Initiatives

- Began two new SOC 1 examinations: DFAS Vendor Pay and Army Conventional Ammunition.
- Reviewed SOC 1 reports to evaluate compliance with the February 2016 OUSD(C) memorandum “Improving Reporting on Service Provider Controls.”
- Issued a December 2016 OUSD(C) memorandum “Addressing Requirements on AICPA’s New Standards for Service Organization Control Reports,” which provided guidance in addressing high-impact changes resulting from SSAE No. 18.
- Began implementing new SSAE No. 18 requirements and issued complementary sub-service organization controls to be used in identifying sub-service organization dependencies and developing standardized DISA hosting controls to aid service organizations in implementing the new standard.
- Issued auditing standards-based framework to better determine the business relationship of specific MILSTRIP transactions and whether those transactions result in a buy-sell relationship (trading partner and vendor) or no dependency exists.

- Worked with other federal agencies that act as service providers, such as the Department of Labor and U.S. Treasury, to assess potential impact on DoD audits.

SERVICE PROVIDER AUDIT READINESS

Service provider roles, responsibilities, and audit readiness status are described in the sections that follow. Quad-charts providing additional information are included for those service providers continuing to perform financial improvement and audit readiness activity in support of their customers.

Department of the Army

The Army has two service provider roles and responsibilities:

- Acquisition authority for conventional ammunition
- Real Property construction and maintenance

Acquisition of Conventional Munitions

The Army has acquisition authority and custodial accountability for conventional munitions for the Military Services and serves as the single manager for conventional munitions, providing munition procurement and management. These munitions are reported by the Military Services as Operating Material and Supplies on the Balance Sheet.

As a service provider, the Army maintains physical custody over munitions stock owned by the other Military Services and visibility for these assets in the two accountable property systems of record: Logistics Modernization Program and Standard Army Ammunition System-Modernized.

To comply with FIAR service provider requirements, the Army is:

- Executing a single set of audit readiness activities for the Army and other Military Services.

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- Performing monthly internal control testing of business processes to identify and mitigate deficiencies.

The Army approaches audit readiness customer support by capitalizing on the existence and completeness work for Army-owned ammunition. The Army is relying on the results of substantive existence and completeness, internal control, and system control testing to support its assertion on the existence, completeness, rights, obligations, presentation, and disclosure assertions that are central to audit readiness.

The Army service provider approach uses the same Army business processes and internal controls for all Operating Material and Supplies assets, regardless of ownership. As a result, the Army's audit readiness assertions are used for the management of munitions owned by the other Services. However, the Army's assertion cannot be applied to the ammunition assets procured directly by the Military Services.

The Army completed the following audit readiness activities:

- Asserted Operating Material and Supplies (Class V Supply) audit readiness – September 2014.
- Developed corrective actions in response to a DoD OIG audit readiness validation report.
- Developed valuation strategy for Operating Materials and Supplies assets.

Real Property Engineering Services and Construction

USACE delivers public and military engineering services to strengthen national security, energize the economy, and reduce risks from disasters. Construction and engineering services are provided for the Army, other Military Departments, and Defense Agencies.

USACE has received clean audit opinions on its Civil Works financial statements since FY 2008. USACE serves as a construction agent for the Army's Military Construction Program, therefore, its business processes and internal controls are applicable to the Army's Real

Property asset management and audit readiness activities, as well as those of its other Component customers.

In support of its Component customers, USACE:

- Manages and oversees military construction programs through the construction process, including Construction-in-Progress reporting and accounting.
- Furnishes the Army with real estate transfer documentation upon asset acceptance.
- Maintains real estate documents upon acceptance of Real Property.
- Manages Real Property that is acquired by lease, easement, license, permit, or similar real estate instruments.
- Manages and oversees the acquisition, improvement, and disposal of land by acres.
- Disposes of excess real estate, including disposals mandated by the Base Realignment and Closure or public law.

Naval Facilities Engineering Command

NAVFAC constructs and maintains facilities, delivers utilities and services, and provides capabilities to Navy expeditionary combat forces. NAVFAC also supports the Air Force, Marine Corps, and Defense Agencies.

NAVFAC uses the Facilities Information System and its associated controls to manage military construction funds regardless of the source of those funds.

NAVFAC supports its customers' Real Property audit readiness by managing and overseeing Construction-in-Progress reporting and accounting, and Real Property construction, transfer, and acceptance. NAVFAC also provides audit readiness support, such as audit sample requests, supporting documentation, account reconciliations, and process documentation. NAVFAC is executing a plan to implement

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agreements with each tenant that documents Financial Reporting, Inventory, and other Real Property audit responsibilities.

Defense Contract Management Agency

DCMA received a modified opinion with six NFRs on the FY 2016 SSAE No. 16 examination for Contract Pay. Corrective action plans for all NFRs have been implemented. For FY 2017, DCMA's assertion covers a nine month timeframe from October 1, 2016 to June 30, 2017, and was submitted to comply with the new SSAE No. 18 audit standards. FY 2017 report distribution is expected in August 2017.

DCMA is assisting its Component customers' SBA audits by providing controls and process documentation for Contract Pay and SSAE No. 18 examinations.

Defense Finance and Accounting Service

DFAS provides accounting and finance services for the Department. Services include civilian pay, military pay, vendor pay, retired and annuitant pay, contract pay, travel pay, debt and claims, disbursing, accounting, and financial statement preparation for the Military Services and other Defense organizations.

In FY 2016, DFAS disbursed \$476.6 billion, processing 150.2 million pay transactions for 6.3 million military and civilian employees, including retirees and annuitants, along with 11.8 million commercial invoices. DFAS maintained 1,367 active appropriations and managed \$675.9 billion in DoD funds.

SBA Audit Support

As a financial service provider, DFAS is critical to the Department's overall audit readiness. DFAS efficiently and effectively supports the Department's audit readiness goals by using a systematic approach made up of three major elements: SSAE No. 16/18 examinations, self-reviews, and system reviews. DFAS also incorporates lessons learned from previous audits and examinations. DFAS undergoes annual examinations on six of its major functions, including civilian pay, military pay, standard disbursing, contract pay, financial reporting,

and the Defense Cash Accountability System (DCAS). Results of the examinations include:

- Civilian Pay – Unmodified opinion for the period October 2015 – June 2016
- Military Pay – Modified opinion with qualified language for the period October 2015 – June 2016
- Standard Disbursing – Unmodified opinion for the period October 2015 – June 2016
- Contract Pay – Unmodified opinion for the period October 2015 – June 2016
- Financial Reporting – Modified opinion with qualified language for the period October 2015 – July 2016
- Defense Cash Accountability System (DCAS) Transaction Distribution Services – Modified opinion with qualified language for the period March 2016 – September 2016

The first SSAE No. 18 examination for vendor pay services began in FY 2017 for the period February 2017 – July 2017.

For processes and systems that are not part of an SSAE No. 18 examination, DFAS conducts self-reviews and system reviews in accordance with FIAR Guidance and Federal Information System Controls Audit Manual (FISCAM). DFAS also sustains an effective Managers' Internal Control Program to ensure processes are documented, controls are effectively tested, and corrective actions are fully remediated.

Full Financial Statement Audit Support

DFAS is supporting its Component customers' SBA and financial statement audits and preparations for full financial statement audits. DFAS support includes:

- Developing and implementing a strategy to support beginning balances.

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- Capturing and producing the universe of transactions needed for full financial statement audits.
- Reducing or eliminating the need for journal vouchers.
- Ensuring DFAS-owned systems are ready for audit through a risk-based approach.
- Remediating deficiencies discovered through the SBA audits.
- Reconciling accounting detail to the Treasury Department at the transaction level via various reconciliation tools.

Defense Information Systems Agency

DISA provides application hosting services for the Department's service providers (DFAS, DLA, DCMA, and DHRA), Military Services, and other Defense organizations. As a result, DISA is responsible for most of the IT general controls over the computing environment in which many financial, personnel, and logistics applications reside. In order for service providers and Components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed. DISA and the Components have entered into agreements to support audits. The agreements ensure services are documented and describe any nonstandard controls or functions.

For the fifth consecutive year, DISA received an unmodified opinion for application hosting services on its SSAE No. 16 examination.

In FY 2016, DISA conducted its second SSAE No. 16 examination on the Automated Time and Attendance and Production System (ATAAPS) and received a modified opinion. DISA has closed one of four NFRs provided by the auditor and is dedicated to resolving the remaining three privileged access assignments/DD 2875 process corrective actions.

DISA continues to support the Components and has engaged an IPA to conduct follow-on SSAE No. 18 examinations for both hosting services and ATAAPS for the period October 2016 – June 2017.

Defense Logistics Agency

DLA has two service provider roles:

- Stores and issues Military Service-owned items in DLA custody
- Operates and maintains four IT systems

Military Service-Owned Items in DLA Custody

DLA is a service provider for Military Service-owned items in DLA custody. DLA stores and manages items at its facilities and issues and distributes the items to the Military Services. While DLA uses a DLA system, Distribution Standard System, to record receipt and issuance activity at its facilities, each Military Service maintains its own accountable property system of record. To better define how DLA will support each Military Service's audit readiness efforts and address financial reporting controls, DLA has entered into an agreement with each Military Service.

IT Systems

DLA maintains IT systems used by the Components for business and financial operations including contract pay, disbursing, and financial reporting. DLA completed discovery and corrective actions, and strengthened controls for the systems in support of customer audit readiness.

Effective October 1, 2016, responsibility for the administrative oversight, control, and management of Defense Property Accountability System (DPAS) was transferred from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics to DLA. The transition does not affect the functionality, operations, or customer support of the DPAS Program, and the program manager and support personnel will remain with the program.

SSAE No. 16 Examination Service Organization Control Reports

For FY 2016, SOC 1 Reports were issued for:

- Military Service-Owned Items in DLA Custody (SOIDC)

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- Defense Automatic Addressing System (DAAS)
- Defense Agencies Initiative (DAI)
- Defense Property Accountability System (DPAS)
- Invoicing, Receipt, Acceptance, and Property Transfer (iRAPT)

The FY 2017 SOC 1 Reports for the four IT systems will be issued in August 2017.

Defense Human Resources Activity – Defense Manpower Data Center

DMDC supports the Department by managing and maintaining the human resources and travel systems listed below:

- Defense Civilian Personnel Data System (DCPDS)
- Defense Travel System (DTS)

Defense Civilian Personnel Data System Support

DHRA-DMDC operates and maintains DCPDS, the Department's civilian personnel system used to initiate, approve, and process personnel actions for civilian employees. DCPDS supports over 800,000 active civilian personnel records and is the feeder system to the payroll system maintained by DFAS. The Components rely on DCPDS, including relevant system controls, to ensure the completeness, accuracy, validity, and restricted access to civilian personnel actions. Additionally, DHRA-DMDC hosts the personnel

system at a contractor-managed data center. DCPDS received an unmodified opinion on its SSAE No. 16 examination for the period October 1, 2015 – June 30, 2016.

Defense Travel System Support

In coordination with the Defense Travel Management Office, DHRA-DMDC maintains DTS, which has interfaces that manage, execute, and calculate the costs to reimburse travel. The Department relies on DTS, including system controls, to ensure the completeness, accuracy, and validity of travel costs, and restrict and prevent unauthorized access to this information. DTS is governed by policy and enforcing that policy is the responsibility of the agency using the system. In addition to maintaining DTS, DHRA-DMDC monitors contractor performance and systems to ensure cost, product performance, and delivery schedules comply with the terms and conditions of the contracts.

DHRA-DMDC received a modified opinion with five NFRs on the FY 2016 DTS SSAE No. 16 examination for the period October 2015 – June 2016. Primarily administrator NFRs were found within Security Management, Access Controls – Logical, Configuration Management, Segregation of Duties, and Processing Control Areas. A finding related to configuration management has been corrected, and DHRA-DMDC is working on corrective actions for the remaining four findings. The corrective actions will be evaluated for effectiveness during the FY 2017 SSAE No. 18 examination.

Department of the Army – Operating Materials and Supplies (Ammunition)

Overview

- Army has acquisition authority and custodial accountability for conventional munitions for the Military Services, and:
 - Executes a single set of audit readiness activities for the Army and other Military Services.
 - Tests internal controls of business processes monthly to identify deficiencies for mitigation.
 - Uses Army’s existence and completeness Operating Material and Supplies assertion as support for assertions of the other Military Services’ balances.

Remaining Audit Readiness Actions

- The Army is undergoing an SSAE No. 18 audit of controls related to Operating Material and Supplies (Ammunition); expected audit completion Quarter 4 of FY 2017.
- Continue implementation of the Operating Material and Supplies valuation strategy, using latest acquisition cost to value assets.

Challenges

- None.

Completion Dates for Milestones (✓ = Completed)

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

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All transactions are recorded and properly classified (individual item identifier, where applicable, asset type, controlling organization) within the APSR.	✓
Physical inventories are conducted to validate the existence (APSR records reconcile to physical inventory).	✓
Physical inventories are conducted to validate transactions recorded in the APSR pertain to the Component (identification number where applicable, asset marked with Components name).	✓
All transactions are consistently categorized by type in APSR, summarized, or reported from period to period.	✓
All transactions are recorded and properly classified (individual item identifier where applicable, asset type, controlling organization) within the APSR.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	06/2017

U.S. Army Corps of Engineers – Real Property

Overview

- Army Civil Works Fund, managed by USACE, has received an unmodified financial statement audit opinion since FY 2008.
- USACE uses the Corps of Engineers Financial Management System (CEFMS) with associated controls to manage military construction funds regardless of the source of those funds.
- USACE customers can rely on the Civil Works audit opinion for:
 - Assurance their CEFMS trial balance is materially correct.
 - Asserting Statement of Budgetary Resources audit readiness, existence and completeness, and Construction-in-Progress.

Remaining Audit Readiness Actions

- The Army continues to work with USACE to validate this business process and ensure controls are operating effectively in preparation for the full financial statement audit.

Challenges

- None.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	✓
Reporting Entity Assertion Support	09/2017
Assertion	09/2017

Completion Dates for Outcomes (✓ = Completed)

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

Navy Facilities Engineering Command – Real Property

Overview

- NAVFAC uses the Facilities Information System and its associated controls to manage military construction funds for all fund sources.
- NAVFAC supports its customers’ Real Property audit readiness by managing and overseeing Construction-in-Progress reporting and accounting, and Real Property construction, transfer, and acceptance.
- NAVFAC also provides audit readiness support, such as audit sample requests, supporting documentation, account reconciliations, and process documentation.

Remaining Audit Readiness Actions

- Implement capital improvement requirements in accordance with the SFFAS No. 6 by the end of Quarter 2 of FY 2017.
- Begin financial reporting organization reconciliations with Navy tenants to ensure proper reporting in accordance with policy.
- Continue to assess financial management systems’ FISCAM control objectives (i.e., IT general controls and application controls).
- Begin multiyear implementation of support agreements with Navy tenants.
- Continue implementation of Construction-in-Progress corrective action plans and reconciliation of transaction universe for customer agencies.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Implemented Alternative Valuation	✓
Reporting Entity Assertion Support	✓
Assertion	✓
Sustainment Testing (E&C and Controls Tests)	✓
Construction-in-Progress and Financial Reporting Corrective Actions	06/2017
Non-Military Construction Appropriation Capital Improvement Corrective Actions	✓

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	07/2018
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	06/2017

Defense Contract Management Agency

Overview

- Received a modified opinion with 6 NFRs on the FY 2016 SSAE No. 16 examination for Contract Pay and remediated all findings.
- Incorporated new SSAE No. 18 audit standards into FY 2017 assertion of audit readiness. Conducted meetings with applicable sub-service providers to finalize.
- Continued testing of automated internal controls following FISCAM guidance and remediated findings.
- Conducted several meetings with customers to provide detailed process flows on entitlement and payment procedures to assist in remediating customer examination findings.

Remaining Audit Readiness Actions

- Continue to refine sub-service organization key controls.
- Complete FY 2017 audit; prioritize and remediate any findings.
- Distribute FY 2017 audit report to customers and brief outcome.

Challenges

- Change in audit standards from SSAE No. 16 to SSAE No. 18 require immediate assimilation and compliance.
- Ensuring sufficient resources to support agency's FY 2017 audit while providing the level of support our customers will need for their readiness efforts and actual audit.

SSAE No. 16/18 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
02/2014 – 10/2014	Modified	6	✓
02/2015 – 09/2015	Modified	9	✓
01/2016 – 06/2016	Modified	6	✓
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	09/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	09/2017

Defense Finance and Accounting Service – Financial Reporting

Overview

- Financial reporting is the process by which DFAS organizes financial data and produces DoD financial statements.
- The scope of the SSAE No. 16 examination includes trial balance preparation, validation, trading partner eliminations, and adjustments performed through the DDRS. DDRS is the reporting system that produces SFIS-compliant financial statements and budgetary reports for the Military Services and Defense Agencies.
- DFAS underwent a third SSAE No. 16 examination in FY 2016. The resulting report was delivered 09/2016 and resulted in a modified opinion with qualified explanatory language.

Remaining Audit Readiness Actions

- Implementation of outstanding corrective action plans linked with the FY 2016 NFRs.

Challenges

- Developing more systemic, sustainable long-term corrective action plans in order to address findings.
- Reliance on Department-wide solution for eliminations.
- Working closely with reporting entity partners on improving journal voucher accuracy and reducing unsupported journal vouchers.

SSAE No. 16/18 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2014 – 11/2014	Modified	10	✓
		2	09/2017
12/2014 – 07/2015	Modified	7	✓
		2	09/2017
10/2015 – 07/2016	Modified	10	09/2017
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	09/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	09/2017

Defense Finance and Accounting Service – Defense Cash Accountability System

Overview

- DCAS is integral to the DFAS audit readiness strategy for Fund Balance with Treasury.
- DCAS captures, consolidates, and distributes payment and collection information received from accounting and disbursing systems for use in cash reporting and reconciliation.
- DCAS receives files from disbursing and other systems, and uses an extensive process of edits, validations, and derivations to distribute transactions to the correct DFAS and customer accounting systems.
- The focus of this assertion is the DCAS Transaction Distribution process. DFAS customers with cross disbursement activity are supported by this assertion.

Remaining Audit Readiness Actions

- DFAS completed three corrective actions to remediate FY 2016 SSAE No. 16 NFRs.
- Second DCAS Transaction Distribution SSAE No. 18 examination will cover the period between October 1, 2016 to June 30, 2017.

Challenges

- Large number of stakeholders adds complexity to implementing corrective actions.
- Dynamic nature of planned system changes.

SSAE No. 16/18 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2016 – 09/2016	Modified	12	✓
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Finance and Accounting Service – Department 97 Reconciliation and Reporting Tool

Overview

- DRRT monthly reconciles TI-97 funds between the Department’s various accounting systems (e.g., DAI, eBIZ, Defense Business Management System) and Treasury’s government-wide accounting system for each fund symbol.
- The Cash Management Report provides a summary cash position for the TI-97 reporting entities and bridges the gap between Treasury at the appropriation level to the individual Defense organizations at the four position limit level. The report computes the Fund Balance with Treasury and cash position at the appropriation, fiscal year, basic symbol, and limit level.

Remaining Audit Readiness Actions

- Pre-assertion work ongoing for the DRRT and CMR processes in preparation for a January 2018 assertion date.
- Completion of an audit engagement by Internal Review in preparation for the assertion in FY 2018.

Challenges

- Implementing corrective action plans and updating process documentation following the DRRT 3+ implementation in October 2017, leading up to the assertion in January 2018.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	06/2017
Corrective Actions	11/2017
Reporting Entity Assertion Support	12/2017
Assertion	12/2017

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	08/2018
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	08/2018

Defense Finance and Accounting Service – Vendor Pay

Overview

- DFAS reviews and inputs documents to entitle payments for goods, services, and transportation. Internal controls work to ensure payments are made based on terms and conditions contained in accepted purchase orders, contracts, miscellaneous payments, and contract modifications.
- The SSAE No. 18 examination includes contract input, receiving report entry, invoice entry, pre-validation, certification, and payment file generation and release for disbursing.
- Computerized Accounts Payable System – Windows (CAPS-W) is the entitlement systems in scope. DFAS Accounts Payable Directorates use this system to ensure proper entitlement, pre-validation, and certification of payments for vendor contracts.
- DFAS is planning the first SSAE No. 18 examination in FY 2017, and the examination report is expected September 2017.

Remaining Audit Readiness Actions

- Corrective action implementation for One Pay and STARS to be included in Year 2 assertion scope.
- Pre-assertion work for Defense Agency Initiative (DAI) to be included in Year 2 assertion scope.

Challenges

- Six month assertion period for Year 1 (02/2017 – 07/2017).
- Implementation of corrective actions as a result of Year 1 findings prior to the start of Year 2 assertion.

SSAE No. 16/18 Examinations (✓ = Completed)

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

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	09/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	09/2017

Defense Finance and Accounting Service – Disbursing

Overview

- DFAS disbursing provides disbursement and collection services associated with federal civilian payroll, military payroll, military retired and annuitant payments, vendor payments processed by One Pay, Navy ERP, CAPS-W, GFEBS and DAI, and miscellaneous disbursements and collections including IPAC transactions. Disbursing is also responsible for reporting functions such as federal, state, and local tax reporting, managing voucher retention, and performing gross to net reconciliations.
- ADS and ADS IPAC are in scope for the SSAE No. 18 examination, and the examination has been expanded to encompass DSSNs 6102, 8522, 6355, 6551, and 5570.

Remaining Audit Readiness Actions

- Planning to expand scope in future years in order to increase reliance on the SOC 1 report.

Challenges

- None.

Completion Dates for SSAE No. 18 Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	06/2017
Corrective Actions	11/2017
Reporting Entity Assertion Support	12/2017
Assertion	12/2017

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2015 – 06/2016	Unmodified	6	01/2017

Completion Dates for Outcomes

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Information Systems Agency – Automated Time Attendance and Production System

Overview

- DISA hosts ATAAPS for use by the Components.
- ATAAPS is a web-based data entry application that allows employees to enter time and attendance information while selecting and charging time to the associated job order or task (e.g., leave, overtime, compensatory time, wellness). Additionally, leave requests may be submitted to the appropriate individuals for approval.
- ATAAPS is a feeder system to DCPS, providing the source data automation to payroll.

Strategy Summary

- Conduct an SSAE No. 18 examination in FY 2017.

Challenges

- None.

SSAE No. 16/18 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2014 – 06/2015	Qualified	2	✓
10/2015 – 06/2016	Qualified	4	✓
10/2016 - 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

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

Overview

- DLA stores Military Service-owned items and, as directed, issues and distributes the items to the Military Services. DLA uses DSS to record receipt and issuance activity at its facilities. The Military Services maintain the accountable property systems of record for items in DLA custody.
- DLA uses the same receipt, storage, and issuance processes and policies for Military Service-owned items as it does for DLA-owned inventory items.
- DLA support affects Military Service financial reporting for the items in DLA custody. DLA established a memorandum of understanding with each Military Service that defines DLA support of Military Service audits and addresses controls relevant to financial reporting.

Remaining Audit Readiness Actions

- Update documentation and prepare for the next examination.
- Continue working with the Military Services to assess the full scope of assurances needed from DLA to support their financial statement audits.
- Inform the Military Services of the results in the SOC 1 Report and corrective actions needed.
- Implement corrective actions and remediate findings.
- Support the IPA performing other audit procedures over quantity.
- Continue monitoring and sustaining enterprise-wide control policies and procedures.

Challenges

- None.

SOC 1 Reports (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completo
01/2016 – 09/2016	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Defense Automatic Addressing System

Overview

- DAAS routes and edits transactions in accordance with customer-defined requirements and maintains the DoD activity address file.
- Received a modified opinion on the SOC 1 Report issued for the period 10/2015 – 06/2016.
- Continuing support through a FY 2017 SOC 1 Report with reporting period of 10/2016 – 06/2017.

Remaining Audit Readiness Actions

- Completing audit support memorandums of understanding with customers.
- Complete transition of system connections from GEX to DAAS.

Challenges

- Identifying key population of interfaces and edit checks relevant to DoD users.

SOC 1 Reports (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
09/2013 – 02/2014	Modified	4	✓
10/2014 – 06/2015	Modified	5	✓
10/2015 – 06/2016	Modified	9	✓
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Defense Agencies Initiative

Overview

- DAI is an ERP being deployed to most other Defense organizations.
- Held customer complementary user entity controls discussions to ensure customer understanding.
- Continuing DLA support through a FY 2017 SOC 1 Report with reporting period October 2016 – June 2017.

Remaining Audit Readiness Actions

- Complete updates to management description of the system and control objectives with more detailed interface and data edit descriptions.

Challenges

- None.

SOC 1 Reports (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
01/2014 – 06/2014	Modified	3	✓
10/2014 – 06/2015	Unmodified	3	✓
10/2015 – 06/2016	Modified	0	N/A
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Defense Property Accountability System

Overview

- DPAS is an enterprise system for Property Accountability.
- Manages General Equipment, heritage assets, Real Property, and Internal Use Software.
- Continuing DLA support through a FY 2017 SOC 1 Report with reporting period October 2016 – June 2017.

Remaining Audit Readiness Actions

- Complete updates to management description of the system with more detailed data edit descriptions.

Challenges

- None.

SOC 1 Reports (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2013 – 06/2014	Unmodified	0	N/A
07/2014 – 06-2015	Unmodified	0	N/A
10/2015 – 06/2016	Unmodified	0	N/A
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Invoices Receipt Acceptance and Property Transfer

Overview

- iRAPT is used for contractor invoicing and government receipt and acceptance of goods and services.
- Received a modified opinion in the SOC 1 Report for the period 10/2015 – 06/2016.
- Held customer complementary user entity controls discussions to ensure customer understanding.
- Continuing DLA support through FY 2017 SOC 1 Report with reporting period 10/2016 – 06/2017.

Remaining Audit Readiness Actions

- Completing audit support memorandums of understanding with customers.
- Add Electronic Document Access (EDA) to scope of SOC 1 Report.

Challenges

- Identifying key population of interfaces and edit checks relevant to DoD users.
- Supporting customer auditor access requests and complementary user entity controls testing.

SOC 1 Reports (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2014 – 08/2014	Modified	10	✓
10/2014 – 06/2015	Modified	4	✓
10/2015 – 06/2016	Modified	4	✓
10/2016 – 06/2017	Examination in Progress		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Human Resource Activity – Defense Manpower Data Center, Defense Travel System

Overview

- DTS is a fully integrated, electronic, end-to-end travel management system that automates temporary duty travel and facilitates the reimbursement of travel claims for the Department.
- The Defense Human Resource Activity - Defense Manpower Data Center (DHRA - DMDC) became the Program Management Office in 10/2015, when DTS was transferred from DLA.
- DMDC DTS Program Management Office participates in service provider working group meetings to communicate the DTS SSAE No. 16 status, which includes scope changes, complementary user entity controls changes, and corrective actions.
- FY 2016 SSAE No.16 examination report was issued in 09/2016 and resulted in a modified opinion.
- FY 2017 SSAE No. 18 examination started 01/2017.

Remaining Audit Readiness Actions

- FY 2017 SSAE No. 18 examination initial meeting with auditors occurred in January 2017; currently undergoing test of design and effectiveness walk-throughs.
- Incorporated new requirements for SSAE No. 18 examinations, including complementary sub-service organization controls identification and descriptions, and review and validation of reports and data provided to user entities. All will be reported in the FY 2017 SSAE No. 18 report.
- Continue to refine internal DMDC enterprise procedures, to include automating as many procedures as possible.
- To correct an earlier Access Control finding:
 - The DTS system was automated to provide alerts to key personnel when a DTS permission level 8 or 9 is granted. This alert has resulted in a near real-time capability of shutting the access down if it is erroneously granted.
 - Improved the monitoring of permission levels 8 and 9 oversight by creating random action audits of those possessing these levels. These audits are now reviewed quarterly between the third-party integrator and the DTS program management office.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2014 – 06/2015	Modified	5	✓
10/2016 – 06/2017	Examination in Progress		

*All NFRs from FY16 SSAE No. 16 have been corrected and are pending validation through an FY 2017 SSAE No. 18 examination.

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and sub-processes have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

VI. Enterprise Resource Planning Systems

Enterprise Resource Planning (ERP) systems promote an efficient business environment, reduce the likelihood of human errors, and lessen the threats of systems susceptibility—all objectives independent of audit readiness. However, the Department’s ability to produce and sustain an auditable financial statements is dependent on an audit ready systems environment that includes ERPs. As many IT controls as possible are embedded in each ERP to reduce the possibility of human error and automate processes. The extent to which internal controls have been embedded within an ERP depends on the system and program maturity, as well as the ERP’s business purpose. As the scope of the Department’s audits grows, the ability of auditors to rely on the automated controls and minimize testing takes on even more importance.

MILITARY DEPARTMENTS

The Military Departments’ ERPs help to strengthen internal controls, mitigate material weaknesses, and aid in achieving a clean opinion. Plans for deploying ERPs vary, and some of the projected dates extend beyond September 30, 2017. The FY 2018 full financial statement audits will include a combination of ERPs and legacy systems.

The Army ERPs are:

- General Fund Enterprise Business System (GFEBS)
- Logistics Modernization Program (LMP)
- Global Combat Support System – Army (GCSS-A)
- Integrated Personnel Pay System – Army (IPPS-A)

The Department of the Navy ERPs are:

- Navy ERP
- Global Combat Support System - Marine Corps/Logistics Chain Management Increment 1 (GCSS-MC/LCM Increment 1)

The Air Force ERPs are:

- Defense Enterprise Accounting and Management System (DEAMS)
- Air Force Integrated Personnel and Pay System (AFIPPS)

This section of the report provides information on the status of the Department’s ERP systems. Information on the Defense Agencies Initiative (DAI), the ERP supporting the ODOs and Defense Agencies, follows the Military Departments’ ERPs. See the Military Department and Other Defense Organization sections for the audit readiness status of each Component’s systems environment.

General Fund Enterprise Business System (GFEBS)

Overview

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

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	379.8	379.8
Procurement	271.4	284.6
Operations and Maintenance	535.6	849.4

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	48
Legacy Systems Scheduled for Sunset	62
Legacy Systems Interfaced to Date	49
Total Number of Systems with Functionality Fully or Partially Subsumed by GFEBS	110

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	09/2018
Access	✓	09/2018
Configuration Management	✓	09/2018
Segregation of Duties	✓	09/2018
Contingency Planning	✓	✓
Completeness	✓	09/2018
Accuracy	✓	09/2018
Validity	✓	09/2018
Confidentiality	✓	09/2018
Availability	✓	09/2018

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B		✓	20
Release/Wave 1	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	20
Milestone C	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	29
Release/Wave 2	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	29
Release/Wave 3	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	51
Full Deployment Decision	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	51
Full Deployment	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	84

GFEBs Financial Reporting Impact

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

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	23	12	✓	✓
Supplies (MILSTRIP)	23	12	✓	✓
Reimbursable Work Order – Grantor	23	12	✓	✓
Vendor Pay	23	12	✓	✓
Fund Balance with Treasury	28	7	✓	✓
Appropriations Received	13	2	✓	✓
Military Pay	18	6	✓	✓
Civilian Pay	11	4	✓	✓
Reimbursable Work Order – Acceptor	7	4	✓	✓
Other Budgetary Activity	8	0		
Financial Reporting	4	1	✓	✓
Mission-Critical Assets Existence and Completeness				
General Equipment	10	1	✓	06/2017
Real Property	10	9	✓	✓
Operating Materials and Supplies	10	1	✓	06/2017
Inventory	10	N/A	N/A	N/A

Logistics Modernization System (LMP)

Overview

- LMP is a fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. It is an ERP solution that manages and tracks orders and delivery of materiel from the Army Materiel Command to Soldiers.
- Its mission is to: 1) effectively manage the LMP acquisition lifecycle to ensure proper sustainment, compliance, funding, and reporting; 2) continue to support emerging requirements through delivery of new and expanded capabilities, and provide support for DoD and Army ERP integration efforts; and 3) manage and transition the LMP hosting from an Army Data Center to DISA.
- LMP handles 7 million transactions daily and \$17 billion in inventory, and is deployed to over 30,000 users in more than 50 worldwide locations.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	9 ¹
Legacy Systems Scheduled for Sunset	11
Legacy Systems Interfaced to Date	81
Legacy Systems to Be Interfaced	5

¹ Two of the legacy systems to be sunset are 8 CCSS and 42 SDS, which refer to the number of instances of these legacy systems.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
AWCF – Capital Inv. Program	1,261.5	1,412.9
AWCF – Operations	1,322.9	2,769.6
Operations and Maintenance Army	119.2	180.5
Base Realignment and Closure	3.1	3.1

Note: To Date is as of March 7, 2017; Completion cost (total lifecycle cost) is estimated.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	06/2018
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓
Increment 2		
IT General Controls (CM, AC, SD)	05/2017	09/2017
IT Application Controls	05/2017	09/2017

FIAR Plan Status Report

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

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

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
SLOA Capability	LMP configured to accept, store, and transmit all SLOA data elements	✓	N/A
BEA Compliance	Program Compliance with FY 2016 OEP cycle	✓	N/A
05/2015 Functional Release	Auditability SCR Implementation	✓	N/A
FFMIA Compliance	Abide by ASA(FM&C)'s holistic Army FFMIA compliance process	✓	N/A
AWCF Audit Readiness Corrective Action Plans	Complete FISCAM corrective actions to enable ASA(FM&C) FO to assert audit readiness	✓	N/A
AWCF Inventory Existence and Completeness Validation	Validation of Management Assertion of Internal Controls Design and Effectiveness	✓	N/A
AWCF Audit Readiness Assertion	Complete validation of FISCAM controls for ASA(FM&C) FO to assert audit readiness	✓	N/A
11/2015 Functional Release	Auditability SCR Implementation	✓	N/A
JITC SFIS - Compliance Assessment	Final JITC Financial Standards Compliance Assessment Report [dated December 23, 2015] issued to LMP PMO on January 18, 2016	✓	N/A
BEA Compliance	Program Compliance with FY 2017 OEP cycle	✓	N/A
Completion of JITC Corrective Action Plan (CAP) for SFIS-CA findings	Final Corrective Action Plan for JITC findings remediation completed on April 21, 2016. Remediation of findings on CAP scheduled for June 2017	✓	N/A
05/2016 Functional Release	Auditability SCR Implementation	✓	N/A
10/2016 Functional Release	Auditability SCR Implementation	✓	N/A
BEA Compliance	Program Compliance with FY 2018 OEP cycle	06/2017	N/A
DISA Migration	Migration of LMP servers to DISA management	06/2017	N/A
RMF Migration	Migration of LMP RMF	06/2017	N/A
2017 Functional Release	Auditability SCR Implementation	06/2017	N/A

FIAR Plan Status Report

LMP Financial Reporting Impact

System compliance reviews are an important step toward relying on controls within LMP. Integration between LMP and GFEBS consists of budget execution and obligation transactions that are reported on the Statement of Budgetary Resources. Additionally, LMP is an APSR for a portion of Army Operating Materials and Supplies. Given the

volume of assets and transactions, future Army audit readiness assertions must rely on system controls. Army is on track for reviewing governance, risk and compliance, SFIS, and FFMIA compliance.

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

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

Global Combat Support System – Army (GCSS-A)

Overview

- GCSS-Army provides enterprise-wide supply chain logistics capability at the tactical and installation levels and enables the Army to achieve full audit readiness.
- GCSS-Army is being deployed in two waves. Wave 1 provides supply and financial capabilities at the tactical unit and installation warehouse levels and was completed in 12/2015. Wave 2 is deploying maintenance, property book accountability, unit supply, and additional financial capabilities to every tactical and installation-level unit.
- GCSS-Army Wave 1 was completed 12/2015 and was fielded to approximately 285 Army units, and 14,677 users. Wave 2 deployment is 65 percent complete.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	2
Legacy Systems Scheduled for Sunset	5
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	2

Note: SARSS-1 and SARSS-2AC/B were sunset in 12/2015 with GCSS-Army Wave 1 deployment completion. With the completion of Wave 2 Deployment, GCSS-Army will sunset PBUSE, SAMS-E, SAMS-IE, FCM, and STANFINS (Partial) in 09/2017. Wave 2 will also include interfaces for two legacy systems: SAAS-Mod and ULLS-AE.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	1,059.8	1,063.7
Procurement	872.1	891.0
Operations and Maintenance	1977.7	1977.7

Note: Total Cost (Total Lifecycle Costs) as reflected in Full Deployment Decision Army Cost Position.

Information Technology Controls (✓ = Completed)

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

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A/B		✓	10
Milestone C		✓	22
Full Deployment Decision	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	31
Initial Deployment/Initial Operating Capability	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	32
Wave 1	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	100
Wave 2	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	09/2017	100
Full Deployment	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	09/2017	100

GCSS-A Financial Reporting Impact

GCSS-Army Wave 1 enables an initial capability in achieving financial audit readiness for supply transactions at the tactical unit and installation levels. When Wave 2 is complete, financial audit readiness will also include maintenance and property book accountability financial transactions at these same levels.

GCSS-Army summary execution data are passed monthly to GFEBS, and financial statement reporting is produced from GFEBS.

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Fund Balance with Treasury	29	7	✓	06/2017
Supplies (MILSTRIP)	22	21	✓	09/2017
Financial Reporting	4	4	✓	09/2017
Other Budgetary Activity	18	4	✓	✓
Appropriations Received	13	2	✓	✓
Reimbursable Work Order – Grantor	22	12	✓	✓
Reimbursable Work Order – Acceptor	7	4	✓	✓
Mission-Critical Assets Existence and Completeness				
General Equipment	10	9	✓	09/2017
Operating Materials and Supplies	10	9	✓	09/2017
Inventory	10	9	✓	09/2017

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

Overview

- IPPS-A is the Army’s web-based solution for integrating human resources capabilities across Army components. IPPS-A will alleviate the reliance on more than 40 stove-piped systems that do not efficiently share information. IPPS-A will provide a centralized resource to soldiers, leaders, and human resource professionals for managing personnel and pay information.
- IPPS-A Increment I was deployed to over 1.1 million soldiers in 07/2015 and establishes a total Army relational database, standardizing data from 15 legacy systems.
- IPPS-A Increment I generates a Soldier Record Brief based on inbound data and has no impact on financial transactions. It supports data accuracy by providing reports to soldiers to review and correct information in legacy systems.
- IPPS-A Increment II is in the development and deployment phase of the acquisition lifecycle. Increment II, Release 2.0 is the first release containing auditable content and is slated for release after successful completion of a limited fielding decision in Quarter 3 FY 2018.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset ¹	33
Legacy Systems Interfaced to Date (Increment I)	15
Legacy Systems to Be Interfaced (Increments I and II)	86

¹ Upon complete deployment of Increment II, 33 systems are scheduled to be sunset.

Program Cost (Dollars in Millions) costs not updated

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	190.0	190.9
Procurement	0.5	0.5
Operations and Maintenance	16.4	179.1

Note: To Date as of August 31, 2016. Completion cost (total lifecycle cost) as reflected in Milestone C Army Cost Position.

Information Technology Controls (✓ = Completed)

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

Note: IPPS-A Increment I is not relevant to the financial statements and did not undergo controls testing. IPPS-A Increment II, Release 2, is currently in the design stage, and IT controls testing and correction dates have not been solidified. Upon deployment of Increment II, the IT controls testing and corrective action milestones will be populated in the chart above.

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Materiel Development Decision	Provided strategic direction for the program and detailed acquisition requirements; Increment I entered the DoD acquisition lifecycle in the Engineering and Manufacturing Development Phase (post-Milestone B).	✓	N/A
Contract Award	IPPS-A Increment I System Integrator awarded; development underway.	✓	N/A
Increment I Milestone C	Authorizes IPPS-A to enter the Production and Deployment Phase of the Acquisition Lifecycle; prepare for Full Deployment Decision.	✓	N/A
Increment I Full Deployment Decision	Authorizes IPPS-A Increment I to enter Operations and Support Phase of the Acquisition Lifecycle and proceed to Full Deployment of the trusted database to the Army National Guard, Active Army, and United States Army Reserve. Increment I provides the foundational database for additional functionality provided in future releases.	✓	N/A
Increment II Milestone B	Authorizes the Army to begin the Development and Deployment Phase for IPPS-A Increment II in accordance with the Department of Defense Instruction DoDI 5000.02 signed by the USD(AT&L) on January 7, 2015.	✓	N/A
Release 2.0, Increment II Limited Fielding Decision	Release 2.0 will build on Increment I capabilities and provide the functionality necessary to subsume SIDPERS for all ARNG locations. End-to-end business process development will be evaluated to support various HR activities to include, but not be limited to, promotions, demotions, training requirements, member benefits, duty status, and unit level manning.	04/2018	TBD

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
Release 3.0, Increment II Limited Fielding Decision	Release 3.0 will provide capabilities that support accountability and essential personnel services necessary to subsume numerous legacy field systems and modules including eMILPO and TAPDB-R. IPPS-A will establish a consolidated system that provides accountability of soldiers and tracking of all personnel including deployed soldiers. It will allow commanders in the field to access timely, accurate, and standardized personnel data for soldiers in all components and provide a basic means to identify soldiers who should be on the payroll. In addition to delivering most of the functions required to establish an Army-wide HR system, Release 3.0 will bring HR payroll drivers on board to enhance accuracy of pay, credit for service, and benefits. IPPS-A will serve as the authoritative data source for all personnel within the system.	04/2019	TBD
Increment II Milestone C	Milestone C occurs towards the end of Release 4.0 development. Release 4.0 will focus on pay services building on Releases 2.0 and 3.0 to provide the basis for the fully integrated personnel and pay system. IPPS-A will incorporate pay functionality to include, but not be limited to, base pay, taxes, allowances, bonuses, allotments, and leave. At deployment, Release 4.0 will serve as the authoritative data source for all personnel and pay transactions within IPPS-A and will be able to produce initial data in support of the Army's audit readiness goals.	08/2019	TBD
Increment II Full Deployment Decision	The Full Deployment Decision authorizes IPPS-A Increment II to enter Operations and Support Phase of the Acquisition Lifecycle and proceed to Full Deployment of an integrated, multi-Component (Active, National Guard, and Reserve) personnel and pay system. IPPS-A Increment II will deliver fully integrated personnel and pay services for all Army components (Active, National Guard, and Reserve), building on the trusted database delivered by the IPPS-A Increment I program.	12/2019	TBD
Release 5.0, Increment II Limited Fielding Decision	Release 5.0 focuses on the personnel services not yet addressed by the previous releases. Specifically, it will incorporate remaining functions related to record evaluation and retention management, along with some predominant manual activities.	04/2020	TBD

Note: IPPS-A Increment II, Release 2, is in the design stage. As a result, the budget authority percentages for the associated financial reporting objectives have not been established. These percentages will be determined and reported after the system goes live.

IPPS-A Financial Reporting Impact

The PeopleSoft ERP was selected for Army's integrated personnel and pay system in part because of its ability to meet FIAR requirements. IPPS-A will feed SFIS-compliant data to GFEBS. Although IPPS-A is required for audit readiness, it will not be deployed in time to support the FY 2018 full financial statement audit. Lessons learned from the SBA audit will be incorporated in the design and development of IPPS-A Increment II. IPPS-A Increment II is being designed and developed to be compliant with FISCAM, FFMIA, SFIS, and BEA standards and will assist in eliminating a number of the Army's material weaknesses. Current Army systems will continue to provide information for audit readiness until IPPS-A is deployed.

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	22	0	TBD	TBD
Supplies (MILSTRIP)	22	0	TBD	TBD
Vendor Pay	22	0	TBD	TBD
Reimbursable Work Order – Grantor	22	0	TBD	TBD
Fund Balance with Treasury	29	0	TBD	TBD
Appropriations Received	13	0	TBD	TBD
Military Pay	18	18	04/2019	10/2019
Civilian Pay	11	0	TBD	TBD
Reimbursable Work Order – Acceptor	7	0	TBD	TBD
Other Budgetary Activity	18	0	TBD	TBD
Financial Reporting	4	0	TBD	TBD
Mission-Critical Assets Existence and Completeness				
General Equipment	10	0	TBD	TBD
Real Property	10	0	TBD	TBD
Operating Materials and Supplies	10	0	TBD	TBD
Inventory	10	0	TBD	TBD

Note: IPPS-A Increment I is not relevant to the financial statements. IPPS-A Increment II, Release 2, is currently in the design stage, and Financial Reporting Objectives by Assessable Units have not been solidified. Upon deployment of Increment II, the status of Financial Reporting Objectives by Assessable Unit will be populated in the chart above.

Navy ERP

Overview

- Navy ERP reached full deployment in 10/2012 with the Financial & Acquisition Management and the Wholesale & Retail Supply releases. There are approximately 72,000 Navy ERP users. The program has been making progress since 2012 at enabling all relevant audit controls.
- PMO has continued to make progress in mitigating some of the risks associated with several NFRs, two of which directly relate to current Navy ERP material weaknesses. Navy ERP has also made limited progress in developing policies that facilitate FISCAM and Risk Management Framework compliance.
- Due to the growing volume of demand signals, the Navy established an ERP governance body to balance workforce and funding constraints against emergent demands. The PMO has also engaged the Navy ERP command business offices in mitigating audit vulnerability and promote the effective design, implementation and reporting of each command's financial controls.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset as of 09/2017	86
Legacy Systems Scheduled for Sunset	5
Legacy Systems Interfaced to Date	66
Legacy Systems to Be Interfaced	0

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	316.3	316.3
Procurement	73.1	73.1
Operations and Maintenance	430.1	430.1

Note: Cost includes acquisition program investment costs from program start (FY 2004) to full deployment (FY 2013) and does not include sustainment costs.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	09/2019
Access	✓	09/2019
Configuration Management	✓	09/2019
Segregation of Duties	✓	09/2019
Contingency Planning	✓	09/2019
Completeness	**	N/A
Accuracy	**	N/A
Validity	**	N/A
Confidentiality	**	N/A
Availability	**	N/A

** Complete FISCAM IT application-level control testing was scheduled for FY 2015 and FY 2016, but the Navy changed its control testing strategy to focus on IT general control remediation in preparation for the FY 2015 SBA audit. The IPA did not conduct IT application control testing in FY 2015 or 2016. Application-level IT control testing will be incorporated into the Managers' Internal Control Program.

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B		✓	0
Initial Operating Capability /Initial Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	0
Milestone C	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	0
Full Deployment Decision	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	47
Full Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	~50 ¹

¹ Navy ERP is the program of record at six Commands, representing approximately 50 percent of DON's Total Obligating Authority and 11 percent of transactions.

Navy ERP Financial Reporting Impact

The DON made a strategic decision to not deploy Navy ERP across the entire Navy command structure due to expectations and challenges associated with deployment to its ships and fleet activities. Regardless, the Navy intends to achieve auditability using multiple financial systems.

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	# of Financial Reporting Activities Tested for ERP	Tested	Corrected
Statement of Budgetary Resources					
Contract Pay	29	20	20	✓	✓
Supplies (MILSTRIP)	29	20	7	✓	✓
Vendor Pay	29	20	20	✓	✓
Reimbursable Work Order – Grantor	29	29	5	✓	✓
Fund Balance with Treasury	14	12	12	✓	✓
Appropriations Received	5	4	4	✓	✓
Military Pay	13	0 ¹	N/A	N/A	N/A
Civilian Pay	13	12	9	✓	✓
Reimbursable Work Order – Acceptor	12	12	8	✓	✓
Other Budgetary Activity	8	0	N/A	N/A	N/A
Financial Reporting	10	10	10	✓	✓
Mission-Critical Assets Existence and Completeness					
Real Property	10	0 ²	N/A	N/A	N/A
Inventory	10	10	10	✓	✓
Operating Materials and Supplies	10	10	10	✓	✓
General Equipment	10	10	10	✓	09/2018 ³

¹ Military Pay transactions are not processed within Navy ERP.

² iNFADS is the Accountable Property System Record for Real Property. NAVFAC does not plan to move Real Property to Navy ERP.

³ Automated Construction-in-Progress solution is the remaining outstanding item. Manual solution in place in the interim.

Global Combat Support System – Marine Corps/Logistics Chain Management Increment 1 (GCSS-MC/LCM Increment 1)

Overview

- GCSS-MC provides the core of a modern, web-enabled, centrally managed Logistics Chain Management enterprise system.
- GCSS-MC/LCM Increment 1 is the ERP for supply and maintenance.
- GCSS-MC/LCM strategy includes Increment 1 and future planning for enterprise tools to provide software configuration for replacing existing LCM functions, master data repository, and business process modeling to bring platform-as-a-service to LCM.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	319.8	320.5
Procurement	83.7	88.3
Operations and Maintenance	684.6	1,265.0

Note: To date cost as of 09/2016. Increment 1 cost at completion extends through FY 2025.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	5
Legacy Systems Scheduled for Sunset	0
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	0

Information Technology Controls (✓ = Completed)

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

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	6
Milestone B		✓	22
Milestone C	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	22
Rel 1.1 – Limited Fielding Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	22
Rel 1.1 – Continued Fielding Release 1.1	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	22
Rel 1.1.1 – Limited Release for FOT&E	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	22
Full Deployment Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	52
Full Deployment	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	54
Sustainment (FY 2025)	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	FY 2025	100

GCSS-MC Financial Reporting Impact

GCSS-MC/LCM Increment 1 achieved full deployment in December 2015. The system is refreshing to the Oracle 12 e-Business Suite in 2017 for implementation Quarter 1 of FY 2018. The Marine Corps uses DPAS for Military Equipment valuation and for reporting Military Equipment capitalized assets on its financial statements.

Inventory balance and valuation of Operating Materials and Supplies is transferred from Increment 1 to the Marine Corps financial system of record, Standard Accounting Budgeting and Reporting System (SABRS), via the General Ledger Journal Funds Check interface. DPAS also accounts for General Property, Plant, and Equipment.

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

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	29	0		
Supplies (MILSTRIP)	29	19	✓	✓
Vendor Pay	29	0		
Reimbursable Work Order – Grantor	29	0		
Fund Balance with Treasury	14	0		
Appropriations Received	17	0		
Military Pay	13	0		
Civilian Pay	13	0		
Reimbursable Work Order – Acceptor	12	0		
Other Budgetary Activity	8	0		
Financial Reporting	10	0		

Mission-Critical Assets Existence and Completeness				
Military Equipment	10	0		
Real Property	10	0		
Inventory	10	0		
Operating Materials and Supplies	10	10	✓	✓
General Equipment	10	0		

Note: The corrective action plans and associated plan of action and milestones for deficiencies have been developed for FISCAM. GCSS-MC/LCM Increment 1 program management office is updating Installations and Logistics on the remediation efforts for MILSTRIP monthly.

Defense Enterprise Accounting and Management System (DEAMS)

Overview

- DEAMS is an automated accounting and financial management system for the Air Force and USTRANSCOM. DEAMS is currently deployed to over half of its expected user base of 23,500 and is operating at 131 Active, Reserve, and Air National Guard locations.
- Compliant with laws, regulations, and policies; permits response to statutory, regulatory, and policy changes; enables audit opinions; supports assurances on internal controls; assists in resolving material weaknesses; and supports analysis of financial events.
- Delivered capability for procure-to-pay, order-to-cash, billing, and project accounting, including a transaction-based general ledger to seven Air Force Major Commands, USCENTCOM, USSOCOM, USSTRATCOM, and USTRANSCOM, as of 02/2017.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	562.4	811.8
Procurement	23.1	33.2
Operations and Maintenance	80.9	181.3
Transportation Working Capital Fund	115.4	115.4
Transportation Working Capital Fund	12.7	12.7

Note: Program acquisition costs by appropriation for Increment 1. Completion does not include 10 years of sustainment costs. Based on approved SCP, February 2015. Critical change impact to be determined.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	6*
Legacy Systems Interfaced to Date	42
Legacy Systems to Be Interfaced	27

Source: Systems Requirements Document version 1.11 (01/2015).

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

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	07/2017
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management	✓	2
Full Deployment Decision	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management, Fund Balance with Treasury (General Fund)	TBD	26
Full Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management, Fund Balance with Treasury (General Fund)	TBD	100 ¹

¹ Represents 100 percent of current year unclassified Air Force General Fund Budget Authority based on the FY 2015 initial distribution.

DEAMS Financial Reporting Impact

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

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

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	30	30	✓	✓
Supplies (MILSTRIP)	29	29	✓	✓
Vendor Pay	6	6	✓	✓
Reimbursable Work Order – Grantor	29	29	✓	✓
Fund Balance with Treasury	32	7	✓	✓
Appropriations Received	4	4	✓	✓
Military Pay	13	0	N/A	N/A
Civilian Pay	13	10	✓	✓
Reimbursable Work Order – Acceptor	12	12	✓	✓
Other Budgetary Activity	8	8	✓	✓
Financial Reporting	50	50	✓	✓
Mission-Critical Assets Existence and Completeness				
General Equipment	3	0	N/A	N/A
Real Property ¹	10	3	09/2017	TBD
Inventory	10	0	N/A	N/A
OM&S	10	0	N/A	N/A
General Equipment ²	10	0	N/A	N/A

Note: Military Equipment assessable unit has been replaced by General Equipment assessable unit. TBDs cannot be determined until testing is completed, which may be incorporated in the IPA SBA audit.

¹ Real Property TBDs are dependent on interfaces with new real property IT system (NextGen-IT) to be deployed.

² Applies to Transportation Working Capital Fund only.

Air Force Integrated Personnel and Pay System (AFIPPS)

Overview

- AFIPPS is a web-enabled commercial-off-the-shelf-based solution integrating military human resources and pay systems for the total force, which consists of 508,000 Air Force active, guard, and reserve members.
- AFIPPS is projected to go-live in 01/2021 and aligns with the revised OSD strategy decision to integrate pay within the existing Air Force human resources system (MilPDS).
- AFIPPS will subsume functionality currently performed by the Air Force instances of DJMS for Military Pay transactions and LeaveWeb.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Defense Joint Military Pay System (DJMS)	4
Pay Entitlement Processing Application (PEPA)	1
LeaveWeb	1

Note: The Program Executive Officer for Business and Enterprise Systems; the Deputy Chief of Staff for Manpower and Personnel, Director of Plans and Integration; and the Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller, Chief Information Officer endorsed and approved the AFIPPS Systems Requirement Document version 1.1 on February 24, 2017.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	203.8	148.7
Operations and Maintenance	37.8	314.7

Note: Completion costs based on FY 2016 end-of-month actuals.

Information Technology Controls (✓ = Completed)

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

Note: AFIPPS remains an unbaselined Pre-MS-B program. The AFIPPS Acquisition Strategy was approved 02/2017. RFP release decision brief is currently projected for Quarter 3 of FY 2017 with contract award in Quarter 2 of FY 2018. Development testing begins Quarter 2 of FY 2018 with operational test and evaluation ending in Quarter 1 of FY 2021.

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Full Deployment of Payroll Integration	<p>Service Members:</p> <ul style="list-style-type: none"> • One single, comprehensive record of service that stays with a member throughout their career and retirement. • Integrated personnel and pay records. • Improved identification security using Common Access Card sign-on. • Self-service capabilities allowing service members to review their record for accuracy, make updates to personal data and initiate many pay action requests. • Real-time record updates. • Web-based system with access to service member records. • Capabilities for members across all Air Force components. <p>Personnel and Pay Professionals:</p> <ul style="list-style-type: none"> • Streamlined work processes: One-time data entry to simplify downstream processes and reduce work duplication • Reduced errors: One system for personnel and pay transactions reduces the likelihood of data errors resulting from separate transaction environments (MilPDS and DJMS active component and reserve component). • One system: Manage one system for both military human resources and pay. • Workflow: Streamlined and automated routing of pay and leave processes. • Analytics: Comprehensive data analytics that tie human resources management data and payroll analytic capabilities for enhanced system performance. <p>Commanders:</p> <ul style="list-style-type: none"> • Integrated, timely and accurate human resources information to better inform decision making. 	01/2021	100

AFIPPS Financial Reporting Impact

AFIPPS is a web-enabled, commercial-off-the-shelf-based solution integrating the existing Oracle E-Business Suite (EBS) military personnel system, Military Personnel Data System (MilPDS), with military pay and leave processes into a single system that also provides self-service capabilities for Air Force members. AFIPPS will enable maintenance of a single authoritative member record for personnel and pay for all Air Force components (Regular Air Force, Air Force Reserve, and Air National Guard). It represents the Air Force's commitment to modernizing business practices and providing enhanced support for service members and their families.

FIAR Plan Status Report

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

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

Note: Development testing is scheduled to begin in Quarter 2 of FY 2018 with operational test and evaluation ending in Quarter 1 of FY 2021.

OTHER DEFENSE ORGANIZATIONS

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

To date, 21 Defense organizations have implemented DAI:

- Defense Acquisition University (DAU)
- Defense Applied Research Projects Agency (DARPA)
- Defense Contract Management Agency (DCMA)
- Defense Health Agency (DHA)
- Defense Human Resources Activity (DHRA)
- Defense Media Activity (DMA)
- Defense Micro Electronics Agency (DMEA)
- Defense Operational Test and Evaluation (DOT&E)
- Defense POW/MIA Accounting Agency (DPAA)
- Defense Security Cooperation Agency (DSCA)

- Defense Security Service (DSS)
- Defense Technical Information Center (DTIC)
- Defense Technology Security Administration (DTSA)
- Defense Threat Reduction Agency (DTRA)
- DoD Educational Activity (DoDEA)
- DoD Office of the Inspector General (DoD OIG)
- Missile Defense Agency (MDA)
- Office of Economic Adjustment (OEA)
- Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) – Time and Labor only
- Uniformed Services University of the Health Sciences (USUHS)

An additional 3 Defense organizations will deploy DAI:

- FY 2018
 - Defense Contract Audit Agency (DCAA)
 - Washington Headquarters Services (WHS)
- FY 2019
 - Defense Information Systems Agency (DISA)

Defense Agencies Initiative (DAI)

Overview

- DAI is the primary accounting system used by 20 Defense Agencies and other Defense organizations. Additional deployments in FY 2017 and FY 2018 are being considered.
- An end-to-end FFMIA assessment included a third party assessment of results. In FY 2013 (Release 11.5.10), DAI was 88 percent compliant. In FY 2014 (R11.5.10), DAI was 93 percent compliant. With the upgrade to Release 12.2.3 in FY 2015, DAI achieved 97 percent compliance.
- By full deployment in 2018, DAI's Enterprise Global Model will also include Grants Financial Management, Governance Risk and Compliance tools, Treasury Disbursing, Budget Formulation, and Working Capital Fund.
- A qualified opinion on an SSAE No. 16 examination was received for the period 10/2015 – 06/2016.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	3
Legacy Systems Interfaced to Date	21
Legacy Systems to Be Interfaced	0

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

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	330.0	392.5
Procurement	1.5	1.5
Operations and Maintenance	13.4	757.7

Note: Program costs include DAI Increment 1 and Increment 2.

Information Technology Controls (✓ = Completed)

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

FIAR Plan Status Report

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

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

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

¹ Increment 1 was subsumed when Increment 2, Release 1 deployed in May 2015. Increment 1 was an unbaselined program.

² Release 1 of Increment 2 is a technology upgrade of existing Increment 1 agencies that support over half the total budget authority for agencies in-scope of the DAI program. Upon completion of Release 4, 100 percent of the total budget authority of the DAI agencies in-scope will be included, which will represent approximately 55 percent of total TI-97 General Funds (except trust funds).

FIAR Plan Status Report

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

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

Appendix 1. Systems Material to Audit

The Department's IT systems environment includes numerous legacy systems, core enterprise systems, and Enterprise Resource Planning systems (ERPs) that support the major end-to-end processes. Most of the business legacy systems were originally designed to support specific functional purposes, such as human resource management, property management, and logistics management, and not designed for auditable financial statement reporting. As a result, transactions pass through several different systems as they move through the different functional areas.

Achieving an audit ready systems environment requires extensive discovery and corrective activities. Activities include identifying systems relevant to each Component's financial statements, developing systems documentation, identifying and testing automated and manual controls, capturing business event transaction documentation, and remediating deficiencies and weaknesses. For many legacy and core systems, audit readiness also requires costly and time-consuming system modifications. Where dependencies exist, Components must rely on service providers to modify their systems.

The Department is moving toward a target systems environment that better integrates business processes and reduces the number of legacy systems. However, many of the legacy systems will still be in use by the audit readiness deadline of September 30, 2017. The FY 2018 audits will include both legacy systems and systems that will be part of the Department's target systems environment, including ERPs.

Figure A1-1, Audit Readiness Status of Systems Material to Audit, lists DoD-owned systems currently considered material to audit and indicates the audit readiness status, mission area, and reporting entities affected by that system. The Department expects the number and composition of systems relevant to audit to change over time as the audits mature and the IPAs continue to assess systems and operating environments.

Column headings are defined as:

- System – Commonly used acronym for the system name. (See Appendix 3 for a definition of acronyms.)
- System Owner – Organization responsible for the procurement, development, integration, modification, operation, maintenance, and retirement of the system.
- Retirement Date – Year in which the system owner plans to retire the system.
- Target System – Name of the system that will replace it. TBD means that a replacement system has not been determined. No Plans means that the system owner has no plans to brown out the system.
- Status
 - Audit Ready – An IPA determined the system owner's controls are sufficiently designed to test operating effectiveness during an audit.
 - Not Audit Ready – An IPA determined the system owner's controls are not sufficiently designed to test operating effectiveness during an audit.
 - Not Assessed – An IPA has not assessed the system owner's controls.
- Business Area – Business area the system addresses.
- Reporting Entities – Indicates which reporting entities consider that system material to their financial statement audit.

FIAR Plan Status Report

Figure A1-1. Audit Readiness Status of Systems Material to Audit

System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
ABACUS	DHA	2027	TBD			●	Financial Management					●						
ABS	Air Force		No Plans			●	Material Supply & Service Management				●							
ABSS	Air Force	2025	DEAMS	●			Financial Management				●	●			●			
ACES	Air Force	2017	NexGen IT			●	Real Property & Installation				●							
ACPS	Air Force	2022	CON-IT	●			Weapons Systems				●				●			
ADIS	Air Force	2022	CON-IT			●	Weapons Systems				●							
ADS	DFAS	2030	TBD	●			Financial Management	●	●	●	●	●	●	●	●	●	●	●
AESIP HUB	Army		No Plans			●	Material Supply & Service Management	●										
AFCOS	Army	2020	IPSS-A		●		Financial Management	●										
AF DSS	Air Force		No Plans			●	Material Supply & Service Management				●							
AFEMS	Air Force		No Plans			●	Material Supply & Service Management				●				●			
AFM	Air Force		No Plans	●			Financial Management				●							
AFPROMS	Air Force		No Plans	●			Human Resource Management				●							
AFT	DFAS		TBD			●	Financial Management	●										
ALMSS	Air Force		No Plans			●	Material Supply & Service Management				●							
APO	Air Force		No Plans			●	Financial Management				●							
APPMS	Army	2050	No Plans			●	Material Supply & Service Management	●										
AROWS	Air Force		No Plans	●			Human Resource Management				●						●	

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities									
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs
AROWS-R	Air Force	2023	AF IPPS	●			Human Resource Management				●					●	
ATAAPS	DISA		No Plans	●			Human Resource Management	●			●	●	●		●		●
AutoSAR Program	DFAS		No Plans			●	Financial Management										●
AWRDS	Army	2022	GCSS-Army		●		Material Supply & Service Management	●									
BAM	DFAS	2030	TBD	●			Financial Management	●	●		●	●	●	●	●		●
BERT	DISA		No Plans			●	Financial Management						●				
CAPS-W	DFAS	2030	TBD	●			Financial Management	●		●		●	●		●		●
CARIS	Navy	2025	TBD			●	Financial Management		●								
CAS	Air Force		No Plans			●	Material Supply & Service Management				●						
CAV AF	Air Force		No Plans			●	Material Supply & Service Management				●						
CCARS	Air Force	2017	TBD			●	Human Resource Management				●						●
CCAS-AF	DFAS		No Plans			●	Financial Management				●			●			
CCE	DHA	2027	TBD			●	Human Resource Management					●					
CDAS	Air Force		No Plans			●	Material Supply & Service Management				●						
CDS	DFAS	2030	TBD	●			Financial Management				●	●					●
CEFMS	Army	2050	No Plans	●			Financial Management	●			●	●		●	●		●
CEMS	Air Force		No Plans			●	Material Supply & Service Management				●				●		
CEPR (VISTA)	DFAS	2030	TBD			●	Financial Management		●								

FIAR Plan Status Report

System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
CFMS-CNIC	Navy	2030	CFMS (consolidated)		●		Financial Management		●							●		
CHCS	DHA	2024	MHS GENESIS			●	Human Resource Management					●						
CHOOSE	DFAS	2018	TBD			●	Financial Management					●						
CIDS	Air Force	2022	CON-IT			●	Weapons Systems				●							
CIRCUITS	Navy	2030	TBD			●	Real Property & Installation		●									
CMCS	Air Force		No Plans			●	Financial Management				●						●	
CMOS	Air Force		No Plans			●	Material Supply & Service Management				●							
COINS	USTRANSCOM	2021	TBD			●	Material Supply & Service Management										●	
ConWrite	Air Force	2021	CON-IT	●			Weapons Systems				●	●						●
CPAIS	Air Force		No Plans			●	Human Resource Management				●							
CPOL	Army	2024	TBD			●	Human Resource Management	●			●							●
CRIS	Air Force		No Plans	●			Financial Management				●	●					●	
DAAS	DLA	2030	TBD			●	Material Supply & Service Management	●	●	●	●	●	●	●	●	●	●	●
DAI	DLA		No Plans	●			Financial Management					●						●
DAPS	DoDEA	2025	TBD			●	Human Resource Management											●
DCAS	DFAS	2030	TBD	●			Financial Management	●	●	●	●	●	●	●	●	●	●	●
DCBS	USTRANSCOM	2025	TBD			●	Financial Management										●	
DCD/DCW	DFAS	2030	TBD	●			Financial Management			●		●	●	●			●	●

FIAR Plan Status Report

System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities											
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs		
DCMS	DISA	2019	FAMIS-CS Mod			●	Financial Management							●					
DCMS	DFAS	2030	TBD			●	Financial Management			●	●	●					●	●	
DCPDS	DHRA	2031	TBD	●			Human Resource Management	●	●	●	●	●	●	●	●	●	●	●	
DCPS	DFAS	2030	TBD	●			Human Resource Management	●	●	●	●	●	●	●	●	●	●	●	
DDARS	DFAS	2021	TBD			●	Financial Management	●					●	●				●	
DDMS	DFAS	2030	TBD			●	Material Supply & Service Management										●		
DDRS	DFAS	2030	TBD	●			Financial Management	●	●	●	●	●	●	●	●	●	●	●	
DDS	DFAS	2030	TBD			●	Material Supply & Service Management	●											
DEAMS	Air Force		No Plans	●			Financial Management				●	●			●	●	●		
DECKPLATE	Navy	2030	TBD		●		Material Supply & Service Management		●										
DFAS CDD	DFAS		No Plans			●	Financial Management											●	
DHA ECS	DHA	2030	TBD	●			Human Resource Management					●							
DIFMS	DFAS	2025	TBD			●	Financial Management			●	●								
DJMS AC/RC	DFAS	2030	TBD	●			Human Resource Management	●	●		●								
DMAPS	Air Force		No Plans			●	Material Supply & Service Management				●								
DMLSS-R	DHA	2027	TBD		●		Human Resource Management					●			●				
DMLSS-W	DHA	2027	TBD			●	Human Resource Management					●		●					

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
DMO	DFAS	2025	TBD	●			Human Resource Management				●							
DoD eMALL	DLA	2017	FedMall			●	Weapons Systems		●		●			●	●			
DPAS	DLA	2030	TBD	●			Material Supply & Service Management	●	●	●				●	●			●
DRAS	DFAS		No Plans	●			Financial Management											●
DRRT	DFAS	2030	TBD			●	Financial Management	●				●		●	●	●	●	●
DSAMS	DSCA		No Plans			●	Weapons Systems				●							
DSS	DLA	2030	TBD			●	Material Supply & Service Management	●	●	●	●			●				
DSSC	USMC	2017	GSA Enhanced Checkout			●	Material Supply & Service Management			●								
DTIM	DFAS		No Plans			●	Financial Management					●					●	
DTS	DHRA	2028	TBD	●			Human Resource Management	●	●		●	●	●	●	●	●	●	●
DWAS	DFAS	2030	TBD			●	Financial Management		●						●			
EAGLE	DLA	2030	TBD			●	Human Resource Management							●				
EAS	DFAS	2030	TBD	●			Financial Management	●	●	●	●	●	●					●
EBAS-D	WHS	TBD	DAI		●		Financial Management											●
EBAS-TJS	TJS	2040	No Plans			●	Financial Management											●
EBIS	Air Force		No Plans			●	Human Resource Management				●	●	●	●				●
EBS	DLA	2027	TBD			●	Material Supply & Service Management			●	●			●	●	●	●	●
EDA	DLA	2028	TBD			●	Weapons Systems		●	●	●	●	●	●	●		●	●
EDM	DLA	2025	No Plans			●	Financial Management					●		●		●	●	●

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
EESOH - MIS	Air Force		No Plans			●	Real Property & Installation				●							
EFD	DLA	2029	TBD			●	Financial Management	●						●				●
eMILPO	Army	2020	IPSS-A		●		Human Resource Management	●										
ERMS/NITA	Navy	2025	TBD			●	Material Supply & Service Management		●							●		
EUD	DFAS	2030	TBD	●			Financial Management	●	●	●	●	●	●		●	●	●	
EXMIS	Navy	2030	TBD			●	Material Supply & Service Management		●									
FAMIS-CS Mod	DISA		No Plans	●			Financial Management							●				
FAMIS-EAS	DISA	2019	FAMIS-EAS	●			Financial Management							●				
FABS	DISA	2019	FABS			●	Financial Management							●				
FASTDATA	Navy	2025	CFMS (consolidated)		●		Financial Management		●			●			●			●
FCM	Army	2020	GFEBs		●		Financial Management	●										
FIS 2.0	Navy	2030	TBD		●		Real Property & Installation		●		●							
FMD	DLA	2020	TBD			●	Material Supply & Service Management							●				
FMSuite	Air Force		No Plans	●			Financial Management				●							
GAFS-R	DFAS	2030	TBD			●	Financial Management	●	●	●	●	●	●		●	●	●	
GATES	USTRANSCOM	2025	TBD			●	Material Supply & Service Management										●	
GCSS-Army	Army	2050	No Plans		●		Material Supply & Service Management	●				●			●			

FIAR Plan Status Report

System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
GCSS-MC	USMC	2025	TBD			●	Material Supply & Service Management			●						●		
GDSS	USTRANSCOM	2025	TBD			●	Material Supply & Service Management										●	
GFEBs	Army	2050	TBD		●		Financial Management	●				●				●		●
Guardian / CEMCA	Air Force		No Plans			●	Financial Management				●							
HQARS	DFAS	2020	TBD			●	Financial Management	●				●	●	●				●
IAPS	DFAS	2030	TBD			●	Financial Management				●	●						●
IATS	DFAS	2030	TBD			●	Human Resource Management	●		●		●						●
IBS	USTRANSCOM	2030	TBD			●	Material Supply & Service Management										●	
IEMS	Air Force		No Plans			●	Real Property & Installation				●							
IIT	Air Force		No Plans			●	Real Property & Installation				●							
ILSMIS	USMC	2022	TBD			●	Material Supply & Service Management			●								
ILSS	Air Force		No Plans	●			Material Supply & Service Management				●					●		
IMDB	Air Force		No Plans			●	Material Supply & Service Management				●							
IMDS-CDB	Air Force		No Plans			●	Material Supply & Service Management				●					●		
IMPS	Navy		No Plans			●	Material Supply & Service Management		●									
IMPS	Air Force	2021	TBD			●	Human Resource Management				●							

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities									
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs
IMPS	Air Force		No Plans			●	Human Resource Management	●			●						
INFADS	Navy	2030	TBD			●	Real Property & Installation		●	●	●				●		
iRAPT	DLA	2022	TBD			●	Weapons Systems	●	●	●	●	●		●	●	●	●
IRSS	Air Force		No Plans			●	Weapons Systems				●						●
ITIMP	Navy	2025	TBD			●	Weapons Systems		●								
IWIMS	Air Force	2018	NexGen IT			●	Real Property & Installation				●						●
JOCAS II	Air Force		No Plans	●			Financial Management				●						
JUSTIS	Army	2021	IPSS-A			●	Human Resource Management	●									
LMP	Army	2050	No Plans			●	Material Supply & Service Management	●	●		●	●					
LSMIS	Navy	2030	TBD			●	Human Resource Management		●								
MATMF	Navy	2029	Maritime System Enterprise			●	Material Supply & Service Management		●								
MCORS	USMC	2030	TBD			●	Financial Management			●							
MCTFS	USMC	2030	TBD			●	Human Resource Management			●							
MILPDS	Air Force	2019	AF IPPS	●			Human Resource Management				●						
MOCAS	DFAS	2025	TBD	●			Weapons Systems	●	●	●	●	●	●	●	●	●	●
MSC FMS	Navy	2030	TBD			●	Financial Management		●								●
MSC HRMS	Navy	2030	TBD			●	Human Resource Management		●								●

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
MSC-LES-ASH	Navy	2030	TBD			●	Material Supply & Service Management		●								●	
MSC-LES-ALF	Navy	2030	TBD			●	Material Supply & Service Management		●								●	
MXT	Air Force		No Plans			●	Real Property & Installation				●							
MyPay	DFAS		No Plans			●	Human Resource Management					●						●
MyUnitPay	Army	2021	IPSS-A		●		Human Resource Management	●										
Navy ERP	Navy	2030	TBD		●		Material Supply & Service Management		●	●		●				●		●
NDSP WW	DoDEA	2025	TBD			●	Financial Management											●
NexGen IT	Air Force		No Plans			●	Real Property & Installation				●							
NSIPS	Navy	2030	TBD		●		Human Resource Management		●									
NTCSS-RSUPPLY	Navy	2026	TBD			●	Material Supply & Service Management		●							●		
ODS	DFAS	2030	TBD	●			Financial Management	●				●	●			●		●
OIS	Navy	2025	TBD			●	Material Supply & Service Management		●	●						●		
OnePay	DFAS	2030	TBD			●	Financial Management		●	●		●				●		●
PADDS	Army	2022	ACWS		●		Weapons Systems	●										
PBAS-FD/OC	DFAS	2030	TBD			●	Financial Management					●	●	●				●
PBAS-web	Air Force		No Plans	●			Financial Management				●							
PBIS	Navy	2021	TBD		●		Financial Management		●	●								

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
PBUSE	Army	2018	GCSS-A			●	Material Supply & Service Management	●								●		
PDS	Air Force		No Plans			●	Financial Management					●						
PMRT	Air Force		No Plans	●			Weapons Systems					●						
PR BUILDER	USMC	2030	TBD			●	Weapons Systems			●						●		
PRIDE	Army	2026	GFEBs			●	Real Property & Installation	●										
PRPS	Air Force		No Plans			●	Material Supply & Service Management					●						
RAMPOD	Air Force		No Plans			●	Material Supply & Service Management					●						
REMIS	Army		No Plans			●	Material Supply & Service Management	●										
REMIS	Air Force	2050	No Plans			●	Real Property & Installation					●				●		
RLAS	Army	2022	IPSS-A		●		Human Resource Management	●										
RTS	Air Force		No Plans			●	Human Resource Management					●						●
SAAS-MOD	Army	2027	TBD			●	Material Supply & Service Management	●								●		
SABRS	DFAS	2030	TBD	●			Financial Management		●	●						●		●
SAMIS	Air Force	2021	SAMIS	●			Material Supply & Service Management					●						
SAMS	DFAS	2018	TBD	●			Financial Management		●									●
SBR ArT	DFAS	2030	TBD			●	Financial Management					●						
SBSS	Air Force		No Plans			●	Financial Management					●						●
SCRT	DFAS	2030	TBD	●			Financial Management	●	●	●	●	●	●		●			●

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
SCS	Air Force		No Plans			●	Material Supply & Service Management			●	●							
SEAPORT	Navy	2022	ePS		●		Weapons Systems		●	●								●
SIDPERS	Army	2019	IPSS-A		●		Human Resource Management	●										
SLDCADA	Navy	2030	TBD		●		Human Resource Management		●	●		●			●	●		
SMAS	DFAS	2030	TBD			●	Financial Management				●						●	
SOMARDS	DFAS	2030	TBD			●	Financial Management	●				●			●			●
SPS/PD2	DLA	2023	TBD			●	Weapons Systems	●	●	●	●	●			●	●	●	
STANFINS	DFAS	2030	TBD			●	Financial Management					●			●			●
STARS FL/HCM	DFAS	2030	TBD			●	Financial Management		●			●		●	●			●
STORES	DLA	2025	TBD			●	Material Supply & Service Management			●	●			●	●			
SUPDESK	Navy	2029	Maritime System Enterprise			●	Material Supply & Service Management		●									
SYMIS-COST	Navy	2029	Maritime System Enterprise		●		Financial Management		●									
TAPDB	Army	2020	IPSS-A			●	Human Resource Management	●										
TFMS	USTRANSCOM	2019	DEAMS			●	Financial Management										●	
TFRS	DFAS		No Plans	●			Financial Management											●
TRIRIGA	WHS		No Plans			●	Real Property & Installation											●
UDCACS	DHA		No Plans			●	Financial Management					●						

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System	System Owner	Retirement Date	Target System	Status			Business Area	Reporting Entities										
				Audit Ready	Not Audit Ready	Not Assessed		Army	Navy	USMC	Air Force	DHA	DISA	DLA	USSOCOM	USTRANSCOM	ODOs	
UDCDS	DHA		No Plans			●	Financial Management					●						
USMCMAX	USMC	2030	TBD			●	Real Property & Installation			●								
UTAPSWeb	Air Force		No Plans	●			Human Resource Management				●							
WAAS (DFAS)	DFAS		No Plans			●	Financial Management											●
WAAS (DISA)	DISA	2018	DAI	●			Financial Management						●					
WARS-NT	Army	2016	MHP			●	Material Supply & Service Management	●										

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Appendix 2. HASC Panel on Defense Financial Management and Auditability Reform Recommendations

The House Armed Services Committee (HASC) Panel on Defense Financial Management and Auditability Reform concluded its review of DoD financial management and audit readiness activity on January 24, 2012. The review was initiated to oversee the Department's capacity for providing timely, reliable, and useful information for decision-making and reporting. The six-month HASC Panel review included eight hearings that covered a broad range of DoD financial management issues with representatives from the Defense Department, GAO, and the private sector.

The HASC Panel issued a report summarizing its findings and providing recommendations to the Department. The report and recommendations were divided into four categories:

1. Financial Management and Audit Readiness Strategy and Methodology
2. Challenges to Achieving Financial Management Reform and Auditability
3. Financial Management Workforce
4. Enterprise Resource Planning System Implementation Efforts

Figures A1-1, A1-2, A1-3, and A1-4 list the HASC Panel recommendations and the status of DoD actions and plans. Status is described as met or partially met. GAO defines these as:

- Met – No significant actions need to be taken to further address the recommendation
- Partially Met – Some, but not all, actions necessary to address the recommendation have been taken

Of the panel's 29 recommendations, 13 have been met.

FIAR Plan Status Report

Figure A2-1. DoD Actions on FIAR Strategy and Methodology Recommendations

HASC Panel Recommendations		Status	DoD Actions Taken and Planned
FIAR STRATEGY AND METHODOLOGY			
1.1	The Department's FIAR strategy for Wave 4 (Full Audit Except for Legacy Asset Valuation) should include a complete analysis of interdependencies among Waves 1 – 3 and Wave 4.	Met	Sections 2.B.2 and 2.C.4.3 of the April 2015 (and subsequent updates) FIAR Guidance included additional interdependencies and examples that addressed all material Wave 4 financial statement lines and how those lines reconciled to other waves. Subsequent updates to the FIAR Guidance will include this information.
1.2	The Department should establish a DoD Financial Reporting element, or wave, that includes a process for consolidating the Components' financial information into the DoD's agency-wide financial statements. The Department should report this element's audit readiness progress in the FIAR Plan Status Report.	Met	<p>DDRS is the reporting system that produces consolidated, agency-wide financial statements and budgetary reports for the Military Services and Defense Agencies. All Defense Agencies have migrated to DDRS. An SSAE No. 16 examination in FY 2016 resulted in a modified opinion with qualified explanatory language. The Department is addressing the SSAE No. 16 findings and implementing corrective actions.</p> <p>The Department is currently working with the Components and the Department of the Treasury on implementing a Government-wide solution to address intragovernmental elimination entries. Refer to Section I for updates on Service Provider Integration (SSAE 18s) and intragovernmental transactions.</p> <p>Additionally, the Department's consolidated audit strategy addresses how audits of the individual DoD Components will come together to support the DoD-wide audit.</p>

FIAR Plan Status Report

HASC Panel Recommendations		Status	DoD Actions Taken and Planned
1.3	The DoD should re-evaluate its position on accepting historical asset costs when the Department nears auditability on its financial statements in light of certain allowances in federal accounting standards. The findings of a re-evaluation may support the development of an audit readiness strategy for valuing legacy asset balances.	Partially Met	The Department collaborated with FASAB to establish new accounting standards addressing historical asset valuation for Property, Plant, and Equipment and Inventory and Related Property. The new standards (SFFAS Nos. 48 and 50) were published in 2016 and greatly decrease the time and resources needed to establish opening balances. The Department is updating the Department of Defense Financial Management Regulation to incorporate the new standards, as well as related internal interim policies published over the last year. The Department is participating in several FASAB task forces established to address emerging accounting issues with official implementation guidance.
1.4	The Department should: (1) analyze the causes of FIAR Plan implementation difficulties; (2) develop and implement corrective action plans to address identified weaknesses or deficiencies; and (3) develop a communications plan to circulate any resulting lessons learned throughout the Department.	Partially Met	The FIAR Directorate continues to support and monitor Components under audit or examination. Implementation across the Department is challenging as it requires changing those processes that DoD is accustomed to performing. As a result, leadership is working through a change management exercise. To drive change and accountability, FIAR goals are included in all SES-level performance goals. Additionally, the FIAR Directorate has deployed a tracking tool to facilitate monitoring and tracking of TI-97 NFRs and corrective actions. The tool is also a medium for sharing lessons learned. The Military Services have each deployed similar tools. The Department also solicits input bimonthly on critical capability corrective actions at a summary level. This information is provided routinely at regularly scheduled FIAR Governance Board meetings. Where there are pervasive issues, DoD-wide initiatives are established, in some cases through the Defense

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HASC Panel Recommendations		Status	DoD Actions Taken and Planned
			<p>Accounting Solutions Board, to implement a consistent and viable solution.</p> <p>The Department promotes sharing of lessons learned and best business practices, which are communicated during FIAR Governance Board, FIAR Committee, and FIAR Sub-Committee meetings, working groups, and other forums.</p>
1.5	<p>The Under Secretary of Defense (Comptroller), in consultation with the Deputy Chief Management Officer of the Department of Defense, the secretaries of the military departments, and the heads of the defense agencies and field activities, should incorporate risk mitigation plans to support the meeting of future interim milestones in the FIAR Plan.</p>	Partially Met	<p>The Department is executing a four-pronged approach to address risk management:</p> <ol style="list-style-type: none"> 1) Identified audit readiness deal-breakers, now referred to as critical capabilities, by reviewing past audits, using the experience of IPA firms, and analyzing the results from quality assurance reviews of assertion packages. The DCFO and DCMO monitor and track the status of the critical capabilities and related milestones. 2) Defined the critical path for achieving full financial statement auditability for FY 2018. Tasks and milestones have been included in the FIAR Guidance and the semiannual FIAR report. 3) Reinforced the importance of internal controls over areas of significant risk by updating the FIAR Guidance with a new chapter dedicated to internal controls and by deploying an NFR tracking tool to monitor corrective actions. 4) Implement new A-123 enterprise risk management requirements; and identify, track, and report on material weaknesses that require corrective actions in the Annual Statement of Assurance.

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HASC Panel Recommendations		Status	DoD Actions Taken and Planned
1.6	The FIAR Governance Board should attest to whether the DoD is on track to achieve audit readiness in 2017 in each FIAR Plan Status Report.	Met	Recently, the FIAR Governance Board reported to a DoD senior management group that the Department is on track to achieve audit readiness in 2017 and proceed with audits in FY 2018, consistent with progress reported in the November 2016 FIAR Report. Additionally, FIAR Governance Board members coordinate on all FIAR reports, attesting to the report's accuracy and completeness. On behalf of all members of the FIAR Governance Board, the co-chairmen each submit a message for inclusion in the FIAR Report reporting progress and restating their commitment to achieving audit readiness by the end of FY 2017. The directors of four service providers and the Military Department chief management officers also submit messages.

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Figure A2-2. DoD Actions on Challenges To Achieving Financial Management Reform and Auditability Recommendations

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
CHALLENGES TO ACHIEVING FINANCIAL MANAGEMENT REFORM AND AUDITABILITY			
2.1	The Department should include objective and measurable criteria regarding FIAR-related goals in its senior personnel performance plans and evaluations. Performance evaluated on the basis of such criteria should be appropriately rewarded or held accountable. Evaluated performances should be documented and tracked to measure progress over time.	Met	On April 9, 2013, the Deputy Secretary of Defense issued a memorandum stating, “most, if not all, DoD executives play a role in the Department achieving audit readiness,” and requiring all senior executive service performance plans to be updated by April 30, 2013. Department leaders have been given tools to improve their ability to track progress over time, and personnel are being held accountable. The Department continues to look for method for rewarding executives based on evaluated performance.
2.2	To improve oversight of the FIAR effort, the Department should require each DoD component senior executive committee to review its corresponding component’s audit readiness assertion packages for compliance with the FIAR Guidance prior to submission of those packages to the OUSD(C) for validation.	Met	Past versions of the FIAR Guidance required audit readiness management assertions to be signed by the responsible management representative of the organization responsible for the subject matter. The April 2016 FIAR Guidance was updated to require signatures from senior executives in charge of both the financial and relevant functional areas for assertions.
2.3	The Department should develop comprehensive corrective action plans to address existing material weaknesses and those identified during the FIAR effort.	Met	Components that undergo examinations or audits are required to develop and implement corrective action plans. The Department has deployed NFR tracking tools to facilitate monitoring and tracking of NFRs and corrective actions. Where material weaknesses are both significant and pervasive, the OUSD(C) assists the Components with developing a common solution, through the Defense Accounting Solutions Board, that can be implemented across the Department.

FIAR Plan Status Report

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
2.4	To reduce improper payments, the Department should re-evaluate its methodology for identifying and reporting improper payments.	Partially Met	<p>The Department continues to review sampling methodologies for reducing improper payments. DFAS, in coordination with OUSD(C), revised their sampling plans for the Commercial Pay, Military Pay, Civilian Pay, and Travel Pay programs from simple random sample designs to stratified random sample designs in accordance with OMB guidance and generally accepted statistical standards. The revised stratified sampling plan for the Commercial Pay program was implemented in FY 2014 and the revised stratified sampling plans for the Military Pay, Civilian Pay, and Travel Pay programs will be implemented in FY 2017.</p> <p>OUSD(C) will continue to work with the United States Army Corps of Engineers (USACE), who is currently using a simple random sample design for their Travel and Commercial/Vendor Pay programs, to revise their sampling methodologies from simple random sample designs to stratified random sample designs in accordance with OMB guidance and generally accepted statistical standards.</p>
2.5	<p>To reduce Anti-Deficiency Act violations, the Department should:</p> <ul style="list-style-type: none"> • Perform an analysis of the causes for its ADA violations and then develop and implement procedures to address identified causes. • Ensure that key funds control personnel are adequately trained to prevent, detect, and report ADA violations. 	Met	<p>The Department identified the most frequent causes of its Anti-Deficiency Act violations and issued guidance on tracking and reporting Anti-Deficiency Act violations.</p> <p>The Department also requires Military Departments and Components to review and evaluate training records to ensure personnel certifying and handling funds have financial management and fiscal law training.</p>

FIAR Plan Status Report

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
2.6	To reduce problem disbursements, the Department should address the underlying causes of problem disbursements in its efforts to develop and implement ERPs.	Partially Met	DFAS created and provided monthly updates for metrics to better track progress regarding problem disbursements, in-transits, and unmatched disbursements. The metrics are sent monthly to all Components for tracking and decision-making purposes. DFAS also identifies and tracks root causes, and develops and monitors improvement plans until issues are resolved. The Department will continue regular analyses until it can replace legacy systems with ERP systems.
2.7	The Department should identify and institutionalize best practices, as applicable, throughout the DoD to reinforce the full engagement of those functional communities outside of the financial management community in audit readiness efforts.	Partially Met	<p>The Department uses the FIAR Governance Board, FIAR Committee meetings, working groups, and Town Hall forums to engage all relevant functional communities to discuss audit readiness challenges and best practices. Best practices are shared among the Components, such as:</p> <ul style="list-style-type: none"> • OUSD(C) solution to be used by the Military Departments for valuing existing real property assets (Plant Replacement Value). • OUSD(C) conducted a communication assessment and implemented methods to improve stakeholder outreach and audit readiness messaging. • Army use of an Air Force environmental liability cost estimation tool. • Navy developed audit response tool being implemented by the Army and Air Force. • Air Force developed Fund Balance with Treasury reconciliation tool being implemented by the Navy.

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
2.8	The Department should develop a forum in which the military commands can share lessons learned from their respective audit readiness efforts.	Met	Military Departments and Defense Agencies regularly share lessons learned within their organization through various forums, such as newsletters, quarterly reviews, and stakeholder meetings. FIAR Subcommittee, FIAR Committee, FIAR Governance Board meetings, and weekly FINOPs meetings specifically dedicated to the MILDEPs act as forums for sharing information external to a Component.
2.9	The DoD Comptroller should include milestones along with the status of DoD financial service provider efforts to achieve effective controls over the major processes that affect DoD customers in the FIAR Plan Status Reports. These milestones should be consistent with the customer organizations' audit readiness milestones.	Met	Service provider audit readiness milestones and the status and plans for SSAE No. 16 and No. 18 examinations are reported to OUSD(C) and briefed at the FIAR Committee and FIAR Governance Board meetings every 60 days. Status is also reported in the semiannual FIAR Plan Status Report. In addition, the OUSD(C) and Components monitor service provider milestones, progress, and challenges during service provider working group meetings.

Figure A2-3. DoD Actions on Financial Management Workforce Recommendations

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
FINANCIAL MANAGEMENT WORKFORCE		
<p>3.1 The Department should assess its financial management workforce and that of all other functional areas performing financial management-related functions regarding:</p> <p>(1) critical skills and competencies of the existing civilian employee workforce; (2) critical skills and competencies that may be needed over the next decade; (3) gaps between current requirements and existing workforce competencies; and (4) gaps between projected requirements and existing workforce competencies. The assessment should include federal civilian, military, and contracted personnel performing financial management-related functions.</p>	Partially Met	<p>The Department has made significant progress in assessing the financial management workforce and is taking a phased approach:</p> <p>Phase 1 (Completed May 2014): Assessment of civilians in mission-critical occupational series.</p> <p>Phase 2 (Completed May 2015): Assessment of civilians in non-mission critical occupational series. The Department reported results of the most recent FM civilian skills gap analysis and competency assessments to Congress in September 2016 in the DoD Strategic Workforce Plan, Fiscal Year 2016 – 2021.</p> <p>The FM OFCM submitted system change requests for improving the current Defense Competency Assessment Tool for future mission-critical occupational series and mission-critical occupational assessments to DCPAS.</p> <p>Phase 3 (Completed March 2017): Assessment of the financial military workforce. The OSD Functional Community Manager (OFCM) for financial management reviewed the legislative requirement to conduct military competency skills gap analysis, as required by the National Defense Authorization Act for FY 2012 (Public Law 112-81), Sect 1053. The OFCM engaged in discussions with the Deputy Assistant Secretary of Defense for Military Personnel Policy, Office of the Under Secretary of Defense for Personnel and Readiness, and the three Military Department Component functional community managers for financial management. The three military financial management</p>

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HASC Panel Recommendation	Status	DoD Actions Taken and Planned
		<p>communities prepared detailed outlines of training and professional development programs for their respective financial management military members. The initial review by the FM OFCM indicates that the military financial management communities satisfy the requirement for competency assessment, gap assessments, and future projections for competency identification and gap analysis.</p> <p>Phase 4: The OFCM continues to research the feasibility of assessing the civilian financial management workforce in other functional areas. The FM community works closely with the acquisition community to perform competency assessments for FM personnel assigned to acquisition's Business-Financial Management, Business-Cost Estimating, and Auditing career fields. FM personnel included acquisition personnel in previous FM competency assessments and will include them in the upcoming assessments in 2017. Per section 845 of the FY 2016 NDAA, the legislative requirement for financial management is to assess the civilian and military workforce. The HASC Panel recommendation included an additional requirement to assess the competencies of contractor personnel performing financial management functions. However, assessing the competencies of contractor personnel performing financial management-related functions is outside the scope of responsibility and authority of the financial management community.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
3.2	The Department should utilize the expertise of CPAs with financial statement audit experience in its audit readiness efforts as conducted by the federal civilian workforce or contracted personnel, as appropriate.	Met	The OUSD(C) and most Components retain CPAs with financial audit experience as contractor support staff. These CPAs provide audit experience to financial improvement and audit readiness activities and help the Department prepare for audits. CPAs also recommend and assist in implementing best business practices used in the private sector.
3.3	The Department should develop and implement effective financial training programs for personnel serving in functional communities outside of the financial management community.	Met	<p>The Department developed 79 web-based financial management courses. The web-based course inventory includes several FIAR courses, which are available to DoD functional communities including financial managers. These courses provide credit toward the DoD Financial Management Certification Program at levels 1, 2, and 3. The courses are available via the FM myLearn website to the functional communities with a Common Access Card.</p> <p>FM members are required to complete a course evaluation upon concluding any OUSD(C) developed course. FM leadership reviews evaluations monthly and collects and analyzes comments. The Department uses evaluation scores and comments to assess training effectiveness. Cumulative course evaluation scores have consistently been above 4.0 on a 5-point scale.</p>
3.4	The Department should develop and implement effective ERP training programs for personnel within and outside of the financial management community who utilize, or will be expected to utilize, an ERP system in their day-to-day operations. In developing these training programs, the Department should implement lessons learned from previous training provided to ERP users.	Met	Training exists for all ERP systems. Training programs are coordinated with the ERP Component system-owner and the Component's financial management office. Training is available to end users in both on-line and classroom settings, providing each user the specific knowledge of the process required to perform their mission.

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HASC Panel Recommendation	Status	DoD Actions Taken and Planned
<p>3.5 The Department should develop its proposal for an exchange program between the DoD and the private sector. In doing so, the Department should develop specific criteria, regarding the personnel to be exchanged and the organizations that would participate. The Department should then submit its proposal to the congressional committees of jurisdiction for consideration.</p>	<p>Met</p>	<p>The Department submitted a proposal, dated October 12, 2012, for inclusion in the NDAA FY 2014, which addressed the requirement for an action plan to further develop the civilian employee workforce. The proposal was for the Pilot Program for the Temporary Exchange of Financial Management Personnel with the private sector. The proposal was ultimately included in the NDAA for FY 2016.</p> <p>The NDAA for FY 2016, Section 1110, Pilot Program on Temporary Exchange of Financial Management and Acquisition Personnel, provides the Secretary of Defense the authority to establish a pilot program to assess the feasibility and advisability of the temporary assignment of civilian employees to nontraditional defense contractors and employees of such contractors to the Department. The pilot period is January 6, 2016, through September 30, 2019. The pilot program is applicable to DoD civilians who work in the financial management and acquisition fields; are compensated above the GS-11 equivalent level; and are exceptional employees. Five civilians from the financial management field and five from the acquisition field are eligible for the program at any given time. An assignment under this program shall be for a period of at least three months but no more than one year. How exchange assignments might best be used to meet the training needs of the Department and employees in the financial management or acquisition career fields is an important program selection factor. No more than 10 contractor personnel may be assigned to the Department as part of the pilot program at any given time.</p> <p>The SASC Report for the FY 2017 NDAA proposes a public-private exchange program that differs slightly from the one authorized for FM in the FY 2016 NDAA. The first difference is the use of the</p>

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HASC Panel Recommendation	Status	DoD Actions Taken and Planned
		<p>term “private sector organization” vice “nontraditional defense contractor.” Next, the civil service commitment would be “equal to the length of the assignment” rather than “at least equal to three times the length of the assignment.” The third difference deals with the duration of the exchange, recommending a period of not less than three months and not more than two years vice not more than one year.</p> <p>In early versions of the FY 2017 NDAA, the Department worked with SASC staffers to modify the exchange program language to remove the term “non-traditional” DoD contractors (those who have not done business with the DoD in the last 12 months). The proposed new FY17 language is not limited to the FM workforce and does not limit the exchange to non-traditional Defense contractors. The FM workforce would have two avenues to participate in an exchange program.</p> <p>The FM Community has coordinated with the acquisition community regarding implementation guidance and the interim final rule to execute the Financial Management and Acquisition Exchange Program in accordance with the authority given in the FY 2017 NDAA. The first exchanges are expected to occur in FY 2018 and results will be reported in future financial management workforce planning documents.</p>

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Figure A2-4. DoD Actions on ERP System Implementation Efforts Recommendations

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
ERP SYSTEM IMPLEMENTATION EFFORTS			
4.1	<p>The Department should include additional details on ERP programs in the FIAR Plan Status Reports, including full deployment dates, when known, and key milestone dates. These status reports should describe the risks and potential consequences of: (1) failing to satisfy outstanding ERP functionality requirements; or (2) incurring future ERP milestone delays. The status reports should describe the mitigation measures taken by the Department to reduce these risks. The status reports should also explain any actual schedule slippages or cost increases and the actions taken by the DOD to remedy any such development.</p>	Partially Met	<p>The OUSD(C) and ODCMO agreed that FIAR Plan Status Reports should include more detail regarding ERP programs to better evaluate progress toward auditability and timely implementation of corrective actions, and to increase confidence in the management of these investments. Each FIAR report since 2012 has included a separate section on the nine Military Service ERPs and DAI.</p> <p>The Department is taking a data-driven approach to managing Defense business systems as portfolios of investments. The goal is to aggregate data from authoritative data sources and tools used by the PPBE, acquisition, and funds certification processes to track and manage the overall performance of systems portfolios including ERPs.</p>
4.2	<p>The ERP program offices should integrate FIAR milestones into their program schedules. ERP program managers should be evaluated on their ability to maintain FIAR milestones as well as program acquisition-related milestones.</p>	Partially Met	<p>Each system program office is responsible for including requirements in their systems including FIAR requirements. The Services self-reported that they included FIAR milestones and requirements in their schedules. This only applies for the ERP systems in the acquisition process (e.g., DAI, DEAMS, IPPS). Programs in development were provided requirements for inclusion in their respective program schedules. ERPs are also incorporating systems changes resulting from findings discovered during audits and examinations. Systems changes are vetted via the Components systems' configuration control boards.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>The OUSD(C) developed a methodology for financial systems to incorporate audit readiness in the Investment Decision Memorandum and Acquisition Decision Memorandum processes. During the Investment Decision Memorandum process, and for all systems that affect financial reporting, the OUSD(C) provides input on each investment decision approval. The approval decision for each investment decision is contingent on the Component demonstrating that audit readiness and related compliance considerations have been incorporated into the work products for each relevant system and associated capability.</p> <p>Acquisition Decision Memoranda represent important checkpoints in the lifecycle of DoD systems and are critical to ensuring the expected outcomes are realized. For those systems that affect financial reporting, the OUSD(C) provides input for each acquisition decision approval at each business capability lifecycle milestone.</p>
4.3	The Department should develop ERP-related schedule and cost estimates based on best practices for future ERP deployments.	Partially Met	<p>The Department agrees that better methods are needed for estimating ERP implementation costs and scheduling. Experience with these programs over the past 10 years, along with industry best practices, has helped shape the strategies being used in the management and oversight of ERP Implementations, including:</p> <ul style="list-style-type: none"> • Increasing discipline in requirements management. • Reengineering business processes before focusing on material solutions. • Reducing customizations to commercial software. • Sustaining leadership involvement throughout the lifecycle.

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HASC Panel Recommendation	Status	DoD Actions Taken and Planned
		<ul style="list-style-type: none"> • Emphasizing organizational change management to ensure end-users understand the impact to their jobs. • Shifting Business Enterprise Architecture's framework to end-to-end processes to better guide and constrain ERP development and interoperability. • Introducing the Standard Financial Information Structure, Standard Line of Accounting, related business rules, and data attributes. • Expanding government's role for systems integration. • Measuring business performance consistently to assess ERP impacts. • Driving improvement through acquisition decisions. • Incorporating portfolio management methods to make the right investment decisions. <p>The Deputy CFO (DCFO) is involved in the Defense Acquisition Executive System process during which the Department assesses the compliance of an ERP program in the acquisition process to financial management standards, including the FIAR Guidance. The DCFO provides input on status of programs based on Schedule, Performance, and Test and Evaluation as it relates to achieving the financial management laws, policies, and regulations.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
4.4	The Department should evaluate changes to ERP requirements as those systems are developed, implemented, and utilized.	Partially Met	<p>The Department agrees that ERP requirements must be managed throughout the development lifecycle, both within the program and through involved oversight (See Recommendation 4.3, above, on applying best practices for requirements management).</p> <p>Each ERP program and component system-owner has seen project scope creep and user-specific requirements cause cost and schedule challenges. The lesson learned has been to strengthen management discipline through change control boards and engaged, knowledgeable senior-leader steering groups. The Milestone Decision Authority, as part of the major automated information system acquisition and investment review processes, monitors and assesses ERP program cost, schedule, and performance at a macro level and takes appropriate actions to address risks.</p>
4.5	The Department should evaluate its requirement process for ERP systems. The Department should assess the decision-making process, regarding ERP requirements, at every level of authority. The Department should then determine what, if any, changes may be needed.	Partially Met	<p>The Department has evaluated and adjusted its requirement processes for Defense Business Systems over the last seven years. In 2010, the Department mandated the implementation of the Business Capability Lifecycle, which streamlines acquisition of Defense Business Systems and requires disciplined delivery of well-scoped capabilities to end-users in 18 months. The Business Capability Lifecycle operates within the established governance framework, comprising the Investment Review Boards and Defense Business Systems Management Committee, which in turn advise the Milestone Decision Authority for the ERP programs.</p> <p>Working through the Major Acquisition Information System Milestone Decision Authority for systems, the DCFO can ensure requirements are being met, specifically during the acquisition</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>milestone decision process and the annual investment review process. As a result, the DCFO included additional requirements in the Acquisition Decision Memorandum and Investment Decision Memorandum.</p> <p>The ODCMO and Military Department CMOs will continue to assess current practices for governing requirements and implement changes as necessary.</p>
4.6	<p>The Department should establish risk mitigation plans to address actual and potential weaknesses or deficiencies associated with the development, implementation, or utilization of its ERP systems that could affect the achievement of FIAR goals. At a minimum, each risk mitigation plan should: (1) identify measures for resolving any such weaknesses or deficiencies; (2) assign responsibilities within the Department to implement such measures; (3) specify implementation steps for such measures; (4) provide timeframes for implementing such measures; and (5) identify any alternative arrangements outside of the ERP environment that may be necessary for meeting FIAR objectives.</p>	Partially Met	<p>The Department agrees that thoughtful and thorough risk management (including identification, analysis, and mitigation) is required for effective information technology acquisition. The Department provides ample resources through the Defense Acquisition Guidebook, Program Manager Took Kit, and Defense Acquisition University that can guide and educate program personnel in effectively managing future uncertainties. The Defense Acquisition Guidebook Best Practices Clearinghouse also offers practices, evidence, and stories, including a large section on risk management. ERP programs, which follow the Defense Acquisition System for Major Automated Information Systems, are required to use these resources and manage risks appropriately.</p> <p>The FIAR methodology identifies financial programs and associated feeder systems, including ERP systems. All major financial programs incorporate Risk Management Plans and track major risks and associated mitigation plans. Each Service reports on their respective programs at the regularly scheduled FIAR review sessions.</p> <p>In addition, FIAR processes being developed for input to the Investment Decision Memorandum and the Acquisition Decision Memorandum processes should permit a means to monitor</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>progress of ERPs in relation to FIAR readiness and provide input on means for correcting any short comings</p> <p>Each Service has established a risk-management approach and should follow the DoD risk-management framework to assist in assessing their ERP system’s audit readiness status.</p>
4.7	<p>The Department should evaluate lessons learned from previous data conversion efforts, and it should incorporate these lessons into its ERP data conversion plans. The Department should update its ERP data conversion plans periodically. Updates should include assessments of: the progress made in converting data into the ERP environment; whether that progress supports the satisfaction of existing requirements; and whether additional data conversion requirements would facilitate the achievement of FIAR objectives. The Department should also assess the merits of designating a senior official (such as the CMO or the DCMO) to be responsible for the coordination and managerial oversight of data conversion.</p>	Partially Met	<p>The Department revised its Federal Sector ERP Data Conversion Best Practices Guide in 2009 based on lessons learned since its original publication. The guide and a conversion tracking tool are available through the Defense Acquisition University’s EI Tool Kit and is used by ERP program managers and staff in developing conversion strategies.</p> <p>In November 2013, the Under Secretary for Acquisition, Technology, and Logistics rescinded the delegation to DCMO to act as Milestone Decision Authority and the overarching Integrated Product Team lead for business systems, including all ERPs. It may be more appropriate to direct recommendations regarding the designation of a data-conversion requirements senior official to the Milestone Decision Authority.</p> <p>Data standards do exist in the Business Enterprise Architecture SFIS/SLOA, which define the standard data element to be included in the system and how data should be implemented in a new system. The Services have learned from past experience. For example, the Air Force decided not to convert data for new users after an initial data conversion into DEAMS at Scott AFB.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
4.8	The Department should: (1) evaluate the causes of system interface problems; (2) determine whether the number of interfaces can be reduced (e.g., by incorporating activities performed by legacy systems into the ERPs); and (3) determine what improvements can be made to support more effective interfaces between systems.	Partially Met	<p>As required by the FY 2012 NDAA Sect 901, the Department updated the Business Process Reengineering Assessment Guidance on September 28, 2012.</p> <p>In FY 2014, the business process reengineering assessment process was integrated in Organizational Execution Plan reviews to support investment decisions and to validate the need to tailor commercial-off-the-shelf systems for unique requirements and interfaces, ensuring such requirements have been eliminated or reduced to the maximum extent practicable.</p> <p>The Department is increasingly approaching investment decisions with a portfolio view to reduce or eliminate unique requirements and interfaces. The Department has begun to implement process improvements across all systems through the implementation of strategic initiatives, including the use of the global exchange to increase the interoperability and exchanging of standardized data between systems. There is also a strategy to reduce the number of existing legacy systems over the next several years, which will reduce the need for a high number of interfaces. These efforts should reduce issues associated with point-to-point interfaces.</p>
4.9	The DoD DCMO, in coordination with the Director for Operation, Test and Evaluation and Deputy Assistant Secretary of Defense for Development, Test and Evaluation, should assess information system control testing needs for all ERPs being developed by the DoD and determine whether appropriate workforce levels and corresponding skill sets exist within the Department's developmental and operational test communities. The Department should take actions to address any identified shortfalls.	Partially Met	<p>DOT&E does not perform testing for all systems, but provides guidance to assist organizations in performing testing. In July 2014, the DCFO established an independent testing program with DCMO support through the Joint Interoperability Test Command to test systems for compliance with financial management requirements, such as SFIS, SLOA, and USSGL.</p>

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Appendix 3. Acronyms

Acronym	Definition
ABACUS	Armed Forces Billing and Collection System
ABS	AMARC Business System
ABSS	Automated Business Services System
ACES	Automated Civil Engineers System-Real Property
ACPS	Contracting Laboratory Automated Contract Writing System
ADIS	Acquisition and Due-In System
ADS	Automated Disbursing System
AESIP Hub	Army Enterprise Systems Integration Program Hub
AF	Air Force
AF DSS	AF DISN Subscription Service
AFCOS	Automated Fund Control Order System
AFEMS	Air Force Equipment Management System
AFIPPS	Air Force Integrated Personnel Pay System
AFM	Automated Funds Management
AFPROMS	Air Force Promotions System
AFT	Army Fund Balance with Treasury Tool

Acronym	Definition
ALMSS	Automated Logistics Management Support System
ALTESS	Acquisitions, Logistics & Technology Enterprise Systems
APO	Automated Project Order
APPMS	Automated Personal Property Management System
APSR	Accountable Property System of Record
AROWS	Air Force Reserve Order Writing System
AROWS-R	Air Force Reserve Order Writing System - Reserves
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
ATAAPS	Automated Time & Attendance Production System
AWRDS	Army War Reserve Deployment System
BAM	Business Activity Monitoring
BEA	Business Enterprise Architecture
BERT	Budget Execution Reporting Tool
BRAC	Base Realignment and Closure
CAP	Corrective Action Plan
CAPS-W	Computerized Accounts Payable System - Windows

FIAR Plan Status Report

Acronym	Definition
CARIS	Corporate Automated Resource Information System
CAS	Combat Ammunition System
CAV AF	Commercial Asset Visibility Air Force
CBDP	Chemical Biological Defense Program
CCaRS	Comprehensive Cost and Requirement System
CCAS	Consolidated Cash Accountability System
CCAS-AF	Columbus Cash Accountability System - Air Force
CCE	Coding and Compliance Editor
CDAS	Cryptologic Depot Accountability System
CDS	Centralized Disbursing System
CEFMS	Corps of Engineers Financial Management System
CEMS	Comprehensive Engine Management System (D042)
CEPR (VISTA)	Collections & Expenditures Processing Reconciliation (VISTA)
CEUCS	Complementary User Entity Controls
CFMS-CNIC	Command Financial Management System Support - Commander of Naval Installations Command
CFO	Chief Financial Officer
CHCS	Composite Health Care System

Acronym	Definition
CIDS	Contracting Information Database System
CIO	Chief Information Officer
CIRCUITS	Centralized and Integrated Reporting for the Comprehensive Utility Information Tracking System
CMCS	Case Management Control System
CMO	Chief Management Officer
CMOS	Cargo Movement Operations System
CMR	Cash Management Reporting
COINS	Commercial Operations Integrated System
ConWrite	ConWrite
CPAIS	Civilian Pay Accounting Interface System
CPOL	Civilian Personnel Online
CRIS	Commanders' Resource Integration System
DAAS	Defense Automatic Addressing System
DAAS	Defense Automatic Addressing System
DAI	Defense Agencies Initiative
DAI	Defense Agencies Initiative
DAPS	DoDEA Allowance Processing System

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Acronym	Definition
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCAS	Defense Cash Accountability System
DCBS	Distribution Component Billing System
DCD/DCW	Defense Corporate Database/Defense Corporate Warehouse
DCFO	Deputy Chief Financial Officer
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCMS	Departmental Cash Management System
DCMS	DISA Cash Management System
DCPDS	Defense Civilian Personnel Data System
DCPS	Defense Civilian Payroll System
DDARS	Defense Disbursing Analysis Reporting System
DDMS	Defense Debt Management System
DDRS	Defense Departmental Reporting System

Acronym	Definition
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DDRS-B	Defense Departmental Reporting System – Budgetary
DDS	Deployable Disbursing System-DFAS
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DECKPLATE	Decision Knowledge Programming for Logistics Analysis and Technical Evaluation
DERP	Defense Environment Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHA ECS	DHA eCommerce System
DHA-CRM	Defense Health Agency – Contract Resource Management
DHP	Defense Health Program
DHRA	Defense Human Resources Activity
DIFMS	Defense Industrial Financial Management System
DISA	Defense Information Systems Agency
DJMS	Defense Joint Military Pay System

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Acronym	Definition
DJMS AC/RC	Defense Joint Military Pay System Active Component/Reserve Component
DJMS-AC	Defense Joint Military Pay System – Active Component
DJMS-RC	Defense Joint Military Pay System – Reserve Component
DLA	Defense Logistics Agency
DMA	Defense Medical Activity
DMAPS	Depot Maintenance Accounting and Production System
DMDC	Defense Manpower Data Center
DMEA	Defense Media Activity
DMLSS	Defense Medical Logistics Standard Support
DMLSS-R	Defense Medical Logistics Standard Support - Retail
DMLSS-W	Defense Medical Logistics Standard Support - Wholesale
DMO	Defense MilPay Office
DoD	Department of Defense
DoD eMALL	DoD Electronic Mall
DoD OIG	Department of Defense, Office of Inspector General
DoDEA	DoD Education Activity

Acronym	Definition
DON	Department of the Navy
DPAA	Defense POW/MIA Accounting Agency
DPAS	Defense Property Accountability System
DRRT	Defense Reconciliation and Reporting Tool
DSAMS	Defense Security Assistance Management System
DSCA	Defense Security Cooperation Agency
DSS	Defense Security System
DSS	Distribution Standard System
DSSC	Direct Support Stock Control
DTIC	Defense Technical Information Center
DTRA	Defense Threat Reduction Agency
DTS	Defense Travel System
DTSA	Defense Technology Security Administration
DWAS	Defense Working Capital Fund Accounting System
EAGLE	Employee Activity Guide for Labor Entry
EAS	Entitlements Automation System
EBAS-D	Enterprise Business Accountability System - WHS

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Acronym	Definition
EBAS-TJS	Enterprise Business Accountability System - Joint Staff
EBIS	Employee Benefits Information System
EBS	Enterprise Business System
EDA	Electronic Data Access
EDM	Enterprise Data Management
EESOH - MIS	Enterprise Environment, Safety, and Occupational Health Management Information System
EFD	Electronic Funds Distribution
eMILPO	Electronic Military Personnel Office
ERMS/NITA	Electronic Retrograde Management System and Navy Transit Accountability
ERP	Enterprise Resource Planning System
ES	Executive Summary
EUD	Elimination of Unmatched Disbursements
EXMIS	Expeditionary Equipment Management Information System
FABS	Financial Accounting and Budget System
FAMIS-CS Mod	Federal Financial Accounting Management Information System - Computing Services Modernization

Acronym	Definition
FAMIS-EAS	Federal Financial Accounting Management Information System - Enterprise Accounting System
FASAB	Federal Accounting Standards Advisory Board
FASTDATA	Fund Administration and Standardized Automation
FBWT	Fund Balance with Treasury
FCM	Funds Control Module
FFMIA	Federal Financial Management Improvement Act of 1996
FIABS	Financial Inventory Accounting and Billing System
FIAR	Financial Improvement and Audit Readiness
FIS 2.0	Facilities Information System 2.0
FISCAM	Federal Information System Controls Audit Manual
FM	Financial Management
FM&C	Financial Management and Comptroller
FMD	Fuels Manager Defense
FMO	Office of Financial Operations
FMP	Office of Financial Policies and Systems
FMR	Financial Management Regulation
FMSuite	Financial Management Suite

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Acronym	Definition
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAFS	General Accounting and Finance System
GAFS-BQ	General Accounting and Finance System – Base Level
GAFS-R	General Accounting and Finance System – Reengineered
GAO	Government Accountability Office
GATES	Global Air Transportation Execution System
GCSS-A	Global Combat Support System-Army
GCSS-MC	Global Combat Support System-Marine Corps
GCSS-MC/LCM	Global Combat Support System-Marine Corps/Logistics Chain Management
GDSS	Global Decision Support System
GEX	Global Exchange
GFEBs	General Fund Enterprise Business System
GL	General Ledger
GTAS	Ground-to-Air Signal
Guardian / CEMCA	Guardian/Civil Engineering Master Cooperative Agreement
HASC	House Armed Services Committee

Acronym	Definition
HQARS	Headquarters Accounting and Reporting System
HR	Human Resources
IAPS	Integrated Accounts Payable System
IATS	Integrated Automated Travel System
IBS	Integrated Booking System
IEMS	Integrated Engineering Management System
IIT	Integrated Information Tool
ILSMIS	Industrial Logistics Support Management Information System
ILSS	Integrated Logistics Supply System
IMDB	Integrated Missile Database
IMDS-CDB	Integrated Maintenance Data System - Central Database
IMPS	Integrated Management Processing System
INFADS	Integrated Navy Facilities Asset Data Store
IPA	Independent Public Accountant (or Accounting Firm)
IPAC	Intra-Governmental Payment and Collection
IPP	Invoice Processing Payment
IPPS-A	Integrated Personnel Pay System – Army

FIAR Plan Status Report

Acronym	Definition
iRAPT	Invoicing, Receipt, Acceptance, and Property Transfer
IRSS	Information and Resource Support System
IT	Information Technology
ITIMP	Integrated Technical Item Management & Procurement
IWIMS	Interim Work Information Management System
JOCAS II	Job Order Cost Accounting System
JUSTIS	JUMPS Standard Terminal Input System
LMP	Logistics Modernization Program
LSMIS	Labor Management Support Information System
MAIS	Major Automated Information Systems
MATMF	Material Access Technology - Mission Funded
MCORS	Marine Corps Order Resource System
MCTFS	Marine Corps Total Force System
MDA	Missile Defense Agency
MEDCOM	Medical Command
MILPDS	Military Personnel Data System
MILSTRIP	Military Standard Requisitioning and Issue Procedures

Acronym	Definition
MIPR	Military Interdepartmental Purchase Request
MOCAS	Mechanization of Contract Administration Services
MOU	Memorandum of Understanding
MSC	Military Sealift Command
MSC FMS	Military Sealift Command Financial Management System
MSC HRMS	Military Sealift Command Human Resources Management System
MSC-LES-ALF	Military Sealift Command Shipboard Logistics Engineering Support - Afloat
MSC-LES-ASH	Military Sealift Command Shipboard Logistics and Engineering Support - Ashore
MXT	Management, Execution, and Tracking
MyUnitPay	My Unit Pay
NAVFAC	Naval Facilities Engineering Command
NAVSUP	Naval Supply Systems Command
NAVY ERP	Navy Enterprise Resource Planning
NDAA	National Defense Authorization Act
NDSP WW	Non-department of Defense School Program World Wide Application
NexGen IT	NexGen IT

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Acronym	Definition
NFR	Notice of Findings and Recommendations
NIST	National Institute of Standard and Technology
NSIPS	Navy Standard Integrated Personnel System
NTCSS-RSUPPLY	Naval Tactical Command Support System - Relational Supply
ODCMO	Office of the Deputy Chief Management Officer
ODO	Other Defense Organization
ODS	Operational Data Store
OEA	Office of Economic Adjustment
OIG	Office of Inspector General
OIS	Ordnance Information System
OMB	Office of Management and Budget
One Touch	One Touch
OnePay	OnePay
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)

Acronym	Definition
PADDS	Procurement Automated Data and Document System
PBAS	Program Budget Allocation System
PBAS-FD/OC	Program Budget Accounting System-Funds Distribution/Order Control
PBASweb	Personnel Budget Accounting System (Web)
PBIS	Program Budget Information System
PBUSE	Property Book Unit Supply Enhanced
PDS	Project Data System
PMO	Program Management Office
PMRT	Program Management Responsibility Transfer
PP&E	Property, Plant, and Equipment
PR BUILDER	Procurement Request Builder
PRDS	Purchase Request Data Standard
PRIDE	Planning Resource for Infrastructure Data and Evaluation
PRPS	Purchase Request Process System
PRV	Plant Replacement Value
RAMPOD	Reliability, Availability, and Maintainability of Pods Database
REMIS	Reliability and Maintainability Information System

FIAR Plan Status Report

Acronym	Definition
RLAS	Regional Level Application Software
RP	Real Property
RTS	Reserve Travel System
SAAS-MOD	Standard Army Ammunition System-Modernization
SABRS	Standard Accounting, Budgeting and Reporting System
SAMIS	Security Assistance Management Information System
SAMS	Standard Army Maintenance System
SAMS	Suspense/Aging Monitoring System
SARSS	Standard Army Retail Supply System
SBA	Schedule of Budgetary Activity
SBR	Statement of Budgetary Resources
SBR ArT	Statement of Budgetary Resources Air Force Reconciliation Tool
SBSS	Standard Base Supply System
SCR	Software Change Request
SCRT	Standard Contract Reconciliation Tool
SCS	Stock Control System
SEAPORT	SeaPort

Acronym	Definition
SFFAS	Statements of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SIDPERS	Standard Installation/Division Personnel System
SLDCADA	Standard Labor Data Collection and Distribution Application
SMA	Service Medical Activity
SMAS	Standard Materiel Accounting System
SMAS	Standard Material Accounting System
SOC	Service Organization Controls
SOMARDS	Standard Operation and Maintenance Army Research and Development System
SPS	Standard Procurement System
SPS/PD2	Standard Procurement System/Procurement Desktop 2
SSAE	Statement on Standards for Attestation Engagements
STANFINS	Standard Financial System
STANFINS	Standard Army Finance Information System
STARS	Standardized Accounting and Reporting System
STARS FL/HCM	Standard Accounting and Reporting System Field Level Accounting/HQ Claimant Module

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Acronym	Definition
STARS-HCM	Standard Accounting and Reporting System – Headquarters Claimant Module
STORES	Subsistence Total Order and Receipt Electronic System
SUPDESK	Supervisor's Desk
SYMIS-COST	Shipyard Management Information Systems - Cost Application
TAPDB	Total Army Personnel Database
TBD	To Be Determined
TFMS	Transportation Financial Management System
TFRS	Trust Funds Reporting System
TI	Treasury Index
UDCACs	USUHS Developed Cloud Based Credit Card Accounting and Control Software
UDCDS	USUHS Developed Cost Distribution Software
USACE	United States Army Corps of Engineers

Acronym	Definition
USD(C)	Under Secretary of Defense (Comptroller)
USD(C) AT&L	Under Secretary of Defense (Comptroller) Acquisition, Technology and Logistics
USMC	United States Marine Corps
USMCMAX	USMC MAXIMO
USSGL	U.S. Standard General Ledger
USSOCOM	U.S. Special Operations Command
USTRANSCOM	U.S. Transportation Command
USUHS	Uniformed Services University of the Health Sciences
UTAPSWeb	Unit Training Assembly Processing System (Web)
WAAS	WHS Allotment and Accounting System
WARS-NT	Worldwide Ammunition Reporting System-New Technology
WHS	Washington Headquarters Services

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