

Financial Improvement and Audit Readiness (FIAR) Plan Status Report November 2015



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

United States Department of Defense

Message from the Under Secretary of Defense (Comptroller)/ Chief Financial Officer

The Department entered a new stage of our journey in 2015 when the Military Departments began audits of their General Fund Schedules of Budgetary Activity (SBAs). I commend the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) for their steadfast commitment to audit readiness and their years of hard work that got us to this point.

Beginning an annual audit regimen demonstrates our progress and marks a significant cultural shift for the Department—from working to improve our financial processes and systems to being under audit. In fiscal year 2015, nearly 90 percent of the Department's General Fund budgetary resources, approximately \$800 billion, was under audit, and we remain committed to being fully audit ready by September 30, 2017.

The SBA audits are proving invaluable to the Department in testing our audit infrastructure and highlighting dependencies between organizations. The audit results help us to clearly focus on what needs to be done to achieve full audit readiness. We are also working to resolve long-standing policy issues and determine a cost-effective way to prepare for an audit of the DoD full financial statements. Each year, we expand the scope of our audit activities while sustaining a stronger, more disciplined business environment.

Going under audit has not been without challenges. The Department is a vast and complex organization with assets located worldwide. When the audit of DoD's full financial statements begins in 2018, it will likely be the largest audit ever undertaken. To ensure remaining issues are resolved, the Department is addressing critical path milestones and working hard to remediate deficiencies and complete enterprise-wide initiatives. Personnel across the Department are working hard to strengthen internal controls, processes, and systems while also supporting the warfighter.

The next two years will be critical. It is imperative we stay the course. While we do not expect to receive a clean opinion in our first few years under audit, with the continued commitment of DoD leaders and Congress, I am confident we will continue to demonstrate progress and ultimately achieve this goal.



Michael McCord

Under Secretary of Defense (Comptroller)/
Chief Financial Officer

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Message from the Deputy Chief Management Officer

For many years, I have worked closely with leaders of the Department of Defense (DoD) to push for the development of a comprehensive strategy for achieving audit readiness by September 30, 2017. I have seen the hard work and commitment that goes into improving financial management processes and systems, and I understand the breadth of this undertaking. Now, as Deputy Chief Management Officer, I have the privilege of working side by side with the men and women working so determinedly to achieve this important goal.



To be successful, the Department must not only produce an auditable financial statement, but we must do so in the right way: by instituting sound business processes and systems that can produce reliable business and financial information on a timely, repeatable basis. This effort requires us to systematically identify material weaknesses in our business processes and systems, and establish step-by-step plans to address those weaknesses. Only when these improvements are complete and the Department can undergo a full audit of its financial statements will we fully realize the savings that result from better budgetary control and evidence-based decision-making.

We have learned much from our effort to get the Military Departments and Defense Agencies ready for the audit of their Schedules of Budgetary Activities, and we will learn more from the findings and recommendations of our auditors. However, a great deal more remains to be done before the Department is ready to go under a full audit. For this reason, I have been working with Under Secretary of Defense (Comptroller) Mike McCord, the other co-chair of the Financial Improvement and Audit Readiness Governance Board, to identify key milestones in this effort, so that we can closely monitor progress from a Department-wide perspective, address issues that cut across Components, and make any necessary course corrections. Working with other DoD leaders, Congress, and the business and financial management communities, I am confident we will move the Department in the right direction.

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

Peter Levine
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. The report addresses issues impeding the reliability of the Department of Defense financial statements.

Preparation of this report cost the Department of Defense approximately \$178,000.

Executive Summary

The November 2015 Financial Improvement and Audit Readiness (FIAR) Plan Status Report highlights progress since May 2015 and the plans for completing the remaining critical tasks to meet the September 30, 2017, deadline for full audit readiness.

Fiscal year (FY) 2015 was a pivotal year for the Department of Defense (DoD). Each Military Department began an independent public accountant (IPA) audit of its General Fund Schedule of Budgetary Activity (SBA) FY 2015 appropriations, and most of the larger Defense organizations went under SBA examination or completed mock audits of their current year budgetary activities. In FY 2015, nearly 90 percent of the total DoD General Fund appropriations were under financial audit by an IPA.

SBA audits will continue in FY 2016 for the Military Departments and will be expanded to include General Fund appropriations of the Defense Logistics Agency (DLA) and the Defense Information Systems Agency (DISA). Additionally, the U.S. Marine Corps is planning for a full Statement of Budgetary Resources (SBR) audit in FY 2016, an important accomplishment for the Department that demonstrates the incremental approach to audit readiness is appropriate. Going under IPA audits or examinations is an essential part of the DoD strategy to achieve full audit readiness and is consistent with the positive feedback received from the Government Accountability Office (GAO), the DoD Office of the Inspector General (DoD OIG), and some members of Congress.

THE VALUE OF BEING UNDER AUDIT

The FY 2015 audits are proving invaluable to the Department. The process allows the Department to test its audit infrastructure and highlights dependencies between organizations. Auditor-identified deficiencies are prioritized and remediations carefully tracked. Audits also facilitate the workforce's transition into an annual audit regimen.

Although limited in scope, the audits of current year budgetary funds are still huge undertakings, requiring considerable resources and triggering many thousands of auditor requests. Other resources continue to be dedicated to audit readiness activities, such as testing internal controls, migrating to an audit ready systems environment, and remediating remaining deficiencies. Working groups have been formed to address the most challenging critical path policy, regulatory, and accounting standard issues. The Department is also working closely with the Federal Accounting Standards Advisory Board (FASAB) to find a cost-effective way to prepare for an audit of DoD's full financial statements and resolve long-standing challenges, such as the Balance Sheet reporting of the historical cost of assets when supporting documentation is not available.

Over the next two years, the Department will continue to expand the scope of audits, while sustaining a stronger, more disciplined environment, until full audit readiness is achieved. Lessons learned from other federal agencies suggest that the first years auditing of the



Defense Secretary Ash Carter testifies before the House Armed Services Committee June 17, 2015, in Washington, D.C. (DoD photo by Glenn Fawcett)

full financial statements will not result in a positive opinion, but the Department is committed to resolving all issues until a positive opinion can be achieved and sustained.

AUDIT OPINIONS

To date, the U.S. Army Corps of Engineers (Civil Works) and four other Defense organizations (ODOs) have received unmodified opinions on their FY 2015 financial statements. One ODO has received a modified opinion. These Components will continue to prepare stand-alone, audited financial statements.

Figure ES-1 lists the Components that have already achieved the goal of preparing auditable financial statements and received positive audit opinions on their FY 2015 financial statements and prior years.

Figure ES-1. Financial Statement Audit Opinions

FY 2015 Unmodified Audit Opinions
U. S. Army Corps of Engineers – Civil Works
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Military Retirement Fund
FY 2015 Modified Audit Opinions
Medicare-Eligible Retiree Health Care Fund

MILITARY SERVICE SBA AUDITS

In January 2015, the Army, Navy, and Air Force each began an audit of its General Fund SBA for FY 2015 appropriations. The General Fund SBAs include financial transactions directly related to appropriations received in FY 2015 and do not include financial transactions for appropriations received in prior fiscal years. The three audits are expected to conclude by the end of the calendar year. Although clean audit opinions are not expected in the initial year,

proceeding with SBA audits helps uncover remaining challenges and tests the Military Services' audit support infrastructures. For example, the Army's SBA audit triggered more than 17,500 formal auditor requests, requiring the Army to provide over 26,000 documents. Proceeding with SBA audits also helps auditors gain insight into DoD processes and systems, making future audits more efficient.

The Marine Corps had previously received a clean audit opinion on its FY 2012 SBA. However, the DoD OIG withdrew the opinion due to newly discovered findings that provided enough uncertainty that additional audit work was required. Auditors did not issue an opinion on the FY 2013 audit, and a disclaimer was issued on the FY 2014 audit. An audit of the Marine Corps FY 2015 SBA began in September 2015, and a full SBR audit is planned for FY 2016. To facilitate the SBR audit, the Marine Corps is focused on strengthening internal controls to transition from substantive audit testing to the auditor relying on the control environment. This will reduce the level of effort required by both the auditors and the Marine Corps.

Auditor Findings and Recommendations

Although the Army, Navy, and Air Force FY 2015 SBA audits have not concluded, the auditors have identified three important findings and recommendations that require remediation or improvement.

Incomplete Universes of Transactions

A universe of transactions is the entirety of underlying, individual, accounting transactions that support a financial statement line or balance. A complete universe of transactions must be reconciled and available to auditors.

Providing a complete universe of transactions for each financial statement line or balance is especially challenging for the Army, Navy, and Air Force. Many of the hundreds of feeder systems that initiate transaction are legacy systems and do not directly interface

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with the numerous accounting systems used by the Military Departments.

To address this finding, the Department is:

- Sunsetting legacy systems, improving system interface controls, and deploying Enterprise Resource Planning (ERP) systems.
- Reconciling data between multiple layers of systems and developing compensating controls.

Weak Information Technology (IT) Controls

IT controls assure management and auditors that data reported in financial statements are accurate and reliable. When IT controls are strong, auditors can rely on the control environment. When IT controls are weak, auditors must perform substantially more testing. Because the Military Services generate millions of transactions monthly, the number of testing samples is tremendous, and each tested transaction must be supported by documentation verifying its authenticity and accuracy.

The Military Services are working hard to strengthen IT controls so auditors can rely on the control environment, reducing audit costs and time. The Department is tracking progress and sharing lessons learned.

See Section VII, Information Systems Critical to Audit Readiness, for more detailed information on IT controls.

Insufficient Audit Support Infrastructure

An audit support infrastructure includes audit support personnel as well as the processes and systems for supporting the audit. An effective audit support infrastructure is essential to successful audits and takes time to establish. Personnel responsible for audit support must:

- Quickly onboard large numbers of auditors who require badges, workspace, equipment, security clearances, and access to networks.

- Schedule and conduct meetings and briefings to familiarize auditors with the organization under audit.
- Provide organizational, operational, business and financial processes, IT systems, and internal controls documentation.
- Facilitate site visits across the Components at numerous locations worldwide.
- Disseminate and track auditor questions and requests for documentation, and retrieve and track documentation provided to the auditors across many organizations.
- Develop and maintain repositories for documentation to support accounting transactions and business events, such as acquisition contracts and receiving reports.

The Military Departments each established an audit support infrastructure to support and respond to their FY 2015 SBA audits. However, the infrastructures must be expanded and made more efficient in order to respond within the timeframe established by the auditor. During FY 2016 SBA audits, DoD leadership and Military Department management will be closely monitoring the audits to expeditiously resolve issues and findings identified by the auditors.

ODO SBA EXAMINATIONS AND MOCK AUDITS

In June 2014, each of the larger ODOs asserted audit readiness of its applicable SBR assessable units, such as Civilian Pay and Contract Pay, or of specific SBR lines, such as Obligations. Five of the ODOs completed mock audits in March 2015, and those organizations are now working to correct auditor-identified deficiencies. An additional eight ODOs completed FY 2015 SBA examinations. For most of the ODOs, the examinations and audits were their first IPA examinations and audits, providing an opportunity to understand, firsthand, what an audit entails.

Auditor Findings and Recommendations

Many of the findings and recommendations reported by the auditors were common across all ODOs, for example:

- Lack of entity-level controls
- Incomplete universe of transactions, further complicated by suballotments
- Unsupported journal vouchers
- Unsupported open obligations and suballotments
- Unreconciled feeder systems to general ledgers
- Inaccurate process documentation
- Lack of an effective audit support infrastructure

The Department is developing solutions so that each organization can resolve its issues before ODO financial statement audits begin in FY 2017. Eleven tiger teams are now working directly with the ODOs to perform discovery work and develop corrective actions. After corrective actions are complete, controls will be tested monthly to ensure corrective actions were fully implemented and are being sustained. Each tiger team comprises a government lead and highly-experienced IPA auditors

See Section V, Other Defense Organizations Audit Readiness, for more detailed information on the ODOs.

RISK-BASED APPROACH TO FULL AUDIT READINESS

The Department is taking a risk-based approach to achieving full audit readiness and being able to undergo an audit of its full financial statements in FY 2018. Areas posing a high risk to achieving full audit readiness, such as the ability to support journal vouchers and the existence, completeness, and valuation of assets reported on the Balance Sheet, have been a long-standing focus of FIAR efforts.

Critical Path Milestones to Address High-Risk Areas

To accelerate progress in high-risk areas, the Department developed critical path milestones and Department-wide dates by which those milestones must be completed and the high-risk area resolved. The Department then identified interim milestones to achieving the critical path milestones. Both the critical path milestones and the supporting interim milestones were coordinated with and agreed to by members of the FIAR Governance Board.

The critical path milestones include:

- Universe of Transactions – The entirety of underlying, individual, accounting transactions that support a financial statement line or balance and must reconcile to general ledgers and feeder systems. Preparing the universe of transactions also includes establishing a standard framework and process for the handling of classified and unclassified documents and data during audit.
- Fund Balance with Treasury – An asset line on the Balance Sheet that represents the aggregate amount of funds in the Defense Department’s numerous accounts that must be reconciled with the Treasury Department’s accounts.
- Journal Vouchers – Summary-level accounting adjustments made when balances cannot be reconciled. Although many journal vouchers are justified, many lack supporting documentation, and too many can indicate weak controls.
- Open Obligations – Undelivered and delivered orders for which payment has not yet been made that must be verified as supported before beginning SBR audits.
- Existence, Completeness, and Rights and Obligations of Assets – Evidence that reported assets exist and are complete. When existence and completeness audit activity is performed, rights and obligations are also validated. Only assets to which a Component has the rights and obligations are to be reported on its financial statements.

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- Valuation of Assets – Valuation of assets establishes acquisition and improvement cost baselines that can be audited and methodologies for going forward. Assets include General Property, Plant, and Equipment; and Inventory and Related Property.
- Environmental and Disposal Liabilities – Probable future outflow or expenditure of resources as of the reporting date for environmental cleanup, closure, and disposal resulting from past transactions or events.

See Appendix 1, Critical Path Milestones Defined, for more detail on the critical path milestones.

Next, the Army, Navy, Air Force, and ODOs developed detailed plans for how each would accomplish the interim milestones and meet the Department’s critical path milestone dates. Not successfully completing the critical path milestones increases the risk that the Department will not be adequately prepared for audit in FY 2018, or may adversely affect the outcome of the FY 2018 full financial statement audits.

Dependencies

In addition to the critical path milestones, the Department identified enterprise-wide dependencies, including:

- Service provider processes and systems that affect customer audit readiness and the timing of service provider audit readiness activity.
- DoD-wide accounting policies, regulations, and standards

affecting audit readiness that must be modified, such as policies addressing the valuation and reporting of General Property, Plant, and Equipment and the reconciliation of Fund Balance with Treasury.

- Adequate resources, qualified personnel, and funds to complete audit readiness and to support audits.

The Department is continuing efforts to address these dependencies and meet its milestones. Additionally, senior leaders in the Military Departments and ODOs are closely engaged so that decisions can be made rapidly when needed. The FIAR Governance Board co-chairs, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) and the Deputy Chief Management Officer (DCMO), are also closely tracking progress. Progress is reported monthly and Military Department and ODO leaders are held accountable for any interim milestones not met.

Figures ES-2 – ES-8 identify the Critical Path Milestones and the Military Departments’ and ODOs’ planned completion dates. Each figure also includes the Military Departments’ and ODO’s planned dates for when full financial statement audits will begin.

See Section I, Enterprise-Wide Initiatives, for more information on the dependencies.

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ES-2. Army General Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Army – General Fund		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	SBA Audits (FY 2015 – FY 2017)	
	Balance Sheet	06/2016	12/2016
Fund Balance with Treasury		12/2016	06/2017
Journal Vouchers		03/2017	09/2017*
Open Obligations		03/2017	06/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	03/2016	09/2016
	General Equipment (including Military Equipment)	03/2016	09/2016
	Internal Use Software	06/2016	09/2016
	Inventory and Operating Materials and Supplies	03/2016	09/2016
Valuation of Assets	Real Property (including Construction in Progress)	12/2016	03/2017
	General Equipment (including Military Equipment)	12/2016	03/2017
	Internal Use Software	12/2016	03/2017
	Inventory and Operating Materials and Supplies	12/2016	03/2017
Environmental Liabilities	DERP	06/2016	12/2016
	Non-DERP	06/2016	12/2016

* The Army will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	09/2017	10/2017

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ES-3. Army Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Army – Working Capital Fund		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions		03/2016	06/2016
Fund Balance with Treasury		03/2016	06/2016
Journal Vouchers		03/2016	06/2016
Open Obligations		03/2016	06/2016
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	03/2016	06/2016
	General Equipment (including Military Equipment)	03/2016	06/2016
	Internal Use Software	03/2016	06/2016
	Inventory and Operating Materials and Supplies	03/2016	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	03/2016	06/2016
	General Equipment (including Military Equipment)	03/2016	06/2016
	Internal Use Software	03/2016	06/2016
	Inventory and Operating Materials and Supplies	03/2016	06/2016
Environmental Liabilities	DERP	N/A	N/A
	Non-DERP	N/A	N/A

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2016	10/2016
Balance Sheet	09/2016	10/2016

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ES-4. Navy General Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Navy – General Fund		Implementation/ Remediation Complete	Validation Complete*
Universe of Transactions	Statement of Budgetary Resources	06/2016	12/2016**
	Balance Sheet	06/2016	12/2016
Fund Balance with Treasury		12/2016	06/2017
Journal Vouchers		09/2016	09/2017*
Open Obligations		12/2016	03/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	12/2015	06/2016
	General Equipment (including Military Equipment)	✓	06/2016
	Internal Use Software	09/2016	09/2016*
	Inventory and Operating Materials and Supplies	12/2015	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	03/2017	03/2017*
	General Equipment (including Military Equipment)	03/2017	03/2017*
	Internal Use Software	03/2017	03/2017*
	Inventory and Operating Materials and Supplies	03/2017	03/2017*
Environmental Liabilities (DERP and Non-DERP)		09/2016	12/2016

* The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

** The Navy plans to build beginning balances incrementally starting with the FY 2015 SBA audit and continuing each year until beginning balances are substantiated.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	09/2017	10/2017

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ES-5. Navy Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Navy – Working Capital Fund		Implementation/ Remediation Complete	Validation Complete*
Universe of Transactions		06/2016	12/2016
Fund Balance with Treasury		12/2016	06/2017
Journal Vouchers		09/2016	09/2017*
Open Obligations		12/2016	03/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	12/2015	06/2016
	General Equipment (including Military Equipment)	✓	06/2016
	Internal Use Software	09/2016	09/2016*
	Inventory and Operating Materials and Supplies	12/2015	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	03/2017	03/2017*
	General Equipment (including Military Equipment)	03/2017	03/2017*
	Internal Use Software	03/2017	03/2017*
	Inventory and Operating Materials and Supplies	03/2017	03/2017*
Environmental Liabilities (DERP and Non-DERP)		09/2016	12/2016

* The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	09/2017	10/2017

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ES-6. Air Force General Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Air Force – General Fund		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	05/2016	12/2016
	Balance Sheet	06/2016	12/2016
Fund Balance with Treasury		✓	✓
Journal Vouchers		03/2017	09/2017*
Open Obligations		12/2016	03/2017*
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	06/2016	06/2016
	General Equipment (including Military Equipment)	06/2016	06/2016
	Internal Use Software	06/2016	06/2016
	Inventory and Operating Materials and Supplies	06/2016	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	03/2017	03/2017*
	General Equipment (including Military Equipment)	03/2017	03/2017*
	Internal Use Software	03/2017	03/2017*
	Inventory and Operating Materials and Supplies	03/2017	03/2017*
Environmental Liabilities (DERP and Non-DERP)		03/2017	06/2017

* The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	09/2017	10/2017

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ES-7. Air Force Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Air Force – Working Capital Fund		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	05/2016	12/2016
	Balance Sheet	06/2016	12/2016
Fund Balance with Treasury		12/2015	06/2017*
Journal Vouchers		03/2017	09/2017*
Open Obligations		12/2016	03/2017*
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	06/2016	06/2016
	General Equipment (including Military Equipment)	06/2016	06/2016
	Internal Use Software	06/2016	06/2016
	Inventory and Operating Materials and Supplies	06/2016	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	03/2017	03/2017*
	General Equipment (including Military Equipment)	03/2017	03/2017*
	Internal Use Software	03/2017	03/2017*
	Inventory and Operating Materials and Supplies	03/2017	03/2017*
Environmental Liabilities (DERP and Non-DERP)		N/A	N/A

* The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	09/2017	10/2017

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ES-8. ODO General Fund and Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

ODO General Fund and Working Capital Fund		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	10/2016	10/2016
	Balance Sheet	10/2016	10/2016
Fund Balance with Treasury		12/2016	06/2017
Journal Vouchers		03/2017	09/2017
Open Obligations		12/2016	03/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	03/2016	06/2016
	General Equipment (including Military Equipment)	03/2016	06/2016
	Internal Use Software	03/2016	06/2016
	Inventory and Operating Materials and Supplies	03/2016	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	12/2016	03/2017
	General Equipment (including Military Equipment)	12/2016	03/2017
	Internal Use Software	12/2016	03/2017
	Inventory and Operating Materials and Supplies	12/2016	03/2017
Environmental Liabilities (DERP and Non-DERP)		09/2016	12/2016

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	09/2017	10/2017

Note: The ODOs will be audited during the audit of the FY 2018 DoD Consolidated Financial Statements.

DOD AUDIT READINESS RESOURCES

Substantial resources have been programmed to support achieving auditable financial statements. The Department will continue to refine resource requirements as remaining audit readiness activities are completed and audits continue. The FIAR activities funded by the amounts in Figure ES-9 include:

Audit Readiness, Validations, and Audits resources provide for:

- Audit readiness management and oversight activities conducted by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).
- Evaluation, discovery, and corrective actions of the Components and their service providers.
- Validation of audit readiness after Components complete corrective actions and prepare management assertions.
- Support for IPA audit readiness validations and financial statement audits.

- Statements on Standards for Attestation Engagements (SSAE) No. 16 examinations and financial statement audits conducted by IPAs.

Financial Systems resources provide for:

- 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.

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included in audit readiness resources. ERP costs are reported in Section VII, Information Technology Systems Critical to Audit Readiness. Additionally, changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls. The Department has not attempted to capture the costs of process changes made solely for audit readiness, and therefore, resources reported below may not fully capture process improvement costs.

Figure ES-9. DoD Audit Readiness Resources (Dollars in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Audit Readiness, Validations, and Audits	548	660	629	661	645	650
Financial Systems	86	86	71	70	71	69
Total Resources	634	746	700	731	716	728

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I. Enterprise-Wide Initiatives

The audit of the DoD full financial statements in FY 2018 will likely be the largest consolidated financial statement audit ever undertaken. Department leaders are committed to achieving full audit readiness and are prioritizing and correcting audit findings, and closely monitoring progress.

Many of the remaining audit readiness challenges cut across the Components and require DoD-wide changes to policies, procedures, and regulations. Such challenges include integrating service providers, addressing remaining issues critical to the Balance Sheet, and increasing the numbers of personnel qualified to help the Department achieve and sustain audit readiness. To address these challenges, the Department leads enterprise-wide initiatives that support audit readiness or improve overall financial management.

AUDIT READINESS INITIATIVES

Enterprise-wide audit readiness initiatives include:

- Audit Ready IT Systems Environment
- Service Provider Integration
- Fund Balance with Treasury and Cash Accountability
- Balance Sheet Working Groups
- Funds Distribution of Defense-wide Appropriations
- Transportation of Things
- Intragovernmental Transactions

Audit Ready IT Systems Environment

To achieve and sustain audit readiness, the Department must develop and maintain an audit ready IT systems environment. The sheer number of business and financial systems is staggering when

compared to other federal agencies, and the level of effort and cost of ensuring all systems are audit ready is significant.

For systems that materially affect the financial statements, the Department must evaluate and remediate controls. Systems material to audit readiness include ERPs, custom-built legacy systems, financial systems, and non-financial feeder systems. Figure I-1 shows the number of critical systems by financial statement.

Figure I-1. Number of Critical Systems by Financial Statement

Financial Statement	Number of Systems
General Fund Statement of Budgetary Resources	133
General Fund Balance Sheet and Other Financial Statements	97
Working Capital Fund Statement of Budgetary Resources	79
Working Capital Fund Balance Sheet and Other Financial Statements	64

Systems also vary widely in technology and function. Financial systems include budget, accounting, and finance systems, as well as business feeder systems, such as personnel, logistics, and property systems, where most financial transactions originate. Although some systems are being replaced, many will still be in use after FY 2017, when the Department is required to produce auditable financial statements. While the Department continues to make progress in addressing IT system audit readiness, a number of challenges remain.

Dependency on Legacy Systems

Most legacy systems were originally designed to address operational or mission requirements. Additionally, many were built prior to the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208), which requires financial systems to comply with the U.S. Standard General Ledger (USSGL) and Treasury Financial Manual. As a result, these systems were not designed to

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meet federal standards for financial systems. Data from these systems are not standard and, therefore, difficult to reconcile to financial statements, and the systems may not include automated internal controls available in more modern systems. The Department is working to expedite the retirement of legacy systems. However, many will still be in use when audits begin. For those systems, the Department must either invest to strengthen automated controls or build compensating manual controls that meet audit requirements.

Dependency on Service Provider Systems

The Components rarely control business and financial transactions from the point of initiation to the point of a transaction being reported on their financial statements. Nor do the Components own and operate all of the IT systems used to process their transactions. To process and record contract pay, for example, the Components depend on over a dozen systems owned and operated by service providers. This complex level of interdependency increases the difficulty of identifying the systems affecting audit readiness and defining critical roles and responsibilities.

The migration to more modern systems and integration of business processes, including ERPs, will ultimately yield many audit readiness and operational benefits. However, transitioning to these new systems while supporting audit readiness and audits is time consuming and difficult. The Department is making changes to legacy systems at multiple points to support audit readiness and trying to deploy new systems over many years and at locations worldwide.

IT Systems Enterprise Initiatives

The Department and system owners are working hard to develop an audit ready systems environment and have:

- Established an office specifically missioned to assist, oversee, and monitor Component IT systems audit readiness activity within the OUSD(C).

- Identified systems material to financial statements and required that system internal controls be documented, tested, remediated, and strengthened.
- Engaged IPA certified systems auditors with systems audit expertise to assist DoD personnel.
- Required all Components to submit detailed information and milestones for material IT systems twice yearly to monitor and track audit readiness progress.

See Section VII, Information Technology Systems Critical to Audit Readiness, for more detailed information on IT systems and ERPs.

Service Provider Integration

A service provider is a DoD Component that performs a business function or process on behalf of another Component, such as accounting and finance operations by the Defense Finance and Accounting Service (DFAS) or real property construction by the U.S. Army Corps of Engineers. Ten DoD Components act as service providers. In order for service provider customers—other DoD Components—to become audit ready, a service provider’s audit readiness activities must be fully integrated with their customers’ audit readiness activities. The Department is working to ensure effective integration by:

- Issuing service provider direction and specific requirements in the FIAR Guidance.
- Conducting quarterly Service Provider Working Group meetings with their Component customers to identify audit relevant dependencies, clarify roles and responsibilities, and report audit readiness progress, deficiencies, and corrective actions.
- Requiring service provider senior representatives to attend FIAR Governance Board and FIAR Committee meetings, giving them the opportunity to participate in discussions on issues affecting

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them and their customers, and ensuring they are up to date on FIAR progress and plans.

- Tracking progress and reporting audit readiness plans, status, and challenges in the semi-annual FIAR Plan Status Report.
- Requiring the directors of four primary service providers to prepare and sign a message for inclusion in the FIAR Plan Status Report that states each director's commitment to supporting their customers' audit readiness goals.

Additionally, service providers that provide services to three or more Component-customers must undergo an examination in accordance with SSAE No. 16, "Reporting on Controls at a Service Organization." Results of the SSAE No. 16 examinations can then be used by Component customer financial statement auditors, improving Department-wide efficiency, and saving time and money. Because successful service provider SSAE No. 16 examinations are essential to their Component customers' success, the OUSD(C) is expanding service provider integration by:

- Convening meetings between service providers and their Component customers, when business processes are complex or involve multiple service providers, to develop a thorough understanding of the service provider processes and agree on the scope of the SSAE No. 16 examinations.
- Performing quality assurance reviews of service provider audit readiness deliverables and assertions prior to the start of an SSAE No. 16 examination.
- Facilitating meetings where service providers identify and explain to their Component customers the Complementary User Entity Controls expected to be included in SSAE No. 16 examinations. For the ODOs, the OUSD(C) is performing quality assurance reviews on the controls identified by these entities.

- Reviewing SSAE No. 16 examination reports to determine whether the examination scope was sufficient and if additional SSAE No. 16 examinations are needed to provide more complete coverage of audit relevant business processes and systems. The reviews include providing feedback received from Component auditors regarding potential gaps in coverage and additional information that would improve the usefulness of the SSAE No. 16 examination reports.
- Obtaining findings and recommendations from SSAE No. 16 examinations with modified opinions and tracking service provider corrective actions and testing to ensure the findings and recommendations are remediated.

See Section VI, Service Providers Audit Readiness, for more detailed information on the audit readiness plans and status of the service providers.

Fund Balance with Treasury and Cash Accountability

The Department's audit success is closely linked to cash traceability, including proper management and accountability of all transactions affecting Fund Balance with Treasury (FBWT). Unsupported journal vouchers and unresolved FBWT differences between the Defense Department and the Treasury Department are material and jeopardize achieving audit ready financial statements.

The Cash Accountability and Traceability Working Group endorsed a target end-state for cash accountability and reconciliations that delivers a single, auditable enterprise-wide FBWT solution. The Defense Department's solution also aligns with Treasury Department's modernization initiatives. The standardized process was tested with select DoD accounts in Quarters 3 and 4 of FY 2015. Results of those tests are being evaluated, and the process will be refined.

Balance Sheet Working Groups

The Department identified critical Balance Sheet lines that require a concerted effort to resolve long-standing issues. The valuation and reporting of General Property, Plant, and Equipment is an example. To resolve these issues, the OUSD(C), jointly with business process owners in Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)) and DoD Chief Information Officer (CIO), established DoD-wide working groups.

The working groups comprise Component representatives and are co-chaired by the OUSD(C) and the office that has functional oversight within the Office of the Secretary of Defense (OSD). Five working groups were established:

- General Equipment Working Group
- Real Property Working Group
- Internal Use Software Working Group
- Inventory and Related Property Working Group
- Environmental and Disposal Liabilities Working Group

The working groups have identified audit readiness issues and developed solutions and implementation guidance that address the issues. Each working group functions the same way so that Department leaders can stay closely engaged in problem-solving and act quickly when decisions are needed. As a result of the working groups, the Department has issued six policy memoranda that change or clarify policy essential to producing auditable financial statements and eliminating DoD OIG identified material weaknesses:

- Financial Statement Reporting for Real Property Assets
- Strategy for Internal Use Software Audit Readiness
- Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials
- Accounting Policy Update for the Expense Recognition of Operating Materials and Supplies
- Strategy for Environmental and Disposal Liabilities Audit Readiness and Implementation Guidance for General Equipment Audit Readiness
- Inventory and Related Property Policy Requirements

The Department is also working with FASAB to change accounting standards to better address DoD-unique financial reporting challenges. The new standards, as drafted, will allow the Department to use additional alternate methodologies to value General Equipment, Real Property, and Inventory and Related Property. Another notable change significantly reduces the complexity of identifying and valuing the Department's Internal Use Software. These changes will greatly decrease the time and resources needed to establish auditable opening balances and will allow the Department to focus on improving processes and systems going forward.

The working groups will continue to meet until they are no longer needed. Figure I-2 provides example issues and solutions for each working group.

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Figure I-2 Balance Sheet Working Groups

Working Group	Examples of Issues	Solutions Developed
General Equipment	Policy Issue – Contracts Do Not Differentiate Between Capital and Expense Costs. Major Defense Acquisition Programs comprise the majority of General Equipment values on the Balance Sheet. Current program structures do not isolate capital costs or associate them with specific end items.	New requirements have been embedded into program acquisition processes to differentiate between capital and expense costs. Based on these requirements, CLIN structures must be embedded in future acquisition contracts to map capital costs to end items.
Real Property	Policy Issue – Unclear Financial Reporting Responsibilities. The Department has struggled for years to develop a GAAP-compliant real property reporting policy that is also practical. Preponderance of use, operational control, and Title X have been considered at various times.	The working group considered options from GAAP compliance, audit risk, and operational perspectives. The working group developed a solution that establishes two criteria to determine which Component will report the asset on its financial statements. These criteria are 1) exclusive use of the asset, and 2) funding of sustainment.
	Implementation Issue – Valuation of Existing Real Property Assets. A significant amount of the Department’s real property lacks documentation to support historical costs.	Working with FASAB, the working group developed additional guidance to allow Components to value existing property using a deemed cost approach that will expedite the development of an auditable real property baseline.
Internal Use Software	Policy Issue – Valuation of Existing Assets (Baseline). Internal Use Software is thought to be underreported in many Components. Some Components also lack the historical documentation needed to support auditable values for existing Internal Use Software.	Working with FASAB, the working group developed policy guidance that changes the effective implementation date of the Internal Use Software accounting standard, eliminating the need for DoD to value existing Internal Use Software. This change accelerates the Department’s efforts to achieve audit readiness and allows it to focus on process and system improvements for reporting Internal Use Software.
	Implementation Issue – Terminology and Conceptual Gaps Between Financial Management and CIO. Component financial management and CIO organizations interpret SFFAS No. 10 and DoD Financial Management Regulation Internal Use Software definitions in a variety of ways. Further guidance is needed for consistent accounting and financial reporting.	The working group developed clarifying guidance for applying the Internal Use Software definition in the DoD environment. The group also provided accounting guidance for multiple issues that previously lacked clarity, such as cloud computing, joint ventures, license agreements, and differentiating between capital and expense activities. In addition, the group contributed to a FASAB effort to develop implementation guidance for Internal Use Software accounting standards.

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Working Group	Examples of Issues	Solutions Developed
Inventory and Related Property	Policy Issue – Valuing Existing Inventory and OM&S. Much of the Department’s Inventory and OM&S predates the requirement for historical cost supporting documentation. As a result, an initial moving average cost cannot be supported without expending significant time and money.	Working with FASAB, the working group developed additional guidance to value existing inventory and OM&S, using a deemed cost approach that will expedite the development of auditable inventory and OM&S baselines. It will also allow the Department to focus on improving its processes and systems.
	Implementation Issue – Defining the end-user for OM&S. The Components have difficulty determining whether the Purchases or Consumption method of accounting is appropriate for OM&S. A big contributor to this challenge is that there are no criteria defining OM&S end users or what constitutes a significant amount.	The working group developed a detailed framework and clarifying guidance to evaluate whether OM&S can be expensed or must be valued and reported on the Balance Sheet. The guidance provides a test to determine if the OM&S is significant, further defines what constitutes an end user, and provides a framework for a cost benefit analysis.
Environmental and Disposal Liabilities	Policy Issue – E&DL Completeness. Environmental liabilities can be associated with DoD assets but can also exist outside fence lines or even in locations where the Department has not operated in many years.	The working group developed guidance for establishing a complete universe of E&DL, including liabilities not directly associated with a current DoD asset. The guidance calls for a multi-pronged approach that can include reconciliations, surveys, historical studies, and other authoritative listings (e.g., EPA records).
	Implementation Issue – Reconciling Multiple DERP-Related E&DL Sub-Components. The Defense Environmental Restoration Program (DERP) E&DL Balance Sheet Note 14 line is made up of subcomponents that are calculated separately but combined to establish the total. Reconciling these values with each other and with the overall E&DL Balance Sheet line has been a challenge.	The working group developed a reconciliation process with guidance on calculating and supporting each DERP sub-component. The process includes guidance on cost-to-complete calculations at the site level, unliquidated obligations, and transferred funds.

Funds Distribution of Defense-Wide Appropriations

Auditors must be able to track the distribution of funds from Defense-wide appropriations to the final allotment holder. Accounting transactions from the time appropriations are received through final distribution need to be identified and associated with each transaction. Such transactions could include accounting for continuing resolutions, transfers, or final rescissions.

The Enterprise Funds Distribution (EFD) system, Phase 2, will give the Department that ability by providing direct interfaces between EFD and Component accounting systems. EFD Phase 1 is already in use for congressional reporting and data calls. The OUSD(C) and DFAS are developing internal funds distribution guidance, and system testing has been completed. In anticipation of EFD Phase 2 implementation, the OUSD(C) defined the coding to be used for funds distribution and execution, and required systems to use a single set of data defined in the Standard Financial Information Structure (SFIS). SFIS status is reported later in this section.

Transportation of Things

A Transportation Financial Auditability Working Group is standardizing the Department's freight and personal property processes and procedures through policy guidance, systems integration, and training. The working group comprises transportation and financial managers from the Military Services, Joint Chiefs of Staff, U.S. Transportation Command, Defense Logistics Agency, Defense Finance and Accounting Service, and Defense Contract Management Agency.

The working group first established an obligation methodology and baseline for Components to use in developing and refining corrective action plans for the FY 2015 SBA audits. Now, its focus is on longer-term business process improvements including standardizing internal controls to support and sustain auditability in the three major transportation business process areas:

- Third Party Payment System Freight

- Transportation Working Capital Fund Freight
- Household Goods / Non-Temporary Storage

A dedicated sub-working group was established for each business process area to look at policy, process improvement, system integration, and billing and payment, and to identify best practices across the Department. For example, developing a means to source, retain, and retrieve supporting documentation to standardize proof of delivery for transportation of things by service providers is a priority.

The Transportation Financial Auditability Working Group is making good progress. A direct result is the decision to migrate Components to a single system for shipping. Adoption of a single system for shipping helps standardize account code management, invoicing and bill payments, and supporting documentation, such as proof of delivery. By FY 2018, the Department also expects to have codified standardized third party payment system and freight business rules. The working group is developing solutions for the remaining transportation business process areas.

Intragovernmental Transactions

One of the Department's material weaknesses is the inability to properly account for, reconcile, and eliminate intragovernmental transactions (IGT) and balances from the consolidated financial statements. Intragovernmental transactions result when business is conducted between two federal entities. Both entities must accurately record the event so the buying and selling documentation can be matched. Imbalances occur when the federal entities are unable to account for and reconcile differences. These differences in recording the buying and selling of goods and services from one another often lack proper documentation.

IGT Challenges

The Department identified six intragovernmental transaction challenges:

- Proper documentation not available for audit

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- Buyer and seller transactions and accounting out of balance and not reconciled
- Proof of receipt and acceptance not always available
- Buyer and seller not in full agreement on terms and detail of transactions
- Status of interagency agreements not clear, including remaining period of performance, available funding, unfilled orders, and paid orders
- Volume of transactions across multiple systems

In FY 2013, DoD IGT imbalances with civilian agencies exceeded \$102 billion, and in FY 2014, IGT imbalances were \$98 billion. To manage DoD IGT buy and sell transactions, the Defense Department is partnering with the Treasury Department to implement the Treasury's Invoice Processing Platform (IPP).

Accomplishments and Progress

The Defense Department mandated the use of IPP in FY 2015 to broker and store the general terms and conditions for intragovernmental transactions and established a goal of 50 percent for new reimbursable work to be conducted using IPP. Although the Department did not meet the goal, an FY 2016 goal of 75 percent of reimbursable work was established for use of IPP.

During FY 2015, the IPP project team continued to drive systems implementation and adoption across the Department focusing on strategy, data requirements, metrics, and change management. Targeted working groups were formed:

- Strategy and Policy Working Group – Developed a single, standard process for buying and selling that includes policies, guidance, and IGT controls.
- Data Requirements and Standards Working Group – Defined required system and data exchanges, standardizing data

elements, and mapping business rules and data validations in the DoD Global Exchange. The Treasury Department is considering these standards for all federal intragovernmental adoption.

- Monitoring and Reporting Working Group – Reporting IGT program status, generating required financial reporting, and defining reports and metrics needed for audit.
- Change Management Working Group – Managing communication and training for new process and data standards.

In FY 2015, the Department developed standard intragovernmental data exchange maps to be used by DoD financial systems, creating a common intragovernmental financial transaction set. Additionally, the Defense Department worked with the Treasury Department and other federal agencies to create a government-wide data standard for intragovernmental transactions. The standard is expected to be published in FY 2016.

FINANCIAL IMPROVEMENT INITIATIVES

Enterprise-wide financial improvement initiatives include:

- Standard Financial Information Structure
- Cost Management
- Financial Management Certification Program

Standard Financial Information Structure

SFIS is the Department's common financial business language and standardizes data elements, business rules, and the transaction posting logic used in DoD financial systems. To facilitate reconciliations and achieve audit readiness, DoD systems must be brought into compliance with SFIS, as well as with the DoD Standard Chart of Accounts (SCOA) and USSGL.

To establish data standards between trading-partner systems, the Components are implementing a single, standard line of accounting

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(SLOA)/accounting classification to all applicable transactions. In time, the use of SLOA will improve system interfaces and interoperability, and reduce the number of interfaces. For the remaining interfaces, the SLOA data exchange will improve controls and help financial managers and auditors trace business transactions across multiple systems.

In July 2014, the Department issued guidance for producing accurate and reliable Component trial balances. The guidance directs the Components and service providers to combine budgetary and proprietary general ledgers to a self-balancing trial balance and conduct edits and validations (tie-points) prior to reporting financial data. This guidance enforces the USSGL, SCOA, standard data elements, and posting logic at the transaction level.

Beginning in August 2014, the Joint Interoperability Test Command (JITC) began independent verifications of the Department's ERPs and key financial systems to determine system compliance with SFIS/SLOA data element configuration, SCOA, USSGL posting logic, tie-points, and trading-partner interface interoperability standards. Aligned with Federal Information System Controls Audit Manual (FISCAM) general application and interface controls, the results of JITC verification provides further insight into the audit readiness status of DoD systems and findings to remediate as part of audit preparations.

Cost Management

Cost management refers to the management of information used for budgeting, estimating, forecasting, and monitoring costs. The Department is developing a management accounting capability that will improve its ability to predict expenditures, execute budgets, and maximize resources. In today's resource-competitive environment, the ability to reduce and manage costs more strategically is critical.

Formal business process and systems reviews are underway, and the Department is working to improve the access and fidelity of financial data and to deliver cost management tools and capabilities. Initiatives include developing a unifying framework for consistent

management information, development, and application of cost standards, and improved cost identification and reporting at the enterprise-level. Additionally, the Department is working to improve the accuracy and timeliness of cost information, increase cost visibility, and enable decision-makers to track costs across the full spectrum of DoD organizations and systems.

To achieve an enterprise-wide solution, the Department must develop a common set of data standards and overcome technical challenges that make obtaining and managing very large volumes of data difficult. The solutions under development will normalize data so decision-makers can make accurate cost comparisons. The Department developed a high-level cost management framework. Current Enterprise Cost Management development will apply the framework, incorporate work done at the Component level, and revise standards for financial information and accounting line data. Specific business lines, product lines, and performing activities will be able to array cost information across the DoD enterprise.

Financial Management Certification Program

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. Longer-term solutions, however, require that DoD personnel have the skills they need to complete audit readiness work, and prepare for and support audits.

Established in 2013, the DoD Financial Management Certification Program is a course-based program designed to improve workforce analytic capabilities and the audit readiness of the Department. The Certification Program is mandatory for military and civilian personnel who perform financial management work and are assigned to financial management positions.

The certification program framework includes:

- Three levels of certification
- Position-based requirements

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- Selected financial management competency and proficiency level requirements at each level
- Leadership competency requirements at each level
- Broadening at all levels, including entry level
- Required courses at each level (e.g., DoD Financial Management 101 course modules, Audit Readiness, Ethics and Fiscal Law)
- Required DoD and financial management experience
- Two years to achieve certification
- Once certified, required continuing education and training

The Department met its goal of implementing the certification program for civilian personnel and active duty Service members by September 30, 2014. The goal for the Guard and Reserves was accomplished six months ahead of schedule, on March 31, 2015.

With implementation complete, the certification program is now in sustainment. Certification status of the financial management workforce is being tracked and reported to DoD leadership, and

oversight and quality control continues. As of September 2015, 8,733 financial management members achieved certification.

In addition to certification, the Department continues to align courses to competencies and certification. Financial Management myLearn, the e-catalogue of all financial management and leadership training courses aligned to the program, contains over 2,500 courses to date. The catalogue enables financial management members to identify courses they may have taken in the past that fulfill their requirements, as well as assists them with identifying training to fulfill requirements. Additionally, the Department developed 69 web-based courses designed to assist members in meeting certification requirements. These courses are available at no cost. These 69 courses have been completed successfully in over 190,000 instances, at a current rate exceeding 3,000 per week.

Finally, the certification program is also how the Department is achieving the congressionally-mandated DoD Strategic Workforce Plan, which requires the Department to continually develop and refresh required competencies, assess the workforce's capabilities, identify gaps, and close the gaps.

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

The Army continues to make significant progress toward meeting the congressionally mandated September 30, 2017 milestone of producing fully auditable financial statements. Through the dedicated hard work of our leaders, Soldiers, and Civilians, the Army achieved interim milestones in support of our overall audit readiness plan. As of November 2015, the Army is 11 months into the audit of the Schedule of Budgetary Activity for fiscal year 2015 financial transactions. This effort is the largest external validation in the history of the Army. In August 2015, the Department of Defense Office of the Inspector General issued opinions on the Army's audit readiness assertions of real property and operating materials and supplies. These external reviews are a vital part of our audit readiness strategy to prepare full financial statements, as they provide the Army with the objective insights needed to improve our systems, processes, and controls.



The Army's enterprise audit is a challenging effort given the complexity and change management required. However, the Army is actively addressing these challenges by identifying those responsible for key solutions and holding them accountable for results. The Army built momentum in support of audit readiness by driving focused improvements to our enterprise-wide information technology architecture. The Army is enhancing our professional financial management workforce through targeted learning initiatives designed to address areas of needed audit improvement. We are engaging and involving key stakeholders to ensure synchronization of our audit strategy, benefit from lessons learned from audit examinations, and implement corrective actions for remediation

The Army's strategic approach to accomplishing this important endeavor reinforces our focus on the importance of accountability, leadership, and consistent governance. Army leadership remains engaged at every level from the headquarters to the field. While the potential for budget uncertainty adds significant risks to our goals, I am proud of the level of effort and accomplishments achieved to date in support of such a complex and challenging endeavor as we execute our plan to achieve full auditability.

A handwritten signature in black ink that reads "Eric Farning".

Eric Farning

Acting Under Secretary and Chief Management Officer
Department of the Army

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II. Army Audit Readiness

The Army is completing its first audit of the SBA by an IPA. Over the next two years, the Army will continue to support SBA audits and examinations of assessable units, while continuing to perform audit readiness activities to support audit of the Army's full financial statements beginning in FY 2018. Lessons learned and remediation efforts from the SBA audit are essential to solidifying the Army's financial management environment and overall operating status.

A solid strategy underpins the Army's plan for the FY 2015 SBA audit and full financial statement audit readiness activities. This strategy includes using ERPs to standardize business processes across functional areas, enabling more effective assessment and corrective actions of internal controls. In addition, the Army continues to make audit readiness a part of everyday operations and validates progress through examinations of audit readiness assertions for specific assessable units. Finally, the Army is working aggressively to address IPA issued Notices of Findings and Recommendations (NFRs) to facilitate the FY 2016 SBA audit.

The Army's efforts to establish the "tone at the top" from senior leadership are proving to be invaluable as the Army continues to engage its leaders and hold them accountable for attaining audit readiness. These efforts include active participation in audit committees, Command and service provider ownership of corrective action plans, training to address knowledge gaps, and a requirement that all Senior Executive Service members include audit readiness objectives in their annual performance plans.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Army made progress in several areas:

- In August, the DoD OIG completed an audit and issued a report on the existence, completeness, and rights of the Army's Operating Materials and Supplies (OM&S) assertion. The audit identified areas for improvement that the Army is addressing.



U.S. Army Soldiers and a UH-60 Black Hawk helicopter crew, assigned to Combat Aviation Brigade, 1st Armored Division, Fort Bliss, conduct fast-rope training at Fort Bliss, Texas, May 22, 2015. (U.S. Army photo by Spc. Jonathan LeBlanc)

- In August, the DoD OIG issued a modified opinion on the existence, completeness, and rights of the Army's Real Property assertion.
- In July, the Army partnered with the Assistant Secretary of the Army for Installations, Energy and Environment (ASA(IE&E)) to complete monthly testing on Environmental Liabilities, the Army's largest liability.
- In September, the Army initiated a plan to replace an audit support tool with a new audit infrastructure system that will better support large volumes of audit samples. The new system includes both a repository and business rules for standardizing the storage of supporting documentation. The repository and tools provide a more efficient and effective platform to support the FY 2016 SBA audit.

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These achievements demonstrate significant progress realized through the Army's audit readiness efforts. These efforts continue to build momentum as audits and examinations expand in scope and corrective actions continue.

Challenges to Audit Readiness by September 30, 2017

While substantial and demonstrated audit readiness progress is being made, significant challenges remain. As indicated in the May 2015 FIAR Report, these challenges include sufficient availability of resources, successful retirement of legacy systems, need to improve the internal control environment, ability to timely provide supporting documents to auditors, reconciliations of FBWT, and need to drastically reduce the number and dollar value of journal vouchers and adjustments made in DDRS, GFEBs, and GCSS-A. See Appendix 3, Acronyms, for the full name of the ERPs.

Additional challenges include:

- Strengthening IT controls and implementing system change requests that impact posting logic and financial reporting.
- Implementing accounting standards-compliant financial management practices for recording business and accounting events and reconciliations.
- Implementing triannual reviews (Joint Reconciliation Program) ensuring open obligations are fully supported with appropriate supporting documentation.
- Establishing and implementing strong controls for the physical inventory of assets including at storage locations and depots.
- Continuing emphasis on providing complete documentation for Military Pay, requiring coordination among myriad stakeholders for each entitlement.

AUDIT READINESS PLANS

The Army's audit readiness plans follow the FIAR Guidance for incrementally achieving audit readiness by September 30, 2017. The following briefly describes the audit readiness status and plans shown in Figure II-1.

General Fund Financial Statements

SBR – Appropriations Received (Wave 1)

Corrective actions were completed in FY 2010 and audit readiness was validated by an IPA examination in FY 2011.

SBR – Schedule of Budgetary Activity (Wave 2)

The FY 2015 SBA IPA audit will be completed in early FY 2016.

SBR – Open Obligations and Fund Balance with Treasury Reconciliation (Wave 2)

The Army is working to develop auditable SBR open obligations in preparation for the SBR audit. Preparations are also underway to develop an audit ready FBWT going back to FY 2012 for examination in the third and fourth quarters of FY 2016.

Existence and Completeness of Mission-Critical Assets (Wave 3)

The DoD OIG conducted Real Property and OM&S examinations during FY 2015. The Real Property examination indicated that the Army is ready for an existence and completeness audit and identified deficiencies to be corrected in preparation for full audit readiness.

The OM&S examination disclosed that Army held ammunition is not ready for audit, based on deficiencies identified that include: 1) producing a universe of assets that reconcile to the financial statements, 2) rights criteria to prove which service owns the asset, and 3) lack of effective controls over the acquisition, disposal, and transfer of ammunition. The Army will continue to remediate and sustain Wave 3 assessable units as part of Balance Sheet audit readiness activities.

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Full Financial Statements (Wave 4)

For the SBR, the Army will continue to develop and implement corrective actions based on existing and new NFRs identified during the SBA audits. An FBWT examination is planned to start in the third quarter of FY 2016. Examinations of the Balance Sheet, Statement of Net Cost, and Statement of Changes of Net Position will start in the third quarter of FY 2016 and continue through the second quarter of FY 2017. A continuing cycle of remediation and sustainment efforts will progress using the Army's audit readiness strategy.

Working Capital Fund Financial Statements

Full Financial Statements (Wave 4)

An IPA will conduct an audit of selected line items in FY 2016. The audit will be complete and audit report received at the end of June 2016. Corrective actions required as a result of findings identified during the audit will be completed by the end of FY 2016 in preparation for a full audit of the Army Working Capital Fund Financial Statements in FY 2017.

Figure II-1 provides a summary of the Army's audit readiness plans for the General Fund and Working Capital Fund Financial Statements. The remainder of this section of the report provides detailed information on the Army's audit readiness plans.

Figure II-1. Army Audit Readiness Plans

Department of the Army	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																	
SBR - Appropriations Received (Wave 1)																	Corrective Actions/Assert
SBR - Schedule of Budgetary Activity (Wave 2)																	Discovery
SBR (Wave 2)																	Validation
Existence and Completeness (Wave 3)																	Sustainment
Full Financial Statements (Wave 4)																	SBA Audits
Working Capital Fund Financial Statements																	
Full Financial Statements (Wave 4)																	Financial Statement Audits
																	Post-Validation Corrective Actions
																	Existence and Completeness Audit Ready

General Fund Financial Statements

The Army completed three IPA examinations on SBR processes and systems and is now undergoing an IPA audit of the FY 2015 General Fund SBA. The SBA audit includes evaluating the presentation of current year budget activity in accordance with Generally Accepted Accounting Principles and is important to achieving full audit readiness of the SBR. The audit will also evaluate the IT controls over the Army’s general ledgers in various systems.

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 &2)

Figure II-2 highlights the FIAR Strategy and approach for achieving and validating General Fund SBR audit readiness.

Figure II-2. FIAR Strategy for the General Fund SBR

	Completion	Status / Description
Appropriations Received (Wave 1)		
Appropriations Received	FY 2011	IPA examination validated audit readiness
Statement of Budgetary Resources (Wave 2)		
SBA Assertion	FY 2014	Asserted in 06/2014
SBA IPA Audits	FY 2015 – FY 2017	IPA audit started in 12/2014
SBR Open Obligations, FBWT Reconciliation, and JVs	FY 2017	Corrective actions to be completed by 09/2017
SBR Audit	FY 2018	IPA audit of SBR

FY 2011 – Appropriations Received

The Army completed corrective actions of the processes, controls, and systems used for funds appropriated by Congress and received by the Army. In FY 2011, an IPA performed an examination and issued an unqualified opinion.

FY 2014 – SBA Assertion

The Under Secretary of the Army/Chief Management Officer asserted audit readiness of the SBA in June 2014. Audit readiness work continued after June 2014 addressing outstanding audit readiness issues through a combination of internal control and substantive testing activities (i.e., test of details and substantive analytics). These activities were used to determine the effectiveness of the controls over financial reporting and confirm that documentation required to support balances was readily available. Corrective action plans prioritized NFRs by material transaction and the related specific process and system owners.

FY 2015 – SBA Audit

The Army welcomed external auditors in December 2014 with an entrance conference and a plan for supporting requests related to the SBA audit. In support of the audit, the Army developed and implemented additional training modules to communicate what personnel can expect during an audit including the timeline, process walkthroughs, and requests for supporting documentation. The Army also improved its ability to provide complete and accurate data to the auditors. The Army is now able to provide timely transaction-level data to the auditors for more than 30 million records recorded monthly.

The auditors conducted walkthrough interviews at many installations for Active, Reserve and Guard Components, and with other stakeholders, including DFAS and U.S. Army Corps of Engineers. The auditors completed initial walk-through discussions in the second quarter of FY 2015, and transaction-level testing started early in the third quarter of FY 2015.

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Risks to a Successful SBA Audit

The Army identified risks to a successful FY 2015 SBA audit and associated mitigation steps. Additional information on the risks and mitigation steps is provided in subsequent sections.

- Complete or sufficient supporting documentation to support financial statement balances is not available. To mitigate this risk, the Army developed strong working relationships with its service providers and invested in training functional process owners on the types of, and need for, supporting documentation. The Army is also implementing corrective action plans to better understand root causes and is sharing best practices across Army Commands.
- Journal vouchers cannot be adequately supported, and the Army needs to significantly reduce the number of journal vouchers. To mitigate this risk, the Army and DFAS established a working group to identify and address root causes of journal vouchers generated by both Army and DFAS.
- Challenges exist with Army ERPs and legacy systems, including the ability of these systems to provide transaction-level detail to support sample requests during an audit. The dollar amounts in the legacy systems will be small in comparison to the Army's total budget and will be phased out over time, lessening the impact on future audits.
- Given the number of feeder systems, the Army needs to develop methods to identify feeder system data within the ERP environment and link it to appropriate business processes and owners.

2015 – SBR Open Obligations, Fund Balance with Treasury Reconciliation, and Journal Vouchers

To successfully transition from SBA to SBR audit, the Army is:

- Using triannual reviews (Joint Reconciliation Program) to validate open obligations.

- Working toward an examination of FBWT in the third quarter of FY 2016. Actions are ongoing with DFAS to implement tools and processes to better support completeness of Army FBWT. Whereas the SBA only includes current-year FBWT activity, transitioning to the SBR will require validating open obligations and FBWT balances from prior fiscal years.
- Analyzing outstanding appropriations to determine the level of supporting documentation needed to support open obligations and FBWT. The Army anticipates reconciling FBWT from FY 2012 forward and will continue to analyze open and expired appropriations to determine the necessary level of effort.
- Implementing tie-point reconciliations between proprietary and budgetary accounts and investigating the root cause for systemic issues.
- With DFAS, coordinating a working group to identify root causes, improving related business processes, and reducing the volume of journal vouchers. The goal of the working group is to eliminate unnecessary journal vouchers and system-generated adjustments that are difficult to support at the level of detail required to pass audit scrutiny.

FY 2017 – General Fund SBR Audits

The Army is preparing to assert to General Fund SBR audit readiness by the end of FY 2017 and begin an SBR audit in conjunction with the full financial statement audit in FY 2018. Audit readiness plans include implementing corrective actions to address NFRs from the SBA audits, FBWT examination, as well as other deficiencies identified during internal control testing.

Status of FY 2015 SBA Audit

The Army has responded to more than 17,500 formal audit requests during the FY 2015 SBA audit and is continuing to support the ongoing audit, as well as capitalizing on lessons learned. The auditor's final audit report is expected during Quarter 2 of FY 2016.

FIAR Plan Status Report

Auditor identified NFRs and corrective actions include:

- Data in Army legacy systems have had a negative effect on the Army's ability to provide timely and complete data to the auditors. Army ERP systems are audit enablers, and period-end closeout and transfer to the auditors has been significantly improved. However, the Army continues to encounter challenges reconciling legacy systems and feeder systems to accounting systems and developing processes to protect sensitive data prior to submission to the IPA.
- The Army approach to year-end included a period-end trial early in the fourth quarter of FY 2015 to identify impediments and make adjustments prior to the auditor's final year-end requests. The auditors have reviewed more than 15 different feeder systems impacting the SBA. Feeder system data present unique challenges, because it is often from legacy systems and not compliant with standards.
- Service providers are a vital to Army financial management, and the audit has highlighted areas where there is a lack of clarity on responsibility for supporting documentation. The Army is quickly learning how to assign responsibility to supporting documentation that, in aggregate, support a single audit request.
- The second round of testing by the auditors allowed the Army the opportunity to better align KSD support to the appropriate organization and the changes have been incorporated into the Army's checklists.

- The volume, frequency, and amount of journal vouchers are an audit challenge. The journal vouchers must be drastically reduced in volume and dollar amount, as well as adjustments recorded in DDRS, GFEBS, and GCSS-A. The Army is working with DFAS and system program management offices to identify the root causes of both system-generated and manual journal vouchers and identify areas where they can be reduced in FY 2016. In FY 2015, the Army developed training with DFAS to better support journal voucher entries and meet audit requirements.

The Army is addressing the audit process that will result in improved timeliness, completeness, and accuracy of supporting documentation in FY 2016. At the end of August, the Army provided more than 26,000 supporting documents to the auditors and over 100 million individual lines of transaction-level data. In FY 2015, the Army improved the timeliness of support and streamlined coordination with its service providers. The Army is also planning a summit at the end of the SBA audit to review major deficiencies with all stakeholders and identify areas of improvement, as well as to develop an action plan for FY 2016.

Figure II-3 provides the Army General Fund audit readiness plans. As shown, the General Fund SBA is being audited by an IPA in FY 2015 – FY 2017, a FBWT examination is planned for FY 2016, and an SBR audit is planned for FY 2018.

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Figure II-3. Army General Fund SBR Audit Readiness Plans

Department of the Army	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
SBR - Appropriations Received (Wave 1)	Discovery	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits					
SBR - Schedule of Budgetary Activity (Wave 2)	Corrective Actions/Assert	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits					
SBR (Wave 2)	Discovery	Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Validation	Post-Validation Corrective Actions	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits					

Statement of Budgetary Resources (General Fund)

Remaining Audit Readiness Actions

- Complete SBA FY 2015 through FY 2017 audits and apply lessons learned to transition from SBA to SBR audit.

Challenges:

- Increasing the knowledge of ownership and location of supporting documentation to respond to auditor requests.
- Correcting, modifying, and updating ERP and feeder system data elements, transactions, and data.
- Reducing the significant number and high dollar value of journal vouchers and adjustments recorded in DDRS, GFEBs, and GCSS-A.
- Conducting reconciliations to source systems as normal course of business.
- Improving the accounting treatment of business events and IT and business process controls.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	12/2016
Test Plans	12/2016
Controls and Supporting Documentations Testing	12/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile APSR(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs, GCSS-A)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

BALANCE SHEET (WAVES 3 & 4)

The Army continues to make progress in preparing an audit ready General Fund Balance Sheet with a plan in place for critical and noncritical asset and liability lines. The DoD OIG conducted examinations of Wave 3 mission-critical assets, Real Property, and OM&S in FY 2015, and the Army is working to correct auditor-identified deficiencies.

The Army will continue to remediate and sustain all Wave 3 assessable units as part of its Balance Sheet audit readiness activity (Wave 4). Wave 4 audit readiness activities are underway as the Army works to implement a strategy for asset valuation. The Army has already implemented internal control testing of Balance Sheet assessable units as part of ongoing discovery.

Balance Sheet

The Army developed a comprehensive approach to validate and assert to the audit readiness of General Fund assets. Efforts include existence, completeness, rights, and obligations examinations conducted by the DoD OIG for General Equipment, Real Property, and OM&S, as well as monthly control and balance testing. The Army began asset valuation planning and discovery in FY 2015. Testing efforts will continue into FY 2016 in preparation for assertions for the Balance Sheet lines.

The Army is focused on the following Balance Sheet lines:

- General Equipment
- Real Property
- Operating Materials and Supplies
- Internal Use Software
- Other Assets
- Environmental and Disposal Liabilities

- Other Liabilities

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Army made progress in several areas, as follows:

- The DoD OIG completed existence and completeness examinations of Real Property and OM&S.
- Initiated Wave 4 valuation monthly testing for Real Property and developed an alternate valuation approach for valuing assets where historical cost documentation is no longer available.
- Obtained potential baseline of Internal Use Software assets from current Army IT databases and developed audit requirement training.
- Completed and released annual Defense Environmental Restoration Program (DERP) testing results and continued with follow-on testing.
- Performed materiality and variance analysis on Balance Sheet accounts.

Challenges to Audit Readiness by September 30, 2017

While the Army has made progress toward audit readiness, challenges remain, such as:

- Identification of available historical documentation to support original acquisition of Balance Sheet assets.
- Ability to identify and report transaction-level details to support balances of Balance Sheet lines.
- Identification, and recording and reporting, of equipment held by DLA and Government Furnished Equipment.

Figure II-4 provides the Army audit readiness plans for the General Fund Balance Sheet. It also shows when existence and completeness will be completed.

FIAR Plan Status Report

Figure II-4. Army General Fund Balance Sheet Audit Readiness Plans

Department of the Army	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment						▲											▲
Real Property						▲											
Operating Materials and Supplies						▲											
Internal Use Software								▲									
Other Assets																	
Liabilities																	
Environmental and Disposal Liabilities								▲									
Other Liabilities																	

General Equipment (General Fund)

Remaining Audit Readiness Actions

- Implement valuation procedures within the PEO/PM community for existing assets and new acquisitions.
- Develop and implement corrective actions.
- Assert on all General Equipment to include existence, completeness, rights and obligations, presentation and disclosure, and valuation, including assets not asserted in Wave 3.
- Implement corrective actions identified during DoD OIG examination.
- Audit readiness validation milestone reflects internal validation milestone. An external validation is scheduled for completion 06/2017.

Challenges:

- Reporting Government Furnished Equipment and equipment held by DLA.
- Incomplete or insufficient data in PBUSE and the inability to classify each item to a specific program or type of asset.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	12/2016
Valuation Methodology Approval	✓
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	12/2016
Audit Readiness Assertion/Remediation	12/2016
Audit Readiness Validation	03/2017

Note: Completion dates do not include Government Furnished Property and items held by DLA.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile APSR(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (PBUSE, DPAS, DMLSS)	12/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property (General Fund)

Remaining Audit Readiness Actions

- Continue corrective actions for deficiencies and weaknesses across Commands that maintain accountability of assets.
- Conduct monthly internal control testing and report results, trends, and recommendations to Commands.
- Distribute lessons learned and corrective actions to stakeholders.
- Assertion to include existence, completeness, rights and obligations, presentation and disclosure, and valuation, including assets not asserted in Wave 3.
- Support audit readiness validation, including valuation efforts.
- Implement corrective actions from DoD OIG examination.

Challenges:

- Obtaining historical documentation to support original acquisition values and capital improvements.
- Validation of data elements that impact the use of alternative valuation approaches for assets where historical documentation is no longer available.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	09/2016
Valuation Methodology Approval	✓
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2016
Audit Readiness Assertion/Remediation	12/2016
Audit Readiness Validation	03/2017

Note: Completion dates do not include Land, Leasehold Improvements, and CENTCOM real property.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile APSR(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Operating Materials and Supplies (General Fund)

Remaining Audit Readiness Actions

- Develop and implement valuation guidance and training.
- Implement reviews and validation of current asset values and include collecting supporting documentation.
- Develop and implement corrective actions for valuing OM&S.
- Assertion to include assets not asserted in Wave 3 and existence, completeness, rights, and obligations; presentation and disclosure; and valuation.
- Implement corrective actions identified during DoD OIG examination.
- Audit readiness validation milestone reflects internal validation milestone. An external validation is scheduled for 06/2017.

Challenges:

- Systems changes for SAAS-MOD, LMP, AESIP, and GFEBs will not be completed by 09/2017.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	09/2016
Valuation Methodology Approval	✓
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2016
Audit Readiness Assertion/Remediation	12/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile APSR(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (LMP, SAAS-MOD, WARS-NT)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Internal Use Software (General Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for deficiencies and weaknesses identified by testing of controls for existence, completeness, rights, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Perform quarterly testing of controls and supporting documentation.
- Audit readiness validation milestone reflects internal validation milestone. An external validation is scheduled for completion by 03/2017.

Challenges:

- Based on information maintained in existing databases, ability to identify the complete universe of Internal Use Software applications and systems.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	06/2016
Corrective Actions	06/2016
Valuation	06/2016
Valuation Methodology Approval	✓
Baseline Valuation	06/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion/Remediation	12/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DPAS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Other Assets (General Fund)

Remaining Audit Readiness Actions

- Identify major processes impacting Other Asset balances.
- Develop and implement corrective actions.
- Review applicable supporting documentation.
- Begin control risk assessment to identify relevant controls and determine testing approach.

Challenges:

- Ability to obtain transaction level detail and support for all asset balances.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	06/2016
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions

- Continue discovery to document processes and controls.
- Test Environmental and Disposal Liability balances.
- Develop and implement corrective actions for existence, completeness, rights and obligations, and valuation.
- Assert full Environmental and Disposal Liabilities in 09/2016.
- Support the examination review.
- Audit readiness validation milestone reflects internal validation milestone. An external validation is scheduled for completion by 06/2017.

Challenges:

- Currently reporting Environmental Liabilities in multiple source systems, making it difficult to obtain a complete universe.
- Ability to obtain transaction level detail and support Environmental Liability balances.

Completion Dates (✓ = Completed)

Deal-Breakers	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	03/2016
Corrective Actions	06/2016
Processes, Controls, and Systems Corrected and Tested for New Liabilities	06/2016
Cost/Valuation Estimation	06/2016
Cost/Valuation Methodology Approval	✓
Baseline Cost/Valuation	06/2016
Audit Readiness Assertion/Remediation	06/2016
Audit Readiness Validation	12/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Other Liabilities (General Fund)

Remaining Audit Readiness Actions

- Identify critical Other Liabilities processes.
- Develop and implement corrective actions.
- Review supporting documentation.
- Begin control risk assessment to identify key controls and determine testing approach.

Challenges:

- Ability to obtain transaction level detail and support balances for all Other Liability lines reported on the Balance Sheet.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	06/2016
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Working Capital Fund Financial Statements (Wave 4)

During FY 2016, an IPA will conduct a limited scope audit of selected lines of the Working Capital Fund financial statements. This will complement Army's audit readiness activities and validate completed corrective actions. The deal-breakers necessary to go into this audit have been completed. The Army will continue corrective actions in FY 2016 and internally validate corrective actions in order to undergo a full financial statement audit in FY 2017.

Statement of Budgetary Resources

The Army Working Capital Fund audit readiness began in April 2012. Discovery was completed in December 2013, and the Army Working Capital Fund is now in the corrective action phase. As part of this phase, the Army is performing quarterly testing of internal controls across assessable units, and developing and implementing corrective actions necessary to undergo an audit. The corrective actions focus on supporting documentation and controls where substantive audit procedures cannot be performed.

FY 2016 – Working Capital Fund SBR Examination

During FY 2016, the Army plans to undergo an audit of selected line of the Working Capital Fund financial statements, including the SBR. The Army will continue corrective actions during the audit in FY 2016 to address identified deficiencies.

Balance Sheet

The Army focused significant effort on discovery and corrective actions for mission-critical assets, specifically Inventory and General Property, Plant, and Equipment. Current efforts are focused on corrective actions to develop and implement internal controls and identify supporting documentation.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Army made progress in several areas:

- Implementation of corrective actions for physical inventory counts at Industrial Operations Activities.
- Development of business rules to identify ownership of materiel stored in LMP.
- Increased the operating effectiveness of controls for goods receipt, goods issue, and physical inventory counts at Supply Support Activities and Army Prepositioned Stock Sites.
- Increased the operating effectiveness of controls for subsidiary to general ledger reconciliations for General Equipment and Real Property.

Challenges to Audit Readiness by September 30, 2017

While the Army has made progress toward audit readiness, challenges remain:

- Reconciliations of Inventory balances between LMP and feeder systems (DSS and GCSS-A).
- Guidance from OUSD(C) on the rights assertion for Real Property.
- Reconciliation of contract data between LMP and feeder systems (PADDS and SPS).

Figure II-5 Provides the Army audit readiness plans for the Working Capital Fund Balance Sheet. It also shows when existence and completeness of assets was completed.

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Figure II-5. Army Working Capital Fund Balance Sheet Audit Readiness Plans

Department of the Army	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment						▲	■	■									▲ Existence and Completeness ■ Corrective Action/Assert ■ Validation ■ Post-Validation Corrective Actions ■ Financial Statement Audits
Real Property						▲	■	■									
Inventory						▲	■	■									
Internal Use Software						▲	■	■									
Liabilities																	
Liabilities							■	■									

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions

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

Challenges:

- Supporting the valuation of assets procured as part of a large contract and individual asset costs are not provided from the vendor.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DPAS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Real Property (Working Capital Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for deficiencies and weaknesses identified by testing of controls for existence, completeness, rights, and obligations, and valuation.
- Identify mitigating controls and substantive procedures to support an assertion in the absence of implemented corrective actions.
- Continue quarterly testing of controls and supporting documentation.
- Implement corrective actions identified during the DoD OIG examination.

Challenges:

- Lack of OUSD(C) guidance on the rights assertion for Real Property.
- Lack of OUSD(C) guidance on what constitutes a base asset.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Inventory (Working Capital Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for audit impediments identified in Inventory processes at Depots, LCMCs, Supply Support Activities, War Reserve sites, and contractor locations.
- Implement corrective actions for physical inventory procedures at depots.
- Identify mitigating controls and substantive procedures to support an assertion in the absence of implemented corrective actions.

Challenges:

- Over 50 percent of Army Inventory is stored at DLA distribution centers. The Army is dependent on DLA audit readiness efforts as a service provider and successful completion of an SSAE No. 16 examination.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (LMP, GCSS-A, DSS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Internal Use Software (Working Capital Fund)

Remaining Audit Readiness Actions

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

Challenges:

- Completeness of the application and software population.
- Commingled costs on contracts that have been procured without a mechanism to segregate the capital and expense costs.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DPAS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Liabilities (Working Capital Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for deficiencies and weaknesses identified by testing of controls.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Continue quarterly testing of controls and supporting documentation.

Challenges:

- Lack of OUSD(C) guidance on who should report environmental liabilities.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (MOCAS, CAPS-W)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

ARMY AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure II-6 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting audit infrastructure to sustain audit readiness and to support IPA audits, including tools (e.g., Access Control List) and data repositories (e.g., Army Audit Data Repository)

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included in audit readiness resources. ERP costs are reported in Section VII, Information Technology Systems Critical to Audit Readiness. Additionally, changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls. The Department has not attempted to capture the costs of process changes made solely for audit readiness, and therefore, resources reported below may not fully capture process improvement costs.

Figure II-6. Army Audit Readiness Resources (Dollars in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Audit Readiness, Validations, and Audits	74	76	65	66	68	71
Financial Systems	8	6	6	4	4	2
Total Resources	82	82	71	70	72	73

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Message from the Department of the Navy Chief Management Officer

The Department of the Navy (DON) had a monumental year undergoing audit of the Navy General Fund (GF) Schedule of Budgetary Activity (SBA) for Fiscal Year (FY) 2015. Through our work with our Independent Public Accounting (IPA) firm, the DON has made significant progress. FY 2016 will continue to be a busy and challenging year as we perform detailed assessments over full financial statements, with primary focus on the Balance Sheet and the Statement of Budgetary Resources (SBR). The DON will incorporate the findings and lessons learned from the SBA audit into full financial statement efforts to gain efficiencies for GF and Working Capital Fund (WCF) full financial statement auditability by September 2017. Within the DON, the United States Marine Corps (USMC) continues to lead the Department of Defense's audit effort by undergoing an expanded scope SBA audit and providing lessons learned to the whole Department. The USMC is simultaneously working diligently to improve their financial management practices in preparation for a full scope financial statement audit of the FY 2017 Annual Financial Report.



One of the greatest accomplishments of the SBA audit was the DON's ability to successfully respond to IPA firm documentation requests on time with a 93 percent success rate. As the DON continues the SBA audits in FYs 2016 and 2017, our focus turns from the audit readiness of the SBA to the audit readiness of our full financial statements. The DON has developed a full financial statement auditability strategy encompassing the four primary financial statements of the GF and WCF, including: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and SBR. The DON is in the process of building beginning balances to support audit readiness of the SBR. Through aggressive assessments of the Balance Sheet line items, we are able to conduct dual assessment of aspects of the SBR. In January 2016, the DON's testing will be focused on Appropriations and Obligations Incurred to identify deficiencies and root causes to implement corrective actions by September 2016 for the most material SBR line items.

Building on the momentum gained through our successes with the SBA audit, the DON will continue to pursue its end-goal of full financial statement auditability by September 30, 2017, in preparation for a full financial statement audit in FY 2018, as mandated by the National Defense Authorization Act. We will leverage lessons learned through the SBA audit process to continuously strengthen and improve our business processes across the DON enterprise. I am confident through the hard work and steadfast leadership of our management and staff we will continue to make sustainable changes to improve a culture of financial accountability.

A handwritten signature in blue ink that reads "Thomas W. Hicks". The signature is fluid and cursive.

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

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III. DON Audit Readiness

The Department of the Navy (DON) audit readiness plan consists of the individual plans of the Navy and U.S. Marine Corps (USMC). This section begins with the progress and status of the Navy’s plans followed by the plans of the USMC.

The Navy continues to support an IPA audit of the Navy General Fund FY 2015 SBA. Going under audit is a significant accomplishment, and progress, such as developing an SBA universe of transactions for the current year, is being made. In addition, the Navy continues to strive toward existence and completeness audit readiness of mission-critical assets and is developing a universe of transactions for all financial statements and funds that includes beginning balances. As the Navy works to implement its strategy to achieve full financial statement auditability, audit readiness focus has



The Nimitz-class aircraft carrier USS Carl Vinson (CVN 70) arrives at Joint Base Pearl Harbor-Hickam May 27, 2015. (U.S. Navy photo by Mass Communication Specialist 2nd Class Jeff Troutman/Released)

shifted from business processes to supporting line-item assertions at the financial statement level.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Navy made progress in several areas:

- Implementing a beginning balance validation strategy
- Assessing material lines of the Balance Sheet
- Conducting Command site visits to augment previous SBA discovery work
- Conducting service provider site visits to augment previous SBA discovery work

Challenges to Audit Readiness by September 30, 2017

While the Navy is making progress toward audit readiness, challenges remain:

- Availability of Command personnel to participate in audit readiness activities while also responding to SBA audit requests.
- Complex systems environment that includes both legacy and ERP systems. Many systems require changes that may not be made when the Navy asserts its full financial statements in FY 2017. The Navy is addressing the changes most critical to audit readiness first and mitigating remaining challenges, as necessary.
- Availability of supporting documentation and development of a full universe of transactions for all financial statements and funds that includes beginning balances and transactions going forward.
- Dependencies of Navy on its service providers, and the effect service provider audit readiness has on Navy processes.
- Insufficient time for corrective actions to be institutionalized and validated.

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- Resource constraints due to the high volume of ongoing audit readiness and audit activity, as well as other primary job responsibilities. Such constraints may lead to Commands not being able to support audit readiness activities in the timeframe required. The Navy is working with the Commands and its budget offices to ensure adequate resources are available to support audit readiness and audit activities.

AUDIT READINESS PLANS

The Navy's audit readiness plans follow the FIAR Guidance for incrementally achieving audit readiness by September 30, 2017. The following briefly describes the audit readiness status and plans shown in Figure III-1.

General Fund Financial Statements

SBR – Appropriations Received (Wave 1)

Corrective actions were completed in FY 2010 and audit readiness validated by an IPA firm examination in FY 2011.

SBR – Schedule of Budgetary Activity (Wave 2)

FY 2015 budgetary information reported in the SBA is being audited by an IPA, and since the May 2015 report, the IPA issued almost 5,000 substantive samples.

SBR – Beginning Balances and Fund Balance with Treasury Reconciliation (Wave 2)

The Navy is taking an iterative approach to building SBR beginning balances each year starting with FY 2015. The Navy will build its September 30, 2017, SBR using FY 2015 through FY 2017 transactions, recurring annual SBA audit results, and the results of planned actions to support unobligated balances, unpaid obligations, and uncollected payments from federal sources brought forward. The Navy will also be researching pre-FY 2015 balances to record adjustments and restatements of prior year financial statements.

For FBWT, the Navy built on procedures used in FY 2014 to support the FBWT process and SBA examination. FBWT procedures to support SBR processes were reviewed by the IPA during the FY 2015 SBA audit. Internal reviews will continue to be conducted by an IPA in subsequent years and will be combined in an SBR audit in FY 2018. In advance of the FY 2018 SBR audit, the Navy will have completed the procedures necessary to ensure 99 percent of the reported FBWT is fully supported.

Existence and Completeness of Mission-Critical Assets (Wave 3)

The Navy expects to complete development of corrective actions for mission-critical assets by June 2016. Existence and completeness audit readiness will be validated during internal reviews planned for the Balance Sheet in FY 2017.

Full Financial Statements (Wave 4)

Over the last year, the primary focus of the Navy was on preparing for the SBA audit and existence and completeness audit readiness of mission-critical assets. In FY 2015, the Navy began implementing the requirements of Wave 4 of the FIAR Guidance, while also undergoing an audit of the SBA. The Navy is continuing audit readiness activities for existence and completeness of mission-critical assets by September 30, 2016, and audit readiness activities for full financial statements by September 30, 2017, followed by an IPA audit in FY 2018.

Working Capital Fund Financial Statements

Full Financial Statements (Wave 4)

The Navy prioritized Working Capital Fund assertion activities to begin with the Balance Sheet and is focusing on proprietary accounting and Balance Sheet assets and liabilities. The Navy's Working Capital Fund Wave 4 approach is based on its Balance Sheet approach. The approach uses the general ledger account relationships between financial statements to create a testing and sampling strategy that minimizes the testing needed to support the

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assertion of all four statements. The testing and sampling strategy will be designed to use a single transaction to support testing lines from more than one statement based on relationships in accounting entries (e.g., FBWT on the Balance Sheet and Outlays on the SBR). The Navy is gathering data to support this analysis.

Figure III-1 provides a summary of the Navy's audit readiness plans for the General Fund and Working Capital Fund Financial Statements. The remainder of this section of the report provides detailed information on the Navy's audit readiness plans.

Figure III-1. Navy Full Financial Statements Audit Readiness Plans

Navy	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																	
SBR - Appropriations Received (Wave 1)																	<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Sustainment SBA Audits Internal reviews Financial Statement Audits
SBR - Statement of Budgetary Resources (Wave 2)																	
SBR - Beginning Balances & FBWT (Wave 2)																	
Existence and Completeness (Wave 3)																	
Full Financial Statements (Wave 4)																	
Working Capital Fund Financial Statements																	
Full Financial Statements (Wave 4)																	

General Fund Financial Statements

The Navy is building beginning balances to support audit readiness of the SBR. Through aggressive assessments of Balance Sheet lines, the Navy is able to conduct a dual assessment of the SBR. In January 2016, testing will focus on Appropriations and Obligations Incurred to identify deficiencies and root causes and to implement corrective actions by September 2016 for material SBR lines.

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 & 2)

Figure III-2 highlights the FIAR strategy and approach for achieving and validating General Fund SBR audit readiness. More detailed information follows the figure.

Figure III-2. FIAR Strategy for the General Fund SBR

	Completion	Status / Description
Appropriations Received (Wave 1)		
Appropriations Received	FY 2011	IPA examination validated audit readiness
Statement of Budgetary Resources (Wave 2)		
SBA Assertion	FY 2014	Asserted in 06/2014
SBA IPA Audit	FY 2015	IPA audit started in 12/2014
SBR Beginning Balances, FBWT Reconciliation, and JVs	FY 2016	Corrective actions to be completed by 09/2016
SBR Internal Reviews	FY 2016	IPA conducts internal review of SBR
SBR Audit	FY 2018	IPA audit of SBR

FY 2011 – Appropriations Received

The Navy completed corrective actions of the processes, controls, and systems used for funds appropriated by Congress and received by the Navy. In FY 2011, an IPA performed an examination and issued an unqualified opinion.

FY 2014 – SBA Assertion

The Under Secretary of the Navy and Chief Management Officer asserted audit readiness of the SBA in September 2014. Audit readiness work continued after September 2014 to ensure previous improvements were sustained and activities to mitigate challenges were completed.

The Navy completed several important milestones following the September 2014 assertion, including three SBA assessable unit examinations conducted by an IPA, DoD OIG, or GAO:

- Reimbursable Work Orders (Performer and Grantor)
- Fund Balance with Treasury
- Contract/Vendor Pay

Through continued efforts to address examination findings and building on the feedback received from the auditors, the Navy is confident the first Navy General Fund SBA audit for FY 2015 and related notes, will significantly inform audit readiness efforts and accelerate overall progress.

FY 2015 – SBA Audit

The Navy successfully initiated its first SBA audit engagement for FY 2015. The focus of the audit is on budgetary activity for FY 2015 appropriations.

The IPA spent the first six months of FY 2015 developing an understanding of the Navy, and the audit is now in the testing phase. As of September, the Navy has responded to approximately 5,000 testing samples and achieved a 93 percent success rate in timely

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responding to IPA requests. The Navy continues to learn from the IPA's follow-up questions and the continuation of sample requests. The Navy expects to receive the IPA's Internal Controls Report and Interim Sample Testing Report in Quarter 1 of FY 2016. The Navy will build on the first SBA audit and the related financial transaction universe to expand the Navy's capabilities for a full financial statement audit in FY 2018.

As of August, SBA audit highlights include:

- The IPA issued a total of 2,639 informational requests of which 1,487 were financial requests and 1,152 were IT requests.
- The IPA issued a total of 1,779 IT testing requests.

FY 2015 – SBR Beginning Balances, Fund Balance with Treasury Reconciliation, and Journal Vouchers

The Navy will iteratively build beginning balances starting with FY 2015 to support SBR audit readiness. The Navy plans to assert the SBR by September 30, 2017.

FY 2016 – General Fund SBR Internal Review

The Navy will perform an internal review to assess controls within key end-to-end business processes during FY 2016. Findings from the review will be addressed prior to testing at the line-item level.

FY 2017 – General Fund SBR Internal Review

In FY 2017, the Navy plans to continue a series of internal reviews by an IPA to validate the universe of transactions and progress toward assertion goals. The scope of the internal reviews includes:

- Reconciling financial statement values from one reporting system to another
- Reconciling the reporting system to general ledger systems trial balances (summary-level)
- Identifying and developing a data warehouse to hold general ledger system and feeder system data
- Reconciling general ledger system trial balances to the general ledger system detailed transactions
- Identifying and obtaining feeder systems data
- Reconciling feeder systems to general ledger systems

Figure III-3 provides the Navy General Fund SBR audit readiness plans. As shown, the General Fund SBA is being audited by an IPA in FY 2015 – FY 2017. General Fund SBR internal reviews are planned for FY 2016 and FY 2017 to validate audit readiness by September 30, 2017. As shown, the SBR will be audited as part of the full financial statements audits beginning in FY 2018.

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Figure III-3. Navy SBR Audit Readiness Plans

Navy	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
SBR - Appropriations Received (Wave 1)	Discovery	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBR Audit	SBR Audit	SBR Audit	SBR Audit	
SBR - Statement of Budgetary Resources (Wave 2)	Corrective Actions/Assert	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBR Audit	SBR Audit	SBR Audit	SBR Audit	
SBR - Beginning Balances & FBWT (Wave 2)			Discovery	Discovery	Corrective Actions/Assert	Internal Reviews	Internal Reviews	SBR Audit	SBR Audit	SBR Audit	SBR Audit						

Beginning Balances (General Fund)

Remaining Audit Readiness Actions

- Prioritize SBR lines based on the outcome of activities performed during discovery (e.g., data mining, risk assessment) for each of the statements.
- Build beginning balances incrementally starting with the FY 2015 SBA audit and continuing each year until the balances are substantiated.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

BALANCE SHEET (WAVES 3 & 4)

The Navy will build its September 30, 2017, Balance Sheet using FY 2015 through FY 2017 transactions, recurring annual SBA audit results, and estimates for material General Property, Plant, and Equipment; Inventory; Operating Materials and Supplies; and Environmental and Disposal Liabilities. The Navy will also be researching pre-FY 2015 balances to record adjustments and restatements of prior year financial statements. Audit readiness efforts for the Balance Sheet also include data mining, reconciliations, risk assessments, business process standardization and documentation reviews, gap analyses, Command questionnaires, walkthroughs, testing, and reporting of deficiencies.

There are 16 lines on the General Fund Balance Sheet. The Navy is focusing on eight of the most significant Balance Sheet lines: Fund Balance with Treasury; Accounts Receivable; Other Assets; General Property, Plant, and Equipment; Inventory and Related Property; Accounts Payable; Other Liabilities; and Environmental and Disposal Liabilities.

Balance Sheet Progress and Challenges

Since the last FIAR report, the Navy made progress in several areas, including implementing a beginning balance validation strategy by assessing material lines of the Balance Sheet. Other progress highlights and overall challenges that affect the Navy's ability to achieve audit readiness on the Balance Sheet were described on page 1 of this section.

Balance Sheet Assets

Net values for General Property, Plant, and Equipment, and Inventory and Related Property make up 65 percent of assets reported on the Navy FY 2014 Balance Sheet. Confirmation of existence, completeness, and rights and obligations is essential to reaching auditability. The Navy is completing internal reviews of the

components that feed into those balances. Five Balance Sheet focus areas are in progress:

- Fund Balance with Treasury
- Accounts Receivable
- Inventory and Related Property
- General Property, Plant, and Equipment
- Other Assets

A tri-chart is provided for each of the above Balance Sheet lines, except Fund Balance with Treasury, which is being worked with the SBR. The tri-charts identify the timeline for asserting readiness, remaining work and challenges, and the dates when the FIAR identified deal-breakers will be completed.

Balance Sheet Liabilities

The Navy established critical lines and testing areas based on an analysis of the contribution of each line to the total financial statement. Three Balance Sheet lines are in progress:

- Accounts Payable
- Other Liabilities
- Environmental and Disposal Liabilities

The Navy asserted Environmental and Disposal Liabilities in FY 2009; however, a working group was re-established in FY 2015 to better understand how these liabilities are calculated and recorded across the Navy. The primary challenge is the time and effort it will take to collect the detailed information that is required from all levels to gain a comprehensive understanding of the Navy Environmental and Disposal Liabilities process.

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Noncritical Liabilities Lines

Audit readiness efforts for Military Retirement and Other Federal Employment Liabilities are in the Discovery phase. Information about business and financial activity is being gathered by data mining, review of existing documentation, and interviews with stakeholders.

Figure III-4 provides a summary of the status and plans for Navy's General Fund Balance Sheet assessable units. Following the figure are tri-charts for each assessable unit, providing detailed information.

Figure III-4. Navy General Fund Balance Sheet Audit Readiness Plans

Navy	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment			▲														<ul style="list-style-type: none"> ▲ Existence and Completeness Audit Ready Discovery Corrective Action/Assert Internal Reviews Financial Statement Audits
Real Property Phase 1		▲															
Real Property Phase 2					▲												
Internal Use Software								▲									
OM&S - Ordnance																	
OM&S - Uninstalled Aircraft Engines																	
OM&S - Remainder					▲												
Government Furnished Property			▲														
Accounts Receivable																	
Other Assets																	
Liabilities																	
Environmental and Disposal Liabilities						▲											
Accounts Payable																	
Military Retirement and Other Fed Employment Liabilities																	
Other Liabilities																	

General Equipment (General Fund)

Remaining Audit Readiness Actions

- Complete reviews to confirm existence, completeness, rights and obligations, and valuation for all asset classes; implement corrective actions; confirm business processes; and timely produce accurate, complete asset records.
- Finalize and safeguard supporting documentation, ensuring availability of audit evidence.
- Complete valuation on Navy General Equipment, establishing beginning balances and accumulated depreciation.

Challenges

- Navy ERP does not currently accumulate Construction in Progress costs for assets. This deficiency makes it difficult to track accumulated costs in the ERP and accurately report Construction in Progress on the Balance Sheet.
- Capital improvements are not currently captured for capitalized assets. The values and depreciation need to be adjusted for capital improvements in the APSR to prevent risk of understating financial statement balances.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (EXMIS, SEMS-SERMIS, SWALIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property Phase 1 (General Fund)

Remaining Audit Readiness Actions

- Implement corrective actions from Phase 1 and sustainment testing.
- Expand Phase 1 sustainment testing to include internal control and substantive testing.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (FIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property Phase 2 (General Fund)

Remaining Audit Readiness Actions

- As a service provider, NAVFAC is pursuing an SSAE No. 16 examination to support customer assertions.
- Complete implementation of new processes, internal controls, and detective controls for: 1) Non-Military Construction (MILCON) Transfer and Acceptance, 2) MILCON and Non-MILCON Construction in Progress, 3) Inventory (Linear Structures), and 4) real property financial reporting.
- Deliver training on the updated NAVFAC MILCON and Non-MILCON processes and systems.
- Implement a valuation methodology for real property assets.
- Build a Phase 2 assertion package, including Phase 1 test results and move into sustainment.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (FIS, iNFADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Internal Use Software (General Fund)

Remaining Audit Readiness Actions

- Complete corrective actions for existence and completeness and valuation.
- Address document retention to support testing and audit readiness validation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	9/2016
Discovery	9/2016
Corrective Actions	9/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems.	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Operating Materials and Supplies (Ordnance) (General Fund)

Remaining Audit Readiness Actions

- Validate that inputs to the Ordnance Information System are reported accurately.
- Define the current process by which financial data from the system is transferred to the Data Collection Module.
- Validate the interface between the Army Logistics Modernization Program system and the Ordnance Information System.

Challenges

- Defining the Complimentary User Entity Controls for Navy ordnance held at Army sites.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (OIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Operating Materials and Supplies (Uninstalled Aircraft Engines) (General Fund)

Remaining Audit Readiness Actions

- Continue assertion sustainment and transition efforts to focus on valuation.
- Validate the reconciliation and reporting processes between DECKPLATE and Data Collection Module.

Challenges

- DECKPLATE is not currently programmed for historical inventory valuation methods.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DECKPLATE)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Operating Materials and Supplies (Remainder) (General Fund)

Remaining Audit Readiness Actions

- Execute Discovery existence and completeness testing at budget submitting offices not using Navy ERP.
- Validate processes by conducting Round 2 existence and completeness testing.
- Define point of financial consumption for non-serialized OM&S-Remainder items furnished to contractors.
- Develop and execute strategy for applying deemed cost for beginning balance purposes.

Challenges

- Establish a comprehensive universe of OM&S-Remainder assets that includes assets not currently recorded in a Navy-approved APSR.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (EXMIS, MATMF (HI), SEMS-SERMIS, SWALIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Government Furnished Property (General Fund)

Remaining Audit Readiness Actions

- Ensure Government Furnished Property is tracked in an APSR and reported to general ledger accounts.
- Applying relevant General Equipment and OM&S-Remainder controls and procedures to Government Furnished Property and Government Furnished Materials.

Challenges

- Prioritization of accountability corrective actions against accounting requirements necessary for Government Furnished Property auditability.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Accounts Receivable (General Fund)

Remaining Audit Readiness Actions

- Reconcile transaction details to general ledger balances and assess the existence and availability of supporting documentation.
- Evaluate the effectiveness of existing and new controls including the availability of supporting documentation.
- Evaluate the accuracy of the Account Receivable balances reported in Command general ledgers.
- Evaluate the existence, completeness, and accuracy of beginning balances and supporting documentation, and develop a strategy for writing off unsupported beginning balance transactions.

Challenges

- Reconciliations have not been identified to confirm the existence and completeness of underlying supporting documentation and to validate the accuracy of general ledger balances.
- Adequate support to validate existence, rights and obligations, and accuracy of pre-FY 2015 beginning balances.
- Internal controls required by FIAR financial reporting objectives may not be feasible or effective.

Completion Dates (✓ = Completed)

	Completion
Discovery	05/2016
Process Documentation	01/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	05/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Other Assets (General Fund)

Remaining Audit Readiness Actions

- Obtain the universe of transactions and related process documentation.
- Obtain and analyze the population for completeness and assess beginning balances.
- Interview stakeholders to document the Other Assets process from beginning to end, identify controls, and assess risks.
- Develop corrective actions to mitigate failures and deficiencies.

Challenges

- Limited coverage on previous business process standardization, process cycle memoranda, and standard operating procedures, including test work regarding internal controls.
- Insufficient or unavailable supporting documentation and data related to Other Assets business activities.

Completion Dates (✓ = Completed)

	Completion
Discovery	05/2016
Process Documentation	01/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	05/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions

- Align current processes to guidance for validating current estimation methodologies, updating process documentation, and revising estimation methodologies.
- Create testing workbooks based on the results of discovery analysis and findings.
- Develop corrective actions to mitigate failures and deficiencies.

Challenges

- Collecting detailed information to document processes for Environmental and Disposal Liabilities.
- Establishing a complete universe of Environmental and Disposal Liabilities, which is dependent on incomplete APSR data.
- Identifying disposal liabilities for General Equipment.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Processes, Controls, and Systems Corrected and Tested for New Liabilities	✓
Cost/Valuation Estimation	09/2016
Cost/Valuation Methodology Approval	✓
Baseline Cost/Valuation	09/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	12/2016

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Accounts Payable (General Fund)

Remaining Audit Readiness Actions

- Identify, develop, and implement procedures to reconcile transaction details to general ledger balances and assess the existence and availability of supporting documentation.
- Evaluate the effectiveness of existing and new controls including the availability of supporting documentation.
- Evaluate the accuracy of the Accounts Payable balances reported in the Command general ledgers.
- Evaluate the existence, completeness, and accuracy of beginning balances and supporting documentation and develop a strategy for writing off unsupported beginning balance transactions.

Challenges

- Limited coverage on previous business process standardization, process cycle memoranda, and standard operating procedures, including testing of internal controls.
- Insufficient or unavailable supporting documentation and data related to Accounts Payable business activities.

Completion Dates (✓ = Completed)

Discovery	Completion
Process Documentation	01/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	05/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Military Retirement and Other Federal Employment Liabilities (General Fund)

Remaining Audit Readiness Actions

- Gain an understanding of how these liabilities are calculated and determine availability of supporting documentation.
- Determine the control environment by applying relevant information from the Civilian Pay and Military Pay assertions.

Completion Dates (✓ = Completed)

	Completion
Discovery	05/2016
Process Documentation	01/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	05/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Other Liabilities (General Fund)

Remaining Audit Readiness Actions

- Gain an understanding of what comprises Other Liabilities and determine the availability of supporting documentation.
- Determine the control environment by applying relevant information from other assertions.

Challenges

- Insufficient or unavailable supporting documentation and data related to other assets business activities.

Completion Dates (✓ = Completed)

	Completion
Discovery	05/2016
Process Documentation	01/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	05/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Working Capital Fund Financial Statements (Wave 4)

The Navy prioritized Working Capital Fund assertion activities to begin with the Balance Sheet and is focusing on proprietary accounting for assets and liabilities. Based on the approach developed for the Balance Sheet, the Navy’s Working Capital Fund approach uses the general ledger account relationships between financial statements to create a testing and sampling strategy that minimizes the testing needed to support the assertion of all four statements.

STATEMENT OF BUDGETARY RESOURCES

To assert audit readiness for the SBR, the Navy must develop a Working Capital Fund approach that is different from the approach to General Fund. The General Fund approach for developing

auditable beginning balances over time works because General Fund appropriations expire. However, in the Working Capital Fund environment, accounts receivables and open obligations do not expire and continue to accumulate transactions within the balances until they are written off.

The Navy will prioritize SBR lines based on risk and the results of detailed data mining. Data mining will use a testing and sampling strategy that keeps the number of testing activities to a minimum. The purpose of the testing is to support Navy’s intention to use a single transaction to support testing lines from more than one statement based on their relationships in the accounting entries (e.g., FBWT on the Balance Sheet and Outlays on the SBR).

Figure III-5 provides the Navy Working Capital Fund SBR audit readiness plans. As shown, the Navy Working Capital Fund SBR will be audited in FY 2018 as part of the full financial statements audit.

Figure III-5. Navy Working Capital Fund SBR Audit Readiness Plans

Navy	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Beginning Balances																	<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Internal Reviews SBR Audit
Obligations Incurred																	
Outlays (Gross)																	
Budget Authority (Gross)																	
Actual Offsetting Collections																	

Beginning Balances (Working Capital Fund)

Remaining Audit Readiness Actions

- Execute an approach for beginning balances.
- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Challenges

- Difficult to determine year of origination for no year funding.
- Lack of guidance on policies and procedures for writing off accounts receivable and open obligations (as the General Fund has rules for cancelled funds).

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2016
Process Documentation	01/2016
Test Plans	04/2016
Controls and Supporting Documentation Testing	09/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Obligations Incurred (Working Capital Fund)

Remaining Audit Readiness Actions

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Challenges

- Goods and services have been received, but a delivered order has not been recorded.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Outlays (Gross) (Working Capital Fund)

Remaining Audit Readiness Actions

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Challenges

- Establishing completeness of disbursements.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Budget Authority (Gross) (Working Capital Fund)

Remaining Audit Readiness Actions

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	05/2016
Test Plans	07/2016
Controls and Supporting Documentation Testing	12/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Actual Offsetting Collections (Working Capital Fund)

Remaining Audit Readiness Actions

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Challenges

- Lack of formal invoices/bills for all transactions.
- Establishing completeness of collections.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	02/2016
Test Plans	04/2016
Controls and Supporting Documentation Testing	10/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

BALANCE SHEET

The Navy prioritized Working Capital Fund assertion activities to begin with the Balance Sheet. The Navy intends to focus on proprietary accounting for assets and liabilities in developing its assertions.

The first phase of this approach begins with developing an understanding of the underlying business processes using General Fund SBA lessons learned followed by testing of business segments. Using this approach allows the Navy to document and validate the processes, supporting documentation, and controls that originate transactions at the line-item and financial statement level.

Risks, validated controls, and supporting documentation identified by business segments will be realigned to the respective lines and additional risks and controls identified. The controls and supporting documentation will then be tested at the financial statement level.

Progress Highlights since the May 2015 FIAR Report

Since the last FIAR report, the Navy made progress in several areas:

- Developed quantitative drill down levels 1 and 2 using DDRS-AFS reconciled data.
- Completed a systems inventory list of 48 systems that affect the financial statements.
- Developed a sampling approach to support business segment discovery testing using disbursement reporting. The strategy minimized requests to the budget submitting offices and system owners, and helped prevent delays in starting testing.
- Developed a listing of business process internal controls and related documentation to support the first phase of the assertion approach.
- Completed the first round of business segment testing for Contract and Vendor Pay processes, and initiated testing for Reimbursable Work Order – Grantor processes.

Challenges to Audit Readiness by September 30, 2017

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

- It is difficult to determine the year of origination for no year funding based on incomplete data elements to signify the year of funding.
- Complex systems environment of six general ledger systems and numerous feeder systems leads to difficulty in developing a complete transaction universe.
- Many systems require changes that may not be in place when the Navy asserts its full financial statements in FY 2017.

Balance Sheet Assets

The Navy's approach to the Balance Sheet is to focus FIAR activity on the material critical lines, as well as certain noncritical lines important to Working Capital Fund operations and the Balance Sheet.

Critical Asset Lines

The Navy established critical testing areas based on an analysis of the contribution of each line item to the total financial statement. The Navy is working the following critical Balance Sheet asset lines:

- General Equipment
- Real Property
- Inventory
- Internal Use Software

Noncritical Asset Lines

- Accounts Receivable (Net)
- Fund Balance with Treasury

Balance Sheet Liabilities

The Navy established critical testing areas based on an analysis of the contribution of each line item to the total financial statement.

Critical Liabilities Line

The Navy is working one critical Balance Sheet liability line:

- Environmental and Disposal Liabilities

Noncritical Liabilities Line

The Navy is working one noncritical Balance Sheet liability line:

- Accounts Payable

A tri-chart is provided for each of the Balance Sheet lines identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Figure III-6. Navy Working Capital Fund Balance Sheet Audit Readiness Plans

Navy	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment			▲														▲
Real Property Phase 1		▲															■
Real Property Phase 2						▲											■
Inventory						▲											■
Internal Use Software										▲							■
Accounts Receivable																	■
Liabilities																	
Environmental and Disposal Liabilities						▲											■
Accounts Payable																	■

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions

- Complete reviews to confirm existence, completeness, rights and obligations, and valuation for asset classes; implement corrective actions; confirm business processes; and timely produce accurate, complete asset records.
- Finalize and safeguard supporting documentation, ensuring availability of audit evidence.
- Complete valuation on Navy General Equipment, establishing beginning balances and accumulated depreciation.

Challenges

- Navy ERP does not currently accumulate Construction in Progress costs for assets. This makes it difficult to track accumulated costs in the ERP and accurately report Construction in Progress on the Balance Sheet.
- Capital improvements are not currently captured for capitalized assets. The values and depreciation need to be adjusted for capital improvements in the APSR to prevent risk of understating the financial statement balances.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MAXIMO (NAVAIR))	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property Phase 1 (Working Capital Fund)

Remaining Audit Readiness Actions

- Implement corrective actions from Phase 1 and subsequent sustainment testing.
- Continue to perform Phase 1 sustainment testing including internal control and substantive testing.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property Phase 2 (Working Capital Fund)

Remaining Audit Readiness Actions

- As a service provider, NAVFAC is pursuing an SSAE No. 16 examination to support customer assertions.
- Complete implementation of new processes, internal controls, and detective controls for: 1) Non-Military Construction (MILCON) Transfer and Acceptance, 2) MILCON and Non-MILCON Construction in Progress, 3) Inventory (Linear Structures), and 4) real property financial reporting.
- Deliver training on the updated NAVFAC MILCON and Non-MILCON processes and systems.
- Implement a valuation methodology for real property assets.
- Prepare a Phase 2 assertion package, including Phase 1 test results and move into sustainment.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (FIS, iNFADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Inventory (Working Capital Fund)

Remaining Audit Readiness Actions

- Validate and refine the valuation of organic repairs and repairs completed through Performance Based Logistics contracts.
- Validate Moving Average Cost process, equation, and reporting in Navy ERP.
- Implement corrective actions identified from sustainment existence and completeness testing.

Challenges

- Valuation corrective actions, when identified, will likely require new changes to Navy ERP.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP, DPAS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	✓

Internal Use Software (Working Capital Fund)

Remaining Audit Readiness Actions

- Complete corrective actions for existence and completeness and valuation.
- Address document retention to support testing and audit readiness validation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2016
Discovery	09/2016
Corrective Actions	09/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Accounts Receivable (Working Capital Fund)

Remaining Audit Readiness Actions

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Environmental and Disposal Liabilities (Working Capital Fund)

Remaining Audit Readiness Actions

- Asserted Environmental and Disposal Liabilities in FY 2009.
- Complete Discovery and the gathering of information needed to document end-to-end business processes.
- Develop corrective actions to mitigate failures and deficiencies.

Challenges

- Determine whether a defined, uniform methodology exists for calculating Environmental and Disposal Liabilities.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Processes, Controls, and Systems Corrected and Tested for New Liabilities	✓
Cost/Valuation Estimation	09/2016
Cost/Valuation Methodology Approval	✓
Baseline Cost/Valuation	09/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	12/2016

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Accounts Payable (Working Capital Fund)

Remaining Audit Readiness Actions

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective actions to mitigate failures and deficiencies found during testing.

Challenges

- Payables may not be recorded at year-end.
- No-year funding makes it difficult to determine age of payables recorded in prior fiscal years.
- Insufficient and inconsistent documentation to support receipt and acceptance.

Completion Dates (✓ = Completed)

Discovery	Completion
Process Documentation	05/2016
Test Plans	07/2016
Controls and Supporting Documentation Testing	10/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

NAVY AUDIT READINESS RESOURCES

The FIAR activities funded by the amounts in Figure III-7 include:

Audit Readiness, Validations, and Audits resources provide for:

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

Financial Systems resources provide for:

- Designing, developing, and deploying audit-ready compliant systems as well as cost-effective changes to legacy systems that will be part of the systems environment

- Converting and validating data, implementing and testing controls, and documenting systems and processes

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included in audit readiness resources. ERP costs are reported in Section VII, Information Technology Systems Critical to Audit Readiness. Additionally, changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls. The Department has not attempted to capture the costs of process changes made solely for audit readiness, and therefore, resources reported below may not fully capture process improvement costs.

Figure III-7. Navy Audit Readiness Resources (Dollars in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Audit Readiness, Validations, and Audits	109	183	109	111	111	112
Financial Systems	48	44	31	32	33	33
Total Resources	157	227	140	143	144	145

U.S. Marine Corps Audit Readiness

The USMC is committed to undergoing an audit of its FY 2017 full financial statements and is on track to meet this aggressive timeline. The USMC has identified milestones that must be accomplished prior to October 1, 2016, and which must be sustained while under audit.

The USMC is identifying and reconciling data universes for proprietary and budgetary accounts in the financial statements and identifying and remediating gaps in required notes, disclosures, and supplementary information. The financial statements and notes are currently created by DFAS but will require assessment, corrective action, and validation by the USMC prior to undergoing audit.



An M1A1 Abrams Main Battle Tank crew with Company A, 4th Tank Battalion, fires its 120 mm main gun during the company's pre-qualification tank gunnery at Range 500, Aug. 4, 2015. (U.S. Marine Corps Photo by Lance Cpl. Julio McGraw/Released)

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Marine Corps made progress in several areas:

- USMC plans to undergo an audit of the SBR in FY 2016.
- USMC and DLA completed a Memorandum of Understanding (MOU), detailing responsibilities, audit support requirements, and Complimentary User Entity Controls.
- Military Equipment valuation activities continue to make progress, and as of Quarter 3 of FY 2015, Military Equipment is valued and supported at the asset level.
- USMC developed a roadmap to implement the Consumption Method of accounting for OM&S.

Challenges to Audit Readiness by September 30, 2017

Functioning in the DoD operating environment presents significant financial reporting challenges and risks. For example, the relationship between the USMC and Navy adds risk to the rights and obligations assertion in many areas, including shared appropriations, assets, and liabilities, particularly environmental liabilities. These areas have traditionally been viewed as a Department of the Navy activity. However, for financial reporting, an asset, obligation, or appropriation must be defined as either Navy or USMC.

To address risks, the USMC developed a risk management and identification strategy. The strategy prioritizes corrective actions and investments to drive measurable results and focuses on long-standing impediments, such as information systems, valuation deficiencies, and providing a complete, reconciled data universe.

USMC Reporting Entity

As a component of the DON with its own set of financial statements, the USMC relationship adds risk to the audit process. The USMC is working closely with the DON to determine assets that are in scope according to federal accounting standards. Likewise, obtaining asset

populations from multiple Accountable Property Systems of Record (APSRs) that reconcile to the Balance Sheet has been difficult across all financial statement balances. The USMC continues to work with system owners and service providers to develop a clean, consistent, and reconciled process of financial statement compilation. Finally, the USMC has external dependencies on service providers, such as the Naval Facilities Engineering Command (NAVFAC) and DLA. The USMC is working with its service providers to identify and agree on audit support that will be documented in an MOU.

General Property, Plant, and Equipment

The USMC, like most DoD entities, has equipment dispersed to remote locations worldwide. Identifying the full population of assets is a key component of this effort. The USMC is validating the supporting documentation for assets that have documentation, and initiating alternative valuation methodologies for assets that do not have supporting documentation.

Similar challenges exist for Real Property. The USMC worked with NAVFAC to obtain a universe of real property assets that reconciles to the Balance Sheet. While the project is not complete, the USMC continues to work with NAVFAC to validate and refine the dataset. Similar to equipment, fully supporting legacy real property assets, some of which have been in use for more than 30 years, increases the likelihood that alternate valuation methodologies will be necessary as supporting documentation is not available. Alternative valuation activities began in September 2015 and will continue until all capital real property assets have a supported estimated value in accordance with federal accounting standards.

Operating Materials and Supplies

Due to system and process limitations in the legacy systems environment, the USMC does not use the consumption method of accounting for all OM&S items. The USMC has documented and is executing a plan to move to the consumption method of accounting in FY 2016. In addition, valuation of OM&S items remains a challenge. The USMC is testing the implementation of the latest

acquisition cost method for valuing OM&S, using allowance accounts to bring OM&S balances in compliance with federal accounting standards.

Information Technology

One of the primary challenges to USMC audit readiness is system limitations and the volume of system changes required. Actions taken to identify and mitigate system issues include working with system owners and functional personnel to identify systems that should be FISCAM compliant prior to audit and determining interface requirements and functional support to accurately report assets that were not in an APSR. Finally, the USMC is working to validate and improve GCSS-MC transaction processing and functionality for audit.

AUDIT READINESS PLANS

The USMC audit readiness approach follows the FIAR Guidance for incrementally achieving audit readiness. The USMC does not produce Working Capital Fund financial statements. USMC Working Capital Fund activities are reported in the DON Working Capital Fund financial statements.

The following section briefly describes the status and plans shown in Figure III-8.

General Fund Financial Statements

Statement of Budgetary Resources (Waves 1 & 2)

The USMC SBA has been under audit since FY 2010. The USMC had received a clean audit opinion on its FY 2012 SBA. However, the DoD OIG withdrew the opinion due to newly discovered findings that provided enough uncertainty that additional audit work was required. Auditors did not issue an opinion on the FY 2013 audit, and a disclaimer was issued on the FY 2014 audit.

The management and execution of these accounts is the responsibility of DFAS, and the USMC continues to monitor

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corrective action development and remediation at DFAS. In May 2015, the DoD OIG began a service-wide audit of suspense accounts across the DoD, and the results of that audit have not been released.

To maintain audit readiness gains and support internal control implementation, the USMC initiated an audit of the FY 2015 SBA in September 2015. The USMC will transition to an expanded scope SBR audit during FY 2016 while it continues to resolve the findings identified during the FY 2014 SBA audit. The USMC is positioned for a successful SBR audit applying the lessons learned from the SBA audits.

Existence and Completeness of Mission-Critical Assets (Wave 3)

The USMC continued to implement corrective actions for mission-critical assets and is on track for a full financial statement assertion. The USMC will assert existence and completeness audit readiness, and it will be validated during the Balance Sheet examination planned for FY 2016. The focus on existence and completeness will help the USMC validate the accuracy of mission-critical asset information recorded in APSRs. Mission-critical assets will be separated into groups of assets where valid and accurate source documents exist and groups of assets where alternate valuation methods will be necessary.

Full Financial Statements (Wave 4)

The Balance Sheet presents the Assets, Liabilities, and Net Position of the USMC. The Balance Sheet accounts do not close annually and are cumulative in nature. The USMC must not only remediate the ongoing controls and business processes related to Property, Plant, and Equipment (PP&E), but also must remediate the historical balances reported in Balance Sheet accounts. Additionally, the required financial statement notes and disclosures must be assessed from completeness and compliance with federal requirements. This review is ongoing. The USMC plans to complete corrective actions for all financial statements by the end of FY 2016, followed by an audit of the FY 2017 full financial statements.

Figure III-8 provides a summary of the USMC's audit readiness plans. The remainder of this section of the report provides detailed information on the USMC's audit readiness plans.

Figure III-8. USMC Audit Readiness Plans

Marine Corps	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Statement of Budgetary Resources (Waves 1 & 2)																	<ul style="list-style-type: none"> Discovery Corrective Actions/Assert SBA Audits Validation Financial Statement Audits
Existence and Completeness (Wave 3)																	
Full Financial Statements (Wave 4)																	

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 & 2)

The USMC has led the Department in preparing for an SBR audit and initiated the SBA approach to achieving SBR audit readiness. To support an auditable SBR, the USMC engaged in multiple SBA audits covering more recent fiscal years to identify corrective actions, mitigate risks, and improve controls prior to an audit of the SBR. The SBA audit of FY 2015 has started and will continue to provide the USMC with feedback on corrective actions and lessons learned.

FY 2010 – FY 2012 SBR Audits

The USMC first audited its FY 2010 SBR. Due to difficulties supporting beginning balances, the USMC developed the SBA strategy in coordination with DoD OIG and an IPA to maintain audit momentum while building to a full SBR. This approach to SBR audit readiness was adopted by the Department as the model for DoD-wide SBR audit readiness.

The USMC received a clean opinion on the FY 2012 SBA, but in March 2015, the DoD OIG withdrew the opinion due to previously unassessed suspense accounts managed by DFAS at the U.S. Treasury. The USMC is awaiting the results of the DoD-wide audit of Treasury suspense accounts by the DoD OIG to determine what corrective actions, if any, are required prior to the SBR and full financial statement assertion.

FY 2013 – FY 2014 SBA Audits

The USMC continued to undergo an SBA audit during FY 2013 and FY 2014 and has responded to all audit samples and auditor questions. The FY 2013 and FY 2014 audit results were affected by the ongoing DoD OIG audit of Treasury suspense accounts. The USMC is working with DFAS to perform corrective actions and mitigate issues.

FY 2015 – SBR Beginning Balances, Fund Balance with Treasury Reconciliation, and Journal Vouchers

The USMC is remediating beginning balances to assert full SBR audit readiness in FY 2016. As part of this process, the USMC continues to focus on the tri-annual review to identify, validate, and adjust invalid unliquidated obligations. FBWT reconciliation is under audit as part of the SBA audits. The USMC is improving that reconciliation for future audits.

USMC journal vouchers have been under audit, and currently, all journal vouchers are supported and auditable. The USMC will continue working with DFAS to improve the journal voucher control environment to remediate auditor control findings.

These efforts will position the USMC to transition from an SBA audit to an SBR audit. Additionally, the USMC is increasing its efforts to remediate internal controls to transition from substantive audit testing to the auditor relying on the control environment. This will reduce the level of effort required by both the auditors and the USMC, and will move the USMC toward meeting the annual November 15 deadline for audit opinions.

Finally, the USMC will examine financial data and business processes audited in the SBA to accelerate Balance Sheet efforts. For example, work completed for delivered orders-unpaid and reimbursable work orders impact Balance Sheet accounts, such as Accounts Payable and Accounts Receivable. Therefore, remediation efforts in these areas will help improve financial reporting on both the SBR and Balance Sheet.

BALANCE SHEET (WAVES 3 & 4)

Several critical Balance Sheet lines will be positively affected by SBR remediation efforts, as they are closely related to budgetary accounts and processes, including FBWT, Accounts Receivable, and Accounts Payable. However, these areas will still require additional work to achieve auditability.

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OM&S and PP&E audit readiness efforts are well underway. In addition to remediating the transactions that make up the underlying USSGL accounts related to Balance Sheet lines, the USMC will also address the compilation and reporting processes that generate the Balance Sheet. Focus will be put on reconciling feeder systems and data populations, properly supporting journal vouchers, and clearly defining the scope of the USMC entity as it relates to the DON.

Balance Sheet Assets

The USMC is nearing completion of existence and completeness efforts for OM&S and PP&E. Corrective actions may be necessary based on the results of testing and full reconciliations of APSRs. The USMC approach to existence and completeness includes financial reviews, where supporting valuation documentation, if available, is evaluated to determine which assets are supported and which assets are unsupported and require valuation estimates. The USMC is planning to complete valuation work by September 2016.

Critical Asset Lines

Corrective action activities are underway for the following critical Balance Sheet asset lines:

- General Equipment – Existence and completeness testing is complete for capital assets. APSR updates and valuation work continues for Military Equipment, and the population requiring alternative valuation has been identified.
- Real Property – Existence and completeness efforts are ongoing for USMC installations. Valuation work will be based on an alternative estimation method provided by OUSD(C).
- Internal Use Software – Process owners are engaged and leading discovery efforts, primarily focused on establishing an Internal Use Software universe and recording it in an APSR.
- Operating Materials and Supplies – Existence and completeness efforts are nearing completion, service providers are engaged, valuation strategies are being evaluated, and the path to

implementing the consumption method of accounting has been determined.

- Government Furnished Property – Efforts to identify Government Furnished Equipment is ongoing. Once the universe has been captured, the assets will be recorded in an APSR.

Noncritical Asset Lines

The USMC identified two asset lines that fall outside of the critical asset category:

- Accounts Receivable
- Other Assets

The USMC made this determination by reviewing the financial statement impact and overall risk for each area. Based on this review, and the fact that SBA and SBR efforts have helped improve Accounts Receivable balances, the USMC has placed lesser priority on these areas.

A tri-chart is provided for each of the above Balance Sheet lines identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the USMC made progress in several areas:

- The USMC developed a validated population of Military Equipment assets and reported an initial value on the FY 2015 financial statements.
- The audit readiness and support MOU with DLA has been completed.
- The roadmap to implementing the consumption method of accounting for OM&S has been defined, and significant steps have been made to implement the method in FY 2016.

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- The USMC drafted an MOU with NAVFAC for audit readiness and support that includes Complimentary User Entity Controls and the roles and responsibilities for financial system controls.

Challenges to Audit Readiness by September 30, 2017

While the USMC has made progress toward audit readiness, challenges remain:

- Construction in Progress is not reported on the USMC financial statements. The discovery process has started, and the USMC plans to use current contract payment data to determine values.
- Valuing OM&S will be a challenge because the legacy system environment does not support moving average cost. However, the USMC plans to use an allowance method leveraging latest acquisition cost to arrive at an auditable balance.
- Reliance on service provider performance, such as NAVFAC (Environmental Liabilities and Real Property), Army (Ordnance/Operating Materials and Supplies), and DFAS (Financial Reporting) remains a challenge as evidenced by the inability of DFAS to properly support Treasury Suspense Accounts during the SBA audit.

Balance Sheet Liabilities

The USMC will apply the lessons learned from the SBR audit to prepare Balance Sheet liabilities for audit. For example, Accounts Payable has received extensive coverage and corrective actions are ongoing. In addition, the full implementation of corrective actions, such as proper receipt and acceptance, will provide a more accurate Accounts Payable balance. Additionally, the USMC is working closely with its service providers and system owners to improve processes to capture critical data more timely.

Critical Balance Sheet Lines

Environmental liabilities efforts will require coordination between NAVFAC and USMC property managers. In addition, DERP and

Base Realignment and Closure (BRAC) are currently funded, executed, and reported by the DON. The USMC will work with the DON to identify and facilitate proper financial reporting of DERP and BRAC liabilities.

The Other Accrued Liabilities Program (OEL) is currently funded by the USMC and reported on the USMC Balance Sheet. However, financial data, model assumptions, and internal controls will need to undergo rigorous testing prior to the audit in FY 2017.

In addition to DERP, BRAC, and OEL, the USMC currently does not report environmental liabilities for weapons systems and other general equipment. Once the existence and completeness phase is finished for each of the areas, the USMC will work with process owners to identify where and if environmental liabilities are present.

Noncritical Balance Sheet Lines

Most liabilities of the USMC are included in the SBA and SBR audit efforts. In order to transition from the SBA and SBR to the Balance Sheet, the USMC is working to improve all the payable accruals needed to timely record liabilities and working to identify and record all non-budgetary liabilities. This includes the Military Retirement Fund and Federal Employment Benefits. Other non-critical Balance Sheet lines include:

- Accounts Receivable
- Military Retirement and Other Federal Employment Benefits
- Other Liabilities

The USMC conducted a rigorous quantitative and qualitative risk analysis and determined these areas are not a priority. However, as audit readiness progresses on the larger lines, these areas will receive additional attention.

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Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the USMC made progress in several areas:

- An Accounts Payable accrual process has been documented, reviewed by the auditors, and will continue to be refined in time for a full financial statement audit. The accrual process covers all relevant business processes, feeder systems, and appropriations.
- The USMC continued to work closely with NAVFAC to identify and validate the data universe for Other Accrued Environmental Liabilities.
- The USMC worked with the Navy and NAVFAC to identify DERP and BRAC eligible assets. Discussions continue to determine if DERP and BRAC will be reported by the USMC.

Challenges to Audit Readiness by September 30, 2017

While the USMC has made progress toward audit readiness, challenges remain:

- The USMC is working with the DON to develop reporting requirements to report DERP and BRAC liabilities.
- Additional work is required to determine whether the USMC should report an environmental liability for Military Equipment and General Equipment.
- Accruals are accounting estimates that require a high-degree of precision and support for audit. The USMC developed accrual methodologies in support of the SBA audit, but additional work is needed to improve the process and accuracy of estimated amounts.

Figure III-9 provides the USMC audit readiness plans for the General Fund Balance Sheet. It also shows when existence completeness was completed or planned to be completed.

Figure III-9. USMC Balance Sheet Audit Readiness Plans

Marine Corps	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment								▲									
General Equipment (Military Equipment)								▲									
Real Property								▲									
Internal Use Software												▲					
Operating Materials and Supplies												▲					
Government Furnished Property												▲					
Accounts Receivable																	
Other Assets																	
Liabilities																	
Environmental and Disposal Liabilities												▲					
Accounts Payable																	
Military Retirement and Other Fed Employment Liabilities																	
Other Liabilities																	

General Equipment (General Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for data consistency, nonstandard equipment purchases, and Government Furnished Property.
- Apply alternative estimation methodologies for placed in service date and acquisition cost of General Equipment by Quarter 1 of FY 2016.
- Enter Government Furnished Property data in DPAS and use the iRAPT function for property transfers to contractors.
- Maintain General Equipment in GCSS-MC.
- Complete internal control and transaction testing at Marine Corps Logistics Command.

Challenges

- Construction in Progress entries are not captured, and the USMC cannot differentiate between contract financing and progress payments in MOCAS.
- Identifying and adjusting the reported value of impaired assets will be necessary prior to audit.

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (GCSS-MC, DPAS, SCS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

General Equipment (Military Equipment) (General Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for data consistency, non-standard equipment purchases, and Government Furnished Property.
- Apply alternative estimation methodologies for placed in service dates and acquisition cost of Military Equipment by Quarter 1 of FY 2016.
- Enter Government Furnished Property data in DPAS and utilize the iRAPT function for property transfers to contractors.
- Maintain Military Equipment in GCSS-MC.
- Complete internal control and transaction testing at Marine Corps Logistics Command.

Challenges

- Construction in Progress entries are not captured, and the USMC cannot differentiate between contract financing and progress payments in MOCAS.
- Identifying and adjusting the reported value of impaired assets will be necessary prior to audit.

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (GCSS-MC, DPAS, SCS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Real Property (General Fund)

Remaining Audit Readiness Actions

- Complete corrective actions for Real Property/Class 1 centrally managed by Headquarters.
- Reconcile the APSR to general ledger balances.
- Develop the valuation baseline (beginning balance) based on an alternative valuation method.

Challenges

- Corrective action plans may present a moderate risk if installations cannot fully resource the corrective action requirements.
- Reliance on NAVFAC to provide complete and accurate data from iNFADS, and SSAE No. 16 examination and FISCAM activities and corrective actions may not be completed in time for audit.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (iNFADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Internal Use Software (General Fund)

Remaining Audit Readiness Actions

- Identification of the universe of Internal Use Software assets, which will be completed by 06/2016.
- Valuation activities will commence after the Internal Use Software universe has been validated.
- Internal controls, processes, and test procedures need to be defined and implemented.
- FIAR plans, tasks, activities, and milestones have been defined, and discovery and corrective actions are underway.

Challenges

- The universe of Internal Use Software assets is diverse and centralized depositories do not have required financial accounting data elements.
- Valuation will be difficult to the scope, long timelines, and upgrades to software products.
- Procedures to identify both leased and impaired Internal Use Software assets will need to be evaluated prior to audit.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	12/2015
Corrective Actions	06/2016
Valuation	09/2016
Valuation Methodology Approval	✓
Baseline Valuation	08/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (DPAS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Operating Materials and Supplies (General Fund)

Remaining Audit Readiness Actions

- Implement corrective actions for document retention, valuation, and financial reporting.
- Develop the valuation baseline (beginning balance) using the latest acquisition cost method with allowance accounting method.
- Continue improvement of a centralized financial reporting capability for consumable and reparable OM&S sub-assessable units.
- Complete assertion work products based on existence and completeness testing conducted in FY 2015 to validate corrective actions.

Challenges

- Implementing the latest acquisition cost method with the allowance method requires serial tracking of non-ammunition assets.
- Set assemblies are not currently in an APSR. These assets will be moved to DPAS during Quarter 1 of FY 2016.

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	✓
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(GCSS-MC, DAAS, DoD EMALL, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Government Furnished Property (General Fund)

Remaining Audit Readiness Actions

- Complete baseline for property and material in the possession of a third party. Upload Government Furnished Property into DPAS.
- Ensure existing MOUs with service providers (DLA, DCMA) promote USMC audit readiness initiatives and identify the roles and responsibilities of the service providers.
- Test to ensure contract clauses are included in contracts that provide Government Furnished Property and Government Furnished Materials.
- Establish the accounting treatment for Government Furnished Materials (Consumption Method vs. Purchase Method).

Challenges

- Government Furnished Property is not recorded in an approved APSR.
- SMART Attachment, required by OSD, does not work correctly.

Completion Dates (✓ = Completed)

Deal-Breakers	Completion
Existence, Completeness, Rights, and Obligations	03/2016
Discovery	12/2015
Corrective Actions	03/2016
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(GCSS-MC, DPAS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Accounts Receivable (General Fund)

Remaining Audit Readiness Actions

- Develop Accounts Receivable estimated balances for quarter end reporting based on services provided on orders.
- Assess the total value of non-federal receivables.
- Document standard policies and procedures for recording receivables and test for compliance.
- Review related notes and disclosures, and update if necessary.
- Apply SBA and SBR audit results to streamline corrective actions.

Challenges

- Determining the amount of services provided and not yet billed, along with billed but not disbursed will need to be done at the transaction level.
- Accounting system changes may be required to differentiate between advances and receivables.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2015
Process Documentation	12/2015
Test Plans	12/2015
Controls and Supporting Documentation Testing	12/2015
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(SABRS, iPAC, DDMS, MCTFS, DCPS, MOCAS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Other Assets (General Fund)

Remaining Audit Readiness Actions

- Assess current business processes to determine whether documentation currently being stored is uniform, complete, and accurate.
- Create and implement a policy and procedure for addressing asset impairment.

Challenges

- Based on management’s strategy and risk determinations, discovery and corrective action have been delayed.
- Unknown risks and misstatements may result in financial reporting errors.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	12/2015
Test Plans	12/2015
Controls and Supporting Documentation Testing	03/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (GCSS-MC, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions

- Determine if unaccrued and unreported Environmental Liabilities exist for Military and General Equipment.
- Determine what environmental cleanup requirements are done above and beyond normal maintenance.
- Obtain financial reporting data from the DON to accurately report DERP and BRAC on the USMC Balance Sheet.
- Obtain evidence of system validation and review for the OEL iNFADS module and NORM.

Challenges

- An APSR does not exist for General Equipment attached to Real Property assets. Some of these assets may have an associated Environmental Liability.
- The universe of Environmental Liabilities is not complete, and the entirety of the value is unknown, increasing the risk of misstatement. Corrective actions are in process but may not occur in time for audit.

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	02/2016
Discovery	✓
Corrective Actions	02/2016
Processes, Controls, and Systems Corrected and Tested for New Liabilities	02/2016
Cost/Valuation Estimation	02/2016
Cost/Valuation Methodology Approval	12/2015
Baseline Cost/Valuation	02/2016
Audit Readiness Assertion/Remediation	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (iNFADS, SABRS, GCSS-MC)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Accounts Payable (General Fund)

Remaining Audit Readiness Actions

- Determine if a systematic solution exists for weaknesses, particularly for the Wide Area Workflow to SABRS interface.
- Continue to refine and assess accrual methodologies.
- Continue to drive the implementation of Treasury’s Invoice Processing Platform across the USMC to properly capture and account for intergovernmental accounts payable.
- Complete benchmark analysis comparing current accrual processes to other federal agencies with an unqualified audit opinion.

Challenges

- Until receipt and acceptance processes are corrected across the USMC for both Accounts Payable-Public and Accounts Payable-Intergovernmental, a risk of misstatement exists as the accrual will be based on trailing disbursements.
- Business cycles impact the underlying business processes that contribute to the accrual and changes in assumptions can lead to a material misstatement.

Completion Dates (✓ = Completed)

Discovery	Completion
Discovery	12/2015
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	12/2015
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (SABRS, WAWF, MCPDT, MCTFS, DTS, DCPS, MOCAS, GCSS-MC)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Military Retirement and Other Federal Employment Liabilities (General Fund)

Remaining Audit Readiness Actions

- Assess the Military Retirement Fund accounting process to determine what additional recording or disclosure is required under the accounting standards.
- Reliance on third party service providers requires coordination, which is in the early stages, and additional discovery is necessary.
- MOAs may be required with organizations outside of the DoD to produce both the data and support for audit requests and extending the time necessary to bring the reported amounts into alignment with accounting standards.

Challenges

- Based on management’s strategy and risk determinations, discovery and corrective action have been delayed.
- Unknown risks and misstatements may result in financial reporting errors.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	12/2015
Test Plans	03/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(SABRS, MCTFS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Other Liabilities (General Fund)

Remaining Audit Readiness Actions

- Determine what documentation is available to value and support Other Liabilities in accordance with accounting standards.
- Reliance on third party service providers will require coordination, which is in the early stages, and additional discovery is necessary.
- MOAs may be required with organizations outside of the DoD to produce both the data and support for audit requests, extending the time necessary to bring the reported amounts into alignment with accounting standards.
- Perform discovery to determine whether other liabilities exist.

Challenges

- Based on management’s strategy and risk determinations, discovery and corrective action have been delayed.
- Unknown risks and misstatements may result in financial reporting errors.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	12/2015
Test Plans	03/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	09/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

MARINE CORPS AUDIT READINESS RESOURCES

Substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure III-10 include:

Audit Readiness, Validations, and Audits resources provide for:

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

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included audit readiness resources. ERP costs are reported in Section VII, Information Technology Systems Critical to Audit Readiness. Additionally, changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls. The Department has not attempted to capture the costs of process changes made solely for audit readiness, and therefore, resources reported below may not fully capture process improvement costs.

Figure III-10. Marine Corps Audit Readiness Resources (Dollars in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Audit Readiness, Validations, and Audits	43	54	49	31	31	31
Financial Systems	1	1	0	0	0	0
Total Resources	44	55	49	31	31	31

Message from the Department of the Air Force Chief Management Officer

The Department of the Air Force is in the final stages of the Schedule of Budgetary Activity (SBA) audit for our fiscal year 2015 appropriations. The audit validates our strategy and the corrective actions we've already implemented. Our auditors also identified opportunities for improvement, and we are addressing these findings as we transition to the fiscal year 2016 SBA audit and future full financial statement audit readiness.

Audit readiness is an enterprise-wide priority. Steady progress continues as Airmen from all functional areas are engaged. Cost-effective remediation efforts are being designed and implemented with a focus on ensuring lasting compliance. We continue to deploy the new, Defense Enterprise Accounting and Management System (DEAMS) which will yield substantial long-term improvements. As we continue to field DEAMS, we are implementing system and process improvements. We've completed DEAMS deployments to Air Force Reserve Command, Air Force Special Operations Command, and a large portion of the Air National Guard since our last status report. DEAMS is now deployed to the majority of our stateside Active, Guard, and Reserve units as well as multiple combatant commands.

The November 2015 FIAR Plan Status Report outlines the major steps we're taking to achieve auditability for the remaining financial statements. We'll continue to leverage lessons learned from our SBA audits and ongoing audits across DoD. We remain focused on the most material line items of our financial statements, but we're addressing all applicable areas as we work with the DoD Office of the Inspector General and the independent public accounting firm to achieve our 2017 audit readiness goal.



Lisa S. Disbrow

Acting Chief Management Officer
Department of the Air Force

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IV. Air Force Audit Readiness

The Air Force is actively engaged in financial improvement and audit readiness activities and positioning itself for a full financial statement audit beginning in approximately two years. Armed with lessons learned and best practices from the audit of the SBA, the Air Force financial management community more fully understands what it takes to prepare for a financial statement audit and is constantly rethinking and deploying strategies to achieve auditability.

Air Force senior leadership continues to make prudent financial improvement choices while ensuring Air Force personnel are accomplishing their mission—Fly, Fight, and Win...in Air, Space and Cyber Space. Air Force senior leadership also continues to support the audit readiness goals and objectives, while focusing on meeting upcoming milestones. In addition, Major Command (MAJCOM) best practices and lessons learned are identified and shared across the Air Force to maximize efficiencies and expedite completion of FIAR tasks.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Air Force made progress in several areas:

- The audit of the Air Force's SBA is nearly complete. The Air Force successfully supported the auditor's procedures to understand Air Force processes, internal controls, and systems. The auditors acknowledged the quality and completeness of the documentation of processes, internal controls, and systems and are testing supporting documentation and internal controls. The Air Force is using the audit of the SBA to improve its preparation for the full financial statement audit.
- The Air Force asserted to the existence and completeness of Air Force owned and possessed munitions. The DoD OIG issued a modified examination opinion in July 2015.



Two U.S. Air Force F-22 Raptor aircraft assigned to the 95th Fighter Squadron fly over the Baltic Sea September 4, 2015. (U.S. Air Force photo by Tech. Sgt. Jason Robertson)

- The Air Force completed numerous corrective actions related to budgetary processes and is expediting development of additional corrective actions.
- The Air Force's implementation of DEAMS is continuing as planned.

Challenges to Audit Readiness by September 30, 2017

While the Air Force has made progress toward audit readiness, challenges remain:

- The age of certain transactions (e.g., more than 10 years old) makes identifying and extracting them from legacy systems, and obtaining supporting documentation, extremely difficult, requiring extensive effort by the Air Force and its service providers.

- Legacy systems continue to be a significant challenge. The Air Force has dedicated resources to remediating this challenge, which is necessary to achieve auditability.

AUDIT READINESS PLANS

The Air Force audit readiness approach follows FIAR Guidance for incrementally achieving audit readiness by September 30, 2017. The following briefly describes the audit readiness status and plans shown in Figure IV-1.

General Fund Financial Statements

SBR – Appropriations Received (Wave 1)

Corrective actions completed in FY 2010 and audit readiness validated by an IPA examination in FY 2011.

SBR – Schedule of Budgetary Activity (Wave 2)

FY 2015 budgetary information reported in the SBA is being audited by an IPA.

SBR – Beginning Balances and Fund Balance with Treasury Reconciliation (Wave 2)

The Air Force is developing auditable SBR beginning balances and is preparing for an SBR beginning balance examination by an IPA in FY 2017.

Existence and Completeness of Mission-Critical Assets (Wave 3)

The Air Force anticipates completing corrective actions for mission-critical assets by June 2016.

Full Financial Statements (Wave 4)

The Air Force anticipates completing corrective actions for all financial statements by the end of FY 2017. An examination of the valuation of General Equipment (Military Equipment) and Real Property at a MAJCOM is planned in FY 2016 and FY 2017 to validate the valuation approach. A full scope audit by an IPA will follow in FY 2018.

Working Capital Fund Financial Statements

Full Financial Statements (Wave 4)

The Air Force Working Capital Fund strategy is to rely on General Fund assertion work performed on standard Air Force processes and focus Working Capital Fund audit readiness activities on unique processes. Audit readiness testing of Working Capital Fund obligations incurred was performed concurrently with General Fund SBR testing. Mission-critical asset assertions of standard Air Force processes also cover Working Capital Fund processes. Examinations of Inventory, Contract Authority, and Revenue and Spending Authority (Flying Hours) are planned for FY 2016. An examination on Revenue (Depot Maintenance) is planned for FY 2017, and an examination on SBR beginning balances is planned for FY 2017 concurrent with the General Fund SBR beginning balances examination.

Figure III-1 provides a summary of the Air Force's audit readiness plans for the General Fund and Working Capital Fund Financial Statements. The remainder of this section of the report provides detailed information on the Air Force's audit readiness plans.

FIAR Plan Status Report

Figure IV-1. Air Force Audit Readiness Plans

Department of the Air Force	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																	
SBR - Appropriations Received (Wave 1)																	Financial Statement Audits
SBR - Statement of Budgetary Resources (Wave 2)																	Financial Statement Audits
SBR - Beginning Balances & FBWT (Wave 2)																	Financial Statement Audits
Existence and Completeness (Wave 3)																	Financial Statement Audits
Full Financial Statements (Wave 4)																	Financial Statement Audits
Working Capital Fund Financial Statements																	
Full Financial Statements (Wave 4)																	Financial Statement Audits

- Discovery
- Corrective Actions/Assert
- Validation
- Sustainment
- Internal Reviews
- SBA Audits
- Financial Statement Audits

General Fund Financial Statements

The Air Force expects to complete the audit of its FY 2015 SBA before the end of 2015. While the audit is underway, the Air Force continues to remediate deficiencies self-identified by the Air Force and identified by the IPA conducting the SBA audit.

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 & 2)

Figure IV-2 lists the assertions, examinations, and audits planned for Waves 1 and 2. The Air Force is on target to achieve the completion dates and has made progress in translating work completed for the SBA to the SBR and beginning balances.

Figure IV-2. FIAR Strategy for the General Fund SBR

	Completion	Status / Description
Appropriations Received (Wave 1)		
Appropriations Received	FY 2011	IPA examination validated audit readiness
Statement of Budgetary Resources (Wave 2)		
FBWT Reconciliation	FY 2011	IPA examination validated audit readiness
SBA Assertion	FY 2014	Asserted in 06/2014
SBA IPA Audits	FY 2015 – FY 2017	IPA audit started in 12/2014
SBR Beginning Balances	FY 2017	Corrective actions to be completed by 06/2016
SBR Beginning Balances Examination	FY 2017	IPA examination of SBR beginning balances
SBR Audit	FY 2018	IPA audit of the SBR

FY 2011 – Appropriations Received

In August 2009, the Air Force completed corrective actions of the processes, controls, and systems used for funds appropriated by Congress and received by the Air Force. In FY 2011, an IPA performed an examination and issued an unqualified opinion.

FY 2014 – SBA Assertion

The Under Secretary of the Air Force/Chief Management Officer asserted audit readiness of the SBA in June 2014. Audit readiness work continued after June 2014 to ensure the SBA, which reports current year budgetary activities, was ready for audit. The scope of the assertion includes all Air Force processes, controls, and systems related to receipt and execution of FY 2015 General Fund appropriations presented in the SBA and related footnotes.

FY 2015 – SBA Audit

The Air Force’s FY 2015 SBA audit is on schedule with an anticipated report from the IPA before the end of 2015. The Air Force has successfully answered auditor requests for more than 3,000 documents. The Air Force also coordinated more than 30 site visits for the auditors to understand and document business and information system processes and controls.

SBR Beginning Balances, Fund Balance with Treasury Reconciliation, and Journal Vouchers

The Air Force identified the SBR balances in scope for a SBR beginning balance examination in FY 2017. The Air Force is establishing processes to age SBR beginning balances, assessing the availability of supporting documentation, and developing corrective actions. Remediation efforts will be prioritized based on balances and transactions critical to the full financial statement audit opinion in FY 2018. The Air Force is applying lessons from the SBA audit to anticipate the types of documentation required to support SBR beginning balances.

FIAR Plan Status Report

The Air Force will continue its long-term strategy to improve processes and supporting documentation related to journal vouchers and financial reconciliations. Based on the SBA audit, the Air Force will immediately begin aggressive corrective actions on issues identified by the IPA. The early identification of these issues will provide the time needed to correct the issues.

The Air Force underwent an examination of its FBWT reconciliation processes and obtained an unqualified opinion. The Air Force continues to sustain an audit ready environment related to FBWT reconciliations.

The FY 2015 SBA audit is laying the foundation for identifying the corrections to current business processes. In addition, the FY 2017 SBR beginning balance examination will identify deficiencies in

evidential support for beginning balances. Feedback from the IPA is essential to developing necessary and timely corrective actions to the current environment to facilitate future audits.

Figure IV-3 details the Air Force General Fund SBR audit readiness plans. As shown in Figure IV-3, the SBR will be audited as part of the full financial statements audit in FY 2018. Following Figure IV-3 is a tri-chart describing Air Force FIAR activity to develop SBR beginning balances.

Figure IV-3. Air Force SBR Audit Readiness Plans

Department of the Air Force	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Appropriations Received																	
Schedule of Budgetary Activity																	
Beginning Balances																	

Legend

- Discovery
- Corrective Actions/Assert
- Validation
- Sustainment
- SBA IPA Audit
- SBR IPA Audit

Beginning Balances (General Fund)

Remaining Audit Readiness Actions

- Finalize a schedule of SBR beginning balances, based on the age of the underlying transactions, including developing a universe of transactions.
- Develop additional documentation and correct existing documentation to ensure recorded transactions are supported.
- Complete contract closeout actions to reduce stale and invalid balances.

Challenges

- Developing a universe of transactions for beginning balances, which includes transactions initiated more than 10 years ago.
- Reconciling general ledger data to reports used to facilitate triannual reviews may require system enhancements.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R, DEAMS)	05/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	05/2016

BALANCE SHEET (WAVES 3 & 4)

The Air Force is executing a comprehensive plan for achieving full financial statement auditability. The plan includes addressing the valuation of PP&E and OM&S, as well as addressing gaps between Waves 2 and 3 to achieve Wave 4 goals. The Air Force continues to focus on material or critical financial statement lines, as well as expediting implementation of corrective action plans.

Many remediation efforts to establish a sustainable control environment and retain supporting documentation contribute to achieving auditability for the full financial statements. Accomplishments to date include:

- Completing numerous corrective actions related to budgetary resources.
- Establishing and expediting corrective actions to address asset valuation while working toward achieving existence and completeness.
- Reconciling proprietary and budgetary accounts in the target accounting system to ensure all corrective actions on the budgetary statements are reflected in the account balances presented on the remaining financial statements.

Balance Sheet Assets

The Air Force strategy for the Balance Sheet addresses the existence, completeness, and valuation of critical asset lines, as well as remaining noncritical asset lines. Due to the interdependencies across the financial statements, existing documentation will be used to gain efficiencies when executing Wave 4 tasks.

Except for the critical PP&E and OM&S lines, the Air Force will:

- Obtain data and analyze beginning balances for each line or component by aging the amounts by appropriation year.

- Determine the baseline year required for historical transaction support based on materiality.

Critical Asset Lines

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

- Military Equipment – Unqualified Opinion in June 2012
- OM&S (Cruise Missiles) – Unqualified Opinion in June 2012
- OM&S (Aerial Targets/Drones) – Unqualified Opinion in June 2012
- OM&S (Uninstalled Missile Motors) – Unqualified Opinion in January 2013
- OM&S (Spare Engines) – Qualified Opinion in January 2013
- OM&S (Munitions) – Qualified Opinion in August 2015

The Air Force asserted audit readiness on capitalized medical equipment in March 2014. Because this assessable unit is immaterial to the Balance Sheet, the DoD OIG did not perform an evaluation, and the assessable unit is now in sustainment.

The Air Force is focusing on testing supporting documentation for the remaining existence and completeness assessable units and overcoming challenges and risks associated with:

- Obtaining adequate supporting documentation (e.g., contract data, budget data, DD Form 250s) to support existence and completeness, and valuation.
- Coordinating with service providers to understand and document their processes, risks, and internal controls.
- Developing an MOU with each service provider to document roles and responsibilities.
- Reconciling the APSR to the GAFS-R to ensure the general ledger captures all financial transactions.

FIAR Plan Status Report

Corrective actions are underway for the following assessable units:

- Real Property
- General Equipment
- General Equipment – IT
- Government Furnished Equipment
- OM&S – Based Possessed
- OM&S – Contractor Managed/Possessed

Existence and completeness continues to be coordinated along with valuation efforts. The Air Force is obtaining contract information, cost accumulation data, billing information, and other data from weapons system program managers to validate acquisition costs. The Air Force continues to develop valuation supporting documentation, recommending necessary adjustments to asset values, and developing valuation packages to support and sustain beginning balances. The valuation teams are completing discovery and collecting documentation, and risks and challenges are being identified.

The Air Force is performing comprehensive physical inventory procedures (e.g., floor to book) to reconcile the balances and data in the APSR for the following critical Balance Sheet lines:

- General Equipment
- Real Property
- Internal Use Software
- OM&S – Munitions
- OM&S – Uninstalled Aircraft Engines
- OM&S – Remainder
- Government Furnished Equipment

Noncritical Asset Lines

In addition to the critical asset lines, the Air Force is addressing each of its material, noncritical other asset lines:

- Accounts Receivable
- Other Assets

For Wave 4 execution purposes, the Air Force includes the above lines within two assessable units:

- Accounts Payable and Accounts Receivable
- Other Assets

The Air Force audit readiness efforts for noncritical assets include discovery procedures for areas not addressed during Wave 2. The Air Force will apply existing assessable unit testing and expand documentation testing for additional attributes, such as the impact on proprietary accounts for gaps identified between Waves 2 and 4.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Air Force made progress in several areas:

- Based on Wave 2 work, performed discovery to assess the adequacy of processes, controls, and documentation related to Accounts Receivable and Other Assets.
- Asserted existence and completeness audit readiness for Support Equipment, Communications Security, Small Arms/Light Weapons, and Vehicles (including Rights) for General PP&E.
- Military Equipment makes up 85 percent of the General Equipment asset balance. Air Force is executing Wave 4 valuation efforts for 20 weapon system programs. An examination is scheduled for March 2016.

Challenges to Audit Readiness by September 30, 2017

While the Air Force has made progress toward audit readiness, challenges remain, such as developing and implementing procedures to reconcile noncritical asset lines to underlying detail (i.e., trial balances, general ledger, transaction data from feeder systems for both legacy GAFS-R and DEAMS). The Air Force is developing remediation plans to address these deficiencies by the June 2017 assertion date.

Balance Sheet Liabilities

The Air Force strategy for Balance Sheet liabilities addresses Environmental and Disposal Liabilities, as well as the remaining noncritical liabilities. Due to the interdependencies across the financial statements, existing documentation is being used to execute Wave 4 requirements.

Critical Liabilities Line

The Air Force identified Environmental and Disposal Liabilities as a critical Balance Sheet line. It comprises four reportable areas:

- Accrued Environmental Restoration Liabilities
- BRAC Installations
- Other Accrued Environmental – Non-BRAC
- Environmental Disposal for Military Equipment (Weapons Systems)

Discovery procedures are in progress and corrective actions are underway for numerous reportable areas.

Noncritical Liabilities Lines

The Air Force identified the following noncritical lines:

- Accounts Payable
- Military Retirement and Other Federal Employment Benefits
- Other Liabilities

For Wave 4 purposes, the Air Force includes the above lines within the following three assessable units:

- Accounts Payable and Accounts Receivable
- Other Liabilities
- Contingent Liabilities

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Air Force applied Wave 2 efforts to perform discovery and assess the adequacy of processes, controls, and documentation for remaining noncritical liabilities.

Challenges to Audit Readiness by September 30, 2017

While the Air Force has made progress toward audit readiness, challenges remain:

- Developing and implementing procedures to reconcile noncritical asset lines to underlying detail (i.e., trial balances, general ledger, transaction data from feeder systems for both legacy GAFS-R and DEAMS).
- Demonstrating completeness of Environmental and Disposal Liabilities is dependent upon demonstrating existence and completeness of mission-critical assets

Figure IV-4 provides the Air Force audit readiness plans for the General Fund Balance Sheet. The figure also shows when existence and completeness audit readiness was completed or is planned to be completed.

FIAR Plan Status Report

Figure IV-4. Air Force General Fund Balance Sheet Audit Readiness Plans (Waves 3 & 4)

Department of the Air Force	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment				▲													<ul style="list-style-type: none"> ▲ Existence and Completeness Audit Ready Discovery Corrective Action/Assert Internal Reviews Sustainment Financial Statement Audits
General Equipment (Information Technology)							▲										
General Equipment (Capitalized Medical Equipment)																	
Real Property				▲													
Internal Use Software							▲										
OM&S (Depot)						▲											
OM&S (Base Possessed)						▲											
OM&S (Munitions)							▲										
OM&S (Spares, Contractor Managed and Possessed)							▲										
Government Furnished Equipment							▲										
Accounts Receivable																	
Other Assets																	
Liabilities																	
Environmental and Disposal Liabilities											▲						
Accounts Payable																	
Other Liabilities																	
Contingent Liabilities																	

General Equipment (General Fund)

Remaining Audit Readiness Actions

- Develop and monitor corrective actions for internal control gaps to ensure financial reporting objectives are met.
- Develop reconciliations with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Document the processes surrounding AFEMS and strategize how to achieve legacy system audit readiness.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.
- Military Equipment is 85 percent of General Equipment. Examination scheduled for 03/2016.

Challenges

- Developing and implementing corrective actions for a sustainable APSR to general ledger reconciliation process and obtaining supporting documentation.
- Remediating lack of accountability for Research, Development, Test, and Evaluation; Special Tooling/Special Test Equipment; and DLA stored assets. Assets must be entered in APSR.
- Finalizing OSD policy guidance for Military Equipment Construction in Progress valuation, including identification of sustainable sources for Military Equipment Construction in Progress.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	✓
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S, AFEMS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

General Equipment (Information Technology) (General Fund)

Remaining Audit Readiness Actions

- Develop processes and controls for accountability and financial reporting.
- Test internal controls and conduct physical inventory to validate existence and completeness.
- Document the processes surrounding AFEMS and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions, and ensure property recorded in AFEMS is posted to the GAFS-R.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.

Challenges

- Developing and implementing corrective actions, including a sustainable APSR to general ledger reconciliation process and obtaining supporting documentation.
- Implementing corrective actions to account for IT-hardware, which is recorded in a non-Air Force APSR.
- Implementing corrective actions related to lack of accountability of assets purchased outside of Air Force Way and NETCENTS acquisition process.
- Developing corrections to remediate assets incorrectly classified in APSR.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

General Equipment (Capitalized Medical Equipment) (General Fund)

Remaining Audit Readiness Actions

- Capitalized Medical Equipment was asserted in 03/2014 and approved by OUSD(C).
- Perform annual sustainment assessments.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Challenges

- Expediting implementation of corrective actions related to valuation of recorded assets.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DMLSS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property (General Fund)

Remaining Audit Readiness Actions

- Develop and monitor corrective actions for internal control gaps to ensure objectives are met.
- Complete all physical inventories (180+ bases), including the 13 bases currently under physical inventory.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the ACES-RP are posted accurately and timely to GAFS-R.
- Coordinate with service providers to determine the roles and responsibilities for end-to-end processes, including Construction in Progress, and develop MOUs to support assertion dates.
- Gather supporting documentation to value assets, and develop documentation retention and sustainment strategies.
- MAJCOM (or representative Air Force sample) existence, completeness, and valuation examination scheduled for 10/2016.

Challenges

- Developing and implementing corrective actions, including a sustainable APSR to general ledger reconciliation process.
- Developing internal controls to ensure assets are capitalized within 10 days of the placed-in-service date.
- Enhancing existing processes to ensure sufficient supporting documentation is readily available.
- Performing inventory inspections timely and ensuring installations perform floor-to-book inventories.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ABSS, ACES-RP, IWIMS, CEFMS, CRIS, FIS, iNFADS, WAWF)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Internal Use Software (General Fund)

Remaining Audit Readiness Actions

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct inventory to validate existence and completeness.
- Document the processes surrounding the AFEMS-AIM and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in AFEMS-AIM are properly posted to GAFS-R.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Challenges

- Developing and implementing corrective actions, including a sustainable APSR to general ledger reconciliation process and obtaining supporting documentation.
- Developing detailed Air Force guidance for Internal Use Software.
- Finalizing policy guidance from OSD for Internal Use Software, including defining a baseline and go forward dates.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS-AIM)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Operating Materials and Supplies (Depot) (General Fund)

Remaining Audit Readiness Actions

- Complete valuation documentation and testing.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Challenges

- Implementing corrective actions to reconcile APSR and financial records.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	✓
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (SCS, DSS, ILS-S)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Operating Materials and Supplies (Base Possessed) (General Fund)

Remaining Audit Readiness Actions

- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Document the processes surrounding the ILS-S and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in ILS-S are properly posted to GAFS-R.
- Implement corrective actions to ensure Individual Protective Equipment is properly recorded in ILS-S and reported on the Balance Sheet.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.

Challenges

- Developing and implementing corrective actions, including a sustainable APSR to general ledger reconciliation process.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	✓
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Operating Materials and Supplies (Munitions) (General Fund)

Remaining Audit Readiness Actions

- Develop corrective actions to remediate issues surrounding rights to underlying items identified in the Munitions existence and completeness examination. The examination was completed in 08/2015 and resulted in a qualified opinion.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.
- Develop corrective actions to modernize the Combat Ammunition System.

Challenges

- Developing and implementing corrective actions, including a sustainable APSR to general ledger reconciliation process and obtaining supporting documentation.
- Developing and implementing a consistent valuation methodology for high-volume turnover items.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	✓
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (CAS, WAWF)	02/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

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

Remaining Audit Readiness Actions

- Finalize interim solution for accountability and financial reporting.
- Conduct a physical inventory to validate existence and completeness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in contractor APSRs are posted accurately and timely to the general ledger.
- Continue using the Service Development and Delivery process to identify a government APSR.
- Develop and monitor corrective actions for internal control gaps to ensure objectives are met to include the implementation of an APSR.
- Complete valuation discovery for each major asset class. Value assets and develop and retain supporting documentation.

Challenges

- Developing and implementing corrective actions related to existence, completeness, rights, valuation and financial reporting of contractor managed and possessed property.

completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems.	09/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Government Furnished Equipment (General Fund)

Remaining Audit Readiness Actions

- Determine the universe of contracts and population of assets to record in the APSR.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Develop and monitor corrective actions for internal control gaps to ensure objectives are met and establish baseline.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.

Challenges

- Developing and implementing corrective actions, including a sustainable APSR to general ledger reconciliation process and obtaining key supporting documentation.
- Identifying assets on non-Air Force contracts.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS, SCS (FIABS), ILS-S)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Accounts Receivable (General Fund)

Remaining Audit Readiness Actions

- Analyze beginning balances by appropriation and year for transaction support and necessary coverage from a materiality standpoint.
- Confirm whether budgetary and proprietary account postings occur simultaneously for transactions in both legacy GAFS-R and DEAMS.

Challenges

- Executing procedures for identifying source data, creating a universe of transactions, reconciling general ledger transactions to feeder systems, and correcting accounting errors.
- Developing an estimation methodology to record Accounts Receivable and accrued Revenue.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: Air Force will move from audit readiness assertion into audit. No validation examination will be conducted

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Other Assets (General Fund)

Remaining Audit Readiness Actions

- Analyze and age beginning balances for each component of Other Assets disclosed in Note 6 (e.g., Advances and Prepayments, Outstanding Contract Financing Payments).
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Identify internal control activities necessary to achieve the financial reporting objectives, and test for design and operating effectiveness.
- Select sample transactions from each sub-assessable unit and test for completeness and accuracy for supporting documentation.

Challenges

- Developing universe of transactions and reconciling general ledger balances to feeder systems.
- Processes for documenting the recording of Advance Payment Pool Agreements must be enhanced to ensure accuracy.
- Availability of supporting documentation to substantiate recorded balances and transactions.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	✓
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions

- Continue to develop processes, controls, cost models, and valuation methodologies required to estimate asset-driven liabilities.
- Support Cost-to-Complete, Unliquidated Obligation, and transferred funds calculations for event-driven liabilities.

Challenges

- Demonstrating completeness of Environmental Liabilities is contingent upon demonstrating existence and completeness of Property, Plant, and Equipment.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2017
Discovery	09/2016
Corrective Actions	03/2017
Processes, Controls, and Systems Corrected and Tested for New Liabilities	03/2017
Cost/Valuation Estimation	03/2017
Cost/Valuation Methodology Approval	06/2016
Baseline Cost/Valuation	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IIT,EESOH-MIS & MXT)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Accounts Payable (General Fund)

Remaining Audit Readiness Actions

- Analyze and age beginning balances for each component of Other Liabilities disclosed in Notes 15 and 17.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Confirm whether budgetary and proprietary account postings occur simultaneously for transactions.

Challenges

- Executing procedures for identifying source data, creating a universe of transactions, reconciling general ledger transactions to feeder systems, and correcting accounting errors.
- Enhancing existing processes to confirm support for the adequacy of support for beginning balances.
- Implementing standard, repeatable processes related to the periodic estimation and accrual of Accounts Payable and Expenses.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Other Liabilities (General Fund)

Remaining Audit Readiness Actions

- Analyze and age beginning balances for each component of Other Liabilities disclosed in Notes 15 and 16.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Identify internal control activities necessary to achieve financial reporting objectives and test for design and operating effectiveness.
- Select a sample of transactions from each sub-assessable unit and test for completeness and accuracy relative to supporting documentation.

Challenges

- Executing procedures for identifying source data, creating a universe of transactions, reconciling general ledger transactions to feeder systems, and correcting accounting errors.
- Implementing processes, controls, and documentation supporting the estimation and recording of liabilities.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	✓
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems.	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

Contingent Liabilities (General Fund)

Remaining Audit Readiness Actions

- Implement corrective actions to strengthen controls designed to ensure all Contingent Legal Liabilities are included in reported balances.
- Strengthen controls over micro-applications used to calculate reported balances.
- Strengthen supporting documentation for data call journal vouchers used by DFAS to record estimated future contract financing payments.

Challenges

- Developing processes and controls to ensure completeness of Contingent Liabilities.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	07/2016
Audit Readiness Validation	09/2016

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Working Capital Fund Financial Statements (Wave 4)

The Air Force Working Capital Fund strategy is to rely on General Fund assertion work performed on standard Air Force processes and focus audit readiness activities on unique Working Capital Fund processes.

STATEMENT OF BUDGETARY RESOURCES

Assertion activities covering standard processes for civilian pay, travel pay, vendor pay, and contract pay apply to both the General Fund and Working Capital Fund. Testing for Working Capital Fund controls was performed in conjunction with General Fund testing.

The Air Force asserted audit readiness for Working Capital Fund Contract Authority and Revenue/Spending Authority (Flying Hours). These two assertions represent 45 percent of working Capital Fund total budgetary resources. Remaining work includes building a sustainable universe of transactions with appropriate reconciliations, documenting and testing the link between standard processes and Working Capital Fund general ledgers, finalizing testing for Spending Authority, and documenting and testing SBR beginning balances.

In FY 2016, the Air Force plans to conduct an examination of Working Capital Fund Contract Authority and Revenue/Spending Authority (Flying Hours).

The FY 2015 SBA audit is laying the foundation for identifying the corrections to current business processes. In addition, the FY 2017 beginning balance examination will identify deficiencies in evidential support. The IPA feedback examination is essential to developing necessary and timely corrective actions to the current environment for the FY 2018 SBR audit.

The Air Force expects the FY 2015 SBA audit will identify major process issues that will provide the Air Force with more accurate timelines for completing corrective actions.

Working Capital Fund assessable units include:

- Contract Authority
- Spending Authority (Depot Maintenance)
- Spending Authority (Stock Control System)
- Spending Authority (Integrated Logistics Systems – Supply)
- Statement of Budgetary Resources – Beginning Balances

Figure IV-5 provides the SBR audit readiness plans for the Working Capital Fund SBR.

FIAR Plan Status Report

Figure IV-5. Air Force Working Capital Fund SBR Audit Readiness Plans

Department of the Air Force	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Contract Authority	Discovery	Discovery	Discovery	Corrective Actions/Assert	Sustainment	Sustainment	Sustainment	Validation	Validation	Validation	Validation	Validation	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Sustainment Validation Internal Reviews SBR IPA Audit
Spending Authority (Depot Maintenance)	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Internal Reviews	Validation	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	
Spending Authority (Stock Control System)	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Internal Reviews	Validation	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	
Spending Authority (ILS-S)	Discovery	Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Internal Reviews	Validation	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit					
Beginning Balances	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Sustainment	Sustainment	Sustainment	Validation	Validation	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	

Contract Authority (Working Capital Fund)

Remaining Audit Readiness Actions

- Complete examination of Contract Authority and Revenue/ Spending Authority (Flying Hours) for the period ending 09/2015.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	✓
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile feeder system(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	12/2015

Spending Authority (Depot Maintenance) (Working Capital Fund)

Remaining Audit Readiness Actions

- Update process flows for Spending Authority.
- Finalize process documentation.
- Develop test plans and assess internal controls.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	12/2015
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (APO, DIFMS, DFAS-IE, GAFS-BL)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Spending Authority (Stock Control System) (Working Capital Fund)

Remaining Audit Readiness Actions

- Finalize process documentation.
- Develop test plans and assess internal controls.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	04/2016
Test Plans	10/2016
Controls and Supporting Documentation Testing	03/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-BL, SMAS, SCS/FIABS, DTIM, DAAS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Spending Authority (Integrated Logistics Systems – Supply) (Working Capital Fund)

Remaining Audit Readiness Actions

- Finalize process documentation.
- Develop test plans and assess internal controls.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	12/2015
Test Plans	09/2016
Controls and Supporting Documentation Testing	12/2016
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-BL, SMAS, ILS-S, DTIM)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017

Statement of Budgetary Resources – Beginning Balances (Working Capital Fund)

Remaining Audit Readiness Actions

- Complete process documentation.
- Create test plans, and test controls and balances.
- Evaluate test results and build corrective action plans.

Challenges

- Identify Working Capital Fund corpus and develop an aging and cutoff methodology that addresses complexities associated with aging of no-year transactions without a fiscal year identifier.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	03/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	03/2016
Audit Readiness Assertion/Remediation	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DDRS-AFS, GAFS-R, GAFS-BL, DIFMS, SMAS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

BALANCE SHEET

The two highest value balances reported on the Working Capital Fund Balance Sheet are Inventory and Cumulative Results of Operations. Inventory represents over 86 percent of total assets and Cumulative Results of Operations represents over 96 percent of total liabilities and net position. The remaining balances are derived from standard Air Force processes referenced in the General Fund section of the report.

Balance Sheet Assets

Three of the five Working Capital Fund business areas hold over 99.9 percent of Inventory assets. The majority is held within the Consolidated Sustainment Activity Group-Supply Division with lesser amounts held at the base-level within either the Supply Management Activity Group-General Support Division or Medical Dental Division.

Critical Asset Lines

The Air Force reviewed documentation from DLA supporting the Inventory and OM&S (Depot) assertions. Additionally, initial control and balance testing at the Air Logistics complexes was completed. Testing at the base-level and Medical Dental retail locations has also been completed.

The Air Force is working the following critical Balance Sheet asset lines:

- Inventory (Depot)
- Inventory (Base Possessed)
- Inventory (Medical and Dental)

Noncritical Asset Lines

The Air Force is working the following noncritical Balance Sheet asset lines:

- General Equipment
- General Equipment – IT
- Real Property
- Internal Use Software
- Government Furnished Property
- Accounts Receivable
- Other Assets

A tri-chart is provided for each of the above Balance Sheet lines identifying the timeline for asserting readiness, remaining work and challenges, and dates when deal-breakers will be completed.

Progress Highlights Since the May 2015 FIAR Report

Since the last FIAR report, the Air Force made progress in several areas:

- Asserted audit readiness for Inventory (Medical/Dental).
- Completed discovery, documented processes, and began testing existence and completeness of Inventory.

Challenges to Audit Readiness by September 30, 2017

While the Air Force has made progress toward audit readiness, challenges remain:

- Develop a sustainable universe of transactions and reconcile to the general ledgers.
- Procedures for reconciling APSR to financial records in accordance with accounting standards need revision.

Balance Sheet Liabilities

Working Capital Fund liabilities represent 4 percent of total liabilities and total net position. Balances are derived from standard Air Force processes referenced in the General Fund section of this report.

Noncritical Liabilities Lines

The Air Force identified two noncritical lines:

- Accounts Payable
- Other Liabilities

Figure IV-6 provides a summary view of the Air Force audit readiness plans for the Working Capital Fund Balance Sheet. Tri-charts follow the figure for Balance Sheet assessable units.

Figure IV-6. Air Force Working Capital Fund Balance Sheet Audit Readiness Plans

Department of the Air Force	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																	
General Equipment				▲													▲ Existence and Completeness Audit Ready ■ Discovery ■ Corrective Action/Assert ■ Internal Reviews ■ Sustainment ■ Financial Statement Audits
General Equipment (Information Technology)							▲										
Real Property				▲													
Internal Use Software							▲										
Government Furnished Equipment							▲										
Inventory (Base Possessed)				▲				■	■	■	■	■					
Inventory (Depot)							▲										
Inventory (Medical and Dental)				▲													
Accounts Receivable																	
Other Assets																	

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions

- Develop and monitor corrective actions for internal control gaps to ensure financial reporting objectives are met.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Document the processes surrounding AFEMS and strategize how to achieve legacy system audit readiness.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.

Challenges

- Remediating lack of accountability of Special Tooling/Special Test Equipment and DLA stored assets. Assets must be entered in APSR.
- Obtaining supporting documentation to support recorded assets.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S, AFEMS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

General Equipment (Information Technology) (Working Capital Fund)

Remaining Audit Readiness Actions

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

Challenges

- Implementing corrective actions to account for IT-hardware, which is recorded in a non-Air Force APSR.
- Implementing corrective actions related to lack of accountability of assets purchased outside of Air Force Way and NETCENTS acquisition process.
- Developing corrections to remediate assets incorrectly classified in APSR.
- Obtaining supporting documentation to support recorded assets.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Real Property (Working Capital Fund)

Remaining Audit Readiness Actions

- Develop and monitor corrective actions for internal control gaps to ensure objectives are met.
- Develop reconciliation with DFAS to confirm transactions and property recorded in ACES-RP are posted accurately and timely to GAFS-R.
- Coordinate with service providers to determine the roles and responsibilities for end-to-end processes and develop MOUs.
- Gather supporting documentation to value assets, and develop documentation retention and sustainment strategies.
- MAJCOM (or representative Air Force sample) existence, completeness, and valuation examination scheduled for FY 2016.

Challenges

- Developing a reconciliation at the asset transaction level between ACES-RP and GAFS-R.
- Reconciling service provider Construction in Progress balances. Additionally, no MOU currently exists between Air Force and its service providers.
- Developing internal controls to ensure assets are capitalized within 10 days of the placed-in-service date.
- Enhancing existing processes to ensure sufficient supporting documentation is readily available.
- Performing inventory inspections timely and ensuring installations.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ABSS, ACES-RP, IWIMS, CEFMS, CRIS, FIS, iNFADS, WAWF)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Internal Use Software (Working Capital Fund)

Remaining Audit Readiness Actions

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct inventory to validate existence and completeness.
- Document the processes surrounding the AFEMS-AIM and strategize how to achieve legacy system audit readiness.
- Develop a reconciliation with DFAS to confirm transactions and property recorded in AFEMS-AIM are properly posted to GAFS-R.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Challenges

- Developing an APSR for Internal Use Software.
- Developing a detailed Air Force guidance for Internal Use Software.
- Obtaining supporting documentation to support recorded assets.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

FIAR Plan Status Report

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Government Furnished Equipment (Working Capital Fund)

Remaining Audit Readiness Actions

- Determine the universe of contracts and population of assets to record in the APSR.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Develop and monitor corrective action plans for internal control gaps to ensure objectives are met to establish Government Furnished Equipment baseline.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.

Challenges

- Identifying Government Furnished Equipment assets on non-Air Force contracts.
- Obtaining supporting documentation for recorded assets.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	03/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS, DSS, SCS (FIABS), ILS-S)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016

Inventory (Base Possessed) (Working Capital Fund)

Remaining Audit Readiness Actions

- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Document the processes surrounding the ILS-S and strategize how to achieve legacy system audit readiness.
- Develop a reconciliation with DFAS to confirm transactions and property recorded in ILS-S are properly posted to GAFS-R.
- Implement corrective actions to ensure that Individual Protective Equipment is properly recorded in ILS-S and reported on the Balance Sheet.
- Complete valuation discovery for each major asset class. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	06/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion/Remediation	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Inventory (Depot)

Remaining Audit Readiness Actions

- Complete valuation documentation and testing.
- Implement system changes to reduce deficiencies related to Inventory In-Transit.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.
- Examination of Inventory scheduled for 06/2016.

Challenges

- Existence and completeness corrective actions pending reconciliation between APSR and financial records.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	✓
Corrective Actions	06/2016
Valuation	06/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion/Remediation	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (SCS, DSS, ILS-S)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Inventory (Medical and Dental)

Remaining Audit Readiness Actions

- Develop MOU and obtain documentation from the Defense Health Agency to cover FISCAM IT controls and asset valuation methodology. Moved valuation date to finalize LAC valuation approval with DHA.
- Examination of Inventory planned for 06/2016.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	06/2016
Valuation Methodology Approval	12/2015
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion/Remediation	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (SMAS, DMLSS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Accounts Receivable (Working Capital Fund)

Remaining Audit Readiness Actions

- Identify and document the financial events impacting the Accounts Receivable proprietary accounts (Accounts Receivable and Allowance for Doubtful Accounts).
- Analyze Unfilled Customer Orders beginning balances to understand composition and the aging (by appropriation and year) and determine the baseline year for transaction from a materiality standpoint.
- Analyze Unpaid Obligations, brought forward, to identify an aging methodology for no-year appropriation.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Confirm whether budgetary and proprietary account postings occur simultaneously for transactions.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓5
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016

Other Assets (Working Capital Fund)

Remaining Audit Readiness Actions

- Analyze and age beginning balances for each component of Other Assets disclosed in Note 6 (e.g., Advances and Prepayments, Outstanding Contract Financing Payments).
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Document processes and controls, and determine the extent to which existing documentation covers financial reporting objectives for Other Assets.
- Identify internal control activities necessary to achieve financial reporting objectives and test for design and operating effectiveness.
- Select a sample of transactions from each sub-assessable unit and test for completeness and accuracy relative to supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Audit Readiness Assertion/Remediation	03/2017
Audit Readiness Validation	06/2017

Note: The Air Force will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016

AIR FORCE AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure IV-7 include:

Audit Readiness, Validations, and Audits resources provide for:

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

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included in audit readiness resources. ERP costs are reported in Section VII, Information Technology Systems Critical to Audit Readiness. Additionally, changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls. The Department has not attempted to capture the costs of process changes made solely for audit readiness, and therefore, resources reported below may not fully capture process improvement costs.

Figure IV-7. Air Force Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Audit Readiness, Validations, and Audits	48	72	80	79	78	78
Financial Systems	23	30	30	30	30	30
Total Resources	71	102	110	109	108	108

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V. Other Defense Organizations Audit Readiness

Audit readiness of other Defense organizations continues to be an important part of the Department’s overall audit strategy. In FY 2015, five ODOs received audit opinions on their annual financial statements. As shown in Figure V-1, four are sustaining unmodified opinions, and one is correcting deficiencies and strengthening controls with the goal of receiving an unmodified opinion. The Defense Health Agency – Contract Resource Management also underwent an audit of its FY 2015 full financial statements. The opinion will be released later this year.

Figure V-1. FY 2015 Financial Statement Audit Opinions

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

For purposes of the FIAR Plan, the ODOs include:

- U.S. Special Operations Command (USSOCOM)
- U.S. Transportation Command (USTRANSCOM)
- Defense Agencies
- Intelligence Community Defense Agencies
- Field Activities

- Chemical Biological Defense Program (CBDP)
- Medicare-Eligible Retiree Health Care Fund (MERHCF)
- Military Retirement Fund (MRF)
- Other organizations and accounts that receive Defense-wide appropriated funds

Defense Intelligence Agencies

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

The Defense intelligence agencies reached another major milestone in FY 2015 with all agencies undergoing an audit of their full financial statements. The National Reconnaissance Office has sustained its seventh unmodified opinion. The National Security Agency, Defense Intelligence Agency and National Geospatial-Intelligence Security Agency (NGA), received a disclaimer of opinion, while NGA received the second modified opinion from the examination of its core financial management system.

Although a significant amount of work remains, the Defense intelligence agencies are now better informed and positioned to manage risk, regulate the pace of critical improvements, and align increasingly limited personnel and resources in order to achieve results. The agencies will revise their corrective action plans to reflect the actions necessary to resolve the highest priority, auditor identified material weaknesses and deficiencies; Fund Balance with Treasury; intergovernmental transactions; and property, plant, and equipment.

ODO AUDIT STRATEGY, STATUS, AND PLANS

The ODO audit strategy categorizes the ODOs based on Office of Management and Budget (OMB) reporting requirements, current ODO financial statement audits, and materiality. The strategy also identifies which ODOs will undergo mock audits, IPA examinations, and full financial statement audits, and when they will take place. As prescribed in the audit strategy, ODO audits are grouped into four categories:

- OMB-Designated Audits
- DoD-Designated Audits
- DoD-Designated Examinations
- Defense Agencies and Funds Not Material

OMB-Designated Audits

OMB-Designated Audits for ODOs includes the Military Retirement Fund and the Military Departments' Working Capital Funds, which are classified as TI-97. Financial statements for the Military Retirement Fund are prepared and audited annually and have resulted in unmodified audit opinions. The Military Departments' Working Capital Funds are not yet under audit.

DoD-Designated Audits

DoD-Designated Audits includes 10 material ODOs and funds that account for 22 percent of DoD budgetary resources. DeCA, DCAA, and DFAS are undergoing annual financial statement audits and receiving unmodified opinions on their FY 2015 financial statements. DHA CRM is also undergoing annual financial statement audits, however, the opinion on its FY 2015 financial statements had not been released at the time of this report. MERHCF received a modified opinion on its FY 2015 financial statements and is working to achieve an unmodified opinion. Audits will continue for these five

ODOs until the Department receives an opinion on its consolidated financial statements.

USSOCOM and DHA had IPA examinations of their General Fund SBAs in FY 2015. The IPA examinations identified audit issues that were documented in NFRs. These ODOs are working to resolve the issues during FY 2016 and are preparing for IPA audits of their full financial statements in FY 2017.

USTRANSCOM is continuing FIAR activity in FY 2016 and is also preparing for an IPA audit of its full financial statements in FY 2017.

DISA validated its audit readiness in FY 2015 and is undergoing a full financial statement audit in FY 2016. DLA completed FIAR activity in FY 2015 and is undergoing a full financial statement audit in FY 2016. Full financial statement audits are planned for both DISA and DLA in FY 2017.

DoD-Designated Examinations

DoD-Designated Examinations includes the other material ODOs, which account for 4 percent of DoD budgetary resources. In FY 2015, these ODOs were under either SBA examinations or financial statement mock audits:

SBA Examinations

- Washington Headquarters Services
- Missile Defense Agency
- Defense Advanced Research Projects Agency
- Chemical Biological Defense Program
- Defense Threat Reduction Agency

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Financial Statement Mock Audits

- Other Treasury Index (TI)-97 Funds Provided to the Army by the Office of the Secretary of Defense
- Defense Security Cooperation Agency
- DoD Education Activity
- Defense Contract Management Agency
- Joint Chiefs of Staff

The SBA examinations and financial statement mock audits identified issues, requiring these ODOs to address and resolve IPA prepared NFRs during FY 2016. Financial statement examinations are planned for FY 2017 and in FY 2018.

Defense Agencies and Funds Not Material

Defense Agencies and Funds Not Material encompass the 26 ODOs not included in the other categories and that together account for less than 1 percent of the Department's budgetary resources. These ODOs will continue audit readiness efforts and strengthen internal controls but will only be audited as part of the FY 2018 DoD Consolidated Financial Statements audit.

This phased approach ensures all ODOs 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 statements audit readiness.

LESSONS LEARNED FROM EXAMINATIONS AND MOCK AUDITS

During FY 2015, most of the material ODOs were under either SBA examinations or financial statement mock audits. For most of the ODOs, the examinations and audits were their first IPA examinations

and audits, providing an opportunity to understand, firsthand, what an audit entails.

The auditors' reports from the examinations and mock audits identified important audit readiness and audit issues and impediments common among the ODOs, such as:

- Weak entity-level controls
- Incomplete and unreconciled universe of transactions
- Unsupported journal vouchers
- Unsupported open obligations
- Incomplete process documentation
- Inability to timely respond to auditor requests for information and transaction supporting documentation

The OUSD(C) is working to ensure OSOs resolve audit issues and impediments before the ODO financial statement audits begin in FY 2017.

OUSD(C) SUPPORT TO THE ODOs

Recognizing the need for the material ODOs to effectively address the critical path tasks and to resolve deficiencies by September 30, 2016, when financial statement examinations are planned, the OUSD(C) established in late August 11 Tiger Teams. The teams comprise a government lead and IPA auditors with experience in the critical path tasks areas. The 11 Tiger Teams are:

- Fund Balance with Treasury Team
- Journal Voucher Team
- Open Obligations Team
- Property, Plant, and Equipment Team
- Environmental and Disposal Liabilities Team

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- Reconciliations Team
- Accounts Payable, Accruals, and Vendor Pay Team
- Service Providers Teams
- Notice of Findings and Recommendations Tracking and Metrics Team
- Beginning Balance Team
- Monthly Control Testing Team

Beginning in FY 2016, the teams began working directly with DFAS and the material ODOs to perform discovery work and develop corrective actions. After the corrective actions are completed, the Monthly Control Testing Team will confirm corrective actions have been fully implemented and are being sustained.

AUDIT READINESS ACCOMPLISHMENTS

Since the May 2015 report, the ODOs achieved many audit readiness accomplishments, including:

- CBDP developed a universe of transactions reconciliation model that is being shared with other ODOs.
- DARPA began piloting a trading partner disbursement reconciliation for the ODO community.
- DCMA implemented DAI for time and attendance in August 2015. Full financial functionality will be operational in October 2016. DAI replaced four legacy feeder and financial systems with a single system that is USSGL and SFIS compliant.
- DHA applied SBA examination lessons learned to the development of a formal response process to better respond to audit requests.
- DHRA developed a quantitative drill down analysis (~95 percent complete) that includes reconciliation of the SBR to the general ledger and allocation of SBR lines by assessable units.
- DHRA merged its Managers' Internal Control Program and FIAR programs to maximize limited resources. Training was provided to the DHRA workforce and executive leadership continues to stress the importance of these programs.
- DHRA centralized SharePoint sites for FIAR, Managers' Internal Control Program, Statement of Assurance, and triannual review work products, which reduces manual processes and supports documentation retention.
- DHRA reduced aged transactions related to negative payables, trading partner numbers, accounts receivables, and triannual review data by 75 percent.
- DISA engaged an IPA to perform an agreed-upon procedures engagement applying procedures to DISA opening balances, financial statement crosswalks, Fund Balance with Treasury, and Accounts Payable for the General Fund and Working Capital Fund for the period from October 1, 2012 to September 30, 2014. In the draft report, the IPA reconciled opening balances without exception, cross-walked trial balances to the DDRS financial statements without exception, reconciled FBWT balances between the trial balances and CMR without exception, reconciled Accounts Payable to the trial balance without exception, and performed tests designed to search for unrecorded liabilities that did not result in detection of any unrecorded accounts payable liabilities.
- DLA asserted to the audit readiness of its financial statements for Working Capital Fund, Transaction Fund, and current year General Fund.
- DLA improved its ability to sustain audit readiness by establishing an Enterprise Process Management structure that provides a balance between process management and process

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health activities, allowing the design, implementation, and measurement of multi-disciplinary and cross-functional processes, thereby enabling improving performance through alignment, visibility, and collaboration among business units and functional areas.

- DoDEA replaced its legacy accounting system with DAI, generating accurate and reliable financial and reporting data that are USSGL and SFIS compliant.
- DSCA transitioned to DAI automated payroll system resulting in a single payroll system agency-wide.
- DSCA achieved summary-level reconciliation of financial statements for Quarter 1 of FY 2015. DSCA produced a centralized accounting universe of transactions for Quarter 1 of FY 2015 consisting of DSCA's general ledger populations aggregated from 23 unique accounting system sources.
- DSCA established a new journal voucher processing MOU with DFAS, effectively giving DSCA complete oversight and increasing the agency's accountability over financial reporting. Additionally, DSCA developed 14 corrective action plans to address NFRs from the mock audit.
- DSCA continues to expand its audit infrastructure by deploying Corrective Action Plan Management, IT Systems Testing and Standard Operating Procedure SharePoint sites. Results showed improved transparency, accountability, and efficiency in the compilation of supporting documentation and corrective action packages. Additional enhancements are being developed to include lessons learned and metrics reporting.
- DSCA conducted "Post Audit Activities" and "Responding to the Auditor" agency-wide training during July 2015 and will continue to engage DSCA personnel through FY 2018 with targeted audit readiness and sustainment learning activities.
- DTIC collaborated with DFAS to establish a journal voucher review MOU that identifies a review threshold and timeline, required supporting documentation, and issue tracking guidelines.
- DTIC completed process documentation for the Fund Balance with Treasury and Financial Reporting assertion packages.
- DTIC completed Complementary End User Control testing, and implemented and resolved corrective actions for seven systems material to DTIC audit readiness.
- DTRA created an audit infrastructure to process auditor requests for documentation which includes identifying responsible parties across the DTRA organization and educating designated points of contact on audit response requirements. To accomplish its goal of achieving an audit response infrastructure, DTRA also established a FIAR examination SharePoint site. This site serves as a documentation repository for auditor documentation requests, ensuring an efficient and streamlined audit response infrastructure.
- To mitigate summary-level accounting adjustments (journal vouchers), DTRA and DFAS finalized an MOU to establish a timeline and prioritization for review and approval of all journal vouchers. DFAS provides a monthly journal vouchers log that includes all proposed period entries prior to certification of data in DDRS. This agreement provides for a monthly review and discussion of journal vouchers between DFAS and DTRA, establishing a framework for a more accurate journal voucher audit trail.
- MDA established a Financial Improvement office directly reporting to the agency Director for Operations (Senior Executive Service level) for oversight of financial information, controls, processes, auditability, and communications. Within the Operations Directorate, the MDA Comptroller/CFO established a new audit readiness office with dual reporting to the

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Comptroller/CFO and financial improvement offices. These organizations provide the core infrastructure to support audit readiness, including testing, centralized data and responses, and cohesive internal and external communications.

- MDA resolved two material weaknesses for Government Furnished Property and General Property, Plant, and Equipment, and reported an unqualified Statement of Assurance that internal controls over financial reporting are operating effectively.
 - Completed reviews of contracts and Military Interdepartmental Purchase Requests in April 2015.
 - Reported 170,000 assets in DPAS valued at \$14 billion (individual asset values begin at \$5,000) and valuation continues.
 - Disposed of over 900,000 items during property reviews (e.g., flight test hardware, test equipment, support equipment).
 - Closed warehouses no longer needed resulting in savings of \$300,000 annually.
- USTRANSCOM published its FIAR Strategic Plan, Communication Operations Plan and the first edition of the “FIAR Flash.” These documents communicate current and upcoming FIAR activities across the command.
- USTRANSCOM performed detailed scoping exercise over all accounting and feeder systems. Analyzed the auditability of all critical systems and determined all systems are audit ready or have plan in place to be audit ready by beginning FY 2017.
- USTRANSCOM implemented the Audit Response Center Tool and the Reconciliation Tool to aid in audit readiness efforts and created a FIAR Knowledge Management SharePoint Site for storage of FIAR related documents.
- WHS expanded the Audit Readiness and Risk Management Branch in August 2015 to improve response to data calls, examinations and audits, and to meet testing and corrective action plan implementation milestones.
- WHS successfully implemented direct to Treasury disbursing and successfully submitted its first full batch of disbursement transactions to Treasury for payment on October 14, 2015.

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 V-2 include:

Audit Readiness, Validations, and Audits resources provide for:

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

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included in audit readiness resources. ERP costs are reported in Section VII, Information Technology Systems Critical to Audit Readiness. Additionally, changes and improvements to functional and financial processes are continually being made for operational efficiencies and improving controls. The Department has not attempted to capture the costs of process changes made solely for audit readiness, and therefore, resources reported below may not fully capture process improvement costs.

Figure V-2. Other Defense Agencies Audit Readiness Resources (Dollars in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Audit Readiness, Validations, and Audits	228	232	259	278	262	260
Financial Systems	5	5	4	4	4	4
Total Resources	233	237	263	282	266	264

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Message from the Defense Contract Management Agency

My message to the DCMA workforce as well as our customers has been consistent: our goal is a steady state of audit readiness. Rather than viewing FIAR as another initiative, we are promoting audit readiness related activities as routine—an everyday way of doing business. DCMA must be able to assure our customers that for the appropriated dollars they placed on contracts and delegated to us for oversight, we have effective internal controls in place to demonstrate good stewardship.

The importance of achieving this steady state is evident by its place as one of DCMA's four strategic goals. Although all goals are monitored by agency senior leaders, we instituted a senior-level governance board to provide direction and monitor progress. We have completed two examinations and are working toward our FY 2016 audit readiness assertion. We established milestones to meet the goal of completing an FY 2016 examination by July 2016, while maintaining our schedule to support the Department's goal of audit readiness by 2017. Throughout this timeframe we stand ready to support our customers in their internal control testing and examination requirements. Consistency in controls and customer service support is so important that we established a dedicated FIAR program team in DCMA for this purpose.

As a globally dispersed organization, accurate and timely communication to every level of the organization is a challenge. This is particularly important at our field-level contract management offices, since this is where the work is actually performed and internal controls applied. To reinforce our critical role we have instituted a robust training and communication program that includes: a periodic newsletter, video-taped messages from the agency Director/Deputy Director, a website with training modules and desk guides, regional Lessons Learned sessions, and a dedicated help-desk function.

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 Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) is fully committed to achieving the Department's Financial Improvement and Audit Readiness (FIAR) plan. As a service provider, DFAS is responsible for audit readiness efforts surrounding our systems, data, processes, controls, and supporting documentation. We hold ourselves accountable to document our processes, test our controls, and remediate any issues. We recognize these items have a direct effect on our customers' auditability. It is critical we provide timely documentation, demonstrating that controls are properly designed, operating effectively, and properly account for transactions. Furthermore, we must do these things in coordination with our customers ensuring we incorporate the relationships of the end-to-end processes.



Since FY 2012, DFAS has achieved success through our Statements on Standards for Attestation Engagements (SSAE) No. 16. This past year we were successful in sustaining an unmodified opinion on the FY 2015 Civilian Pay, Disbursing and Contract Pay SSAE No. 16s. We achieved a modified opinion for the Military Pay SSAE No. 16 and saw the upgrade of our Financial Reporting SSAE No. 16 opinion to a modified opinion. We remain on track to close the outstanding findings relating to those examinations. In FY 2016 and FY 2017, we will continue to progress in our efforts as we execute our audit readiness strategy for the Fourth Estate. We will work to sustain and achieve the SSAE 16 unmodified opinions, and we will continue to conduct self-reviews on our processes and systems in accordance with our Managers' Internal Control Program.

This is an historic time for the Department with the Military Services being under audit. We recognize DFAS plays an integral role as a financial service provider in our customers' and the Department's audit success. As we move from a state of audit readiness to one of audit steadiness, DFAS will continue to use a framework of effective business management, effective internal controls, and sufficient, accessible, and current documentation. We are committed to open communication with the auditors. We are proactively addressing audit findings as we continue to provide the same world-class pay, accounting, and reporting services our customers deserve!


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, demonstrates this commitment through annual examinations by independent public auditors. For the fourth consecutive year, DISA received a clean opinion on the Hosting Services platform. The Agency continually works to improve processes, enhance controls, and validate information. In FY 2015, DISA increased the examination scope to include the Montgomery datacenter and database controls. Additionally, DISA undertook an independent application examination of the Automated Time and Attendance Production System.



DISA hosts more than 100 financial systems throughout the Department of Defense. Our clean opinion provides our Mission Partners and their auditors confidence that they can rely on the automated controls and documentation within these applications. Similar to other organizations, DISA experienced many challenges this year that impacted audit readiness, including new business. At DISA, audit is an enterprise-wide endeavor. The entire DISA workforce actively embraced these challenges and helped to sustain our audit readiness posture. We believe we are well prepared for a full audit of our Working Capital Fund and General Fund financial statements.

A handwritten signature in black ink, which appears to read "Alan R. Lynn". The signature is fluid and cursive, extending to the right with a long horizontal stroke.

LTG Alan R. Lynn
DISA Director

Message from the Defense Logistics Agency

This year marked a major achievement for the Defense Logistics Agency (DLA). On September 30, 2015, the Agency met its commitment by asserting to the audit readiness of our General Fund, Working Capital Fund, and Strategic Materials financial statements a full two years ahead of the Department of Defense's (DoD) goal of September 30, 2017. This marks the fourth year in a row that DLA has achieved all major audit readiness assertion milestones. The improvements we've made to our internal processes and procedures have had a direct effect on our service provider role.

DLA is a service provider to the Fourth Estate, responsible for Employee Record Set-Up and Maintenance of 50,000 employees. The four DoD-wide business systems DLA owns underwent SSAE No. 16 examinations by an Independent Public Accountant (IPA). The Defense Agencies Initiative system achieved DLA's first unmodified opinion, while the other systems achieved modified opinions. We are now remediating IPA identified deficiencies and have provided the reports to our customers, benefiting them and their auditors who rely on DLA systems to provide accurate, timely, and secure information.

DLA is a service provider to the Military Services by receiving, storing and issuing Military Service-owned items at various DLA depots. The processes and controls used to maintain the Military Service-owned items are the same as DLA uses to maintain our own inventory. In FY 2014 DLA asserted as a service provider for this area. During FY 2015, DLA performed additional corrections in key areas supporting the Services to enable this area's first SSAE No. 16 examination in FY 2016. To ensure DLA continues to provide appropriate support for the Military Services' financial statement audits, throughout the year DLA will conduct discussions with the Military Services on the scope and then the results of the SSAE No. 16 examination.

As we move forward, we will take corrective actions on any IPA identified findings, updating processes and procedures as needed to ensure we remain auditable. DLA remains committed to sustaining auditability and supporting all DoD financial statement audit-related goals.



A handwritten signature in black ink that reads "Andrew E. Busch". The signature is written in a cursive, flowing style.

Lt. Gen. Andrew E. Busch
Director

VI. Service Providers Audit Readiness

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

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

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

DoD Service Providers

The DoD service providers include:

- Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L))
- Department of the Army

- U.S. Army Corps of Engineers
- Department of the Navy
- Defense Civilian Personnel Advisory Service (DCPAS)
- 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)

FINANCIAL STATEMENT AUDIT STRATEGY AND THE SERVICE PROVIDERS

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

- Issued specific service provider guidance in the FIAR Guidance
- Directed the service providers to identify material systems and is monitoring system audit readiness activity
- Monitors SSAE No. 16 examinations and tracks Notices of Findings and Recommendations
- Conducts a Service Provider Working Group to track status of service provider activities and address DoD-wide dependencies

SSAE No. 16 Examinations

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

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

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 FIAR activity in support of their customers.

OUSD(AT&L)

The Property and Equipment Policy Office of the OUSD(AT&L) operates the Defense Property Accountability System (DPAS). DPAS is used for acquiring, managing, and reporting various types of personal and real property. DPAS is used by the Army, Navy, Marine Corps, Air Force, and ODOs.

An SSAE No. 16 examination is performed annually on DPAS. The OUSD(AT&L) received an unmodified opinion on the examination for the period July 2014 – June 2015.

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 Ammunition

The Army has acquisition authority and custodial accountability for conventional ammunition for the Military Services and serves as the Single Manager for Conventional Ammunition for the procurement and management of ammunition. In support of this role, the Army maintains physical custody over OM&S stock owned by the other Military Departments and maintains visibility for these assets in the two Accountable Property Systems of Record: LMP and the legacy system SAAS-MOD. To comply with FIAR service provider requirements, the Army:

- Executes a single set of audit readiness activities for the Army and other Military Services
- Performs monthly internal controls testing of business processes to identify deficiencies for mitigation

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

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

The Army completed the following audit readiness activities:

- Asserted to all OM&S (Class V Supply) – September 2014
- Developed corrective actions in response to a DoD OIG audit readiness validation report

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The Army is preparing to address FIAR valuation requirements for ammunition as part of the overall strategy valuing other OM&S assets.

Real Property Engineering Services and Construction

The U.S. Army Corps of Engineers (USACE) delivers public and military engineering services to strengthen the Nation's security, energize the economy, and reduce risks from disasters. Construction and engineering services are provided for the Army, other Military Departments, and the Defense Agencies.

USACE has received clean audit opinions on its Civil Works financial statements since FY 2006. Because USACE serves as a construction agent for the Army, 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 service provider customers.

In support of the Army, USACE executes the following audit readiness activities:

- Manages and oversees the military construction program that includes construction-in-progress reporting and accounting, and execution of real estate documents for the acquisition 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.
- Disposes of excess real estate including disposals mandated by the BRAC Commission or public law.
- Performs monthly internal controls testing of business processes to identify deficiencies for mitigation.

Department of the Navy

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

NAVFAC uses the same financial system, Facilities Information System with its associated controls, to manage military construction funds, regardless of the source (e.g., customer provided funds).

NAVFAC implemented non-Navy military construction transfer and acceptance processes in coordination with the Air Force and DLA. The processes address identification of real property unique identifiers and completion of draft and final DD Form 1354, Transfer and Acceptance of DoD Real Property.

Defense Civilian Personnel Advisory Service

DCPAS maintains the Defense Civilian Personnel Data System (DCPDS), the Department's civilian personnel system used to initiate, approve, and process personnel actions for civilian employees. Additionally, DCPAS hosts the personnel system for all DoD Components at a contractor-managed data center. The Components rely on DCPDS (including relevant system controls) to ensure the completeness, accuracy, validity, and restricted access to civilian personnel actions.

DCPAS received an unmodified opinion on the SSAE No. 16 examination for the period of October 2014 – June 2015.

Defense Contract Management Agency

DCMA, in coordination with DFAS, maintains the Mechanization of Contract Administration Services (MOCAS) system. The system is used to manage the Department's largest contracts from obligation to closeout. The Components rely on MOCAS, including relevant system controls, to ensure the completeness, accuracy, and validity of contract information and to restrict access to and prevent unauthorized recording of information on contract management

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activity. In addition to maintaining MOCAS, DCMA monitors contractor performance and business systems to ensure cost, product performance, and delivery schedules comply with the terms and conditions of the contracts.

DCMA received a modified opinion with 6 NFRs on the FY 2014 SSAE No. 16 examination for Contract Pay. All FY 2014 NFRs have been corrected. A modified opinion with 9 NFRs was recently issued on the FY 2015 SSAE No. 16 examination.

DCMA is assisting its customers' SBA audits by providing controls and process documentation for Contract Pay and the SSAE No. 16 audit reports.

Defense Finance and Accounting Service

DFAS provides accounting and finance services for the Department of Defense. It is one of the Department's largest service providers, undergoing five annual SSAE No. 16 examinations on its major functions. DFAS is responsible for civilian pay, military pay, vendor pay, retired and annuitant pay, general ledger maintenance, and financial statement preparation for the Military Services and other Defense organizations.

In FY 2014, DFAS disbursed \$572 billion and processed 150.2 million pay transactions for 6.3 million military and civilian employees, including retirees and annuitants, 11.5 million invoices, and 5.8 million travel payments. DFAS maintained 1,270 active appropriations and managed \$772 billion in military retirement and health care fund investments.

SBA Audit Support

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

- Civilian Pay – Unmodified opinion for the period October 2014 – June 2015
- Military Pay – Modified opinion with qualified language for the period October 2014 – June 2015
- Standard Disbursing – Unmodified opinion for the period October 2014 – June 2015
- Contract Pay – Unmodified opinion for the period October 2014 – June 2015
- Financial Reporting – Modified opinion with qualified language for the period December 2014 – July 2015

DFAS is undergoing two additional SSAE No. 16 examinations:

- Defense Cash Accountability System (DCAS) – Transaction Distribution Processes
- Department 97 Reconciliation and Reporting Tool (DRRT) (FBWT) – TI-97 FBWT Tool and Processes

In addition to SSAE No. 16 examinations, DFAS is conducting self-reviews in accordance with the FIAR Guidance to address DFAS processes and systems not part of an SSAE No. 16 examination scope. Additional critical areas of focus include:

- Universe of transactions and supporting documentation
- Reconciliations of feeder systems to financial systems
- Journal vouchers
- Fund Balance with Treasury
- IT systems and FISCAM compliance

Full Financial Statements Audit Support

In addition to supporting customer SBA and SBR audits, DFAS is collaborating with its customers during preparation for full financial statement audits. DFAS support includes:

- Developing and implementing a strategy to support beginning balances
- 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 Treasury at the transaction level via the Department 97 Reporting and Reconciliation Tool

Defense Information Systems Agency

DISA provides application hosting services for the Department's service providers and Components. 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 the service providers and Components to rely on the automated controls and documentation within these applications, it is essential that controls be appropriately designed and operating effectively. DISA and the Components have entered into agreements to support audits. The agreements ensure services are documented and describe any non-standard controls or functions.

For the fourth consecutive year, DISA received an unmodified opinion on its SSAE No. 16 examination for the period October 2014 – June 2015. In FY 2015, DISA conducted an SSAE No. 16 examination on the Automated Time and Attendance and Production System (ATAAPS) and received a modified opinion and has resolved the two NFRs provided by the auditor.

Defense Logistics Agency

Military Service-Owned Items in DLA Custody

DLA is a service provider to the Military Services for Military Service-owned items in DLA custody. DLA stores and manages items at its facilities and issues and distributes items to the Military Services. While DLA uses a DLA system, DSS, to record receipt and issuance activity at its facilities, the Military Services maintain the accountable property systems of record.

DLA, in its service provider role, established MOUs with each Military Service. The MOUs define the support to the Military Services' audit readiness efforts and address financial reporting controls.

Information Systems

DLA maintains many information technology 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 maintained in support of customer audit readiness.

DLA SSAE No. 16 examination results include:

- Defense Automatic Addressing System (DAAS) – Modified opinion issued in September 2015
- Defense Agencies Initiative (DAI) – Unmodified opinion issued in September 2015
- Defense Travel System (DTS) – Modified opinion issued in September 2015
- Invoices Receipt Acceptance and Property Transfer (iRAPT) (formerly known as Wide Area Workflow) – Modified opinion issued in September 2015

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

Overview

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

Remaining Audit Readiness Actions and Challenges

- Conduct FISCAM assessment of LMP and implement corrective actions.
- Provide process documentation and test results to customers (other Military Services) for use when asserting audit readiness on their OM&S assets.
- Provide internal control catalogs and supporting documentation to customers that enable their auditors to assess the inherent and control risk related to OM&S business processes.

Completion Dates for Milestones (✓ = Completed)

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

Completion Dates for Outcomes (✓ = Completed)

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

U.S. Army Corps of Engineers – Real Property

Overview

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

Remaining Audit Readiness Actions and Challenges

- In preparation for the full Real Property assertion, the Army will continue efforts with USACE to review and validate Land, Capital Leases, Leasehold Improvements, and Construction in Progress balances.

Challenges

- Obtaining transaction-level details to support the baseline universe for Land, Capital Leases, Leasehold Improvements, and Construction in Progress.
- Obtaining historical asset acquisition documentation to support valuation costs for Army real property assets where USACE served as the construction agent.

Completion Dates for Milestones (✓ = Completed)

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

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All project related transactions are recorded.	✓
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.	09/2016
Appropriate construction in progress amounts are transferred to the DoD Component in a timely manner upon completion of the project.	09/2016
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Navy Facilities Engineering Command – Real Property

Overview

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

Remaining Audit Readiness Actions and Challenges

- Continue work with Services and Defense Agencies to complete service provider MOUs.
- Begin an SSAE No. 16 examination in 10/2016 to support customer assertions.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	01/2016
Reporting Entity Assertion Support	03/2017
Assertion	03/2017

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	03/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	09/2016

Defense Contract Management Agency

Overview

- Received a modified opinion with 6 NFRs on the FY 2014 SSAE No. 16 examination for Contract Pay. All FY 2014 NFRs have been corrected. A modified opinion with 9 NFRs was recently issued on the FY 2015 SSAE No. 16 examination.
- Created corrective action plans to address the audit deficiencies. Testing of remediation activity was completed August 2015, and all FY 2014 corrective action plans were closed.
- Documented the Agency’s Complimentary User Entity Controls for FY 2015 and briefed them to reporting entity customers.

Remaining Audit Readiness Actions and Challenges

- Complete tests of effectiveness of remediation of FY 2014 control deficiencies.
- Address FY 2015 SSAE No. 16 examination NFRs and implement applicable corrective action plans.
- Assert audit readiness for FY 2016 in October 2015.
- Continue periodic testing of controls on Contract Pay sample transactions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
02/2014 – 10/2014	Modified	6	✓
02/2015 – 07/2015	Modified	9	TBD
10/2015 – 06/2016	08/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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.	✓

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 assertion includes trial balance preparation, validation, trading partner eliminations, and adjustments performed through 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 second SSAE No.16 examination in FY 2015. The resulting SOC1 report was delivered in 09/2015 and resulted in a modified opinion with qualified explanatory language.
- Expanded the scope for FY 2015 examination to include budgetary reporting processes for all Defense Agencies. The FY 2014 scope did not include all Defense Agencies due to the use of non-DDRS micro-apps. All Defense Agencies are now migrated to DDRS.

Remaining Audit Readiness Actions and Challenges

- DFAS completed remediation actions on 10 FY 2014 NFRs. These actions covered both business process and IT controls, and were included in testing for the FY 2015 examination.
- DFAS received 9 NFRs with the FY 2015 SSAE No. 16 SOC1 report. NFRs included findings in the areas of business process and system controls.
- Implement remediation plans for 7 of 9 NFRs in FY 2016. Estimated completion date for remaining NFRs (Unsupported Journal Vouchers and Trading Partner Eliminations) is FY 2017.
- Trading Partner Eliminations NFR remediation is highly dependent on successful implementation of the IPP initiative.

Challenges

- Military Services and Defense Agencies engagement in resolution of long-term remediation plans, such as those for journal vouchers and trading partner eliminations.

SSAE No. 16 Examinations (✓ = Completed)

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

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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.	09/2016

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 DoD 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 post transactions to the correct DFAS network and customer accounting system.
- The initial focus of this assertion is the DCAS Transaction Distribution process, which includes cross disbursing and interface file distribution.

Remaining Audit Readiness Actions and Challenges

- Document and test relevant processes and FISCAM controls, and identify and implement corrective actions, as needed.
- Identify and document Complementary User Entity Controls for customers.
- Prepare documentation for a Management’s Description for an SSAE No. 16 assertion of the DCAS transaction distribution process.

Challenges

- Large number of stakeholders, both DFAS and non-DFAS, adds complexity to implementing corrective actions.
- Communicating scope, including Complimentary User Entity Controls, to all stakeholders.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	12/2015
Reporting Entity Assertion Support	12/2015
Assertion	12/2015

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	12/2015
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	12/2015

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

Overview

- DRRT reconciles TI-97 funds between the Department’s various accounting systems (e.g., DAI, eBIZ, DBMS) and Treasury’s government-wide accounting system for each fund symbol on a monthly basis.
- 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 FBWT and cash position at the appropriation, fiscal year, basic symbol and limit level.

Remaining Audit Readiness Actions and Challenges

- Document and test relevant processes and FISCAM controls, and identify and implement corrective actions, as needed.
- Identify and document Complimentary User Entity Controls.
- Prepare documentation for a Management’s Description for an SSAE No. 16 assertion of the FBWT DRRT process.

Challenges

- Large number of stakeholders, both DFAS and non-DFAS, adds complexity to implementing corrective actions.
- Communicating scope, including Complimentary User Entity Controls, to all stakeholders.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	12/2015
Reporting Entity Assertion Support	12/2015
Assertion	12/2015

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	12/2015
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	12/2015

Defense Information Systems Agency – Automated Time Attendance and Production System

Overview

- DISA hosts and provides 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/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. 16 examination in FY 2016.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2014 – 06/2015	Qualified	2	✓
11/2015 - 11/2016			

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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 in September 2015 on the SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Held customer Complimentary User Entity Controls discussions to ensure understanding.
- Provided customers the SSAE No. 16 examination report, describing the system and opinion on control design and operating effectiveness.

Remaining Audit Readiness Actions and Challenges

- Implementing corrective actions and recommendations from the FY 2015 SSAE No. 16 examination.
- Continue to implement enterprise-wide control policies and procedures, as identified in FY 2015 IT general control corrective actions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
09/2013 – 02/2014	Modified	4	✓
10/2014 – 06/2015	Modified	5	01/2016
10/2015 – 07/2016			

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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.	01/2016

Defense Logistics Agency – Defense Agencies Initiative

Overview

- DAI is an ERP being deployed to most non-intelligence Defense Agencies and organizations other than the Military Departments.
- Received an unmodified opinion on the SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Held customer Complimentary User Entity Controls discussions to ensure understanding.
- Provided customers the SSAE No. 16 examination report, describing the system and opinion on control design and operating effectiveness.

Remaining Audit Readiness Actions and Challenges

- Sustain unmodified opinion through annual testing and timely correction of issues.
- Continue to implement enterprise-wide control policies and procedures.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
01/2014 – 06/2014	Modified	3	✓
10/2014 – 06/2015	Unmodified	3	01/2016
10/2015 – 06/2016			

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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 APSRs for the items in DLA custody.
- DLA uses the same receipt, storage, and issuance processes and policies for Military Service-owned items as is used for DLA-owned inventory items.
- DLA support affects Military Service financial reporting for the items in DLA custody. DLA established MOUs with each Military Service that define DLA support of Military Service audits and address controls relevant to financial reporting.

Remaining Audit Readiness Actions and Challenges

- Work with the Military Services to assess the full scope of assurances needed from DLA to support their financial statement audits.
- Complete corrective actions to ensure transactions recorded in DSS pertain to the identified owning Military Service and to address DSS process and systems controls deficiencies.
- Engage an IPA to perform an SSAE No. 16 examination and other audit procedures.
- Implement enterprise-wide IT control policies and procedures.
- Complete corrective actions resulting from FY 2015 IT general control testing.

SSAE No. 16 Milestones (✓ = Completed)

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

* Asserted 09/2014 with additional corrective actions completed in 2015.

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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 receipt and acceptance of goods and services.
- Received a modified opinion on the SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Held customer Complimentary User Entity Controls discussions to ensure understanding.
- Provided customers the SSAE No. 16 examination report, describing the system and opinion on control design and operating effectiveness.

Remaining Audit Readiness Actions and Challenges

- Ensure corrective actions or recommendations from the FY 2015 SSAE No. 16 examination are implemented.
- Continue to implement enterprise-wide control policies and procedures, as identified in FY 2015 IT general control corrective actions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2014 – 08/2014	Modified	10	✓
10/2014 – 06/2015	Modified	4	01/2016
10/2015 – 06/2016			

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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.	01/2016

Defense Logistics Agency – Defense Travel System

Overview

- DTS is used across the Department for managing travel and reimbursing travel claims.
- DTS transferred from DLA to the Defense Human Resource Activity - Defense Manpower Data Center (DHRA - DMDC) in 10/2015.
- Received a modified opinion on the SSAE No. 16 examination for the period 10/2014 – 06/2015.
- DLA held customer Complimentary User Entity Controls discussions to ensure understanding.
- Provided customers the SSAE No.16 examination report, describing the system and opinion on control design and operating effectiveness.

Remaining Audit Readiness Actions and Challenges

- DODHRA DMDC is implementing corrective actions based on the 5 NFRs.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2014 – 06/2015	Modified	5	TBD*
10/2015 – 06/2016			

* DTS transferred to DMDC on 10/01/2015. A completion date for correcting the NFRs has not yet been established.

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses 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.	✓

VII. Information Technology Systems Critical to Audit Readiness

The Department's IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and nine Enterprise Resource Planning systems or ERPs. Most of the business legacy systems were designed to support functional purposes, such as human resource management, property management, and logistics management, and not originally for auditable financial statement reporting. Similarly, most of the financial legacy systems were designed for budgetary accounting and not proprietary accounting.

The Department is moving toward a target systems environment that significantly reduces the number of legacy systems. However, many of the legacy systems are not scheduled to be replaced by the audit readiness deadline of September 30, 2017. The Department will undergo audit in FY 2018 using both legacy systems and systems that will be part of the Department's target systems environment, including ERPs.

Types of Systems

An ERP is a system of integrated applications for managing an end-to-end business process. ERPs reduce the possibility of human error and are critical to the Department's audit strategy. The Military Departments are deploying nine ERPs to address essential business processes that span their enterprise. For example, the Integrated Personnel Pay System – Army (IPPS-A) integrates human resources capabilities for all Army Components, replacing more than 40 stovepiped systems that do not share information.

Core enterprise systems, also known as target systems, are systems that are central to a particular business or financial process. For example, the Mechanization of Contract Administration Services

(MOCAS) system is an integrated entitlement and disbursing system supporting post-award contract administration and is a core system to the Contract Pay business process. Core systems are of varying age and technology, are not planned to be replaced, and will be part of the target environment.

Controls

The FIAR Guidance requires each Component to identify systems material to its SBR and other financial statements, and to document, test, remediate, and strengthen internal controls. Control documentation and testing is based on the Office of Management and Budget Circular A-123 (Appendix A) and GAO FISCAM requirements. FISCAM comprises three sections for internal controls relevant to financial information systems:

- Entity-level IT general controls
- Application-level IT general controls
- Application-level business process controls

The IT general controls consist of security management, access controls, configuration management, segregation of duties, and contingency planning at an enterprise- or technology-platform level. Application-level IT general controls cover the same basic controls but focus specifically on the business or financial system. Application-level business process controls use a different set of control categories (business process controls, interface and conversion controls, and data management system controls) and focus on an individual application (e.g., GFEBS, Navy ERP, DCPDS, MOCAS).

Where the Components have identified, documented the design, and tested the operating effectiveness of internal controls during the DoD Information Assurance Certification and Accreditation Process (DIACAP), DoD Risk Management Framework, or other certification and accreditation efforts (FFMIA), the work may be used to complete the FISCAM steps relevant for financial reporting.

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The extent to which the results of the prior work can be applied is determined by the degree to which the prior work meets FIAR controls documentation and testing requirements.

The Department identified the FISCAM control activities and techniques needed to address controls over financial reporting risk areas most relevant to financial statement audits. The FIAR Guidance includes a summary analysis of FISCAM control activities and techniques that have the highest relevance to addressing risk areas for financial reporting and other FISCAM control activities and techniques that should be considered by the Components.

STATUS OF CRITICAL SYSTEMS

Achieving an audit ready systems environment requires extensive discovery and corrective activities. Activities include identifying systems that affect internal controls over financial reporting and financial statement audit readiness, developing systems documentation, testing controls and supporting documentation transactions, and remediating deficiencies and weaknesses. For many legacy and core systems, audit readiness may also require modifications to the systems. This is a costly and time consuming undertaking for the Components and in many cases requires relying on third party system owners and hosting organizations (service providers).

Figures VII-1, VII-2, VII-3, VII-4, and VII-5 summarize the number of audit relevant systems owned by the Components, systems owned by service providers on which an SSAE No. 16 examination will be obtained, and service provider owned systems for which an SSAE No. 16 examination is not currently planned. The tables also summarize the audit readiness status of the systems and whether a DIACAP (or Risk Management Framework) certification and accreditation has been completed. The certification and accreditation information is relevant, because it indicates a level of testing has been performed that was sufficient to place the system into operation, even if all FIAR Guidance testing requirements have not yet been completed.

Tables are provided for systems that affect the General Fund audits and Working Capital Fund audits, and are broken out by SBR and other financial statements. Note that a majority of the systems relevant to the Working Capital Fund financial statements are also relevant to the General Fund financial statements. As audit readiness is completed for General Fund systems, a significant portion of the audit readiness requirements will be addressed for the Working Capital Fund.

Figure VII-1 provides a consolidated summary of the audit readiness status for all systems identified during FIAR discovery efforts, including systems owned by:

- Reporting entities including the Military Departments and ODOs.
- Service provider owned systems for which an SSAE No. 16 examination has or will be performed.
- Service provider owned systems for which an SSAE No. 16 examination is not currently planned but audit readiness is being performed.

The table also provides summary information for the percentage of audit relevant systems that have been certified and accredited for operation and the percentage of systems hosted by DISA. The information for systems hosted by DISA is provided because DISA Enterprise Information Services received an unmodified SSAE No. 16 examination report. This report provides supplemental information regarding the audit readiness status for the computing platform upon which the systems reside.

While additional work needs to be performed to complete audit readiness for the population of systems identified to date, over 96 percent of service provider owned SSAE No. 16 examination systems and over 60 percent of service provider owned systems for which an SSAE No. 16 examination is not currently planned are audit ready. Furthermore, over 76 percent of the service provider SSAE No. 16 examination systems and over 74 percent of the

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service provider systems for which an SSAE No. 16 examination systems is not planned are hosted on a platform (DISA Enterprise Information Services) for which an unmodified opinion on an SSAE No. 16 examination has been obtained.

As results from IPA financial statement audits and examinations of the Military Departments and ODOs are received, the feedback will be incorporated into the systems audit readiness tracking and reporting process.

Figures VII-1 through VII-5 column headings are defined as:

- System Owner – DoD reporting entity or service provider that maintains and operates systems.
- Number of Audit Relevant Systems and Applications – Total number of applications potentially relevant to audits.
- Audit Ready – Percent of audit relevant applications that are audit ready.
- Not Audit Ready – Percent of audit relevant applications not currently audit ready.
- Percent Discovery Incomplete – Percent of audit relevant applications for which FIAR discovery work has not been completed by the system owner.
- Percent Audit Impact TBD – Percent of audit relevant applications for which audit impact has not been determined.
- Percent IA Certification and Accreditation – Percent of audit relevant applications internally certified and accredited to operate following the DITSCAP, DIACAP, or RMP requirements.
- Percent DISA Hosted – Percent of audit relevant applications hosted in a DISA environment.

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Figure VII-1. System Audit Readiness Consolidated Summary

System Owner	Number of Audit Relevant Systems and Applications	Percent Audit Relevant Systems and Applications Audit Ready				Percent IA Certified and Accredited	Percent DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Component Reporting Entities	76	30	54	13	3	86	14
Service Provider SSAE No. 16	26	96	0	4	0	85	77
Service Provider Non-SSAE No. 16	31	58	29	10	3	90	68
Total	133	50	38	11	2	86	39
Other Financial Statements – General Fund							
Component Reporting Entities	50	26	34	34	6	86	26
Service Provider SSAE No. 16	20	100	0	0	0	90	80
Service Provider Non-SSAE No. 16	27	56	30	11	4	93	74
Total	97	49	26	21	4	89	51
Statement of Budgetary Resources – Working Capital Fund							
Component Reporting Entities	34	32	35	24	9	85	24
Service Provider SSAE No. 16	21	90	0	5	5	81	71
Service Provider Non-SSAE No. 16	24	67	21	13	0	88	75
Total	79	58	22	15	5	85	52
Other Financial Statements – Working Capital Fund							
Component Reporting Entities	24	29	17	46	8	92	29
Service Provider SSAE No. 16	16	100	0	0	0	88	75
Service Provider Non-SSAE No. 16	24	63	25	13	0	92	79
Total	64	59	16	22	3	91	59

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Figures VII-2, VII-3, VII-4, and VII-5 breakout the summary information provided in the previous table. Information on audit relevant systems and applications is provided by Component for

General Fund and Working Capital Fund SBR or other financial statements.

Figure VII-2. General Fund Critical Systems – Statement of Budgetary Resources

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	20	1	15	4	0	14	0
Navy	20	3	17	0	0	20	0
Marine Corps	6	1	4	1	0	6	2
Air Force	20	13	4	3	0	20	5
Other Defense Organizations	10	5	1	2	2	5	4
Subtotals	76	23	41	10	2	65	11
Service Provider Owned Systems (SSAE No. 16)							
OUSD(AT&L)	1	1	0	0	0	1	1
DCMA	2	2	0	0	0	1	1
DCPAS	1	1	0	0	0	1	0
DFAS	17	16	0	1	0	16	15
DISA	1	1	0	0	0	1	1
DLA	3	3	0	0	0	3	2
DMDC	1	1	0	0	0	1	0
Subtotals	26	25	0	1	0	24	20
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	29	16	9	3	1	27	19
DLA	2	2	0	0	0	2	2
Subtotals	31	18	9	3	1	28	21
Totals	133	66	50	14	3	117	52

Figure VII-3. General Fund Critical Systems – Other Financial Statements

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	9	2	2	4	1	7	0
Navy	11	0	9	2	0	11	1
Marine Corps	2	0	1	1	0	2	0
Air Force	20	6	5	9	0	20	9
Other Defense Organizations	8	5	0	1	2	3	3
Subtotals	50	13	17	17	3	43	13
Service Provider Owned Systems (SSAE No. 16)							
OUSD(AT&L)	1	1	0	0	0	1	1
DCMA	0	0	0	0	0	0	0
DCPAS	1	1	0	0	0	1	0
DFAS	16	16	0	0	0	15	14
DISA	0	0	0	0	0	0	0
DLA	1	1	0	0	0	1	1
DMDC	1	1	0	0	0	1	0
Subtotals	20	20	0	0	0	19	16
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	26	14	8	3	1	24	19
DLA	1	1	0	0	0	1	1
Subtotals	27	15	8	3	1	25	20
Totals	97	48	25	20	4	87	49

Figure VII-4. Working Capital Fund Critical Systems – Statement of Budgetary Resources

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	4	0	3	1	0	2	0
Navy	7	0	6	1	0	7	0
Marine Corps	1	0	1	0	0	1	0
Air Force	10	8	2	0	0	10	3
Other Defense Organizations	12	3	0	6	3	9	5
Subtotals	34	11	12	8	3	29	8
Service Provider Owned Systems (SSAE No. 16)							
OUS(D(AT&L))	1	1	0	0	0	1	1
DCMA	1	0	0	0	1	0	0
DCPAS	1	1	0	0	0	1	0
DFAS	13	12	0	1	0	12	11
DISA	1	1	0	0	0	1	1
DLA	3	3	0	0	0	3	2
DMDC	1	1	0	0	0	1	0
Subtotals	21	19	0	1	1	19	15
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	21	13	5	3	0	20	15
DLA	3	3	0	0	0	3	3
Subtotals	24	16	5	3	0	23	18
Totals	79	46	17	12	4	71	41

Figure VII-5. Working Capital Fund Critical Systems – Other Financial Statements

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	4	0	1	3	0	4	0
Navy	2	0	1	1	0	2	0
Marine Corps	1	0	1	0	0	1	0
Air Force	5	4	1	0	0	5	3
Other Defense Organizations	12	3	0	7	2	10	4
Subtotals	24	7	4	11	2	22	7
Service Provider Owned Systems (SSAE No. 16)							
OUS(D(AT&L))	1	1	0	0	0	1	1
DCMA	0	0	0	0	0	0	0
DCPAS	1	1	0	0	0	1	0
DFAS	12	12	0	0	0	11	10
DISA	0	0	0	0	0	0	0
DLA	1	1	0	0	0	1	1
DMDC	1	1	0	0	0	1	0
Subtotals	16	16	0	0	0	14	12
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	21	12	6	3	0	20	16
DLA	3	3	0	0	0	2	3
Subtotals	24	15	6	3	0	22	19
Totals	64	38	10	14	2	58	38

Enterprise Resource Planning Systems

ERPs are critical to the Department’s ability to eliminate material weaknesses and achieve auditability, and each ERP’s deployment status is closely tracked. Detail is provided on the cost, controls, milestones, and financial reporting objectives for each of the nine ERPs.

DEPARTMENT OF THE ARMY

Figure VII-6 shows the Army audit readiness plans as compared to its ERPs deployment schedule. The Army ERPs are:

- **General Fund Enterprise Business System (GFEBS)** is the General Fund accounting, asset management, and financial

system used to standardize, streamline, and share data across the active Army, Army National Guard, and Army Reserve.

- **Logistics Modernization Program (LMP)** is one of the world's largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. Its mission is to sustain, monitor, measure, and improve modernized, national-level logistics support solution.
- **Global Combat Support System - Army (GCSS-A)** provides enterprise-wide visibility into various logistics areas and is a key enabler for the Army in achieving auditability.
- **Integrated Personnel Pay System - Army (IPPS-A)** is an integrated solution using ERP software and agile development to deliver integrated personnel and pay capabilities.

Figure VII-6. Army Audit Readiness and ERP Plans

Department of the Army	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																	
SBR - Appropriations Received (Wave 1)	█																█
SBR - Schedule of Budgetary Activity (Wave 2)	█																█
SBR (Wave 2)	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Existence and Completeness (Wave 3)																	█
Full Financial Statements (Wave 4)																	█
Working Capital Fund Financial Statements																	
Full Financial Statements (Wave 4)																	█
Enterprise Resource Planning Systems																	
General Fund Enterprise Business System (GFEBS)																	
Logistics Modernization Program (LMP)																	
Global Combat Support System - Army (GCSS-A)																	█
Integrated Personnel and Pay System - Army (IPPS-A)																	█

Note: GFEBS and LMP fully deployed. IPPS-A Full Deployment Decision planned for Quarter 3 of FY 2019.

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 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	243.1	284.6
Operations and Maintenance	280.6	849.4

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	48
Legacy Systems Scheduled for Sunset	70
Legacy Systems Interfaced to Date	17
Total Number of Systems with Functionality Fully or Partially Subsumed by GFEBS	110

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	01/2016
Configuration Management	✓	01/2016
Segregation of Duties	✓	01/2016
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

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	✓	Captured in Milestone B
Milestone C	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	29
Release/Wave 2	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	Captured in Milestone C
Release/Wave 3	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	Captured in Milestone C
Full Deployment Decision	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	51
Full Deployment	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	61

GFEBs Financial Reporting Impact

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

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	23	12	✓	✓
Supplies (MILSTRIP)	23	12	✓	✓
Reimbursable Work Order – Grantor	23	12	✓	✓
Vendor Pay	23	12	✓	✓
Fund Balance with Treasury	28	7	✓	✓
Appropriations Received	13	2	✓	✓
Military Pay	18	6	✓	✓
Civilian Pay	11	4	✓	✓
Reimbursable Work Order – Acceptor	7	4	✓	✓
Other Budgetary Activity	8	0	✓	✓
Financial Reporting	4	1	✓	✓
Mission-Critical Assets Existence and Completeness				
General Equipment	10	1	09/2016	12/2016
Real Property	10	9	12/2016	03/2017
OM&S	10	1	09/2016	12/2016
Inventory	10	N/A	N/A	N/A

Logistics Modernization Program (LMP)

Overview

- LMP is one of the world’s largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. It is designed to sustain, monitor, measure, improve, and modernize the logistics support solution.
- LMP handles 7 million transactions daily and \$19 billion in inventory. It is deployed to 21,000 users in more than 50 locations around the world. LMP interfaces with more than 81 DoD systems and exceeds industry standards with a system response time of less than 2 seconds per transaction in 97 percent of cases.
- LMP Increment 2 will add 9,000 new users, give 5,000 users additional functionality, and will provide new and expanded capabilities that address business transformation for the Army and DoD Directive 8320.04 for Item Unique Identification Standards.

Impact on Legacy Systems

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

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

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
AWCF – Construction in Progress	1,165.5	1,374.9
AWCF – Operations	1,058.0	2,504.1
Operations and Maintenance Army	109.9	184.5
Base Realignment and Closure	3.1	3.1

Note: To Date is as of July 31, 2015 – Program Cost is for Increments 1 and 2. Completion cost (total lifecycle cost) as reflected in Increment 1 MS B Army Cost Position and Increment 2 MS C Army Cost Position.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	12/2015
Configuration Management	✓	✓
Segregation of Duties	✓	12/2015
Contingency Planning	✓	✓
Completeness	✓	12/2015
Accuracy	✓	12/2015
Validity	✓	12/2015
Confidentiality	✓	12/2015
Availability	✓	12/2015
Increment 2		
IT General Controls (CM, AC, SD)	01/2016	12/2016
IT Application Controls	01/2016	12/2016

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
CECOM Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
AMCOM Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
FFMIA Compliance (Blue Book ver 6.0)	Demonstration of LMP FFMIA Compliance with the Army Audit Agency – LMP determined to be “Substantially Compliant”	✓	N/A
SAP Upgrade from 4.6c to ECC 6.0	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
TACOM/JM&L/ASC Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
BEA Compliance (ver 8.0)	Program Compliance	✓	N/A
03/2011 Functional Release	SFIS 8.0 Historical Financial Records Update	✓	N/A
12/2011 Functional Release	GFEBs Interfaces , SFIS Compliance Capability, OSD Functional Financial Requirements, Constructive Receipts, improved Fed/Non Fed determination	✓	N/A
SFIS Compliance (ver 8.0)	Demonstrate compliance with remaining SFIS 8.0 Business Rules with ODCMO	✓	N/A
SFIS Compliance (ver 9.0)	Demonstrate compliance with remaining SFIS 9.0 Business Rules with ODCMO	✓	N/A
BEA Compliance (ver 10.0)	Program Compliance	✓	N/A
FFMIA Compliance (Blue Book ver Jan 2011)	Demonstrate LMP FFMIA Compliance with the Army Audit Agency	✓	N/A
Implement Governance, Risk, and Compliance capability	Enhanced Access Controls and Segregation of Duties Management	✓	N/A
BEA Compliance (ver 10.0)	Program Compliance with FY 2015 OEP cycle	✓	N/A
11/2014 Functional Release	Auditability SCR Implementation	✓	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	✓ ¹	N/A
SLOA Capability	LMP configured to accept, store, and transmit all SLOA data elements	✓ ¹	N/A
BEA Compliance	Program Compliance with FY 2016 OEP cycle	✓	N/A

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
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	12/2015 ¹	N/A
05/2016 Functional Release	Auditability SCR Implementation	05/2016	N/A
10/2016 Functional Release	Auditability SCR Implementation	10/2016	N/A

¹LMP is coordinating with the Office of the Assistant Secretary of the Army Financial Management and Comptroller and Joint Interoperability Test Command to demonstrate SFIS and SLOA configuration and business rules compliance by 12/2015.

LMP Financial Reporting Impact

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

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

FIAR Plan Status Report

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

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

Global Combat Support System – Army (GCSS-A)

Overview

- GCSS-A provides enterprise-wide supply chain logistics capability at the tactical and installation levels and enables the Army to achieve full audit readiness.
- GCSS-A is being deployed in two waves. Wave 1 will provide Army-wide supply and financial capabilities at the tactical unit and installation warehouse levels, and Wave 2 will deploy maintenance, property book accountability, and additional financial capabilities to every tactical and installation level unit in the Army.
- GCSS-A completed Initial Operational Test and Evaluation with 2nd Brigade, 1st Armored Division, in Quarter 1 of FY 2012, and received a Full Deployment Decision in Quarter 1 of FY 2013. As of 08/2015, the GCSS-A fielding effort for Wave 1 was approximately 92 percent complete. It was fielded to 31 Fielding Groups, including 257 Units (out of a projected 280), and 13,677 users. Wave 2 has begun deployment and is 2 percent complete.

Impact on Legacy Systems

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

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

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	1,053.1	1,062.9
Procurement	494.8	891.1
Operations and Maintenance	381.8	1,977.7

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

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	09/2016
Configuration Management	✓	09/2016
Segregation of Duties	✓	12/2015
Contingency Planning	✓	09/2016
Completeness	✓	09/2016
Accuracy	✓	09/2016
Validity	✓	09/2016
Confidentiality	✓	09/2016
Availability	✓	09/2016

FIAR Plan Status Report

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

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

GCSS-A Financial Reporting Impact

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

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

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Fund Balance with Treasury	29	7	09/2016	
Supplies (MILSTRIP)	22	21	09/2016	
Financial Reporting	4	4	09/2016	
Other Budgetary Activity	18	4	09/2016	
Appropriations Received	13	2	09/2016	
Reimbursable Work Order – Grantor	22	12	09/2016	
Reimbursable Work Order – Acceptor	7	4	09/2016	
Mission-Critical Assets Existence and Completeness				
General Equipment	10	9	10/2016	
OM&S	10	9	10/2016	
Inventory	10	9	10/2016	

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

Overview

- IPPS-A is the Army's web-based human resources solution for integrating human resources capabilities across Army Components. IPPS-A will alleviate the Army's reliance on more than 40 stovepiped systems that do not efficiently share information. IPPS-A will provide a centralized resource to soldiers, leaders, and human resources professionals for managing personnel and pay information.
- IPPS-A provides standardized reports with conditional displays by grade (Enlisted, Officer, Warrant Officer) and Component.
- IPPS-A establishes a total Army relational database that standardizes data as it is loaded from the 15 current legacy systems.
- IPPS-A supports data accuracy by providing reports that allow soldiers to review and correct erroneous information in legacy systems.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset*	0
Legacy Systems Interfaced to Date (Increment I)	15
Legacy Systems to Be Interfaced (Increments I and II)	92

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

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	186.9	190.9
Procurement	0.5	0.5
Operations and Maintenance	9.7	177.5

Note: To Date as of March 19, 2015. Completion cost (total lifecycle cost) as reflected in Milestone C 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

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Material 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).	✓	TBD
Contract Award	IPPS-A Increment I System Integrator awarded; development underway.	✓	TBD
Increment I Milestone C	Authorizes IPPS-A to enter the Production and Deployment Phase of the Acquisition Lifecycle; prepare for Full Deployment Decision.	✓	TBD
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.	✓	TBD
Increment II Milestone B	Authorizes the Army to begin the Engineering Development Phase for IPPS-A Increment II in accordance with the Interim Department of Defense Instruction (DoDI) 5000.02 signed by the USD(AT&L) on November 26, 2013.	✓	TBD
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.	03/2018	TBD
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	04/2019	TBD

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
	accuracy of pay, credit for service, and benefits. IPPS-A will serve as the authoritative data source for all personnel within the system.		
Increment II Milestone C		08/2019	TBD
Release 4.0, Increment II Limited Fielding Decision	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.	01/2020	TBD
Increment II Full Deployment Decision		01/2020	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.	08/2020	TBD

IPPS-A Financial Reporting Impact

IPPS-A will meet the requirements of the FIAR program as it is deployed. The PeopleSoft ERP was selected for the Army's integrated personnel and pay system in part because of the ability to configure existing capabilities to meet FIAR standards. IPPS-A will ultimately feed SFIS-compliant data to GFEBS for the Military Personnel Appropriation payroll and funded orders. IPPS-A will replace over 40 legacy personnel systems and discontinue the need for five DoD pay systems. Although IPPS-A is required to meet auditability standards and will be audit ready at each release, it will not be deployed in time to support Army's FY 2015 audit readiness

assertion for the SBA or for the full financial statement audit readiness assertion for FY 2018. Lessons learned from the FY 2015 SBA audit will help ascertain if the design and development of IPPS-A is in line with the requirements for a full financial statement audit assertion. IPPS-A is being designed and developed to be compliant with FISCAM, FFMIA, SFIS, and BEA standards and will eliminate or assist in eliminating a number of the Army's material weaknesses. Current Army systems will continue to provide information for audit readiness until IPPS-A is ready to deploy.

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	22	0		
Supplies (MILSTRIP)	22	0		
Vendor Pay	22	0		
Reimbursable Work Order – Grantor	22	0		
Fund Balance with Treasury	29	0		
Appropriations Received	13	0		
Military Pay	18	18	09/2019	09/2019
Civilian Pay	11	0		
Reimbursable Work Order – Acceptor	7	0		
Other Budgetary Activity	18	0		
Financial Reporting	4	0		
Mission-Critical Assets Existence and Completeness				
General Equipment	10	0		
Real Property	10	0		
OM&S	10	0		
Inventory	10	0		

DEPARTMENT OF THE NAVY

The DON has two ERPs impacting audit readiness:

- Navy ERP
- Global Combat Support System - Marine Corps (GCSS-MC)

Figures VII-7 and VII-8 compare the Navy and Marine Corps audit readiness plans with their respective ERP plans.

As shown in Figure VII-7, the Navy ERP is fully deployed. Navy ERP is a Navy financial system of record and has streamlined the Navy's financial and supply chain management operations.

Figure VII-8 compares the Marine Corps audit readiness plans with the GCSS-MC deployment plans. GCSS-MC is the core of a modern, web-enabled, centrally managed, ERP software system.

Figure VII-7. Navy Audit Readiness and ERP Plans

Navy	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																	
SBR - Appropriations Received (Wave 1)	Discovery																Discovery
SBR - Statement of Budgetary Resources (Wave 2)																	Corrective Actions/Assert
SBR - Beginning Balances & FBWT (Wave 2)			Discovery		Corrective Actions/Assert				Corrective Actions/Assert		Internal reviews						Sustainment
Existence and Completeness (Wave 3)	Discovery				Discovery				Discovery	Sustainment							SBA Audits
Full Financial Statements (Wave 4)			Discovery		Discovery				Corrective Actions/Assert	Internal reviews							Internal reviews
Working Capital Fund Financial Statements																	
Full Financial Statements (Wave 4)			Discovery		Discovery				Corrective Actions/Assert	Internal reviews							Financial Statement Audits
Enterprise Resource Planning System																	
Navy ERP (Fully Deployed in FY 2013)																	

Figure VII-8. Marine Corps Audit Readiness and ERP Plans

Marine Corps	FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Statement of Budgetary Resources (Waves 1 & 2)																	Discovery
Existence and Completeness (Wave 3)	Discovery				Discovery				Discovery								Corrective Actions/Assert
Full Financial Statements (Wave 4)			Discovery		Discovery				Discovery								SBA Audits
Enterprise Resource Planning System																	
GCSS-MC	Deployment	Deployment	Deployment	Deployment	Deployment	Full Deployment											Validation
																	Financial Statement Audits
																	Deployment
																	Full Deployment

Navy ERP

Overview

- Navy ERP was deployed in a single increment with two capability releases: 1) Financial and Acquisition Management, and 2) Wholesale and Retail Supply. As of 10/2012, deployments were complete, and the system is now in the Operations and Support phase of the Acquisition Lifecycle. To date, there are approximately 72,000 Navy ERP users.
- Navy ERP implemented a change management strategy including user training, communications, and on-site user support. Additionally, data-conversion risks were mitigated through legacy data cleansing, data conversions, and use of advanced data conversion tools.
- Navy ERP FISCAM Assessment Phases 1, 2, and 3 were completed 12/2012, 02/2014, and 02/2015, respectively. Phase 4 began in 02/2015. Business process testing was conducted during phases 1, 2, and 3 but has been discontinued. Navy is instead focusing on closing outstanding FISCAM corrective action plans, as indicated in the IT Controls table.
- Current challenges include skilled workforce capacity and program budget constraints.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date ¹	85
Legacy Systems Scheduled for Sunset ²	3
Legacy Systems Interfaced to Date	64
Legacy Systems to Be Interfaced ³	2

¹ As of 09/2015.

² Remaining FY 2015 – FY 2016 planned system requirements.

³ New interfaces required to support SCES and the universe of transactions.

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	✓	09/2016
Access	✓	09/2016
Configuration Management	✓	09/2016
Segregation of Duties	✓	04/2016
Contingency Planning	✓	09/2016
Completeness	*	*
Accuracy	*	*
Validity	*	*
Confidentiality	*	*
Availability	*	*

* The testing of the associated business process controls began during ERP FISCAM Assessment Phase I but has been discontinued. The original plan to continue testing these controls during the current phase has been placed on hold in order to prioritize resources on the closing of outstanding FISCAM corrective action plans.

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

¹Navy ERP is the program of record at 6 Commands, representing 50 percent of DON's Total Obligating Authority, and will not be deployed at the remaining Commands.

Navy ERP Financial Reporting Impact

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

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

FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	# of Financial Reporting Activities Tested for ERP	Tested	Corrected
Statement of Budgetary Resources					
Contract Pay	29	20	20	✓	✓
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	0 ¹	N/A	N/A
Civilian Pay	13	12	9	✓	✓
Reimbursable Work Order – Acceptor	12	12	8	✓	✓
Other Budgetary Activity	8	0	0	✓	✓
Financial Reporting	10	10	10	✓	✓
Mission-Critical Assets Existence and Completeness					
Real Property	0	0 ²	N/A	N/A	N/A
Inventory	10	10	10	✓	✓
OM&S	10	10	10	✓	✓
General Equipment	10	10	10	✓	09/2017

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.

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

Overview

- GCSS-MC provides the core of a modern, web-enabled, centrally managed, ERP software system.
- GCSS-MC program management office supports the GCSS-MC/Logistics Chain Management and some logistics information systems and is the primary technology enabler for the Marine Corps Logistics Modernization strategy providing the backbone for all logistics information.
- GCSS-MC/Logistics Chain Management strategy includes multiple increments each with its own baseline, with Increment 1 being fielded in two releases. Release 1.1 (Enterprise) has been fielded to the entire Marine Corps, with Release 1.1.1 providing enhanced support to the operational Marines.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	305.1	307.9
Procurement	80.5	88.3
Operations and Maintenance	436.1	1,198.1

Note: To date cost as of 09/2014. Increment 1 cost at completion extends through FY 2025.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	4
Legacy Systems Interfaced to Date	13
Legacy Systems to Be Interfaced	0

Information Technology Controls (✓ = Completed)

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

FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	6
Milestone B		✓	16
Milestone C	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1 – Limited Fielding Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1 – Continued Fielding Release 1.1	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1.1 – Limited Release for FOT&E	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Full Deployment Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	30
Full Deployment	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	12/2015	0
Sustainment (FY 2025)	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	FY 2025	48

GCSS-MC Financial Reporting Impact

GCSS-MC/LCM Increment 1 Release 1.1 has been fully fielded. The remaining Release 1.1.1 enhancement was completed in December 2014 and received a full deployment decision in Quarter 2 of FY 2015. This completed Increment 1. The system is refreshing to the Oracle 12.2 e-Business Suite in 2015. The USMC uses DPAS for military equipment valuation and reporting of military equipment capitalized assets in USMC financial statements.

Inventory balance and valuation of OM&S is transferred from GCSS-MC/LCM to the Marine Corps financial system of record, SABRS, via the General Ledger Journal Funds Check interface. It is envisioned that the GCSS-MC/LCM in a future increment will be the

Logistics System accounting for inventory and will feed the Marine Corps' financial system for OM&S reporting.

DPAS accounts for General Property, Plant, and Equipment, and GCSS-MC/LCM will report military equipment capitalized assets. This capability will be satisfied with the development of Inventory Valuation for fixed assets. The GCSS MC/LCM enterprise-wide visibility of data allows logistics planners and operators to make decisions about the logistics chain based on reliable, timely information. The program management office seeks to address several challenges enabling enterprise-wide standard processes, and enterprise equipment and inventory accountability and auditability.

Root causes of these challenges include business process reengineering and an aging portfolio of stovepiped IT assets. Symptoms of these causes can be seen in USMC's capability gap

FIAR Plan Status Report

analyses, lessons learned from Operation Iraqi Freedom, Operation Enduring Freedom, and on-going field operations.

The GCSS-MC/LCM Increment 1 represents a significant step forward, both in terms of its capability to address the spectrum of

logistics chain functionality and its organizational impact across the Marine Air Ground Task Forces and USMC supporting establishment.

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	N/A	N/A	N/A
Real Property	10	N/A	N/A	N/A
Inventory	10	N/A	N/A	N/A
OM&S	10	10	✓	✓
General Equipment	10	N/A	N/A	N/A

Note: The corrective action plans and associated plan of action and milestones for deficiencies have been developed for OM&S and FISCAM. GCSS-MC program management office is updating Installations and Logistics on the remediation efforts for MILSTRIP biweekly.

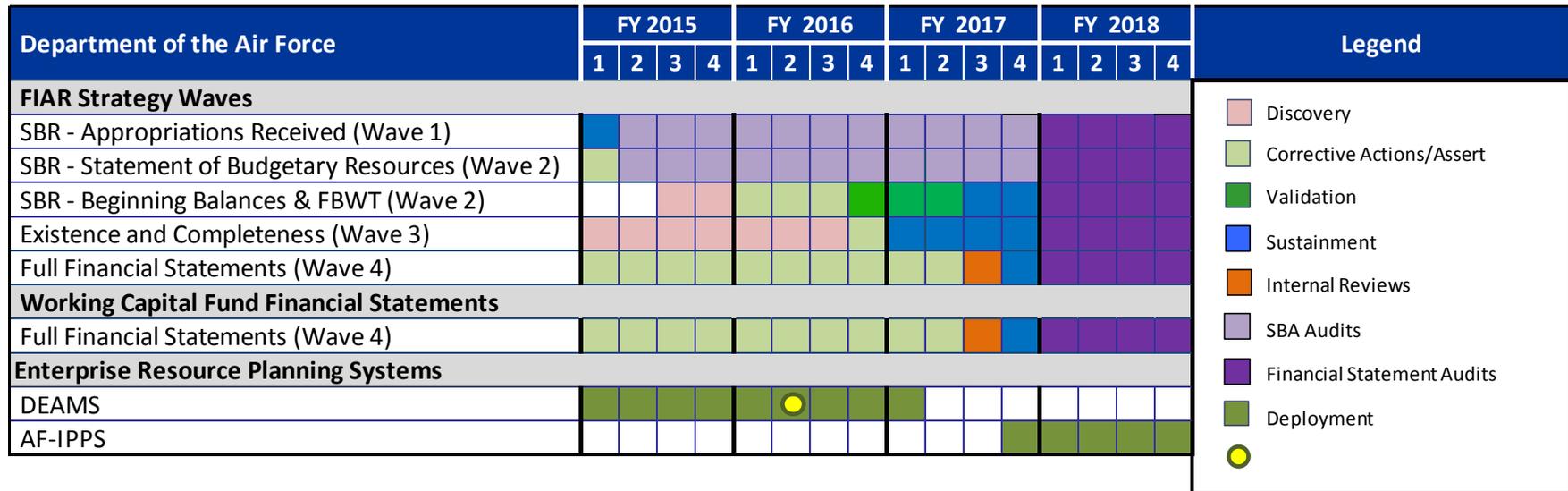
DEPARTMENT OF THE AIR FORCE

Figure VII-9 shows the Air Force audit readiness plans by FIAR Strategy wave as compared to its ERPs deployment schedule. The Air Force ERPs are:

- The Defense Enterprise Accounting and Management System (DEAMS)** is an automated accounting and financial management execution system for the Air Force General Funds and U.S. Transportation Command. DEAMS achieved initial operating capability in May 2015. DEAMS continues with deployments across the Air Force and pending approval of the Milestone Decision Authority estimates a Full Deployment Decision no later than February 2016. DEAMS is scheduled to deploy to all Air Force Major Commands and achieve full deployment by Quarter 1 of FY 2017.

- Air Force Integrated Personnel and Pay System (AF-IPPS)** is a comprehensive, global, 24/7, self-service, web-based solution integrating personnel and pay capabilities serving as the platform to enable total force integration within human resource management by maintaining an authoritative member record throughout an airman's career. An FFMIA-compliant system, AF-IPPS functionality will support audit readiness general and application controls; however, full deployment previously projected for Quarter 2 of FY 2019 is now delayed and undetermined. In June 2015, a small, dedicated team started an expedited service development and delivery process to verify current requirements and evaluate the two AF-IPPS courses of action. Results and recommendations for moving forward will be presented to the Secretary of the Air Force in January 2016.

Figure VII-9. Air Force Audit Readiness and ERP Plans



Defense Enterprise Accounting and Management System (DEAMS)

Overview

- DEAMS is an automated accounting and financial management execution system for the Air Force and USTRANSCOM.
- 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.
- The deployment strategy is phased by Major Command and base location.
- Delivered capability for procure-to-pay; order-to-cash; billing and project accounting including transaction-based general ledger to six Air Force Major Commands and USTRANSCOM as of 08/2015.

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	483.1	560.7
Procurement	24.4	31.4
Operations and Maintenance	73.0	117.4
Transportation Working Capital Fund – Capital	115.3	145.2
Transportation Working Capital Fund – Operating	12.7	12.7

Note: Program acquisition costs by appropriation for Increment 1. At Completion does not include 10 years of sustainment costs. Based on approved SCP, February 2015.

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	41
Legacy Systems to Be Interfaced	64

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	✓	02/2016
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	12/2015
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

DEAMS Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		04/2005	0
Milestone B	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management	01/2012	2
Full Deployment Decision	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management, Fund Balance with Treasury (General Fund)	02/2016	26
Full Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management, Fund Balance with Treasury (General Fund)	10/2016	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; 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	✓	12/2015
Supplies (MILSTRIP)	29	29	✓	12/2015
Vendor Pay	6	6	✓	09/2016
Reimbursable Work Order – Grantor	29	29	✓	12/2015
Fund Balance with Treasury	32	7	✓	12/2015
Appropriations Received	4	4	✓	✓
Military Pay	13	0	N/A	N/A
Civilian Pay	13	10	✓	09/2016
Reimbursable Work Order – Acceptor	12	12	✓	09/2016
Other Budgetary Activity	8	8	✓	✓
Financial Reporting	50	50	✓	12/2015
Mission-Critical Assets Existence and Completeness				
General Equipment	0	0	N/A	N/A
Real Property ¹	10	3	09/2016	TBD
Inventory	10	0	N/A	N/A
OM&S	10	0	N/A	N/A
General Equipment ²	10	3	09/2016	TBD

Notes: 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 (AF-IPPS)

Overview

- Comprehensive 24/7 self-service, web-based solution enabling transformation of military personnel and pay processing by integrating personnel and pay processes across all three Air Force components into one self-service system and maintaining an authoritative member record throughout the persons career.
- Full deployment previously projected for Quarter 2 of FY 2019 is now delayed and undetermined.
- Releases: 1) Leave Request Management, 2) Air Reserve Component Active Duty/Inactive Duty Management, 3) Total Force Officer Career Management, 4) Total Force Enlisted Career Management and Cadet Payroll.
- Challenges include network and processor monitoring and performance, data management, interfaces, common-infrastructure governance, synchronization between AF-IPPS implementation and other Air Force systems modernization.

Impact on Legacy Systems

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

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

Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	121.5	484.9
Procurement	--	30.8

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

Information Technology Controls (✓ = Completed)

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

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

FIAR Plan Status Report

AF-IPPS Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone B/Initial Operating Capability	Delivers Blueprinting of the entire AFIPPS system (Releases 1-4); Release 1 Leave Request Management, Release 2 Air Reserve Component Active Duty/Inactive Duty Management, Release 3 Total Force Officer Career Management and Release 4 Total Force Enlisted Career Management/Cadet Payroll.	11/2015	TBD ¹
Milestone C/Full Deployment Decision	<p><u>Deploys the following capability:</u></p> <ul style="list-style-type: none"> • Release 2 – Air Reserve Component Active Duty/Inactive Duty Management: Manage mobilization and volunteers for contingency, call to active duty orders, inactive duty training, retirement point accounting, leave accrual; eligibility and computation of pay, debts, garnishments, allotments and tax withholding. • Release 3 – Total Force Officer Career Management: Accessions, Assignments, Promotions, Retirements/Separations. • Release 4 – Total Force Enlisted Career Management and Cadets Payroll: Accessions, Assignments, Promotions, Re-enlistments/Extensions, Retirements/Separations; Compute pay for ROTC and AF Academy cadets. 	03/2019	TBD ¹

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

¹ In June 2015, under SAF/US (M) guidance, a small, dedicated team started an expedited Service Development and Delivery Process (SDDP) to verify the USAF/s current requirements and evaluate the two AFIPPS courses of action to make a recommendation on moving forward to the SECAF in January 2016.

AF-IPPS Financial Reporting Impact

AF-IPPS will be a financial feeder system to DEAMS that will produce SFIS-compliant data. AF-IPPS will replace three major legacy systems, DJMS/AC, DJMS/RC and MilPDS, along with 20 other personnel and pay legacy systems. Lessons learned from the

audit of legacy systems will be incorporated into the development of AF-IPPS requirements. AF-IPPS is an Air Force Total Force application and is connected to the overall Air Force FIAR Plan.

FIAR Plan Status Report

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

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

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

OTHER DEFENSE ORGANIZATIONS

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

To date, 17 Defense organizations have implemented DAI:

- Chemical Biological Defense Program (CBDP)
- Defense Acquisition University (DAU)
- Defense Applied Research Projects Agency (DARPA)
- Defense Contract Management Agency (DCMA)
- Defense Health Agency (DHA)
- Defense Media Activity (DMA)
- Defense Micro Electronics Agency (DMEA)
- Defense POW/MIA Accounting Agency (DPAA)
- Defense Security Cooperation Agency (DSCA) – Time and Labor only
- Defense Security Service (DSS)

- Defense Technical Information Center (DTIC)
- Defense Technology Security Administration (DTSA)
- Defense Threat Reduction Agency (DTRA)
- DoD Educational Activity (DoDEA)
- 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 (USU)

An additional 6 Defense organizations will deploy DAI:

- FY 2017
 - Defense Human Resources Activity (DHRA)
 - Defense Information Systems Agency (DISA) – General Fund only
 - Defense Security Cooperation Agency (DSCA)
 - DoD Office of the Inspector General (DoD OIG)
- FY 2018
 - Defense Commissary Agency (DeCA)
 - Defense Contract Audit Agency (DCAA)

Defense Agencies Initiative (DAI)

Overview

- DAI is the primary accounting system used by 17 Defense Agencies and other Defense organizations, with additional deployments scheduled in FY 2017 and FY 2018.
- An end-to-end FFMIA assessment was conducted that 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. In FY 2015, with the upgrade to Release 12.2.3, 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, Resale Accounting, and Working Capital Fund.
- An unqualified opinion on an SSAE No. 16 examination was received for the period 10/2014 – 06/2015.

Impact on Legacy Systems

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

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

FIAR Plan Status Report

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

¹ N/A as Increment 1 will be subsumed when Increment 2, Release 1 deploys in 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	✓	01/2016
Supplies (MILSTRIP)	29	0		
Vendor Pay	29	29	✓	01/2016
Reimbursable Work Order – Grantor	29	29	✓	01/2016
Fund Balance with Treasury	14	14	✓	01/2016
Appropriations Received	5	5	✓	01/2016
Military Pay	13	0		
Civilian Pay	13	13	✓	01/2016
Reimbursable Work Order – Acceptor	12	12	✓	01/2016
Other Budgetary Activity	8	8	✓	01/2016
Financial Reporting	10	83	✓	01/2016
Mission-Critical Assets Existence and Completeness				
Military Equipment	10	6	09/2016	11/2016
Real Property	10	6	09/2016	11/2016
Inventory	10	0		
OM&S	10	0		
General Equipment	10	6	09/2016	11/2016

Appendix 1. Critical Path Milestones Defined

Figures ES-2 – ES-8 in the Executive Summary identify the critical path requirements and the planned completion dates for the Military Departments and ODOs. The critical path milestones are defined as:

Universe of Transactions

Universe of transactions refers to the entirety of underlying, individual, accounting transactions that support a financial statement line or balance. The ability to provide the universe of transactions is critical.

During an audit, the IPA selects samples of transactions summarized in the financial statements to form an overall conclusion on the accuracy of the financial statements. One of the early steps in an audit involves the Component providing the auditors with a universe of transactions that reconciles to the financial statements. This universe must reconcile to subsidiary and feeder systems to demonstrate completeness to the auditors. The ability to provide to the auditors the universe of transactions is critical to moving a financial statement audit into the testing phase.

Providing complete universes of transactions is especially challenging for the Components because of the numerous accounting systems used to initiate and record transactions as well as hundreds of feeder systems where most transactions originate. To address this challenge, the Department is creating several transaction reconciliation tools that will be used to collect and provide auditors with universes of transactions. The auditors will then use these universes to select samples for internal control and substantive testing.

Fund Balance with Treasury

Fund Balance with Treasury is an asset line on the Balance Sheet that represents the aggregate amount of funds in the Department's

accounts with Treasury that DoD is authorized to spend. In simple terms, FBWT is similar to a personal checking account balance that must be increased for deposits (appropriations and collections) and decreased for expenditures. Due to the size of the DoD budget and the enormous amount of funds expended and collected, the number of accounting transactions that must be reconciled between DoD accounts and Treasury is very large and the task complex.

Further complicating reconciliations with Treasury are the Department's many nonintegrated accounting systems, incomplete lines of accounting information, and timing of transactions. Because of these complexities and other reconciliation challenges, the Department has routinely made unsupported journal entries to adjust DoD balances to match Treasury balances.

Interim and long-term solutions address this critical path milestone:

- Interim solutions include performing FBWT transaction-level reconciliations, instituting processes for timely and accurately recording financial events, and clearing differences between DoD and Treasury.
- The long-term solution is standardizing FBWT end-to-end processes by replacing multiple reporting and reconciliation tools with a single, auditable enterprise-solution that aligns with Treasury modernization initiatives.

Journal Vouchers

Journal vouchers are summary-level accounting adjustments made when balances between systems cannot be reconciled. Often these journal vouchers are unsupported, meaning they lack supporting documentation to justify the adjustment or the adjustment is not tied to specific accounting transactions. While many adjustments are valid, having too many journal vouchers may be an indicator of underlying problems, such as weak internal controls.

For an auditor, journal vouchers are a red-flag for transactions not being captured, reported, or summarized correctly. Auditors must judge whether the errors that triggered the journal voucher are

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isolated or systemic, leading them to select more transactions to test. If the auditors cannot estimate the magnitude of the errors, they may not be able to complete the audit or issue an opinion on the financial statements.

Open Obligations

Open obligations are undelivered and delivered orders for which payment has not yet been made. Because SBA audits cover open obligations against new appropriations, Components must verify that open obligations for all active and expired appropriations are supported before beginning SBR audits. Many hundreds of open and expired appropriations must be reviewed. Components are using the triannual review process to ensure open obligations can be reconciled to the financial statements and appropriate documentation is available to support the remaining balances.

Existence, Completeness, and Rights and Obligations of Assets

In August 2009, the Department established achieving existence and completeness of mission-critical assets by June 30, 2016, as a priority. When FIAR existence and completeness activity is performed, rights and obligations are also validated because only those assets to which a Component has the rights and obligations are to be reported on the Component's financial statements.

The Department's extensive assets located worldwide make completing existence, completeness, and rights and obligations audit readiness challenging. Audit readiness ensures accurate information exists and is essential to establishing a baseline of existing assets that each Component must value for Balance Sheet reporting.

Valuation of Assets

Valuation of General Property, Plant, and Equipment and of Inventory and Related Property is critical. Each of these Balance Sheet lines is material to the Department's financial statements and will require considerable time and resources to develop or validate auditable amounts.

Many of the Department's assets were acquired decades ago and before there was a requirement to produce financial statements. As a result, the acquisition (cost) documents required for supporting valuation and audit are often no longer available. For these assets, the Department must use alternative valuation methods.

The Department must also establish processes, controls, and systems for capturing the cost of assets while under construction (e.g., buildings) and in production (e.g., weapon systems) that allows the Components to capture the full cost of new assets. The acquisition and installations communities must also modify existing policies, processes, and systems to meet additional standards.

Environmental and Disposal Liabilities

Environmental and Disposal Liabilities are probable future outflow or expenditure of resources for environmental cleanup, closure, and disposal resulting from past transactions or events. It includes the estimated costs associated with the cleanup (removal, containment, or disposal) of operations that resulted in hazardous waste.

Significant challenges exist with the process for estimating and recording environmental and disposal liabilities, and time is needed to implement processes, controls, and systems capable of producing auditable liability cost estimates, including:

- Identifying all environmental liabilities and reconciling them to sites and the accountable property systems of record.
- Implementing methodologies to capture changes to detailed environmental liability clean-up cost estimates.
- Establishing requirements for procedures, controls, and documentation when using cost estimation models.
- Developing and supporting cost estimates for costs associated with the decontamination and decommissioning of assets with environmental and disposal liabilities.

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 the 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 holding eight hearings that covered a broad range of DoD financial management issues, with representatives from the Defense Department, GAO, and the private sector.

Upon the conclusion of the review, 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

In 2015, the GAO reviewed the status of the Department's actions to implement the HASC Panel's recommendations. The report, "DoD Financial Management: Continued Actions Needed to Address Congressional Committee Panel Recommendations," GAO-15-463, was issued September 28, 2015. The report states the Department has made progress on the 29 recommendations and has met 6 of the panel's recommendations. Twenty of the recommendations were partially met. GAO and the Department agreed that three recommendations previously reported as met were instead partially met. The Department is taking additional actions to complete these and other remaining recommendations.

Figures A2-1, A2-2, A2-3, and A2-4 list the HASC Panel recommendations and the status of DoD actions and plans. Status is described as met or partially met. GAO defines each 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

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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.	Partially Met	In the FIAR Guidance issued December 2011, the Department identified interdependencies to accelerate progress in Wave 4. The April 2015 updater to the FIAR Guidance included additional interdependencies and addressed all material Wave 4 financial statement lines and how those lines reconcile to other waves.
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.	Partially Met	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 2015 resulted in a modified opinion with qualified explanatory language. The Department is addressing the SSAE No 16 reported findings and implementing corrective actions. Additionally, the Department's consolidated audit strategy addresses how audits of the individual DoD Components will come together to support the DoD-wide audit. The FIAR office is currently documenting the strategy in detail and how some of the challenges associated with the consolidation, such as eliminations will be addressed.

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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	<p>The Department has re-evaluated its position on historical asset costs, and in January 2015, established four working groups comprising members of OUSD(AT&L), OUSD(C), DoD CIO, Military Departments, and Defense Agencies. The working groups have identified policy gaps and barriers to asset valuation auditability and have developed solutions and implementation guidance.</p> <p>In addition, the Department has been working with FASAB to change accounting standards to better address DoD-unique financial reporting challenges. The new standards, as drafted, will allow the Department to use additional alternate methodologies to determine the historical costs of General Equipment, Real Property, and Inventory and Related Property. Another standards change significantly reduces the complexity of identifying and valuing the Internal Use Software. These changes will greatly decrease the time and resources needed to establish auditable opening balances and will allow the Department to focus on improving processes and systems going forward.</p>
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	<p>The OUSD(C) FIAR Directorate continues to support and monitor Component progress under audit or examinations. The OUSD(C) FIAR Directorate is deploying an NFR tracking tool to facilitate monitoring and tracking Notices of Finding and Recommendations and corresponding corrective actions. The tool is also a medium for sharing lessons learned.</p> <p>The OUSD(C) FIAR Directorate 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>

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HASC Panel Recommendations		Status	DoD Actions Taken and Planned
1.5	The Under Secretary of Defense (Comptroller) (USD(C)), in consultation with the Deputy Chief Management Officer (DCMO) 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.	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 by reviewing past audits, using the experience of IPA firms, and analyzing the results from quality assurance reviews of assertion packages. 2) Defined the critical path to achieving full financial statement auditability for FY 2018. Tasks and milestones have been included in Appendices F and G of the updated FIAR Guidance. The milestones have also been included in the May 2015 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 a Notice of Finding and Recommendation tracking database to monitor corrective actions. 4) Identified financial reporting deficiencies requiring corrective actions within the Component's FY 2015 Annual Statement of Assurance.
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.	Partially Met	<p>The Department requires the FIAR Governance Board cochairmen, the directors of four service providers, and the chief management officers for the Military Departments to submit a message for inclusion in the semiannual FIAR Plan Status Report that states their commitment to audit readiness by the 2017 goal.</p> <p>Additionally, the FIAR Governance Board members coordinate on all FIAR Plan Status Reports, attesting to the accuracy and completeness of the report's content.</p>

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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.	<p>Partially Met</p> <p>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.</p> <p>Department leaders are now discussing what actions need to be taken that determine how to reward executives based on evaluated performance for FIAR-related goals or assess the effect on accomplishing FIAR activities by tracking evaluated performances over time.</p>
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.	<p>Partially Met</p> <p>The FIAR Guidance currently requires audit readiness management assertions to be signed by the responsible management representative of the organization responsible for the subject matter. The Department is updating the FIAR Guidance to require signatures from senior executives in charge of both the financial and relevant functional areas for assertions.</p>
2.3	The Department should develop comprehensive corrective action plans to address existing material weaknesses and those identified during the FIAR effort.	<p>Partially Met</p> <p>Components that undergo examinations or audits are required to develop and implement corrective action plans. The OUSD(C) FIAR Directorate is deploying an NFR tracking tool to facilitate monitoring and tracking of NFRs and corresponding corrective actions. Additionally, the FIAR Directorate is testing some Component’s key controls necessary to support audit.</p>

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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 methodologies for reducing improper payments. For example, DFAS re-evaluated and enhanced its Commercial Payment statistical sampling methodology to identify improper payments. In addition, the OUSD(C) reviewed the DFAS revised sampling methodology for commercial pay to ensure it meets or exceeds the minimum annual requirements in accordance with the DoD Financial Management Regulation. Also, DHA developed procedures to calculate the improper payment error rate based on amount paid in accordance with Office of Management and Budget guidance.</p> <p>The other seven programs that report improper payments in the DoD Annual Financial Report are reviewing their methodologies for identifying improper payments, and if warranted, will change their sampling plans. Those seven programs are DFAS - Military Pay, Civilian Pay, Military Retirement, and Travel Pay; USACE - Commercial Pay and Travel Pay; and Navy ERP commercial payments.</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 a memorandum providing guidance on tracking and reporting Anti-Deficiency Act violations.</p> <p>The Department requires the 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>

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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	<p>Analyses will be performed on a recurring basis until the Department is able to replace legacy systems with ERP systems. Such analyses assist in identifying root causes of problem disbursements and implementing corrective actions.</p> <p>Additionally, OUSD(C) and DFAS are jointly updating metrics to better track progress in reducing problem disbursements.</p>
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 understands the impediments and challenges to audit readiness and through the FIAR governance process is aware of Component-identified and -implemented solutions and best practices, including those identified by the functional communities. 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 (deflated Plant Replacement Value) • 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
2.8	The Department should develop a forum in which the military commands can share lessons learned from their respective audit readiness efforts.	Met	<p>Military Departments and Defense Agencies share lessons learned within their organization on a regular basis in various forums, such as newsletters, quarterly reviews, and stakeholder meetings. FIAR Subcommittee, FIAR Committee, and FIAR Governance Board meetings also are forums regularly used to share information external to a Component.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
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.	Partially Met	Service provider audit readiness milestones and the status and plans for SSAE No 16 examinations are reported in the semiannual FIAR report. In addition, the OUSD(C) and Components monitor service provider milestones, progress, and challenges during Service Provider Working Group meetings, as well as during other FIAR oversight meetings, such as FIAR Committee meetings.

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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. The status of each phase follows.</p> <p>Phases 1 and 2 are closed. The FM Community continues to work on resolutions to Phases 3 and 4.</p> <ul style="list-style-type: none"> Phase 1: Assessment of the Civilian Workforce Members in FM Mission-Critical Occupation Series. Completed May 2014. Phase 2: Assessment of Civilians in Non-mission Critical Occupational Series. Completed May 2015. Phase 3: Assessment of the FM 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 and Sect 1599d. Additionally, 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. <p>The OFCM concluded that a competency skills gap assessment is not a legislative requirement for the financial management military workforce. The research indicated that</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>the Military Departments have an effective means of assessing the competencies of the military workforce in their given functional specialties through the normal annual military performance review and promotion processes. This decision and supporting rationale was documented in a memorandum for record. The FM OFCM continues to explore options on other ways to assess the competencies of the military workforce.</p> <ul style="list-style-type: none"> Phase 4: The FM OFCM is researching the feasibility of assessing the civilian financial management workforce in other functional areas. Per Public Law 112-81, the legislative requirement for FM 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 FM Community. Recommend that the FM OFCM have the opportunity to engage with interested members of the HASC Panel to discuss the removal of the contractor population from the required assessments.
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 maintain a contractor support staff of CPAs with financial audit experience. The CPAs provide the audit experience needed for FIAR activity and for preparing for audits. The CPAs also recommend and assist in implementing best business practices used in the private sector.

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
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 has developed 69 web-based financial management courses. The web-based course inventory includes several FIAR courses, which are available to DoD functional communities including financial management. 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 completion of any OUSD(C) developed course. Evaluations are reviewed monthly and comments collected and analyzed. The Department uses evaluation scores and comments to assess training effectiveness. The overall cumulative course evaluation score has been consistently above 4.0.</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	<p>Training exists for all ERP systems. Training programs are coordinated with the ERP Component's system owner and Component's financial management office.</p> <p>The Army Financial Management Office oversees each of the Army's financial ERP systems and works closely with system integrators to develop online and in-person training materials. As training products evolved from ERP deployment to sustainment modes, including the creation of training products by the Army Financial Management School form the core of formal curriculum, many lessons learned were incorporated.</p> <p>The Navy Financial Management Office works with Navy ERP program office to enhance training capabilities for the Navy ERP. Navy ERP requires several web-based training modules to be completed prior to obtaining access to financial roles, and has enhanced knowledge sharing capabilities through</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>automated tools that offer detailed content. In addition, Command- and field-level Navy ERP business offices provide instructor-led training courses for hands on training of specific job functions, such as Business Financial Manager training courses.</p> <p>The Air Force Financial Management Office ensures training courses for DEAMS are available through the Air Force financial management learning management system and can be taken by anyone with access at any time. The Air Force Financial Management Office maintains a library of online training courses that are required as a part of the system access request process. Also, internal to the DEAMS application are user job aids that include video demonstrations of common system functions.</p>
3.5	<p>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>	Met	<p>The Department submitted proposals for a pilot program for the Temporary Exchange of Financial Management Personnel for inclusion in the FY 2014 and FY 2015 NDAA's. However, the proposals were included.</p> <p>Based on two years of non-support, the Department did not submit a legislative proposal for the FY 2016 NDAA. Although a proposal was later included in the Senate version of the FY 2016 NDAA, it was not included in the House version, and the proposal is not expected to proceed.</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 the ERP programs to better evaluate progress toward auditability, timely implementation of corrective measures, and 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 have self-reported that they have included FIAR milestones and requirements in their schedules. This only applies for the ERP systems that are in the acquisition process (e.g., DAI, DEAMS, IPPS). Programs in development have been given the requirements to include in the program schedules. ERPs are also incorporating systems changes resulting from findings discovered during audits and examinations. These systems changes are vetted via the Components systems' configuration control boards.</p> <p>The OUSD(C) developed a methodology for financial systems to</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>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 that are now 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 the 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 (DAES) 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 “owning” Component has seen project scope creep and user-specific requirements that have driven cost and schedule challenges. The lesson learned has been to strengthen management discipline through change control boards and engaged, knowledgeable senior-leader steering groups. In addition, the Milestone Decision Authority, as part of the major automated information system acquisition and investment review processes, monitors the programs at a macro level for cost, schedule, and performance 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. The DCFO has stated additional requirements that are included in the acquisition decision memorandum or the 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 a requirement of effective information technology acquisition. The Department provides ample resources through the Defense Acquisition Guidebook, Program Manager Took Kit, and the 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.</p> <p>The 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. The organization should follow the DoD risk management framework to assist them 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. Recommendations regarding a need for a data-conversion senior official for these systems under development may be more appropriately directed 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 as seen in the example of the Air Force who after the initial data conversion into DEAMS at Scott AFB has decided not to convert data for new users.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
4.8	<p>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.</p>	Partially Met	<p>As required by the FY 2012 NDAA and 10 U.S.C. 2222, the Department updated the Business Process Reengineering (BPR) Assessment Guidance on September 28, 2012.</p> <p>In FY 2014, the BPR 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 key 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>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
4.9	<p>The DoD DCMO, in coordination with the Director for Operation, Test and Evaluation (DOT&E) and Deputy Assistant Secretary of Defense for Development, Test and Evaluation (DASD (DT&E)), 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.</p>	Partially Met	<p>Currently, DOT&E does not perform testing for all systems, but provides guidance to assist organizations in performing testing. In addition, DCFO with DCMO support have begun a process for conducting independent testing of systems for compliance with key financial management requirements, such as SFIS, SLOA, and USSGL.</p>

Appendix 3. Acronyms

Acronym	Definition
ABSS	Automated Business Services System
ACES-RP	Automated Civil Engineers System – Real Property
AF	Air Force
AFEMS	Air Force Equipment Management System
AF-IPPS	Air Force Integrated Personnel Pay System
AMCOM	Aviation and Missile Command
APO	Automated Project Order Form System
APSR	Accountable Property System of Record
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
ASC	Army Sustainment Command
ATAAPS	Automated Time Attendance and Production System
AT&L	Acquisition, Technology, and Logistics
AWCF	Army Working Capital Fund
AWCF	Army Working Capital Fund
BEA	Business Enterprise Architecture
BPR	Business Process Reengineering

Acronym	Definition
BRAC	Base Realignment and Closure
CAPS-W	Computerized Accounts Payable System – Windows
CBDP	Chemical Biological Defense Program
CCSS	Commodity Command Standard System
CECOM	Communications Electronics Command
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CLIN	Contract Line Item Number
CRIS	Commander’s Resource Integration System
DAAS	Defense Automatic Addressing System
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency

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Acronym	Definition
DCAS	Defense Contract Administration Services
DCFO	Deputy Chief Financial Officer
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCPAS	Defense Civilian Personnel Advisory Service
DCPDS	Defense Civilian Personnel Data System
DCPS	Defense Civilian Payroll System
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHRA	Defense Human Resources Activity
DIACAP	DoD Information Assurance Certification and Accreditation Process
DISA	Defense Information Systems Agency

Acronym	Definition
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DMA	Defense Media Activity
DMEA	Defense Micro-Electronics Agency
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DoDEA	Department of Defense Education Activity
DoDI	Department of Defense Instruction
DoD OIG	Department of Defense, Office of the Inspector General
DON	Department of the Navy
DOT&E	Director for Operation, Test, and Evaluation
DPAA	Defense Prisoner of War/Missing in Action Accounting Agency
DPAS	Defense Property Accountability System
DRRT	Defense Reconciliation and Reporting Tool
DSCA	Defense Security Cooperation Agency
DSS	Distribution Standard Supply System or Defense Security Service
DTIC	Defense Technical Information Center

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Acronym	Definition
DTIM	DFAS Transaction Interface Module
DTRA	Defense Threat Reduction Agency
DTS	Defense Travel System
DTSA	Defense Technology Security Administration
ECC	Enterprise Central Component
EFD	Enterprise Funds Distribution
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning System
ES	Executive Summary
EXMIS	Expeditionary Equipment Management Information System
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIABS	Financial Inventory Accounting and Billing System
FIAR	Financial Improvement and Audit Readiness
FIS	Facilities Information System
FISCAM	Federal Information System Controls Audit Manual

Acronym	Definition
FM	Financial Management or Managers
FM&C	Financial Management and Comptroller
FO	Financial Operations
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAFS-BL	General Accounting and Finance System – Base Level
GAFS-R	General Accounting and Finance System – Rehost
GAO	Government Accountability Office
GCSS-A	Global Combat Support System – Army
GCSS-MC	Global Combat Support System – Marine Corps
GFEBs	General Fund Enterprise Business System
GRC	Governance, Risk, and Compliance
GTAS	Government-wide Treasury Account Symbol
IGT	Intragovernmental Transactions
ILS-S	Integrated Logistics System – Supply
IMPS	Integrated Management Processing System
iNFADS	Internet Naval Facilities Assets Data Store

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Acronym	Definition
IPA	Independent Public Accountant (or Accounting Firm)
IPPS-A	Integrated Personnel Pay System – Army
iRAPT	Invoices Receipt Acceptance and Property Transfer
IT	Information Technology
IWIMS	Interim Work Information Management System
JM&L	Joint Munitions and Lethality Life Cycle Management Command
JV	Journal Voucher
LMP	Logistics Modernization Program
MAJCOM	Major Command
MAIS	Major Automated Information System
MATMF	Material Access Technology - Mission Funded
MCPDT	Marine Corps Permanent Duty Travel
MSC-FMS	Military Sealift Command Financial Management System
MCTFS	Marine Corps Total Force System
MDA	Missile Defense Agency
MERHCF	Medicare-Eligible Retiree Health Care Fund
MILSTRIP	Military Standard Requisitioning and Issue Procedures

Acronym	Definition
MOCAS	Mechanization Of Contract Administration Services
MOU	Memorandum of Understanding
MRF	Military Retirement Fund
MV	Multi-Mission Vehicle
N/A	Not Applicable
NAVAIR	Naval Systems Air Command
NAVFAC	Naval Facilities Engineering Command
NFR	Notice of Findings and Recommendations
ODCMO	Office of the Deputy Chief Management Officer
ODO	Other Defense Organization
OEA	Office of Economic Adjustment
OEL	Other Accrued Liabilities
OEP	Organization Executive Plan
OIG	Office of the Inspector General
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense

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Acronym	Definition
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)
PBUSE	Property Book Unit Supply Enhanced
PP&E	Property, Plant, and Equipment
ROTC	Reserve Officers' Training Corps
SAAS-Mod	Standard Army Ammunition System – Modernization
SABRS	Standard Accounting, Budgeting and Reporting System
SBA	Schedule of Budgetary Activity
SBR	Statement of Budgetary Resources
SCOA	Standard Chart of Accounts
SCS	Stock Control System
SCR	System Change Request
SDS	Standard Depot System
SEMS-SERMIS	Support Enforcement Management System - Support Equipment Resources Management Information System
SFFAS	Statements of Federal Financial Accounting Standards

Acronym	Definition
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SMAS	Standard Material Accounting System
SSAE	Statement on Standards for Attestation Engagements
STANFINS	Standard Financial System
SWALIS	Special Warfare Automated Logistics Information System
TACOM	Tank-Automotive and Armaments Command
TBD	To Be Determined
TI	Treasury Index
UH	Utility Helicopter
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USD	Under Secretary of Defense
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)
USD(C)	Under Secretary of Defense (Comptroller)
USMC	United States Marine Corps
USS	United States Ship

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Acronym	Definition
USSGL	U.S. Standard General Ledger
USSOCOM	U.S. Special Operations Command
USTRANSCOM	U.S. Transportation Command
USU	Uniformed Services University of the Health Sciences

Acronym	Definition
WARS-NT	Worldwide Ammunition Reporting System – New Technology
WAWF	Wide Area Workflow
WCF	Working Capital Fund
WHS	Washington Headquarters Services



FINANCIAL IMPROVEMENT AND AUDIT READINESS

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