





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

*As I approach the conclusion of my tenure as the Department's Chief Financial Officer, I thank the men and women of the Department of Defense (DoD) for their diligence and dedication to the goal of achieving full audit readiness. We've come a long way over the past 8 years, and we are well-positioned for the future. Without their hard work to address deficiencies, integrate processes and systems, strengthen internal controls, and value our assets, we would not be where we are—poised to begin full financial statement audits in fiscal year (FY) 2018.*



*Undergoing full financial statement audits is a great achievement, but it is not the end-game. Achieving a clean audit opinion will take the Department several more years, and being under an annual audit regimen is an essential part of our strategy. Auditor findings and recommendations will help the Department identify and prioritize remaining corrective actions. Initial audits are already helping drive change while giving financial managers and functional leaders valuable real-world audit experience. DoD personnel better understand auditors' expectations and the higher level of consistency, discipline, and rigor that successful audits require. By going through the audit process, the Department is making great strides to increase transparency and act as good financial stewards. Most importantly, this transition to an annual audit regimen is improving the quality of our financial information, providing opportunities for efficiency, and strengthening our business processes in support of the warfighter.*

*The Department's continual financial process improvement is a testament to the commitment of leadership at the highest levels and of the hard work of our financial and functional communities. I remain confident that we have the right level of support, effort, and commitment to achieve our audit goals.*

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

**Michael McCord**  
Under Secretary of Defense (Comptroller)  
Chief Financial Officer

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## Message from the Assistant Deputy Chief Management Officer

*Business process improvements are at the core of the Department's audit readiness efforts, and essential to better budgetary control and financial decision-making. As the Assistant Deputy Chief Management Officer, I am committed to optimizing the DoD business environment and helping the Department achieve its goal of having its full financial statements audit ready by September 30, 2017.*

*The Military Departments and Defense Agencies have been working very hard to prioritize and complete corrective actions, and that hard work is paying off. Progress has been marked and measurable. Next year, we will begin auditing our FY 2018 full financial statements. The objective feedback from our auditors will help us better target controls, systems, and processes that need strengthening in order for the Department to achieve and sustain audit success.*

*Under Secretary of Defense (Comptroller) Mike McCord and I have worked closely to monitor and hold accountable the senior leaders of the Military Services and other defense organizations. We must continue to institutionalize sound business practices and systems that can produce reliable business and financial information on a timely, repeatable basis. Although the challenge to achieving a Department-wide audit opinion remains high, I am confident the Department will be prepared to embark on the rigors of an annual audit regimen and achieve greater efficiencies in how we serve the American people and meet our mission.*



A handwritten signature in black ink, appearing to read 'D. Tillotson III'.

**David Tillotson III**

Assistant Deputy Chief Management Officer

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

**Preparation of this report cost the Department of Defense approximately \$172,000.**

## Executive Summary

For an organization as large and complex as the Department of Defense (DoD), achieving an audit-ready state has been a long-term, challenging endeavor. Only in the last 6 years, have Congress and DoD stakeholders come to fully appreciate the magnitude of this effort. Now, only one year remains to finish preparing the Department's books and records to meet the statutory deadline that all DoD financial statements be audit ready by September 30, 2017.

In October, a senior leadership group co-chaired by the Deputy Secretary of Defense and the Vice Chairman of the Joint Chiefs of Staff again reviewed the status of audit readiness and the Department's ability to enter into full financial statement audits. Each Military Department reported it was on track and committed to undergoing a full financial statement audit in fiscal year (FY) 2018.

Because some remediation actions and major system and process



President Barack Obama and Defense Secretary Ash Carter thank service members after a news conference at the Pentagon, Aug. 4, 2016. (DoD photo by Air Force Tech. Sgt. Brigitte N. Brantley.)

changes will not be fully completed, the audits are expected to result in significant audit findings and disclaimers of opinion. Regardless of the challenges that exist and the work remaining, enormous value is gleaned from going under audit. The Deputy Secretary concurred with the assessments of progress and approved the current audit plan and timeline, emphasizing that going under audit ensures the Department continues to make progress.

## STATUS AND VALUE OF ONGOING AUDITS

Initial, limited-scope audits are already proving valuable. Although the Department has not fixed everything that it must in order to achieve a clean opinion, institutionalizing annual audits while continuing to address issues is imperative. As critical capabilities are achieved, the Department will expand the scope of the audits while working to address auditor findings.

Audit findings and recommendations help the Component's focus on areas that need the most attention, prioritize remediation activities, and strengthen controls. Opportunities for process improvement and resource savings may also be revealed. For example, the Navy's first audit resulted in 220 deficiencies, 82 percent related to information technology (IT) systems. To address these challenges, the Navy is downsizing the number of systems and eliminating redundant capabilities. Legacy systems that cannot be audited are being eliminated, thus avoiding maintenance costs and minimizing difficult reconciliations needed for financial reporting.

Department-wide, being under audit and staying under audit sustains leadership's focus and drives progress toward a positive audit opinion more than earlier audit readiness efforts have. Audits are improving cooperation across multiple DoD entities and helping to reduce the number of stove-piped processes. As corrective actions are completed, DoD leaders gain a more complete understanding of where the Department's assets are located, and how costs are accruing, resulting in improved information for decision making.

**Current Audit Opinions**

The primary and most visible measure of audit progress is the extent to which the Department's organizations are under some form of a financial audit regimen. In FY 2017, 90 percent of General Fund budgetary resources and 54 percent of Working Capital Fund budgetary resources will be under audit; 43 percent of total assets will also be under audit. The number of organizations and the scope of each audit will continue to expand until the Department can begin a full agency-wide financial statement audit. That audit will be the largest, single consolidated financial statement audit in the world.

The U.S. Army Corps of Engineers (USACE), as well as six defense agencies and funds, are sustaining positive opinions on their full 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 and prior years' financial statements.

**Figure ES-1. Financial Statement Audit Opinions**

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

**Audits of the Military Services**

This year, the U.S. Marine Corps will become the first Military Service to have its full financial statements under audit. In FY 2016, the Army, Navy, and Air Force each expanded the scope of their audits of current-year budgetary activity to include an additional year's appropriation. In FY 2017, the Army and Navy will further expand the scope of their audits to full Statement of Budgetary Resources; the Air Force FY 2017 Schedule of Budgetary Activity (SBA) will again be audited. All Military Services project being ready for full financial statement audits in FY 2018.

**Other Defense Organizations Audits**

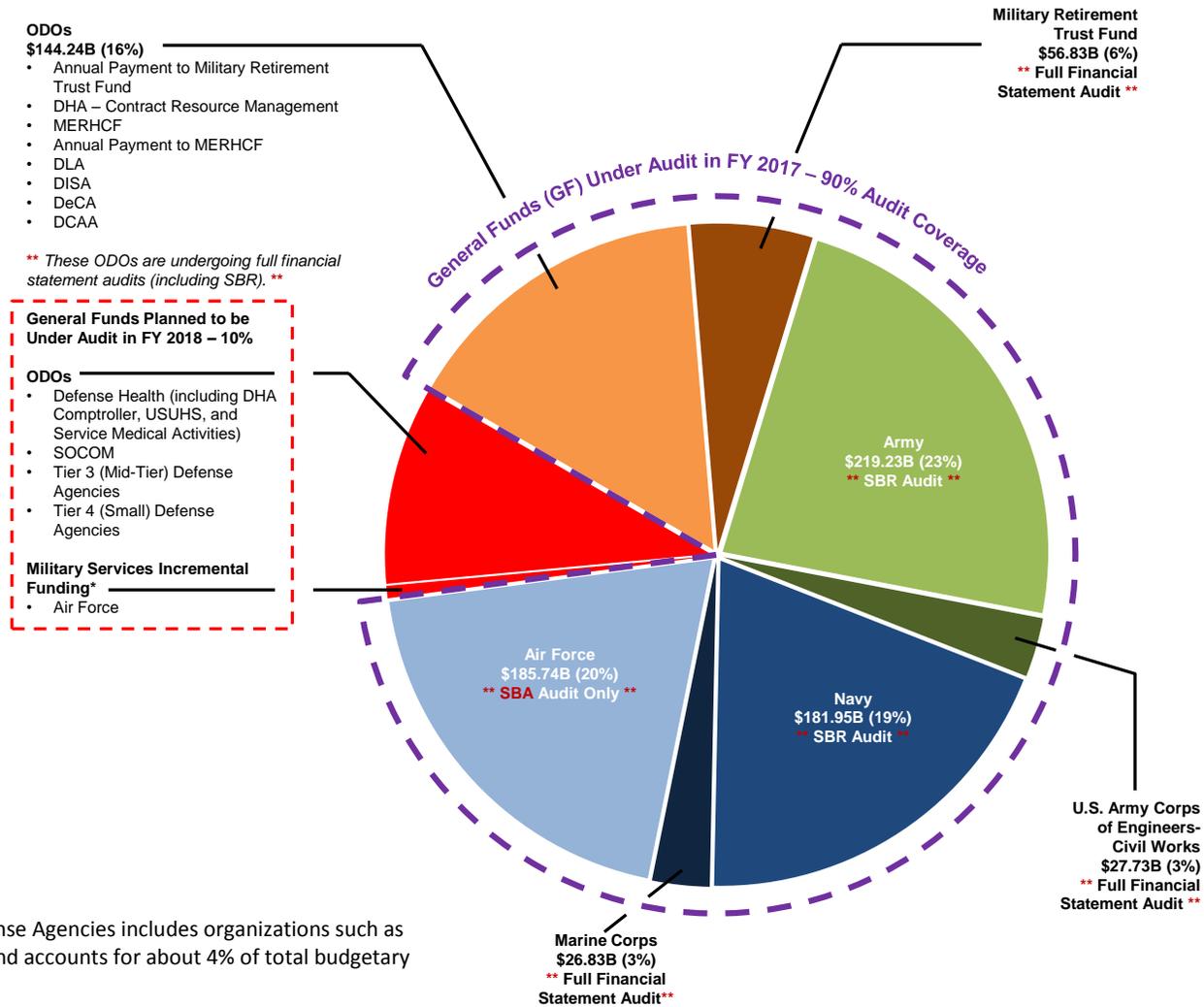
The full financial statements of the Defense Intelligence Agencies are all under audit. The Defense Information Systems Agency's (DISA) FY 2016 full financial statements are also under audit, and in August 2016, an independent public accounting firm (IPA) began auditing the Defense Logistics Agency (DLA) FY 2017 full financial statements.

**Service Providers' Audits and Examinations**

Many of our Service Providers, such as the Defense Finance and Accounting Service (DFAS) and Defense Contract Management Agency (DCMA), are sustaining examinations of their controls and systems that can then be used by their Component customer financial statement auditors, saving time and money. In FY 2017, DFAS will complete examinations of Vendor Pay and Fund Balance with Treasury for the other Defense organizations (ODOs).

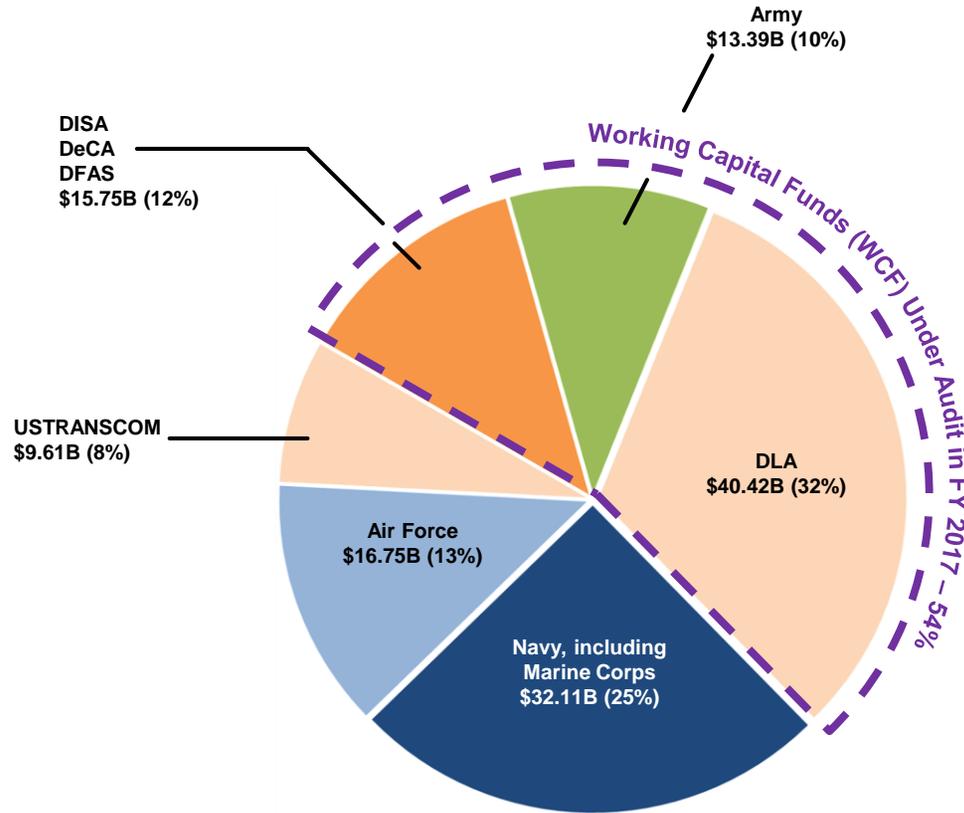
Figure ES-2 and ES-3 show the General Funds under audit in FY 2017 and the Working Capital Funds under audit in FY 2017, respectively.

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



Note:  
 Tier 3 (Mid-Tier) Defense Agencies includes organizations such as DARPA, DTRA, MDA and accounts for about 4% of total budgetary resources.  
 Tier 4 (Small) Defense Agencies includes organizations such as DTIC and NDU and accounts for about 1% of total budgetary resources.  
 Figure based on FY 2015 total budgetary resources.

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



Note:  
Figure based on FY 2015 Total Budgetary Resources.

## PLANNING FOR FY 2018 AUDITS

Over the next year, the Department must support a number of concurrent activities, including ongoing audits, fixing issues identified in earlier audits, and planning for future audits—all simultaneously. Management must ensure critical capabilities have been achieved and an audit infrastructure is in place to support the independent audit. The auditors, audit contracts, and contract oversight (typically by the DoD Office of the Inspector General (DoD OIG)) must also be ready.

The Military Departments' audit contracts allow for either an audit of a single financial statement or an audit of the full financial statements. Defense Agencies are planning for full financial statement audits, examinations, or, in many cases, continuing audit readiness improvements until undergoing audit as part of the DoD consolidated audit. The DoD OIG is working to put a contract in place in time to support an initial DoD consolidated audit in FY 2018. The Department is aware of Congressional interest and the need to use a best-value approach for contract awards to ensure we secure appropriate expertise for the audits and audit advisory services.

Based on the DoD Chief Financial Officer's evaluation of current progress against critical capabilities and organizational inputs:

- The Military Services should be ready for full financial statement audits in FY 2018. (In FY 2018, the Marine Corps will be entering its second year of a full financial statement audit.)

- The U.S. Transportation Command (USTRANSCOM) should also be ready in FY 2018; the Defense Health Program (DHP) (including the Defense Health Agency) and the U.S. Special Operations Command (USSOCOM) are at the highest risk but are working hard to be ready.
- DLA and DISA will be under subsequent year audits in FY 2018.
- The next tier of Defense organizations will be audited as part of the DoD consolidated audit.

Because some remediation actions and major system and process changes will not be fully completed, these audits are expected to result in significant audit findings and disclaimers of opinion. A disclaimer of opinion is issued when the auditor cannot form an opinion on the financial statements in the time allowed. Disclaimers can be issued for a variety of situations, such as incomplete information and testing limitations due to the sensitive nature of the data. The Department anticipates receiving disclaimers of opinion for several years, but the value of the audits outweighs the risks. Over time, positive opinions will begin to emerge for individual reporting entities.

Figure ES-4 shows the audits already underway and audits planned for the Military Services, large Defense Agencies, and other agencies.

Figure ES-4. DoD Audit and Examination Plan

DoD OIG as Consolidated Auditor												
DoD OIG Uses the Work of External Auditors										DoD OIG Performs Independent Testing		
	Military Services				Large Defense Agencies					Other Agencies <sup>b</sup>	Mid-Sized Defense Agencies <sup>c</sup>	Small Defense Agencies <sup>d</sup>
	Army	Navy	Air Force	U.S. Marine Corps	USSOCOM	USTRANSCOM	DHP	DLA	DISA			
SBA - SBR Audit	✓	✓	✓		X	N/A	X			Under Full Audit (clean opinion)	✓ (Examination)	
Full Audit <sup>a</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓			Included in DoD-wide Consolidated Audit

**LEGEND:**

- ✓ Audit underway
- ✓ Planned for audit in FY 2018
- X Remediation efforts from SBA examination underway

- a** Full Audit denotes all financial statements.
- b** Includes USACE, MRF, DFAS Working Capital Fund, DCAA, and DeCA.
- c** Includes 10 entities, which together account for about 4% of DoD's budgetary resources.
- d** Includes 27 entities and funds, which together account for 1% of DoD's budgetary resources.

**Note:** ODCFO will explore alternatives such as examinations of selected financial statements or material line items for those entities not under full financial statement audit by FY 2018.

### REMAINING WORK

Although significant progress has been made across the Department, much remains to be done. Because full financial statement audits are planned to begin in FY 2018, the remaining work will focus on completing corrective actions in areas identified by the auditors and addressing specific high-risk areas viewed as having the most impact on the financial statements.

#### Complete Corrective Actions and Address High-Risk Areas

It will be several years before the Department begins to see positive audit opinions emerge. To get there, it is critical that deficiencies and high-risk areas be prioritized and addressed. Addressing these areas require some significant changes to how the Department does business. For example, how a Component records goods and services received and accepted when doing business with another governmental agency requires an across-the-board change.

The Department has closed 48 percent of the findings from Military Department and defense agency FY 2015 SBA audits and examinations. The audits of FY 2016 are showing similar results and reinforcing the need to resolve systemic issues by:

- Retiring legacy IT systems and deploying audit-ready IT systems,
- Reducing journal vouchers and manual corrections,
- Valuing property and other assets, and
- Determining the universe of transactions.

Areas posing a high risk to achieving full audit readiness have been designated as critical capabilities. For each critical capability, the Department established interim milestones and Department-wide dates by which those milestones must be resolved.

#### IT Systems

The Department has nearly 500 individual IT systems relevant to audit. Meeting the needs of the auditors requires too many manual workarounds and stretches limited resources even more thinly. These systems are costly to maintain and result in substantial IT control issues. To efficiently audit financial statements, auditors must be able to rely on the IT control environment. The more IT systems the Department uses, the more complex it is to audit.

Work-arounds are not a viable, long-term solution to audit nor do they meet cybersecurity needs. Work-arounds cost too much money and do nothing to address root causes of audit deficiencies. The Department must reduce the number of systems by eliminating redundant and legacy systems. Remaining systems must be modernized to meet audit and cybersecurity standards, and the Department must enforce routine compliance with data standards so that information can be traced across the Department. Controls must be in place and strictly adhered to, including supervisory reviews, access forms, and removing those users who no longer need system access.

#### Journal Vouchers and Manual Adjustments

Journal vouchers are manual corrections or adjustments made to record a business event or balance DoD accounts. While journal vouchers are a common accounting practice, being unable to support these adjustments or corrections with detailed information is a red flag for auditors. Unsupported journal vouchers are a financial reporting deficiency for the Department and have been a self-reported material weakness since 2007.

Remediating this challenge requires significant changes in the Department's processes or how systems record accounting transactions. Although long-term process changes and systems fixes are being identified and tracked, addressing journal vouchers in the short-term is very labor intensive, placing further demands on limited resources.

### Valuing Property

In order to complete an audit, the Department has to know with certainty that all of its assets have been inventoried, valued, and supported. To address this challenge, the Department must automate solutions to capture the full cost of acquiring and maintaining assets. Contracts must be structured in such a way that the full cost of property can be readily determined, and automated solutions must be implemented to ensure the cost of property is recorded and reconciled in both the general ledger and the property sub-ledger.

The Department negotiated two accounting exceptions with the Federal Accounting Standards Advisory Board (FASAB) to further ease the magnitude of this challenge. FASAB is allowing DoD to forgo the valuation of land and granted a one-time exemption on valuing software. Before the Department can execute the one-time software exception, it must have sustainable process and systems in place for valuing software.

### 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. Accounting transactions that support a financial statement line or balance 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.

Auditors have also found the Department is too often missing either the documentation to support the transaction or the documentation to support the authority for the transaction. For each transaction, proper documentation must exist and be available to auditors.

### Prepare Remaining Statements

The Department is taking a risk-based approach to preparing the remaining financial statements for audit. The FIAR Governance Board closely monitors progress toward critical capability milestones

and is holding Components accountable for meeting completion dates. Summary status charts and detailed information on the critical capabilities, interim milestone completion dates, accomplishments, and challenges are presented in the respective Military Department and Other Defense Organizations sections of the report.

### Reporting Sensitive Activities on DoD's Books

The same financial information that the Department prepares for audit must be reported and audited for sensitive activities. Although the audit of the sensitive activities will be conducted mostly by DoD OIG personnel with appropriate clearance, providing sensitive documentation and accessing classified systems has to be handled differently. The Department is defining a way ahead that allows financial information to be presented for audit while protecting national security. This may include classifying Military Department financial statements and presenting complete and correct financial information in a classified environment.

## DOD AUDIT READINESS RESOURCES

The Department is continuing to refine resource requirements as remaining audit readiness activities are completed, and the scope of audits expand over time. Although costs will remain relatively consistent from FY 2017 – FY 2020, the amount of resources needed for audit readiness activities is expected to decline in future years. However, resource needs for financial statement audits will likely increase for a few years after FY 2018 as the scope of the audits expand and work to correct audit findings increases.

Supporting new financial statement audits also increases demand on headquarters staff. Mandatory headquarters reductions, which must be completed by FY 2020, exacerbate the challenge. Because much of the audit effort is led and conducted by financial management personnel as a headquarters function, the Components must work within these constraints to prioritize remaining work and align resources outside of headquarters, where possible. The Department must focus resources where the most value can be realized and be

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able to sustain those investments in future years. Moving work to the field and adding temporary or contractor support may be viable alternatives. .

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

### Audit Readiness, Validations, and Audits

- Audit readiness management and oversight activities conducted by the 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, including tools and data repositories.

- Statements on Standards for Attestation Engagements (SSAE) No. 16, “Reporting on Controls at a Service Organization,” examinations and financial statement audits conducted by IPAs.

### Financial Systems

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

Because Enterprise Resource Planning (ERP) systems 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, Enterprise Resource Planning Systems.

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

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Audit Readiness, Validations, and Audits	665	768	815	781	782	770
Financial Systems	106	103	95	91	88	85
<b>Total Resources</b>	<b>771</b>	<b>871</b>	<b>910</b>	<b>871</b>	<b>870</b>	<b>855</b>

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## I. Enterprise-Wide Initiatives

The FY 2018 DoD full financial statements audit will likely be the largest, single consolidated financial statement audit ever undertaken. Department leaders are committed to achieving full audit readiness, 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. 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:

- Service Provider Integration
- Fund Balance with Treasury and Cash Accountability
- Transportation of Things
- Intragovernmental Transactions
- Accruals

#### Service Provider Integration

DoD entities have many complex business interrelationships that affect financial reporting and create financial statement audit dependencies. Service providers with three or more Component customers will undergo an examination in accordance with SSAE No. 16, “Reporting on Controls at a Service Organization.” Results of the examinations (a Service Organization Control report) can then be used by Component customer financial statement auditors, improving Department-wide efficiency and saving time and money. In April 2016, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued SSAE

No. 18, “Attestation Standards: Clarification and Recodification.” SSAE No. 18 requires that controls be implemented at the service organization that monitors the effectiveness of controls at the sub-service organization and is effective for IPA examination reports dated after May 1, 2017.

In order for service provider customers—other DoD Components—to become audit ready, a service provider’s audit readiness activities must be closely integrated with their customers’ audit readiness activities. The Department is working to ensure and expand effective integration by:

- Conducting service provider working group meetings to identify audit relevant dependencies, clarify roles and responsibilities, and report audit readiness progress, deficiencies, and corrective actions. Representatives of the DoD OIG, the Government Accountability Office (GAO), and IPA firms provide perspective and lessons learned.
- 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 them and their customers.
- Convening meetings, when business processes are complex or involve multiple service providers, to develop a thorough understanding of the service provider’s processes and agree on the scope of the service organization’s control examinations. These meetings have resulted in two additional FY 2016 examinations (Fund Balance with Treasury – Transaction Distribution and Military Service-Owned Items in DLA Custody) and two newly planned FY 2017 examinations (Fund Balance with Treasury – Treasury Reconciliation and Vendor Pay).
- Reviewing service organization control examination reports to determine whether the examination scope is sufficient or if additional examinations are needed to have complete coverage of audit relevant business processes and systems.

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

### Fund Balance with Treasury and Cash Accountability

The Department's audit success is closely linked to cash traceability, including proper funds management and accountability of all transactions affecting Fund Balance with Treasury. Unsupported journal vouchers and unresolved 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 Fund Balance with Treasury solution. The Department's solution also aligns with the Treasury's modernization initiatives.

### Transportation of Things

The Transportation Financial Auditability Working Group is standardizing freight and personal property processes and procedures through policy and guidance, systems integration, and training. The working group comprises transportation functional and financial managers from the Offices of the Secretary of Defense, Military Departments, Joint Chiefs of Staff, USTRANSCOM, DLA, DFAS, and DCMA.

The working group is focused on long-term business process improvements, including standardizing internal controls to support and sustain auditability in commercial freight; household goods and non-temporary storage; and organic freight. The working group continues to make significant progress in:

- Designating a single shipper system for each business process area, such as designating the Cargo Movement Operations System, as the single system for the Third Party Payment System.

- Implementing an enterprise-level memorandum of understanding (MOU) for sharing of supporting documents.
- Finalizing a policy requiring evidence of transportation services to support payments.
- Analyzing DLA Document Automation Content Services for use as a central repository for sharing supporting documents for transportation transactions.

### Intragovernmental Transactions

One of the Department's material weaknesses is an inability to properly account for, reconcile, and eliminate intragovernmental transactions and balances from the consolidated financial statements. Intragovernmental transactions result when two federal entities conduct business but are unable to account for and reconcile differences in recording the buying and selling of goods and services from one to another, often due to lack of proper documentation.

In FY 2013, intragovernmental transactions imbalances with civilian agencies exceeded \$102 billion; in FY 2014, imbalances were \$98 billion; and in FY 2015, imbalances were over \$100 billion. To manage intragovernmental transactions buyer and seller transactions, the Department partnered with Treasury to implement its Government Invoicing solution (G-Invoicing).

The Department mandated the use of G-Invoicing in FY 2015 for intragovernmental transactions and established a goal of 50 percent of new reimbursable work to be conducted using G-Invoicing. During FY 2016, the Department prepared agency and Component implementation plans, and completed gap analyses of existing processes. The Department built all standard data exchange maps to be used by DoD financial systems, completed necessary changes to the enterprise system used for documenting intragovernmental receipt, and completed several training exercises between the Components.

In FY 2017, Treasury will publish the federal data standard for intragovernmental transactions. It is anticipated that the federal

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software providers will deliver changes that allow electronic brokering of intragovernmental transactions orders and invoices.

### Accruals

Considerable remediation work remains for recording accruals. An accruals working group is developing common methodologies and best practices. After analyzing Military Service and ODO practices, the working group determined that the most significant impediment to Contact Pay and Vendor Pay is the lack of data to estimate accruals. Other accomplishments include:

- Defined a common methodology to estimate accruals for goods and services received during a specified time period where definitive, documentary liability evidence is unavailable.
- Coordinated the methodology with the Military Services and DFAS.
- Analyzed invoice processing, entitlement, and accounting systems, and identified the initial data gap.
- Continued work with OUSD(AT&L) Defense Procurement and Acquisition Policy to capture missing invoice data elements.

## FINANCIAL MANAGEMENT IMPROVEMENT INITIATIVES

Enterprise-wide financial improvement initiatives include:

- Standard Financial Information Structure
- Cost Management
- Proforma Statement of Net Costs and Property, Plant, and Equipment Cost Model
- Financial Management Certification Program

### Standard Financial Information Structure

Standard Financial Information Structure (SFIS) is the Department's common financial business language that standardizes data elements, business rules, and transaction posting logic used in DoD financial management systems. SFIS incorporates Treasury and Office of Management and Budget (OMB) reporting requirements. DoD systems need to be brought into compliance with SFIS to facilitate reconciliations and audit readiness.

Beginning in August 2014, the Joint Interoperability Test Command (JITC) began independent assessments of the Department's ERPs, accounting systems, and service-providers' main feeder systems compliance with SFIS. Results of JITC verification provide insight into the audit readiness status of DoD systems and highlight areas that need additional remediation.

The Components are implementing the Standard Line of Accounting (SLOA) classification (a subset of the SFIS data elements) across all applicable transactions with their trading partners. In time, the use of SFIS and SLOA will improve system interfaces and interoperability, while also reducing the time for and amount of manual transactions. For the remaining interfaces, the SLOA data exchange will improve controls and help financial managers and auditors trace business transactions across multiple systems.

### Cost Management

Cost transparency is vital to effective financial management and reporting and shares common goals with the Department's audit readiness activities. These shared goals include providing the Department with reliable financial and cost data to make more informed operational decisions; prioritizing management focus and control against material cost pools; and improving processes so that the Department's cost management practices align with government and commercial best practices. Better cost transparency and reporting links effective programing and planning to the actual execution and financial outlays of the Department.

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The Department's cost management initiative began with the creation of an Enterprise-wide Managerial Cost Accounting framework to provide cost information for various business lines and other organizational designations. A Real Property prototype is currently being implemented, with several additional lines of business launching during FY 2017. The effort involves:

- Identifying which activities within Real Property most require reliable cost estimates to maximize effective decision-making.
- Determining the best path for reliably capturing priority data, including efforts that range from system and accounting enhancements to innovative methods of predictive modeling.
- Developing a series of use cases for how enhanced cost information can improve budgeting, cost control, performance measurement, reimbursement and fee setting, program evaluation, and resource management.

### **Proforma Statement of Net Cost and Property, Plant, and Equipment Cost Model**

The Department is remediating Statement of Net Cost material weaknesses, identified by the DoD OIG. A proforma Statement of Net Cost is being developed to align with DoD Major Force Programs.

The Department is also focusing on Property, Plant, and Equipment and an approach for capturing costs, including General Equipment, Real Property, and Internal Use Software. A prototype cost model to aggregate the costs of new assets is in development. Testing will continue until the Department releases the prototype cost model to the Military Departments and ODOs for implementation.

### **Financial Management Certification Program**

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

Now that the certification program is in sustainment, DoD leadership is able to track the status of the DoD financial management workforce certification. As of August 2016, more than 35,000 financial management members, or 64 percent of the DoD financial management workforce, achieved certification as of August 2016.

In addition to certification, the Department continues to align courses to competencies and certifications. Financial Management myLearn, the e-catalogue of all financial management and leadership training courses, contains 11,591 courses. The catalogue enables users to identify previously completed courses and assists them in identifying additional training to fulfill their requirements. The Department developed 79 web-based, free courses to assist members in meeting certification requirements; these courses have been successfully completed in over 390,000 instances, at a current rate of more than 2,500 completions per week. The Department also added a search function that identifies courses offered by certain colleges and universities that the Department considers applicable to the financial management workforce. The academic database contains 6,310 aligned academic courses from over 1,000 colleges and universities.

Finally, the certification program enables the Department to achieve 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 Under Secretary and Chief Management Officer

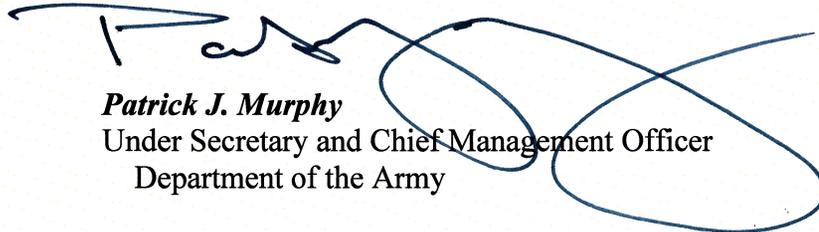
*Audit Readiness remains a top priority for the Army. Since 1995, Congress has mandated that all federal agencies must be auditable. Failure to accomplish this is not acceptable. We are focused on meeting the audit readiness milestones by September 30, 2017, as directed by the National Defense Authorization Act 2010. While the scale of this effort is unprecedented, our Army remains committed to make progress toward its deadline by conducting audits and implementing corrective actions to resolve identified deficiencies. To date, only the Army Corps of Engineers Civil Works has met the standard.*

*The Army received a disclaimer of opinion by our independent auditor for the fiscal year. We are using these findings to resolve identified deficiencies. All of us will work to develop and implement corrective actions, apply lessons learned from the prior audit, and test implemented corrective actions. We anticipate the auditor will note areas of improvement from the previous year. We are also refining our focus on balance sheet remediation by establishing strong partnerships between the logistics and financial management communities. This is essential for successfully conducting asset valuation and existence and completeness activities.*

*We initiated a biweekly regimen of synchronization calls with senior responsible officials to discuss progress in executing and validating corrective actions. We also launched a monthly Business Mission Area Champion audit readiness committee to govern solution development of urgent matters, monitor progress of corrective actions, hold process owners accountable for resolving audit impediments within their area of responsibility, and escalate and recommend mitigation strategies for enterprise-wide risks to the Army Audit Committee.*

*Our Army appreciates the support of Congress in providing needed resources to achieve this mission. Achieving audit readiness supports better decisions by leadership based on more accurate data, instills a greater culture of accountability across all levels of the Army, and fosters greater confidence from taxpayers and Congress in the Army's management of taxpayer resources. The Army will not lose sight of the importance of achieving this goal. We continue to stress the importance of audits to ensure our teams are doing their part to get after it.*



  
**Patrick J. Murphy**  
Under Secretary and Chief Management Officer  
Department of the Army

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## II. Army Audit Readiness

The Army continues to make progress toward the goal of auditable financial statements by September 30, 2017. In FY 2016, the Army completed its second audit of the General Fund SBA. The audit was completed as a result of the dedication and hard work of leaders, soldiers, and civilians across the Army who prepared for and supported the audit.

The Army will continue SBA audits through FY 2017 as part of the Army's audit readiness strategy. The strategy focuses on identifying and correcting deficiencies and managing change to sustain improvements to the Army's business infrastructure. The Army anticipates the auditor will not render an opinion on the FY 2016 SBA audit, similar to the outcome of the FY 2015 SBA audit. However, the auditor noted the Army demonstrated a good understanding of what is expected in an audit and developed a sound infrastructure to prepare for FY 2018 full financial statements audit.

### Progress Since the May 2016 FIAR Report

Highlights since the last FIAR report include:

- The Army used the FY 2015 SBA auditor's findings to develop 305 corrective action plans; of those, 144 have been completed and 75 successfully validated.
- Using the FY 2016 SBA auditor's findings, the Army is continuing corrective actions, strengthening internal controls, developing standard processes, verifying and retaining readily available supporting documentation, improving system compliance, and strengthening service provider support.
- The DoD OIG is reviewing the Army's Fund Balance with Treasury.
- The Army Audit Agency began validations of the existence and completeness of the Operating Materials and Supplies and Real Property. Completion is planned for Quarter 2 of FY 2017.



An Army UH-60 Black Hawk helicopter prepares to unload airmen during an air assault mission as part of exercise Rail Yard at Warren Grove Gunnery Range, N.J., Sept 21, 2016. (DoD photo by U.S. Army Tech. Sgt. Matt Hecht.)

- Army Audit Agency began validating Environmental and Disposal Liabilities, including Active, non-Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC) Program. Completion is projected for Quarter 2 of FY 2017.
- Valuation activities are underway across Balance Sheet line items to establish opening balances in accordance with updated accounting standards.
- The Army is continuing to establish and document the business process for acquiring internally developed software systems and identified a baseline of systems.

Other accomplishments include the Army Audit Committee's new monthly meetings of Business Mission Area Champions to provide governance, development, and oversight of solutions for Army-wide

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audit impediments. The Army regularly met with Senior Responsible Officials to ensure timely implementation of corrective actions. The Army audit support infrastructure remains strong, and during the FY 2016 SBA audit, it responded to over 13,500 requests from the auditors and coordinated reviews of 47 NFRs. The Army also began developing corrective actions to address the FY 2016 audit NFRs.

The Army has taken significant steps to attain the transactional data needed to reconcile financial data between the Army's feeder systems, of which there are currently more than 70, and applicable ERPs. These steps focus on implementing the Acquisition, Logistics, and Technology Enterprise Systems and Services (ALTESS) hosting environment as an interim universe of transactions solution. The solution allows access to ERP and feeder system data in a centralized location. The Army has also taken significant strides to reduce the number and amount of unsupported adjustments. For Fund Balance with Treasury, the Army initiated system change requests in GFEBS and Global Combat Support System-Army (GCSS-A) that will reduce variances with the Treasury Department. Additionally, the Army analyzed the undistributed cash reporting process to identify the root causes for adjustments and is working to resolve issues to reduce the number of adjustments and support adjustments at the transaction level.

### Challenges to Audit Readiness

While the Army made substantial progress toward audit readiness, significant challenges still remain. Challenges primarily consist of the availability of personnel and resources; the need to improve internal controls; and the need to document and correct ERP posting logic, as well as reducing the number and amount of unsupported adjustments. Additional challenges include:

- Timely reconciling universes of transactions to associated feeder systems at the transaction level.
- Implementing financial management practices to properly record business and accounting events and reconciliations.

- Implementing ERP solutions and tri-annual reviews to support open obligation balances.
- Improving IT general controls, resolving auditor's unwillingness to accept system generated supporting documentation and reconciliations.
- Establishing and strengthening internal controls over asset physical inventories.
- Valuing of property, plant, and equipment.
- Difficulty providing auditors with entitlement documentation from a myriad of stakeholders.

### SBA AUDIT RESULTS

FY 2015 was a historic year for the Army. The General Fund SBA audit was the Army's first financial audit conducted by an IPA. The audit included evaluating the presentation of current year budget activity in accordance with generally accepted accounting principles (GAAP). The audit also evaluated the IT controls over the general ledgers in various systems. The IPA completed the FY 2016 General Fund SBA audit. The scope of the audit included FY 2016 appropriation activity, as well as FY 2015 appropriation transactions.

During the FY 2016 SBA audit, the IPA identified 100 findings that highlighted areas where the Army confirmed areas under corrective action that still need improvement. The Army expects the FY 2017 SBA audit to show significant improvement, because the majority of the corrective actions identified during the FY 2015 audit have been completed and some of the corrective actions resulting from the FY 2016 SBA audit findings will have been started.

Areas demonstrating improvement include:

- **Revenue.** More consistent and higher quality documentation supporting transaction samples, increased response rate to missing documentation and follow-up questions, and improved accuracy of responses to follow-up questions.

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- **Military and Civilian Pay.** More effective walkthroughs, including live transactions and controls demonstrated support for net military payroll outlays.
- **Procurement.** Documentation to support first-time tested balances (downward and upward adjustments) provided in a timely manner.
- **Systems.** Improvements in security management and contingency planning controls.
- **Overall.** Validated 75 corrective actions satisfying 76 NFRs from prior year audit.

Areas with continued findings include:

- Inability to support beginning balances.
- Inability to provide certain data populations and reconciliations, journal voucher listings and supporting documentation, and supporting documentation for SBA balances.
- Ineffective general information technology controls for ERP and feeder systems.

Figure II-1 identifies six of nine material weaknesses and NFRs, and the dates when the weaknesses and NFRs will be corrected. Remaining material weaknesses are being addressed through the critical capabilities.

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Figure II-1. Army Material Weaknesses and Notices of Findings and Recommendations (✓ = Completed)

Material Weaknesses	Corrective Actions	Completion
<b>Financial Reporting/Completeness</b>		
Internal control gaps to verify transactions entered into systems.	Update guidance and refresher training, as needed, on the internal controls guiding the review documentation and resolution of error and variance reports.	03/2017*
Incomplete balances due to ineffective cut-off and suspense transactions.	Work with DFAS to update policies and procedures on cut-off and actions required to resolve suspense transactions.	03/2018*
<b>Evidential Matter</b>		
Evidential support that was not readily available could not be linked to the transaction tested and not appropriately reviewed.	Develop an approach to better link financial data to business processes to better support IPA testing. Develop model audit packages to clearly illustrate the documentation required. Reinforcing existing or developing new guidance on required supervisory review and documentation retention requirements.	09/2017
<b>Service Provider Oversight</b>		
Lack of policies and procedures to assess service providers that host/manage financial systems that support amounts on the Schedule.	Update service provider agreements, as well specific guidance needed to execute key internal control activities.	01/2017
<b>Accrual Estimation Methodologies</b>		
Lack of accrual estimation methodologies to verify Schedule balances are complete.	Assess accruals for material transactions and update guidance outlining an estimation methodology.	✓
<b>Financial Management Improvements</b>		
Ineffective process to support documentation and meeting requests.	Conduct lessons learned with IPA, add resources to manage the process, and implement a new audit support tool to help manage PBCs and sample requests.	✓
<b>IT Systems</b>		
Inadequate process for monitoring of separated and transferred individuals.	Develop measures to remediate known gaps in access control policies and procedures, and apply solution throughout Army organizations and systems.	12/2018
Inadequate super user monitoring and management (i.e. elevated privilege users).	Review existing user accounts with access to super user privileges, assign minimum required level of access, and monitor the complete list of SAP-supplied super user profiles that must be restricted.	12/2016

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Material Weaknesses	Corrective Actions	Completion
Excessive privileges granted or managed within or amongst the systems.	Identify and remove the sensitive user access from user roles in the system's production environment. Periodically monitor user accounts with access to execute sensitive transactions based on least privilege considerations.	12/2016
Inadequate segregation of duties management.	Implement a process to prevent incompatible application access from being assigned within the system's application during the approval process. Periodically monitor user accounts with access to execute sensitive transactions based on least privilege considerations.	11/2018
Periodic review of all users' access privileges is not conducted or not conducted consistently.	Develop and implement formal processes and procedures to reaffirm command level end-users within the system application environment.	12/2016
Audit logging procedures surrounding access and/or activity are not formalized or are not performed.	Update procedures for the application frequency of review and description of events to be logged. Assign an independent individual to review the audit logs. Implement a mechanism to ensure that individuals whose activity is in the log will be prevented from being able to modify the log.	12/2016
Configuration change management processes and standards need improvement.	Perform appropriate testing for all configuration changes and begin tracking release documentation by utilizing a unique identification number, as well as a documentation tracking system.	11/2018
Inadequate patch management processes.	Formally maintain evidence to support that patches applied to systems' production operating systems and databases have been successfully tested, including a documented test plan outlining the steps required to be performed based on the type of patch and the corresponding results of these test steps.	04/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### GENERAL FUND FINANCIAL STATEMENTS

The Army continues to execute a corrective action strategy that includes prioritizing, implementing, monitoring, and reporting progress. NFRs are prioritized based on direction and criteria in the FIAR Guidance. Corrective action progress is monitored using several methods, including:

- Biweekly synchronization meetings where senior responsible officials provide the status of high priority corrective actions.
- Monthly Business Mission Area Champions meetings to provide governance, accountability, and oversight of solutions.
- Bimonthly audit committee meetings covering the status of corrective actions, resourcing, implementation, risks, and mitigation strategies.

The Army is focusing on reviewing, strengthening, and developing standardized business processes, and identifying and cataloguing new controls. This effort brings together stakeholders throughout the Army to identify and assess the “as-is” processes and establish “to be” standards. A determination that a deficiency has been corrected will only be made when sufficient corrective actions have been completed and the desired results achieved and documented.

As evidenced by the FY 2016 General Fund SBA audit, the Army continues to make audit readiness progress. For example, the Army was able to produce the GFEBs and GCSS-Army non-SBA population that reconciled with the unadjusted trial balance with minimal variances. Additionally, the Army continues to make progress in GFEBs data categorization defines business events.

During the FY 2016 SBA audit, the Army successfully produced entitlement systems populations that reconciled with GFEBs. Furthermore, a sustainable reconciliation process was implemented between Defense Civilian Payroll System (DCPS) and Defense Joint Military Pay System – Active Component (DJMS-AC) to GFEBs

and DJMS-RC to STANFINS, thus, remediating an FY 2015 SBA audit NFR. To further accomplish General Fund financial statement completeness, the Army is establishing the ALTESS environment, which will be the centralized location for the universe of transactions for all ERPs and feeder systems. This systems environment will enable complete reconciliations between feeder and ERP systems.

To improve Fund Balance with Treasury, the Army initiated systems change requests, incorporated suspense account information in the Army Fund Balance with Treasury Tool, and is working with its service providers to consistently resolve variances. Additionally, in coordination with DFAS, Army clarified the correlation of the undistributed journal vouchers with the voucher-level detail within the Army Fund Balance with Treasury Tool. DFAS is documenting this process with detailed standard operating procedures.

The Army continues to make progress in preparing an audit ready General Fund Balance Sheet and has a plan for each critical and noncritical asset and liability line item. The Army used alternative valuation methodologies to value 12 major equipment acquisition programs and is in the process of rolling out this methodology to all other Army equipment programs. The Army is also in the process of preparing its Real Property asset records for application of the Plant Replacement Value methodology to establish opening balances. Additionally, the Army is progressing toward implementing a moving average cost methodology for its Operating Materials and Supplies, and completed its third round of annual testing of the following Environmental and Disposal Liabilities programs:

- Active Defense Environmental Restoration Program (DERP)
- Non-DERP
- Base Realignment and Closure

For all Balance Sheet property line items, the Army identified and began implementing corrective actions. The Army will continue to remediate and sustain the audit readiness of asset and liability line items.

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**Figure II-2. Army General Fund Audit Readiness Critical Capabilities (✓ = Completed)**

Army – General Fund		Completion	Validation <sup>1</sup>
Universe of Transactions	Statement of Budgetary Resources	03/2018	09/2018
	Balance Sheet	03/2018	09/2018*
Fund Balance with Treasury <sup>2</sup>		12/2016	06/2017
Journal Vouchers <sup>2</sup>		09/2017	06/2017
Existence and Completeness, Valuation of Assets	Real Property (including Construction in Progress)	12/2016*	03/2017
	General Equipment (including Military Equipment)	12/2017*	09/2017
	Internal Use Software	12/2016	03/2017
	Inventory and Related Property	12/2016	03/2017
Environmental Liabilities	DERP	03/2017*	03/2017
	Non-DERP	03/2017	03/2017
IT Controls		12/2017	12/2018

\* Revised or completed since the May 2016 FIAR Plan Status Report.

<sup>1</sup> The Army will conduct internal reviews of audit readiness work products to validate corrective actions have been implemented and deficiencies remediated.

<sup>2</sup> Identified as a material weakness in FY 2015 SBA audit.

## Universe of Transactions – Schedule of Budgetary Activity (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓

### Accomplishments

- Produced transaction populations for the FY 2015 and FY 2016 SBA audits reconciled to each financial statement line.
- Developed a process that allows Army to produce a population of sensitive activities reconciled to financial statement line items.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2018*
<b>Interim Milestones</b>	
Implement feeder systems reconciliations.	03/2018*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Achieved ability to reconcile a number of high-risk information systems (feeder systems) and enhanced system data to assist in identifying and aligning transactions to various feeder systems and processes.
- Produced entitlement systems population for the FY 2016 SBA audit reconciled to GFEBS.
- Set up a host environment for enterprise systems' FY 2016 accounting data.

### Challenges

- Certain feeder systems lack the capability to produce transactional data on a monthly or quarterly basis to reconcile to the accounting system. Completion of a universe of transactions within the ALTESS environment should address this challenge.
- A majority of the feeder systems are decentralized and comprise multiple instances requiring numerous data sets to be generated, consolidated, and reconciled to one of the five general ledgers. Completion of universe of transactions within the ALTESS environment should address this challenge.
- Inability to identify and stratify feeder systems interfaced with accounting systems during the FY 2015 SBA audit. Enhanced data sets should address this challenge.

## Universe of Transactions – Statement of Budgetary Resources (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓

### Accomplishments

- Produced a transaction population for the FY 2016 SBA including beginning balances.
- Worked with DFAS to gain an understanding of the closing logic to recalculate the FY 2016 beginning balances.
- Developed a process allowing the Army to produce a population of sensitive activities reconciled to financial statement line items.
- Reconciled 99.9 percent of GFEBS Statement of Budgetary Resources universe of transactions with Defense Departmental Reporting System – Budgetary (DDRS-B) unadjusted trial balances (UTB).

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2018
<b>Interim Milestones</b>	
Implement feeder systems reconciliations.	03/2018*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Achieved ability to reconcile high-risk feeder systems, including Defense Joint Military Pay System (DJMS), DCPS, and Program Budget Allocation System (PBAS).
- Enhanced the GFEBS data set to assist in readily identifying and aligning transactions to feeder systems and business processes. GFEBS data categorization continues to identify the criteria attributes that define business events.
- Satisfied auditor’s reconciliation requirement of DCPS and Defense Joint Military Pay - Active Component (DJMS-AC) to GFEBS and Defense Joint Military Pay – Reserve Component (DJMS-RC) to Standard Financial System (STANFINS).
- Set up ALTESS hosting environment and loaded GFEBS, GCSS-A, and Corps of Engineers Financial Management System (CEFMS) with FY 2015 and FY 2016 accounting data.

### Challenges

- Certain feeder systems were not designed with audit readiness in mind and lack the capability to produce transactional data on a monthly or quarterly basis to reconcile to the accounting system.
- A majority of the feeder systems are decentralized and comprise multiple instances that require numerous data sets to be generated, consolidated, and reconciled to one of the five general ledgers.

## Universe of Transactions – Balance Sheet (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, reconciled to each financial statement line item and accounting system.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Testing monthly internal controls to analyze business processes impacting the population of transaction details.

### Challenges

- Reliance on journal vouchers to adjust accounts without supporting details.
- Balance Sheet opening balances have not been finalized to begin valuation activities.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2018*
<b>Interim Milestones</b>	
Implement feeder system reconciliations.	03/2018*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Made progress to finalize a population of transaction details from all APSRs.

### Challenges

- Certain feeder systems were not designed to support audit readiness, and as a result, lack the capability to produce necessary transactional data on a monthly or quarterly basis to reconcile to the accounting system.
- Obtaining access to data and supporting documentation maintained outside of the Army (e.g., Construction-in-Progress).

**Fund Balance with Treasury (General Fund)**

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	12/2016

**Accomplishments**

- Initiated a system change request to assist in minimizing variances between general ledgers and Treasury.
- Working with DFAS to implement a process for consistently resolving variances in addition to reviewing an aging and materiality analysis to determine if years prior to FY 2013 are needed to support a financial statement audit.

**Challenges**

- Inability to identify the root causes that result in variances.
- Implementing an effective process to timely resolve variances between Army general ledgers and Treasury.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	12/2016
<b>Interim Milestones</b>	
DFAS identify root cause and remediation.	✓*
Incorporate transactions on Statement of Differences into reconciliation process.	12/2016
Perform reconciliation back to FY2013.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Successfully incorporated suspense account information in the Fund Balance with Treasury Tool, providing transaction/voucher-level detail needed to timely clear variances.

**Challenges**

- Multiple accounting systems cause challenges in identifying and managing transactions. Army is working to incorporate suspense account information in Army Fund Balance with Treasury Tool for timely variance resolution.

### Journal Vouchers (General Fund)

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	✓
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	09/2017
Interim Milestones	
Finalize G-Invoicing implementation plan.	✓
Implement GFEBS Trading Partner Crosswalk Table TP2 attribute system change request.	✓*
Validate GFEBS Trading Partner Crosswalk Table data.	12/2017
Engage with GFEBS partner systems to identify a single system of record that can centrally populate trading partner data.	03/2017*
Support the OSD-Comptroller proposed Intragovernmental solution, G-Invoicing.	06/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Logistics manual research resulted in an interim corrective action to modify GFEBS derivation rules for the trading partner code incorrectly assigned to Congress.

#### Challenges

- Trading partner data is derived from multiple sources and partner systems, including Army Enterprise System Integration Program, Federal Logistics Information System, Federal Logistics

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
Interim Milestones	
Implement GFEBS and DDRS system change requests.	03/2017*
Complete GFEBS posting logic validation and complete business process documentation.	✓
Elimination of ELECTRA adjustment by DFAS Departmental.	✓
Update DFAS departmental reporting process and guidance documentation/procedures.	✓
Train DFAS departmental reporting personnel on updated procedures.	✓
Perform journal voucher root cause analysis for all financial statements (expanded from sole SBA focus) for all journal voucher types	12/2016
Implement corrective action plans and validate testing of DFAS corrective actions.	12/2016
Support material journal vouchers and complete corrective action plans.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- GFEBS system changes eliminated certain journal vouchers (e.g., eliminated incorrect general ledger accounts for transfers between GFEBS and GCSS-Army, which previously required DFAS-Departmental adjustment).

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Information System Portfolio Data Warehouse, System for Award Management, and Logistics Support Agency. Therefore, the identification of a single system of record that can centrally populate trading partner data will require significant coordination and analysis.

- Joint DFAS-Army Journal Voucher Working Group has identified several root causes for journal vouchers within Army and DFAS systems and is continuing to develop corrective actions.
- DFAS-Departmental eliminated use of the ELECTRA/B0G file process to perform adjustments within DDRS.

### Challenges

- GFEBS and DDRS systems changes are needed to address issues resulting in top-level journal vouchers are dependent on competing priorities and resource constraints. Despite these challenges, efforts are being made to prioritize and execute system change requests to reduce the volume of journal voucher transactions.

**Existence and Completeness/Valuation – Real Property (General Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	12/2016
<b>Interim Milestones</b>	
Conduct business process walkthrough with the USACE for Land, Lease, and Construction in Progress.	✓
Establish financial reporting responsibilities with DLA assets.	✓
Identify the universe of real property assets at ARCENT and other enduring sites.	✓
Implement corrective action plans.	✓*
Perform testing.	✓*
Establish baseline.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Conducted a business process walkthrough with a USACE district office for Land, Lease, and Construction in Progress and with Army Central (ARCENT) for the acceptance, physical inventory, and disposal of Real Property assets.
- Implemented a process for reconciling Real Property assets held by other Defense organizations on Army installations.
- Conducted phased monthly valuation testing that provided data points to determine a valuation approach.

**Challenges**

- Retrieving the full universe of Army-controlled land and land rights transactions in the Real Estate Management Information System and Rental Facilities Management Information System.
- Army-wide data element validation to review data elements

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	12/2016
<b>Interim Milestones</b>	
Document and finalize process for reporting Land, Lease, and Construction in Progress with the USACE.	12/2016
Finalize process for capturing and reporting assets owned and operated by DLA.	12/2016
Record ARCENT assets in APSR.	12/2016
Implement corrective action plans.	✓*
Perform testing.	✓*
Document and establish go-forward process.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Established a process for disclosing the number of acres of land and land rights reported on the Balance Sheet in accordance with SFFAS No. 50.
- Provided training to real property personnel on the processes for acceptance, physical inventory, and disposal of Real Property assets.
- Provided valuation process training to real property personnel.

**Challenges**

- Erroneous entries of ARCENT assets in the APSR.
- Obtaining supporting documentation for Military Construction projects.
- Ensuring system enhancements are performed to capture and report improvements to Real Property assets.

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impacting the Plant Replacement Value calculation that will be used to establish the opening balance for Real Property.

- Awaiting guidance pertaining to changes to useful life thresholds.
- Factors included in the Plant Replacement Value model used to establish the opening balance for buildings, structures, and linear structures have not been validated.

**Existence and Completeness/Valuation – General Equipment (General Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	12/2017*
<b>Interim Milestones</b>	
Complete upload of Program Executive Office-Owned assets into DPAS.	✓*
Establish monthly testing for remaining focus areas.	✓*
Complete baseline valuation and corrective actions.	12/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Document and assess business processes and internal controls for Army medical equipment recorded in Defense Medical Logistics Standard Support. Added Army Medical Command (MEDCOM) assets to monthly existence and completeness testing.
- Documented DLA inventory process for Army-held assets at DLA facilities.
- Completed a pilot valuation project consisting of 12 programs across 4 Program Executive Offices, which accounts for about one-third of the Army’s reported General Equipment.
- Updated and refined the Army valuation approach based on the release of SFFAS No. 50 and OUSD(C) guidance.

**Challenges**

- Existence and completeness for Government-Furnished Property at DLA and MEDCOM, and in DPAS.
- System constraints impact completeness of capital asset listings, and asset listings from each program must reconcile to the existing population of assets.
- Stakeholder responsibilities for updating values not fully defined.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017*
<b>Interim Milestones</b>	
Implement full cost valuation for new acquisitions.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Drafted corrective action plans with G-4 and OASA(ALT), and coordinated with subordinate commands for action.
- Updated monthly testing process for General Equipment existence and completeness.
- Developed a process for Construction-in-Progress in accordance with federal accounting standards.

**Challenges**

- Business process updates to account for government-furnished property from the contract through delivery a vendor.
- Data validation for assets loaded into DPAS could affect the ability to complete existence and completeness.
- Systems and supporting business processes are not set up to support valuation of general equipment in accordance with accounting standards.
- Acquisition policy and procedures, including contract writing, must be modified to identify capital costs of assets prior to asset construction and delivery.

**Existence and Completeness/Valuation – Internal Use Software (General Fund)**

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2016
<b>Interim Milestones</b>	
Identify Internal Use Software universe.	✓*
Initiate testing.	✓
Complete corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Established business processes, internal controls, initial business system capabilities, and a supportable Internal Use Software and Software-in-Development baseline.
- Developed an Internal Use Software valuation methodology framework and coordinated it with stakeholders.

**Challenges**

- Ability to identify the complete universe of application systems subject to Internal Use Software reporting based on information maintained in existing databases.
- Incomplete or insufficient recorded data in application systems.
- Capturing costs for and obtaining documentation to support the full cost of Internal Use Software and software-in-development.
- System capabilities to track the actual cost of Internal Use Software in accordance with federal accounting standards.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	12/2016
<b>Interim Milestones</b>	
Identify Internal Use Software universe.	✓
Initiate testing.	✓
Complete corrective actions.	12/2016
Establish process for go-forward activity.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Established a working group with key stakeholders responsible for reporting, maintaining, and updating the process of reporting Internal Use Software and Software-in-Development.

**Challenges**

- Identifying corrective actions for deficiencies and weaknesses identified by insufficient internal controls.
- Identifying mitigating controls and substantive procedures to support valuation assertions.
- Ability to identify complete universe of application systems subject to Internal Use Software reporting based on information maintained in existing databases.
- Existing systems cannot provide information necessary for producing GAAP-based financial statements without use of an alternative valuation method.

**Existence and Completeness/Valuation – Inventory and Related Property (General Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	12/2016
<b>Interim Milestones</b>	
Identify corrective actions and train program offices to update values using latest acquisition cost.	✓*
Reconcile existence and completeness to financial statements.	✓*
Complete corrective actions.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Army Audit Agency validated the audit readiness assertion for Operating Materials and Supplies existence and completeness.
- DoD OIG audited Army-held, other-service-owned munitions and provided recommendations to improve business practices.
- Developed approach, site visit execution plan, testing strategy, and procedures for discovery work on government-owned/contractor-managed and program-owned stock.
- Program Executive Officer Ammunition and Program Executive Officer Missiles & Space prepared Operating Materials and Supplies values with supporting documentation using the latest acquisition cost as of 09/2016.

**Challenges**

- Policy updates for ownership codes need to be published and implemented at the field-level.
- Classification of government-owned/contractor-managed and program-owned stock in Army accountability systems and reported on the financial statements.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	12/2016
<b>Interim Milestones</b>	
Review valuation documentation.	✓
Identify corrective actions based on monthly testing and train program offices to update values using latest acquisition cost.	✓*
Reconcile existence and completeness to financial statements.	✓*
Complete corrective actions.	✓*
Establish a go-forward activity methodology.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Completed a financial reporting desktop standard operating procedure to document Army Operating Materials and Supplies reporting processes.
- Overhauled the testing attributes for existence and completeness monthly testing to align to audit readiness requirements and risks.
- Finalized an Operating Materials and Supplies valuation approach.
- Developed corrective action plans to address known deficiencies and coordinated the plans with G-4 and OASA(ALT).

**Challenges**

- Supporting documentation and controls may not be in place in time to support all audit readiness activities.
- Asserting audit readiness of all Operating Materials and Supplies, including existence, completeness, rights and obligations, presentation and disclosure, and valuation.

## Environmental and Disposal Liabilities (General Fund)

Critical Capability	Completion
A) Establish an auditable process for estimating (identifying and valuing) and recording environmental and disposal liabilities.	03/2017*
<b>Interim Milestones</b>	
Perform testing.	✓*
Internal validation.	12/2016
Discovery phase complete for all programs.	12/2016
Implement corrective actions.	✓*
Complete corrective actions.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed a crosswalk that reconciles transactional data to the financial statement line items in Note 14.
- Developed process documentation for DERP, non-DERP, Formerly Used Defense Sites, and Environmental and Disposal Liabilities outside the contiguous United States.
- Completed annual testing of the design and operational effectiveness of control activities and substantive transactional detail supporting documentation for DERP, BRAC, and non-DERP populations.
- Completed annual testing of the Formerly Used Defense Sites program and identified corrective actions.
- Initiated a review of the demilitarization process to understand process for capturing estimated disposal costs (routine and non-routine) and to establish a new process for capturing equipment Environmental and Disposal Liabilities.

### Challenges

- Awaiting deployment of a new system to track and manage the environmental liabilities. The system is scheduled for deployment in Quarter 1 of FY 2017; in the meantime, existing legacy systems will continue be used.
- Army does not have procedures to identify, value, and report Environmental and Disposal Liabilities for equipment and weapons systems in accordance with federal accounting guidance.
- Unclear and undocumented processes and procedures detailing roles and responsibilities between programs and functional Commands and other organizations.

## WORKING CAPITAL FUND FINANCIAL STATEMENTS

The Army completed an audit of selected lines of the Army Working Capital Fund financial statements in FY 2016. As part of the Working Capital Fund audit readiness strategy, the audit supplemented Army's audit readiness activities and validated corrective actions. Corrective actions have already begun to address the findings associated with the limited financial statement audit. Figure II-3 summarizes the NFRs from the FY 2016 audit, along with the corrective actions and estimated completion dates.

The Army plans to undergo an audit of the Statement of Budgetary Resources in FY 2017. Corrective actions will continue throughout FY 2017 in preparation for the full financial statement audit in FY 2018, including the Statement of Budgetary Resources, Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. The Army will continue to test controls on a recurring basis to assess their operating effectiveness and monitor improvements. This testing will focus on areas outside the scope of the FY 2017 Statement of Budgetary Resources audit. For example, Inventory; and General Property, Plant and Equipment will be areas of focus for

controls testing over the course of the fiscal year. The results will be briefed to Army senior leadership, and process owners will be held accountable for improving results. The most significant achievement that occurred since the May 2016 FIAR report is the successful completion of the materiality-based physical inventory counts at industrial operations activities. To make the most efficient use of limited resources, the Army developed a methodology to focus on the Inventory that accounts for 95 percent of the balance when performing cycle counts.

Figure II-3 provides the Army Working Capital Fund completion dates for each critical capability. The Army will be taking a risk-based approach to remediating the deficiencies. Those deficiencies that pose the greatest risk to achieving auditable financial statements will be addressed first. Additional problems will be fixed iteratively over time. Following Figure II-3 are charts for each critical capability, except IT controls, containing the dates for achieving the capability, accomplishments, and challenges.

## FIAR Plan Status Report

Figure II-3. Army Material Weaknesses and Notices of Findings and Recommendations (✓ = Completed)

Notices of Findings and Recommendations	Corrective Actions	Completion
<b>Revenue</b>		
Sufficient supporting evidence was not available or was not provided.	Identify and maintain signed documentation for agreements, including MIPRs and contracts.	03/2017
Review and approval of price data was not immediately available. Prices within the LMP were inconsistently used.	Maintain documentation for price and credit determinations.	03/2017
Revenue populations could not be reconciled to the associated costs.	Develop reconciliations between the revenue populations and associated costs.	06/2017
<b>Cost of Goods Sold</b>		
Moving average cost on supporting documentation did not agree to the sample.	Train appropriate personnel on how to access moving average cost values from the material master to provide as supporting documentation.	12/2016
<b>Operating Expenses</b>		
Sufficient supporting documentation was not available or not provided.	Maintain signed documentation for agreements, including MIPRs and contracts.	03/2017
Transactions were recorded in different periods or fiscal years than the action that generated the transaction.	Ensure transactions are recorded in the appropriate period when the expense occurs.	06/2017
Transactions were not recorded in the correct accounts and the amounts could not be verified.	Implement review and approval controls for gain and loss transactions.	06/2017
<b>Unfilled Customer Orders</b>		
Sufficient supporting documentation was not available or did not include all required data elements.	Maintain signed documentation for agreements, including MIPRs and contracts. Ensure personnel in the appropriate roles have authority to accept agreements and workload.	03/2017

## FIAR Plan Status Report

Notices of Findings and Recommendations	Corrective Actions	Completion
<b>Obligations</b>		
Sufficient supporting documentation was not available or not provided to support the obligation.	Maintain supporting documentation for obligation amounts.	03/2017
Sufficient supporting documentation was not provided to support the review and approval of funds availability.	Utilize the purchase request/purchase order release strategy in LMP to document the review and approval of funds availability.	03/2017
<b>Outlays</b>		
Sufficient supporting documentation was not available or not provided.	Ensure documentation is available to support specific outlays.	03/2017
Sufficient supporting documentation was not available or not provided to support journal vouchers or correcting entries.	Develop standard procedures for documenting review and approval of journal vouchers and correcting/adjusting entries.	03/2017
<b>Civilian Payroll</b>		
Sufficient supporting documentation was not available or not provided.	Certify timesheets in a timely manner.	12/2016
<b>Inventory</b>		
Sufficient inventory reconciliations and controls were not in place.	Develop standard reconciliation procedures and controls.	09/2017
Consistently applied inventory valuation procedures were not in place.	Implement controls to identify and correct inaccurate moving average cost values.	09/2017
Consistent inventory receipt procedures and controls were not in place at the inventory storage facilities.	Develop standard receipt procedures and maintain goods receipt documentation.	06/2017
Warehousing procedures were not in place to support inventory ownership data.	Identify root causes for materiel ownership data discrepancies, correct discrepancies, and monitor for future discrepancies.	06/2017
<b>Real Property</b>		
Sufficient supporting documentation was not available or was not provided.	Maintain supporting documentation for valuation for new acquisitions and capital improvements.	03/2017

## FIAR Plan Status Report

Notices of Findings and Recommendations	Corrective Actions	Completion
Inventory counts and the related reconciliation cannot be used to validate completeness of the real property population.	Maintain evidence of the physical inventory process to include assets reviewed and any adjustments made as a result of the inventory.	03/2017
Classification of Real Property as General Equipment.	Implement controls to ensure that assets are recorded in the correct asset category.	12/2016
<b>General Equipment</b>		
Sufficient supporting documentation was not available or was not provided.	Maintain valuation documentation for new acquisitions and capital improvements.	03/2017
Updated depreciation methodology was not applied consistently to all assets.	Apply depreciation methodology consistently to all assets.	03/2017
Internal controls over proper review and approval of the inventory count were not fully effective.	Improve review and approval controls for the inventory count process.	03/2017
Policies and procedures over the review and approval of general equipment data input were not properly designed.	Implement controls over the input of general equipment data.	03/2017
Internal-use software assets were classified as equipment.	Implement controls to ensure assets are appropriately classified.	12/2016
Select assets did not reflect their current status based on physical inspection.	Implement controls to ensure that assets are recorded at the correct status.	03/2017

## FIAR Plan Status Report

**Figure II-4. Army Working Capital Fund Audit Readiness Critical Capabilities (✓ = Completed)**

Army – Working Capital Fund		Completion	Validation
Universe of Transactions	Statement of Budgetary Resources	02/2017	2/2017
	Balance Sheet	12/2017	1/2017
Fund Balance with Treasury		03/2017	06/2017
Journal Vouchers		03/2017	06/2017
Existence and Completeness, Valuation of Assets	Real Property (including Construction in Progress)	06/2017*	06/2017*
	General Equipment (including Military Equipment)	09/2017	06/2017*
	Internal Use Software	09/2017*	09/2017
	Inventory and Related Property	09/2017	09/2017
Environmental Liabilities	DERP	N/A	N/A
	Non-DERP	N/A	N/A
IT Controls		06/2017*	06/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Universe of Transactions – Statement of Budgetary Resources (Working Capital Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Defined database tables and data elements needed to be included in the universe of transactions.
- Developed a solution to host and warehouse the data necessary to produce a universe of transactions.

### Challenges

- Large data sets require extensive time to extract from the source systems and transfer to the data warehouse.
- Data from many database tables must be joined together to identify the type of transaction.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	02/2017
<b>Interim Milestones</b>	
Reconcile Standard Procurement System data to LMP.	12/2017*
Reconcile Intragovernmental transactions to the feeder systems.	12/2017
Reconcile disbursements to the feeder systems	12/2017
Reconcile Procurement Automated Data and Document System data to LMP.	01/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Reconciled the civilian pay population to the feeder system.

### Challenges

- Lack of reporting capabilities in Procurement Automated Data and Document System (PADDs) and Standard Procurement System (SPS) to obtain obligation data.

## Universe of Transactions – Balance Sheet (Working Capital Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Defined the database tables and data elements needed to be included in the universe of transactions.
- Developed a solution to host and warehouse the data necessary to produce a universe of transactions.

### Challenges

- Large data sets require extensive time to extract from the source systems and transfer to the data warehouse.
- Data from many database tables must be joined together to identify the type of transaction.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017
<b>Interim Milestones</b>	
Reconcile the real property records for 95% of the capital assets.	12/2016
Reconcile the general equipment records for 95% of the capital assets.	12/2016
Reconcile the inventory records in DSS that hold 95% of the inventory stored at the DLA distribution centers.	03/2017
Reconcile the inventory records in GCSS-A that hold 95% of the inventory stored at Supply Support Activities.	04/2017
Improve reconciliations from GFEBs to LMP for real property.	✓*
Improve reconciliations from WebDPAS to LMP for general equipment.	✓*
Reconcile the inventory records in contractor systems that hold 95% of the inventory stored at contractors.	05/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Reconciled real property records for one of the 13 Army Working Capital Fund activities.
- Implemented procedures for reconciling Inventory balances at the Industrial Operations locations.

### Challenges

- Manual reconciliations will be needed between LMP and GCSS-A, Distribution Standard System (DSS), and contractor systems until the modernized solution can be put in place.

### Fund Balance with Treasury (Working Capital Fund)

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Roles and responsibilities for personnel performing the research and resolving differences have been developed.

#### Challenges

- Research and resolution of differences identified by Defense Reconciliation and Reporting Tool (DRRT) takes a significant amount of time.
- Programming changes needed in DRRT to properly match transactions.
- Implementation of DRRT Increment 3, including the procedures to reconcile to data directly from the Treasury Department system.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	03/2017
<b>Interim Milestones</b>	
Identify root causes of aged transactions and perform remediation.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Identified the transactions in the budget clearing accounts.

#### Challenges

- Difficult to perform an overall aggregate identification, aging, and resolution of budget clearing accounts within 60 days.

**Fund Balance with Treasury (Working Capital Fund)**

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	03/2017
<b>Interim Milestones</b>	
Incorporate transactions on Statement of Differences into reconciliation process.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Incorporated transactions on Statement of Differences into reconciliation process.

**Challenges**

- The number of disbursing station symbol numbers makes it difficult to complete the identification, aging, and resolution of transactions reported on the Treasury Department's Statement of Differences within 30 days.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓*
<b>Interim Milestones</b>	
Perform reconciliation for FY2014 and earlier outside of Defense Reconciliation and Reporting Tool.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Began aging all transactions from FY 2015 forward.
- Performing reconciliation of transactions from FY 2014 and earlier manually.

**Challenges**

- Performing the pre-FY 2014 reconciliations manually is resource intensive and time consuming.

### Journal Vouchers (Working Capital Fund)

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	03/2017
<b>Interim Milestones</b>	
Identify the remaining population and validate completeness.	12/2017
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	06/2017
<b>Interim Milestones</b>	
Research the differences between buyer and seller balances and determine reason for differences	12/2016
Implement corrective action plans to increase the percentage of JVs that are appropriately supported.	03/2017

**Accomplishments**

- Identified the population of journal vouchers that are used to perform eliminations.

**Challenges**

- Trading partners do not use standard lines of accounting; therefore, Army is unable to match buyer and seller balances, such as accounts receivable to reciprocal accounts payable.
- Reciprocal buyer and seller systems are not real time. Centralized agreements and systems for reciprocal amounts and accounts do not exist. Required seller side adjustments cannot be validated, causing control weaknesses and unsupportable adjustments.

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	06/2017
<b>Interim Milestones</b>	
Perform root cause analysis including identification of system change requests required. Develop corrective action plans.	12/2016
Implement corrective action plans to increase the percentage of JVs that are appropriately supported.	03/2017

**Accomplishments**

- All historical internal work performed transactions were processed to Treasury.
- Process in place to report all internal work performed transactions to Treasury.
- Completed journal vouchers to correct the balances in the unapportioned authority general ledger accounts.

**Challenges**

- Identifying the root cause of the problem that results in having to post a journal voucher and then fixing the root cause

### Existence and Completeness/Valuation – Real Property (Working Capital Fund)

Critical Capability	Completion
A) Establish an auditable baseline.	06/2017*
<b>Interim Milestones</b>	
Implement OUSD(C) policy related to the rights assertion for 10 of the 13 activities.	06/2017
Develop and implement internal guidance on what constitutes a base asset for real property.	06/2017

**Accomplishments**

- Recognized Anniston Army Depot as a best practice in terms of preparedness and results during the FY 2016 audit.

**Challenges**

- Coordination with the other Services to implement the OUSD(C) policy for the rights assertion.
- The factors necessary to perform an alternative valuation methodology must be updated, which requires professional expertise and resources.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	06/2017*

**Accomplishments**

- Implemented controls over acceptance of new Real Property assets and disposal of Real Property assets.
- Improved reconciliations between accountable system and accounting system.

**Challenges**

- Obtaining supporting documentation from service providers in a timely manner to support the Construction-in-Progress balance.

**Existence and Completeness/Valuation – General Equipment (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	06/2017
<b>Interim Milestones</b>	
Implement corrective actions associated with the findings from the FY 2016 audit at all of the Army Working Capital Fund installations.	03/2017

**Accomplishments**

- Reconciled the accountable system with the financial system.

**Challenges**

- Timely input of transactions.
- Supporting the values of assets placed in service several years ago.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	06/2017
<b>Interim Milestones</b>	
Develop corrective actions for issues identified during the FY 2016 limited scope audit.	12/2016
Ensure controls over acceptance of assets and disposal of general equipment assets are in place.	09/2017

**Accomplishments**

- Implemented controls over acceptance of new General Equipment assets and disposal of General Equipment assets.
- Improved reconciliations between accountable system and accounting system.

**Challenges**

- Timely input of transactions.
- Supporting the valuation of assets procured as part of a large contract and individual asset costs are not provided from the vendor.
- Improving the reconciliations between the accountable system and the financial system.

**Existence and Completeness/Valuation – Internal Use Software (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	✓

**Accomplishments**

- Developed a strategy to write-off the Internal Use Software balance.

**Challenges**

- Recouping Internal Use Software expenses through rates without having the associated depreciation posting to the general ledger.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017*
<b>Interim Milestones</b>	
Review contracts to determine appropriate treatment for Internal Use Software (capital versus expense costs).	12/2016
Review final FASAB guidance on internal use software.	12/2016
Develop a plan to implement SFFAS 50.	01/2017
Implement internal controls over the recording and disposal of Internal Use Software.	06/2017

**Accomplishments**

- Identified the documentation required to support the valuation of newly acquired Internal Use Software.

**Challenges**

- Ability to identify Internal Use Software reporting based on contract data.
- For spiral or incremental development of software, identifying the trigger point when software-in-development should be recorded as placed in service.

**Existence and Completeness/Valuation – Inventory and Related Property (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	09/2017
<b>Interim Milestones</b>	
Achieve physical count of 95% of inventory balance (by value) at industrial operations sites.	✓*
Develop a template for performing inventory reconciliations.	12/2016
Implement reconciliation procedures at high priority locations.	03/2017
Implement procedures to reconcile inventory held by contractors to LMP.	09/2017
Implement changes to GCSS-A to LMP interface to improve accuracy of on-hand balances.	09/2017

**Accomplishments**

- Achieved a physical count of 95 percent of the Inventory balance (by value) at the industrial operations activities.
- Received no findings during the FY 2016 audit regarding the accuracy of Inventory in the warehouse management systems.
- Army Pacific Command has improved and sustained a 99 percent pass rate for internal controls since 01/2015.

**Challenges**

- Reconciliations between LMP and feeder systems. (DSS, GCSS –A, and warehouse management systems).
- Validating existence and completeness for Inventory – Contractor Possessed.
- Excess Inventory is not valued at the time of identification.
- Updating the values using the deemed cost methodology.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017
<b>Interim Milestones</b>	
Publish updated policy related to the monitoring of inventory values.	12/2016
Monitor the implementation of the inventory reconciliations.	03/2017
Perform reconciliations between inventory APSRs and LMP.	06/2017

**Accomplishments**

- Implemented policy for monitoring procedures to ensure the owner of assets is recorded in LMP is accurate.
- Monitoring physical inventory procedures at the industrial operations sites to ensure all required counts are completed.

**Challenges**

- System changes are needed to allow reconciliations between Inventory accountable property systems of record and LMP.
- Service provider inputs have significant effects on Moving Average Cost calculations.

## IT SYSTEMS CRITICAL TO AUDIT

During the ongoing FY 2016 SBA audit, the IPA performed IT general and application-level controls testing on ERPs and feeder systems material to the financial statements, which included:

- ERPs: GFEBS, GCSS-Army, LMP
- Army Feeder Systems: Automated Fund Control Order System (AFCOS), Automated Time Attendance and Production System (ATAAPS), AutoNOA, BATS, eMILPO, FCM, JUSTIS, MUP, PADDS, RLAS, RECMOD, SIDPERS, SPS-PD2, TAPDB
- DFAS Feeder Systems: DCAS, DDS, DJMS Staging Database, ELECTRA, Headquarters Accounting and Reporting System (HQARS), SOMARDS, STANFINS

Most Army systems were designed to serve a business purpose (e.g., procurement, property management, or logistics) and were not designed to support auditable financial statements. The Army is working to address system NFRs and issuing guidance and training to support assessments and remediation of control weaknesses. Currently, the total number of NFRs for both ERP and feeder systems is 140, with a final corrective action date of 12/2017.

Army IT system work includes analyzing notice of findings and recommendations (NFR) root causes, implementing corrective actions to prevent repetitive findings, and testing internal controls in accordance with Federal Information System Controls Audit Manual (FISCAM). In addition, the Army is developing and delivering training to address knowledge gaps and regularly meeting with various high-level system commands to enforce accountability, measure progress of corrective actions, and address challenges to audit readiness.

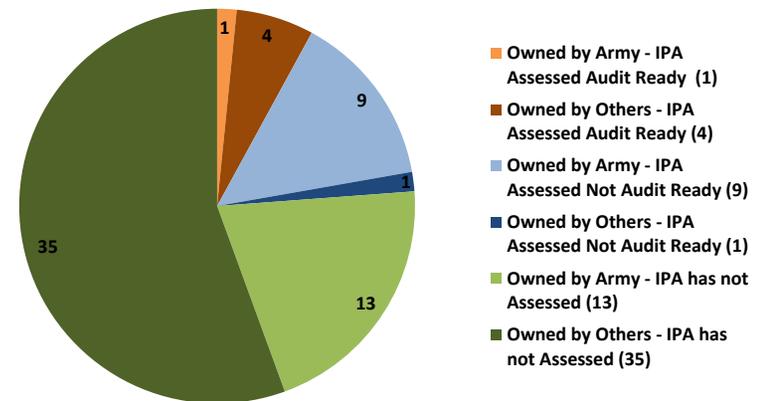
### Status of Critical Systems

Achieving an audit ready systems environment requires extensive discovery and coordination among stakeholders and user

communities. Activities include identifying systemic vulnerabilities and control weaknesses with coordination from multiple Army stakeholder communities including the entity-wide Chief Information Officer (CIO)/G6 Command, testing controls over the IT systems environment, performing corrective actions, and developing new system documentation, including policies and procedures.

Figure II-5 summarizes the audit readiness status of systems relevant to the Army financial statement audit, including systems owned and maintained by the Army and systems owned and maintained by other organizations. System status reflects results of the IPA audits through FY 2016. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

**Figure II-5. Status of Systems Relevant to Army Audit Readiness**



## Information Technology

### General Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	12/2017*
<b>Interim Milestones</b>	
Develop corrective action plans to FY 2015 IPA findings.	✓
ERP PMs and feeder systems address corrective actions related to IPA findings.	03/2017
Implement process to review SSAE No. 16 and validate complementary user entity controls (CUECS)	03/2017
Implement policy and procedures to address entity-level IT finding.	09/2017

#### Accomplishments

- Validated 42 of 134 combined ERP and feeder system corrective action plans (31 percent).

#### Challenges

- Resource constraints for ERP system owners that impedes their ability to remediate findings and other system vulnerabilities.
- Coordination for the remediation of entity-wide control weaknesses that involve multiple stakeholders across Army.
- Repeat or related findings from previous years, resulting from the field's inability to address the root causes underlying weaknesses.

### Working Capital Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	06/2017
<b>Interim Milestones</b>	
Assess the results of the FY 2016 SSAE No. 16 reports.	✓
Assess results of the first DLA SSAE No. 16 for Service-Owned Items in DLA custody.	12/2016
Identify material, financially-relevant systems undergoing an SSAE No. 18 and assess the results.	05/2017
Perform testing and implement necessary corrective actions for systems that are not undergoing an SSAE No. 18.	05/2017
Remediate high-risk findings from the FY 2015 SBA audit.	05/2017

#### Accomplishments

- Identified material systems undergoing service organization control examinations and reviewed the results of the reports.

#### Challenges

- The number of systems that require corrective actions to implement effective IT controls, including a large percentage owned by service providers.

**ARMY AUDIT READINESS RESOURCES**

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

**Audit Readiness, Validations, and Audits**

- 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 and data repositories.

**Financial Systems**

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

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, Enterprise Resource Planning Systems. 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 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Audit Readiness, Validations, and Audits	81	73	104	105	107	109
Financial Systems	6	6	4	4	2	2
<b>Total Resources</b>	<b>87</b>	<b>79</b>	<b>108</b>	<b>109</b>	<b>109</b>	<b>111</b>

# Message from the Department of the Navy Chief Management Officer

*As the Department of the Navy (DON) nears the end of its second year of financial statement audits, we are beginning to realize benefits from the audit process. Internal control deficiencies in our business processes are being corrected by a widened circle of accountable executives. As we modernize our business culture, we are lengthening our strides toward the primary objective of increasing stewardship over public funds.*

*Much more remains to be done. Financial statement audits are yearly, iterative events. As deficiencies are corrected, auditors benefit from prior years' work and additional control gaps are identified. Our leaders are collaborating with auditors on a continual basis, bringing DON business practices in line with accepted accounting standards.*

*This year, the Marine Corps is undergoing an audit on all four of its FY 2017 financial statements—a first among the Military Services. In doing so, the Marines will provide instructive lessons-learned for the other Services. Meanwhile, the Navy plans to conduct a beginning balance audit for its Balance Sheet, as well as an audit of its FY 2017 Statement of Budgetary Resources, while simultaneously planning for an audit of all four of its statements in FY 2018.*

*DON is on track to add a new dimension to its business landscape: one of perennial financial statement audits. Audit results will guide our Department to a higher level of financial management performance and funds accountability, ensuring compliance with accepted standards and best practices.*



A handwritten signature in black ink, appearing to read "Janine Davidson".

**Janine A. Davidson**  
Under Secretary of the Navy

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### III. Navy Audit Readiness

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

In FY 2016, the Navy continued its audit journey with the FY 2016 SBA audit. This audit expanded the SBA audit scope to include an additional year's appropriations (i.e., FY 2016 and FY 2015 appropriations). Regardless of the outcome, the FY 2016 SBA audit has brought the Navy many benefits.

Undergoing an audit, regardless of the opinion, allows the Navy to focus on improving business discipline and the quality of financial information. Continuous auditor scrutiny provides valuable insight for further improvement and helps the Navy measure progress. It



An E/A-18G Growler launches from the flight deck of the USS Ronald Reagan in the Philippine Sea, Oct. 1, 2016. (Navy photo by Petty Officer 3rd Class Nathan Burke.)

also increases efficiency by improving the Navy's ability to support the auditors. The Navy remains committed to the FY 2018 financial statement audit goal. As Secretary of Defense Carter has made clear, the American taxpayer and our men and women in uniform deserve nothing less than accurate financial information and auditable annual financial statements.

To support full financial statement audit readiness, the Navy is building beginning balances through assessments of Balance Sheet and Statement of Budgetary Resources lines. In January 2016, the Navy began internal assessment testing of material lines to identify deficiencies and root causes and implement corrective actions for an FY 2017 beginning balance audit of the Balance Sheet and Statement of Budgetary Resources. Internal assessment testing concluded with baselining corrective actions on a series of foundational building blocks. Navy is working diligently to implement these building blocks to support a first year beginning balance audit in FY 2017.

#### Progress Since the May 2016 FIAR Report

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

- Developed a strategy to incorporate all required data into a comprehensive transaction universe supporting beginning balance lines. Implemented a process for obtaining prior year data and reconciling the data to FY 2017 beginning balances.
- Defined and implemented requirements for system interface reconciliations to address IPA-identified deficiencies and enhance completeness of the transaction universe to complete a full scope financial statement audit.
- Assigned 39 NFRs from the FY 2015 SBA audit to a Flag Officer or senior executive to coordinate and report remediation efforts. Under their leadership, the Navy developed and implemented corrective actions to address the NFRs, resulting in the submission of 16 financial and 123 IT corrective action packages to the IPA for validation.

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- Implemented a beginning balance validation strategy and baselined deficiencies.
- Conducted command and service provider site visits as part of the beginning balance validation strategy.
- Outlined the critical path for a full scope financial statement audit and identified auditability issues that must be avoided.

### Challenges to Audit Readiness

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

- 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 a command's inability to support audit readiness activities in the required timeframe. The Navy is working with its commands and budget submitting offices to ensure adequate resources are available to support audit readiness and audit activities.
- A complex financial system environment that includes both legacy and ERP systems. Many systems require changes that may not be complete 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 the remaining systems changes, as necessary.
- Availability of prior year supporting data and documentation for all financial statements and funds.
- Reliance on service providers, including the effect service provider audit readiness has on Navy processes.
- Insufficient time for corrective actions to be institutionalized and validated.
- Reductions in the number of Management Headquarters Activity personnel working audit readiness and supporting audits due to a required 25 percent reduction in headquarters resources over the

next four years. Timelines for achieving and sustaining auditability will lengthen.

## SBA AUDIT RESULTS

The Navy's FY 2016 SBA audit includes the Navy's FY 2015 and FY 2016 appropriations and associated budget activity. During the audit, the IPA tested the Navy's audit support infrastructure, systems reliability, and process controls. Second year audits, particularly audits of entities as large and complex as the Navy, most often do not result in unmodified opinions. The outcome and results of the FY 2016 SBA audit are anticipated to be similar to the results of the FY 2015 SBA audit. The independent audit firm notified the Navy of its intent to issue a disclaimer of opinion early in the audit allowing the Navy to request that auditors focus on certain targeted areas and stress test areas where progress has been made. The Navy continues to remediate material weaknesses and pursue sustainable solutions for challenges.

Continuing annual audits is an essential step to reaching the goal of an unmodified opinion. Continual audit presence helps instill the rigor and focus necessary to support annual financial statement audits, while providing valuable insight for future improvements. The SBA audits have brought awareness to various process owners on how their actions affect financial execution. The validity and integrity of financial transactions is essential to effectively and efficiently use financial resources to support service members, while adhering to DON's responsibility of being a good steward of taxpayer resources.

The IPA decision to issue a disclaimer of opinion in FY 2016 was based, in part, on the results of the FY 2015 SBA audit. The FY 2015 audit concluded in mid-FY 2016 which did not afford enough time to correct identified deficiencies over the completeness of the transaction universe, specifically IT system controls and deficiencies in internal controls. Because the FY 2015 SBA audit findings would not be corrected, the auditors could not rely on IT controls from

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obtaining sufficient evidence to reasonably conclude on the completeness of the transaction universe, and from determining whether certain transactions were properly authorized and accurately recorded. Despite the audit findings, Navy made significant strides in

correcting FY 2015 deficiencies and remains positioned to enter into full-scope financial statement audit in FY 2018.

Figure III-1 identifies material weaknesses and NFRs, and the dates when the weaknesses and NFRs will be corrected.

**Figure III-1. Navy Material Weaknesses and Notices of Findings and Recommendation (✓ = Completed)**

Material Weaknesses	Corrective Actions	Completion
<b>Financial Reporting: Ineffective Controls over Financial Reporting</b>		
Controls to ensure the completeness and accuracy of the Navy's transactions and account balances in the general ledger accounting system are not in place or are not operating effectively.	Navy Office of Financial Operations (FMO) developed and disseminated guidance to establish ownership of system reconciliations for financial data flowing to the Navy's general ledger accounting system. These reconciliations are executed by system owners, and there is a centrally managed validation process supported by policy and standard operating procedures to review system reconciliations and evaluate the completeness of data elements being reported. Navy FMO will perform these validation procedures during Quarter 1 of FY 2017.	12/2016
Controls over the preparation of the SBA and the supporting transactional detail, including the Navy's controls over its service provider, are not effective.	Navy FMO data and accounting/reporting teams have developed and implemented detailed SBA and single point transaction universe process documents (e.g., standard operating procedures, checklists, and workflows) to guide and govern the preparation, review, and approval of the SBA produced from the single point transaction universe. Navy FMO has finalized process documents, implemented internal control procedures, and established internal roles and responsibilities documents to support DFAS and Navy FMO activities.	✓*
Controls over journal vouchers need improvement.	In response to field-level journal vouchers deficiencies, Navy FMO established a monthly journal voucher log review and reporting process that supports quarterly command-level quality and compliance review procedures and Navy FMO independent verification reviews. Navy FMO documented and provided guidance to stakeholders on test procedures, workbooks, and training materials to support these activities. These corrective actions were	09/2017*

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Material Weaknesses	Corrective Actions	Completion
	<p>implemented prior to the end of FY 2016.</p> <p>DFAS continues to coordinate with Navy FMO and budget submitting offices to implement procedures that address deficiencies related to DDRS journal vouchers. Specifically, DFAS provided guidance to ensure budget submitting offices are following proper journal voucher procedures and obtain access to the central repository for documentation storage. The budget submitting office journal vouchers were added to DFAS’ monthly self-review process in June 2016. The journal voucher Root Cause and Analysis group is analyzing unsupported journal vouchers (including eliminations and trading partner journal vouchers) to identify opportunities to eliminate journal vouchers, retain sufficient supporting details, and standardize processing. Corrective actions and monitoring procedures will be implemented prior to the end of FY 2017.</p> <p>During the FY 2016 walkthrough, DFAS reviewed journal vouchers with the IPA to discuss specific issues pertaining to previously tested journal voucher posting logic, journal voucher package documentation, and transactional support. In addition, DFAS discussed with the IPA the journal voucher approval process and the relationship between the United States Marine Corps journal vouchers to the Navy SBA and the undistributed calculation process.</p> <p>Workgroups are researching unsupported journal vouchers from the SSAE No. 16 examination to identify root causes and long-term solutions. Training will be provided to journal voucher preparers to emphasize how the journal voucher package needs to follow what is being documented within the whitepaper or how it needs to be documented when a deviation occurs.</p>	

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Material Weaknesses	Corrective Actions	Completion
<p>Controls over Fund Balance with Treasury reporting and reconciliations, including the Navy's related controls over its third-party service provider, need improvement.</p>	<p>Navy FMO and DFAS finalized roles and responsibilities and Service-level agreements to define procedures and controls for the monthly Fund Balance with Treasury reconciliation of field-level general ledger accounting system activity, account balances, and account amounts reported to the Treasury. Policies and procedures include steps to ensure relationships between budgetary and proprietary outlays and collections are appropriate, documented, and differences are timely resolved. In addition, Navy FMO implemented oversight procedures to support the timely review and approval of Fund Balance with Treasury reports and reconciliations from DFAS.</p>	<p>✓*</p>
<p><b>Financial Reporting: Ineffective Transactional Controls</b></p>		
<p>Lack of documentation to substantiate the existence of obligations and recording of obligations prior to the approval of the obligating document or at incorrect amounts.</p>	<p>In response to Navy Administrative (NAVADMIN) and P4 requirements, commands have reviewed and updated standard operating procedures to address the timely approval and retention of supporting documentation for obligations. In addition, DON is coordinating with stakeholders to disseminate training (e.g., workshops, site visits) and develop sustainment-testing procedures to regularly assess and report compliance with DON policies and procedures. Navy will continue to track and review compliance through established Managers' Internal Control Program procedures and established Financial Management and Comptroller (FM&amp;C) and Office of the Chief of Naval Operations (OPNAV) leadership briefings resulting in increased coordination with the budget submitting offices on the proper enforcement of policies and procedures.</p> <p>As a long-term solution, DON is in the process of implementing G-Invoicing to automate controls and improve standardization. DON has a defined, phased approach for roll-out across the Budget Submitting Offices beginning in June 2017. Management will continue to monitor the manual processes and controls in parallel with the system implementation.</p> <p>The Navy will restrict command travel spending until it has been affirmed they have a central repository of travel documentation. The central repository will also be automated in order to reduce the possibility of human error.</p>	<p>06/2017*</p>

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Material Weaknesses	Corrective Actions	Completion
<p>Lack of proper approval or evidence that the approver possessed proper authorization for collections and outlays related to civilian payroll, travel, and other non-payroll delivered orders.</p>	<p>In response to NAVADMIN and P4 requirements, commands have reviewed and updated standard operating procedures to address the timely approval and retention of supporting documentation for obligations. In addition, DON is coordinating with stakeholders to disseminate training (e.g., workshops, site visits) and develop sustainment-testing procedures to regularly assess and report compliance with DON policies and procedures. Navy will continue to track and review compliance through established Managers’ Internal Control Program procedures and established FM&amp;C and OPNAV leadership briefings resulting in increased coordination with the budget submitting offices on the proper enforcement of policies and procedures.</p> <p>Navy FMO and DFAS are also coordinating to implement procedures to identify and analyze abnormal balances when processing uncollected filled orders. These procedures will address identifying the root cause of the abnormal balance and documenting how the variance was resolved.</p> <p>In addition, the Navy Defense Travel System (DTS) Program Management Office (PMO) implemented system generated reports and checklists to monitor compliance with travel policies and procedures, including documented approvals. Furthermore, a system change request is being implemented to automate an authorizing official approval process that matches the authorizing official authorization checklist to ensure proper travel orders are correctly approved. Ongoing testing will be performed through the Managers’ Internal Control Program to report compliance results and inform further corrective actions.</p>	<p>06/2017*</p>
<p>Improperly recorded budgetary transactions, including those related to expenditure transfers, cost reclassifications, outlays, and advance payments.</p>	<p>Commands are being directed to follow requirements for documenting activities and improving processes and policies, where needed. In addition, there will be coordination with stakeholders (e.g., workshops, site visits) to review and analyze existing DON policies to assess whether revisions are needed to meet audit requirements. Policies will be revised, as needed, and published across DON. This includes monitoring, spot checks, site visits, and reconciliations.</p>	<p>06/2017*</p>

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Material Weaknesses	Corrective Actions	Completion
	<p>Navy FMO will work with the Navy ERP PMO to identify changes needed to facilitate recording of budgetary transactions in accordance with GAAP and U.S. Standard General Ledger (USSGL) guidelines. Navy FMO will also work with budget submitting offices and the Office of Financial Policies and Systems (FMP) to develop policies, procedures, and processes to support post-entry validation, develop and provide training, and track corrective actions to closure.</p> <p>DON will restrict command travel spending until it has been affirmed they have a central repository of all travel documentation. The central repository will also be automated to reduce the possibility of human error.</p> <p>During May 2016, Navy discontinued advanced payments for U.S. Postal Service mail bills and implemented a weekly invoicing process. Standard operating procedures have been disseminated to formalize the weekly processes including the execution of monitoring controls to assess weekly payments based upon services delivered in accordance with USSGL guidelines.</p>	
<p>Lack of proper recording for certain transactions in a timely manner or in the proper period.</p>	<p>In response to NAVADMIN and P4 requirements, commands reviewed and updated standard operating procedures to address the timely approval and retention of supporting documentation for obligations. In addition, DON is coordinating with stakeholders to disseminate training (e.g., workshops, site visits) and develop sustainment-testing procedures to regularly assess and report compliance with DON policies and procedures. Navy will continue to track and review compliance through established Managers' Internal Control Program procedures and established FM&amp;C and OPNAV leadership briefings resulting in increased coordination with the budget submitting offices on the proper enforcement of policies and procedures.</p> <p>Navy FMO and DFAS are also coordinating to implement procedures to identify and analyze abnormal balances when processing uncollected filled orders. These procedures will address identifying of the root cause of the abnormal balance and documenting how the variance was resolved.</p>	<p>06/2017*</p>

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Material Weaknesses	Corrective Actions	Completion
<p>Insufficient controls for transactions involving intragovernmental orders, including lack of evidence for receipt and acceptance activities.</p>	<p>Commands are being directed to follow requirements for documenting receipt and acceptance activities and improving processes. Actions include retaining appropriate financial documents, establishing standardized document retrieval processes, ensuring proper forms are created and maintained for all relevant approvers, and implementing self-testing. Spot-check testing will be done at command locations. Additional actions include assessing whether policies sufficiently address audit requirements, and developing training and standard operating procedures to clarify the policies.</p> <p>As a long-term solution, DON is implementing G-Invoicing to automate controls and improve standardization. DON has a defined, phased approach for roll-out across the budget submitting offices beginning in June 2017. Management will continue to monitor the manual processes and controls in parallel with the system implementation.</p> <p>Navy FMO will work with the Navy ERP PMO to identify technical changes needed to facilitate recording of budgetary transactions in accordance with GAAP and USSGL guidelines. FMO will also collaborate with budget submitting offices and FMP to develop policies, procedures, and processes to support post-entry validation, develop and provide training, and track corrective actions to closure.</p>	<p>06/2017*</p>
<p>Lack of supporting documentation for sampled transactions to support the nature of the accounting event; substantiate recorded unfilled orders, collections, delivered orders, and outlays; and evidence whether transactions were recorded in the correct fund or period.</p>	<p>Commands are being directed to follow requirements for documenting activities and improving processes and policies, where needed. In addition, there will be coordination with stakeholders (e.g., workshops, site visits) to review and analyze existing DON policies to assess whether revisions are needed to meet audit requirements. Policies will be revised, as needed, and published across DON. This includes a combination of monitoring, spot checks, site visits, and reconciliations.</p> <p>Navy FMO will work with the Navy ERP PMO to identify technical changes needed to facilitate recording of budgetary transactions in accordance with GAAP and USSGL guidelines. FMO will also collaborate with budget submitting offices and FMP to develop policies, procedures, and processes to support</p>	<p>06/2017*</p>

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Material Weaknesses	Corrective Actions	Completion
	<p>post-entry validation, develop and provide training, and track corrective actions to closure.</p> <p>Navy FMO will establish a detail-to-summary reconciliation process that identifies details to summary lines so appropriate personnel can retrieve more accurate documentation. Navy FMO will also enhance existing supporting document requirements and ensure more oversight of policies and procedures regarding the retention of supporting documentation.</p>	
<p>Inconsistent monitoring procedures to assess whether recorded obligations, unpaid delivered orders, unfilled customer orders, and filled customer orders unpaid were valid and accurately recorded.</p>	<p>Navy FMB revised and disseminated policies and procedures to the Budget Submitting Offices for the execution of the tri-annual review to assess obligations. These policies and procedures establish the roles and responsibilities for proper oversight of the process. In addition, there will be regular testing and reporting of Budget Submitting Office compliance with tri-annual review requirements.</p>	<p>✓*</p>
<p><b>IT Systems: Ineffective Controls over Information Technology</b></p>		
<p>Lack of effective security controls.</p>	<p>Navy CIO is identifying an enterprise-wide solution for security management software to automate the management of security controls across the Navy IT environment. In the interim, Navy management will centrally perform IT security training to ensure supporting documentation is retained, background checks performed, and system access regularly monitored.</p>	<p>12/2016*</p>
<p>Insufficient access controls for financial system users.</p>	<p>DON developed and implemented more rigorous account management processes and controls addressing the full user lifecycle for functional users, as well as system software administration, and other privileged access roles. DON updated account management policies, system functionality, and processes to communicate requirements for the following account management processes and controls:</p> <ul style="list-style-type: none"> <li>• Prevent users from accessing unauthorized resources.</li> <li>• Enforce standard documentation of user account actions.</li> <li>• Retain adequate evidence of user account administration activities until at least one year after account termination.</li> </ul>	<p>✓*</p>

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Material Weaknesses	Corrective Actions	Completion
	<ul style="list-style-type: none"> <li>• Revoke or remove user roles and accounts due to account inactivity, change in job responsibilities, or user separation.</li> <li>• Periodically recertify and update user account roles.</li> <li>• Suspend user accounts after unsuccessful login attempts.</li> <li>• Log and monitor sensitive transactions and system events.</li> <li>• Control physical access to computing resources.</li> </ul>	
<p>Ineffective segregation of duty controls at database, operating system, and application level.</p>	<p>DON implemented more stringent controls related to the Access Risk Analysis tool to update each system’s segregation of duty matrix and executed periodic reviews of user accounts to identify individuals with incompatible roles. Policies and procedures will be updated to:</p> <ul style="list-style-type: none"> <li>• Provide guidance for the administration, assignment, and review and monitoring of user and administrative access.</li> <li>• Ensure management grants users compatible roles for valid business purposes.</li> <li>• Redesign privileged role matrix, where applicable.</li> <li>• Enforce system administration capabilities to assess user administration roles.</li> </ul>	<p>✓*</p>
<p>Lack of configuration management controls.</p>	<p>DON developed and implemented policies and procedures to:</p> <ul style="list-style-type: none"> <li>• Update DON configuration management policies to address purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance.</li> <li>• Establish procedures for identifying configuration items throughout the system development life cycle and for managing configuration-controlled changes to the information system.</li> <li>• Conduct configuration audits periodically or after changes are implemented to ensure the change control process was appropriately followed.</li> </ul>	<p>✓*</p>

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Material Weaknesses	Corrective Actions	Completion
Need for consistent interface controls.	DON will develop and implement policies and procedures to: <ul style="list-style-type: none"> <li>• Enforce interface monitoring and error resolution based on FY 2015 SBA audit findings.</li> <li>• Document interface error message handling processes and audit trails through tracking and logging to evidence timely error correction.</li> <li>• Implement automated solutions through edit and validation checks.</li> </ul>	12/2016*
Lack of controls of third party systems.	DON has developed, documented, and implemented a policy and procedure to ensure service level agreements are in place with third-party service providers that clearly outline roles and responsibilities. Navy is implementing a process to formally review third-party reports and track remediation required by third parties. In addition, Navy management is documenting and executing complementary user entity controls and periodically assessing operating effectiveness.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## GENERAL FUND FINANCIAL STATEMENTS

As part of its full audit readiness strategy, the Navy is building beginning balances to support audit readiness of the General Fund financial statements. Through assessments of Balance Sheet and Statement of Budgetary Resources lines, as well as learning from SBA audit results, the Navy is conducting full General Fund financial statement assessments. The

Navy is applying the results of internal assessment performed early in 2016.

Figure III-2 provides the Navy General Fund completion dates for each critical capability. Following Figure III-2 are charts for each critical capability, except IT Controls, containing the dates for achieving the capability, accomplishments, and challenges.

**Figure III-2. Navy General Fund Audit Readiness Critical Capabilities (✓ = Completed)**

Navy – General Fund		Completion	Validation
Universe of Transactions	Statement of Budgetary Resources	12/2016	12/2016
	Balance Sheet	12/2016	12/2016
Fund Balance with Treasury		03/2017	06/2017
Journal Vouchers		09/2017	09/2017
Existence and Completeness, and Valuation of Assets	Real Property (including Construction in Progress)	03/2017	03/2017
	General Equipment (including Military Equipment)	09/2017	09/2017
	Internal Use Software	03/2017	06/2017
	Inventory and Related Property	09/2017	09/2017
Environmental Liabilities (DERP and Non-DERP)		09/2017*	09/2017*
IT Controls		04/2019	04/2019

\* Revised or completed since the May 2016 FIAR Plan Status Report.

Note: The Navy will conduct concurrent impartial verification and validation to confirm audit readiness.

## Universe of Transactions – Schedule of Budgetary Activity (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓

### Accomplishments

- Produced a population of transaction details, including sensitive activities that reconcile to the FY 2015 and FY 2016 SBAs for each quarter of the fiscal year.
- Reconciled data from all five Navy General Fund accounting systems for beginning FY 2015 and FY 2016 lines of accounting.
- Developed detailed audit response procedures designed to support tests of financial reporting objectives and tests of supporting documentation.

### Challenges

- None.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2016
<b>Interim Milestones</b>	
Execute interface control agreement or memorandum of agreement.	✓
Define requirements for data reconciliations.	✓*
Develop data reconciliations.	12/2016*
Implement recurring data reconciliations.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Implemented interface reconciliation capabilities between feeder systems and the general ledgers to ensure completeness in recording financial transactions.
- Established feeder system to general ledger reconciliation procedures for each interfacing partner.
- Implemented a standard interface control agreement compliant with audit requirements.

### Challenges

- Configuration management activities for system modifications and software release cycles require tight, multi-party coordination.
- Evolving financial systems environment will continually require new interface reconciliation development.
- Training and maintenance of new reconciliation procedures of functional personnel requires workload changes.

## Universe of Transactions – Statement of Budgetary Resources (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction and beginning balance details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	12/2016
<b>Interim Milestones</b>	
Develop population data requirements request.	✓

### Accomplishments

- Reconciled data from all five Navy General Fund accounting systems for beginning FY 2016 lines of accounting.
- Developed detailed audit response procedures designed to support tests of financial reporting objectives and tests of supporting documentation.

### Challenges

- Transactions for lines of accounting with beginning fiscal years prior to FY 2015 or for multi- or no-year appropriations due to incomplete data elements necessary to identify the year of funding and data availability.
- Transaction data retention periods are not the same for all systems.
- For some systems, transactions are posted at the summary level, and detailed information is difficult to reconcile to the summary-level postings.

Critical Capability	Completion
B) Able to reconcile population of transaction and beginning balance details to feeder/source/originating systems.	12/2016
<b>Interim Milestones</b>	
Execute interface control agreement or memorandum of agreement.	✓
Define requirements for data reconciliations.	✓*
Develop data reconciliations.	12/2016*
Implement recurring data reconciliations.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Implemented interface reconciliation capabilities between feeder systems and the general ledgers to ensure completeness in recording financial transactions.
- Established feeder system to general ledger reconciliation procedures for each interfacing partner.
- Implemented a standard interface control agreement compliant with audit requirements.

### Challenges

- Configuration management activities for system modifications and software release cycles require multiple coordinations.
- Evolving financial systems environment will continuously require new interface reconciliation development.
- Training and maintenance of new reconciliation procedures of functional personnel requires workload changes.

## Universe of Transactions – Balance Sheet (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction and beginning balance details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	12/2016
<b>Interim Milestones</b>	
Identify line item beginning balances.	✓*
Identify transaction universe data sets (with lookback, as required).	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Reconciled data from all five Navy General Fund accounting systems for beginning FY 2016 lines of accounting.
- Developed detailed audit response procedures designed to support test of financial reporting objectives and tests of supporting documentation.

### Challenges

- Transactions for lines of accounting with beginning fiscal years prior to FY 2015 or for multi- or no-year appropriations due to incomplete data elements necessary to identify the year of funding and data availability.
- Transaction data retention periods are not the same for all systems.
- For some systems, transactions are posted at the summary level, and detail information is difficult to reconcile to the summary-level postings.

Critical Capability	Completion
B) Able to reconcile population of transaction and beginning balance details to feeder/source/originating systems.	12/2016
<b>Interim Milestones</b>	
Execute interface control agreement or memorandum of agreement.	✓
Define requirements for data reconciliations.	✓*
Develop data reconciliations.	12/2016*
Implement recurring data reconciliations.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Implemented interface reconciliation capabilities between feeder systems and the general ledgers to ensure completeness in recording financial transactions.
- Established feeder system to general ledger reconciliation procedures for each interfacing partner.
- Implemented a standard interface control agreement compliant with audit requirements.

### Challenges

- Configuration management activities for system modifications and software release cycles require multiple coordinations.
- Evolving financial systems environment will continually require new interface reconciliation development.
- Training and maintenance of new reconciliation procedures of functional personnel requires workload changes.

### Fund Balance with Treasury (General Fund)

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	12/2016
<b>Interim Milestones</b>	
Release DCAS systems changes.	✓
Update Fund Balance with Treasury recurring reconciliations.	✓*
Go live for Navy Fund Balance Tool.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Outlined a process to support transaction-level reconciliation and detail populations. Currently working to obtain document-level (i.e., voucher) details from the general ledger systems that correspond to open appropriated funds with fiscal years established in FY 2003 and forward.

#### Challenges

- Remediation of overage transactions affects the ability to obtain documentation and other support necessary to determine appropriate corrective actions.
- Navy FMO and DFAS are coordinating on the use of alternative procedures to identify the differences between Treasury and the general ledgers until Navy Fund Balance Tool is online. The alternative procedures will be used in conjunction with reports generated at Navy FMO to complete Fund Balance with Treasury reconciliations.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓*
<b>Interim Milestones</b>	
Complete and sign service level agreement with DFAS.	✓*
Implement recommendations from assessments.	✓*
Auditors issue suspense account audit report.	✓*
Implement agreed upon service level agreement structures and Fund Balance with Treasury DFAS SSAE No. 16.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Addressed recommendations from DoD OIG and GAO audits of suspense (clearing) accounts.
  - Processed discontinued research adjustments to address overaged suspense transactions.
  - Drafted procedures to include roles and responsibilities.
  - Updated financial statement disclosures.
  - Participated in cross-DoD working groups to address the use of specific expense accounts.
- Implemented key performance indicator measures to provide monthly Fund Balance with Treasury data as part of service level agreement with DFAS and support continued remediation efforts.

#### Challenges

- Remediation of overage transactions affects the ability to obtain documentation and support for determining corrective actions.

**Fund Balance with Treasury (General Fund)**

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	✓*
<b>Interim Milestones</b>	
Complete and sign service level agreement with DFAS.	✓*
Implement agreed on service level agreement structures and Fund Balance with Treasury DFAS SSAE No. 16.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Implemented monthly Key Performance Indicator measures. This measure provides monthly Fund Balance with Treasury data as a part of the service level agreement with DFAS. These measures quantify counts and amounts of reconciling transactions and other internal controls to support further engagement in remediation activities.

**Challenges**

- Remediation of overage transactions affects the ability to obtain documentation and other support necessary to determine appropriate corrective actions.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	12/2016
<b>Interim Milestones</b>	
Draft aging analysis for beginning balances.	✓
Finalize requirements for Fund Balance with Treasury reconciliation scope based on aging analysis.	✓*
Implement recommendations from aging analysis.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Identified the scope of fund symbols that reside in the general ledger and completed a draft reconciliation in advance of receiving the FY 2016 year-end general ledger trial balance reports.

**Challenges**

- None

### Journal Vouchers (General Fund)

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements	12/2016
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	09/2017
Interim Milestones	
Identify root causes to documentation deficiencies.	✓
OSD delivers data standards and GEX translation capabilities.	01/2017**
Develop, implement, and recommend corrective actions (when feasible) for supporting documentation.	✓*
Publish revised DON reimbursable work orders policy.	✓*
Revise G-invoicing implementation plan to address eliminations.	✓*
Navy ERP budget submitting office, Department of the Navy Assistant for Administration, and Marine Corps begin implementing G-invoicing.	06/2017**
Remaining budget submitting offices begin implementing G-invoicing.	09/2017**

\*Revised or completed since the May 2016 FIAR Plan Status Report.

\*\* OSD has not defined deployment schedules of critical data standards and system interfaces by non-DON entities, which could affect Navy budget submitting offices' implementation of G-invoicing.

Critical Capability	Completion
C) All Other Journal Vouchers –Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	✓*
Interim Milestones	
Complete manual journal voucher review for supportability and issue identification.	✓
Implement monitoring and compliance processes for DDRS journal vouchers.	✓
Identify root causes for manual DDRS journal vouchers.	✓*
Implement FMO independent verification review for field-level journal vouchers.	✓*
Develop, implement, and recommend corrective actions.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Implemented a two-step governance and compliance process over field-level journal voucher internal controls (i.e., Command Quality and Compliance Review and FMO independent verification). Field level journal voucher MOU signed in June 2016 by FMO and DFAS.
- Performed reclassification adjustments to properly account for Standard Accounting and Reporting System – Headquarters Claimant Module (STARS HCM) Shipbuilding expenditures as Construction In Progress within DDRS-B (112 journal vouchers totaling ~\$492billion based on FY 2015 population).
- Worked with DFAS to update and revise manual journal voucher

### Accomplishments

- Conducted a simulation of receiving a General Terms and Conditions download file to process a Reimbursable Work Order purchase request in Navy ERP.
- Identified recommendations for systems improvements in Navy financial management systems to facilitate transaction reconciliation and elimination by DFAS.
- Conducted four pilots of the General Terms and Conditions module in G-Invoicing with two different DoD Components. Submitted questions and concerns to OUSD(C).
- Collaborated with DFAS to develop Navy sub-corrective action plans for the Navy General Fund in response to an NFR related to Trading Partner Adjustments and Eliminations identified during the SSAE No. 16 examination of DFAS processes.

### Challenges

- Dependencies with external organizations (i.e., other DoD organizations and federal agencies) to finalize data standards, GEX translation and interfaces, and policies and regulations governing intragovernmental transactions.
- Available time and resources to revise and deploy training programs to align with new policies and processes for G-Invoicing implementation.
- Systems limitations for both short- and long-term solutions.

documentation for better supportability of Inventory Unrealized Gains and Losses.

### Challenges

- Navigating the complexities of the manual and automated journal voucher universe to identify root causes and improve supportability.

## Existence and Completeness/Valuation – Real Property (General Fund)

Critical Capability	Completion
A) Establish an auditable baseline.	✓*
<b>Interim Milestones</b>	
Complete Phase II testing.	✓
Develop iNFADS SCR to implement Plant Replacement Value.	✓*
Test and validate system change.	✓*
Implement PRV SCR.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Implemented corrective action plans addressing timeliness, segregation of duties, supporting documentation, and system data element information quality.
- Completed three rounds of existence and completeness testing, increasing reliability and accuracy rates in alignment with FIAR Guidance passing rates.
- Met all interim milestones and implemented alternate valuation methodology using Plant Replacement Value in the APSR (iNFADS).
- Completed placed in service date testing to identify risk of material misstatement of accumulated depreciation.

### Challenges

- Plant Replacement Value model will change during FY 2017 requiring restatement of baseline valuation.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Complete Phase II testing.	✓
Complete operations and maintenance capital improvement testing.	✓
Implement operations and maintenance capital improvements corrective action plans.	01/2017*
Validate Military Construction valuation.	01/2017*
Validate operations and maintenance corrective action plans.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed DON Real Property existence and completeness strategy to document the methodology for auditable existence and completeness activities.
- Developed processes and systems enhancements to incorporate new internal controls environment.
- Implemented capital improvement system changes in Naval Facilities Engineering Command (NAVFAC) financial system enabling the capture and capitalization of Operations and Maintenance funded construction costs.

### Challenges

- None

**Existence and Completeness/Valuation – General Equipment (General Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	09/2017*
<b>Interim Milestones</b>	
Initiate financial reporting testing.	✓
Implement corrective action plans.	✓*
Implement interim process for Construction in Progress.	✓*
Validate interim process for Construction in Progress.	12/2016
Research for historical value (aircraft).	✓
Research for historical value (other than aircraft).	03/2017*
Update APSR (Aircraft, Vessels, and other General Equipment) to capture current baseline values.	09/2017*
Verify baseline for all General Equipment assets.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Reconciled APSR to logistics systems to validate baseline populations for Ships/Submarines, Aircraft, and Satellites.
- Documented physical inventory process and completed a 100percent physical inventory for Ships/Submarines, Aircraft, and Satellites to support FY 2017 beginning balances.
- Validated DON’s \$1 million capitalization threshold for General Equipment.
- Developed valuation methodologies for Ships/Submarines, Aircraft and Satellites to achieve SFFAS No. 6 and No. 50 compliance.
- Established historical values for aircraft and satellites.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Initiate financial reporting testing.	✓
Implement corrective action plans.	✓*
Implement interim process for Construction in Progress.	✓*
Validate interim process for Construction in Progress.	12/2016*
Initiate Construction in Progress automated solution Working Group.	✓
Implement Construction in Progress valuation methodology.	✓*
Test Construction in Progress methodology.	12/2016*
Develop Government Furnished Property testing methodology.	✓*
Achieve SFFAS No. 6 compliance.	12/2016
Conduct Government Furnished Property testing.	01/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Finalized existence and completeness strategy for General Equipment-Remainder by prioritizing asset types based on materiality and focusing only on assets to be reported on the Balance Sheet.
- Finalized procedures and methodologies to support continued assurance and reliability of existence and completeness of Ships/Submarines, Aircraft, and Satellites.

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- Developed aircraft capital improvements methodology.

### Challenges

- General Equipment-Remainder testing will be based on statistical sampling due to the volume of assets.
- Lack of existing documentation to support historical cost. Alternative valuation methodologies must be applied.
- Multiple systems use manual reporting processes to report financial data to DON financial statements.
- Ships/Submarines SFFAS No. 6 and No. 50 compliance tying budget and supporting documentation.
- Because of the large volume (over a million) General Fund and Working Capital Fund General Equipment-Remainder assets within multiple financial systems, completion of 100 percent existence and completeness testing is extremely challenging.

- Developed an interim Construction in Progress reporting solution in Navy ERP to be used until an automated solution can be developed.

### Challenges

- Policy and procedures to delineate between capital improvements and maintenance events are not yet finalized.

**Existence and Completeness/Valuation – Internal Use Software (General Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	03/2017
<b>Interim Milestones</b>	
Establish DON working group.	✓
Develop Internal Use Software strategy.	✓
Identify projects currently under development that need to be capitalized after September 30, 2017.	✓*
Accumulate and report software in development.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Implemented SFFAS No. 50, which provides for prospective reporting of Internal Use Software assets.
- Shared Internal Use Software valuation strategy with DON community to communicate strategy. This constitutes prospective implementation of SFFAS No. 10, as allowed by SFFAS No. 50.

**Challenges**

- None

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Establish DON working group.	✓
Develop Internal Use Software strategy.	✓
Identify projects currently under development that need to be capitalized after September 30, 2017.	✓*
Accumulate and report software in development (Construction in Progress).	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Established systems, processes, and procedures to record internal use software assets in an APSR for all commands.
- Created accountability and capitalization standards (decision trees) and shared with commands to increase understanding of what assets qualify as Internal Use Software.
- Validated existing accountable Internal Use Software to be maintained in managerial systems and existing capital Internal Use Software to be reported in an APSR after 09/2017.
- Identified software not in the sustainment and operations lifecycle phase (software in development) within source systems.

**Challenges**

- None

**Existence and Completeness/Valuation – Inventory and Related Property (General Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	09/2017
<b>Interim Milestones</b>	
Complete physical inventory for Operating Materials and Supplies testing and identify corrective actions.	✓
Implement and validate Operating Materials and Supplies existence and completeness corrective action plans.	03/2017*
Develop national item identification number to latest acquisition cost mapping strategy.	03/2017
Finalize deemed cost approach (latest acquisition cost).	03/2017
Implement deemed cost approach.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Completed Operating Materials and Supplies Ordnance existence and completeness.
- Completed three DOD OIG audits of operating Materials and Supplies Ordnance with no material weaknesses reported.
- Implemented a system change in the Ordnance Information System to correct an error that fixes the moving average cost calculation.
- Confirmed Navy Ordnance in the APSR is complete and accurate.
- Reclassified Status 9 Ordnance from Operating Materials and Supplies to Research Development Test and Evaluation, and removed from the financial statements. This ensured Operating

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017*
<b>Interim Milestones</b>	
Complete physical inventory for Operating Materials and Supplies testing and identify corrective actions.	✓
Implement and validate Operating Materials and Supplies existence and completeness corrective action plans.	03/2017*
Turn on moving average cost functionality.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Developed and implemented physical inventory procedures for installed and uninstalled aircraft engines.
- Executed 100 percent physical inventories per revised procedures for uninstalled aircraft engines.
- Reconciled Quarters 3 and 4 Operating Materials and Supplies APSR asset universe listings from approved APSRs and reconciled the listing to the financial statement.
- Recalculated moving average cost for the Operating Materials and Supplies-Ordnance population to reflect valuation correction.
- Validated moving average cost correction through sample testing to ensure accuracy of calculations.

**Challenges**

- Multiple Operating Materials and Supplies-Remainder system change requests have been submitted and must be prioritized based on impact and cost.

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Materials and Supplies-Ordnance was in compliance with SFFAS No. 3 and all asserts are properly classified.

### Challenges

- Completeness of Operating Materials and Supplies-Remainder data in APSRs of record to support an auditable baseline.
- A comprehensive universe of Operating Materials and Supplies-Remainder assets cannot currently be compiled.
- Complexity of revaluing all Operating Materials and Supplies-Remainder on a specific date due the size of the population in existing systems.
- Multiple Operating Materials and Supplies-Remainder systems use manual reporting processes to report financial data to DFAS.

## Environmental and Disposal Liabilities (General Fund)

Critical Capability	Completion
A) Establish an auditable process for estimating (identifying and valuing) and recording environmental and disposal liabilities.	09/2017*
<b>Interim Milestones</b>	
Conduct environmental and disposal liabilities stress testing.	✓
Complete internal validation of existence and completeness and valuation.	✓*
Complete implementation of all beginning balance related corrective action plans and validate estimation methodologies.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Identified a need to address deficiencies in the nuclear vessels estimation methodology.
- Completed internal beginning balance, valuation, and existence and completeness testing. Developed corrective actions to address gaps.
- For Environmental Restoration Navy (DERP), completed corrective action plans, addressing transactional support for unliquidated obligations, baseline valuation, completeness, and estimation methodologies.

### Challenges

- Completeness of the environmental liabilities universe is dependent on property, plant, and equipment validation.
- Assumptions and inputs used to calculate liabilities for separate classes of Naval vessels are reliant on dated source data. Process changes must be implemented, which will increase reliance on the APSR to establish the baseline of existence and completeness for reportable liabilities.

## WORKING CAPITAL FUND FINANCIAL STATEMENTS

Similar to the General Fund, as part of its full audit readiness strategy, the Navy Working Capital Fund initiative is building beginning balances to support audit readiness. Through assessments of Balance Sheet and Statement of Budgetary Resources lines, as well as learning from SBA audit results, the Navy is conducting full

Working Capital Fund financial statement assessments. The Navy is applying the results of internal assessments performed early in calendar year 2016. Where the Working Capital Fund has inherently different challenges, the Navy has modified its approach.

Figure III-3 provides the Navy Working Capital Fund completion dates for each critical capability. Following Figure III-3 are charts for each critical capability, excluding IT Controls, containing the dates for achieving the capability, accomplishments, and challenges.

**Figure III-3. Navy Working Capital Fund Audit Readiness Critical Capabilities (✓ = Completed)**

Navy – Working Capital Fund		Completion	Validation
Universe of Transactions		12/2016*	12/2016
Fund Balance with Treasury		12/2016	06/2017
Journal Vouchers		09/2017	09/2017
Existence and Completeness, and Valuation of Assets	Real Property (including Construction in Progress)	03/2017	03/2017
	General Equipment (including Military Equipment)	09/2017	09/2017*
	Internal Use Software	03/2017	03/2017
	Inventory and Related Property	03/2017	03/2017
Environmental Liabilities		09/2017*	09/2017*
IT Controls		04/2019	04/2019

\* Revised or completed since the May 2016 FIAR Plan Status Report.

Note: The Navy will conduct concurrent impartial verification and validation to confirm audit readiness.

## Universe of Transactions – Statement of Budgetary Resources (Working Capital Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	12/2016
<b>Interim Milestones</b>	
Develop population data requirements request.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Reconciled data from four of six Navy Working Capital Fund accounting systems for FY 2016 transactions.

### Challenges

- Transactions for lines of accounting for fiscal years prior to FY 2015 are based on incomplete data elements that are necessary to identify the year of funding, and the data element is not available.
- Transaction data retention periods are not the same for all systems.
- For some systems, transactions are posted at the summary level, and detailed information is difficult to reconcile to summary-level postings.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2016
<b>Interim Milestones</b>	
Define requirements for data reconciliations.	✓*
Develop data reconciliations.	12/2016*
Implement recurring data reconciliations.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Implemented interface reconciliation capabilities between feeder systems and the general ledgers to ensure completeness in recording financial transactions.
- Implemented a standard interface control agreement compliant with audit requirements.
- Established feeder system to general ledger reconciliation procedures for each interfacing partner.

### Challenges

- Configuration management activities for system modifications and software release cycles require tight coordination from multiple parties.
- Evolving financial systems environment will continually require new interface reconciliation development.
- Training and maintenance of new reconciliation procedures of functional personnel requires workload changes.

## Universe of Transactions – Balance Sheet (Working Capital Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	12/2016
<b>Interim Milestones</b>	
Identify line-item beginning balances.	✓*
Identify transaction universe data sets (with lookback, as required).	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- None

### Challenges

- Transactions for lines of accounting for fiscal years prior to FY 2015 are based on incomplete data elements that are necessary to identify the year of funding, and the data is not available.
- Transaction data retention periods are not the same for all systems.
- For some systems, transactions are posted at the summary level, and detailed information is difficult to reconcile to the summary-level postings.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2016
<b>Interim Milestones</b>	
Define requirements for data reconciliations.	✓*
Develop data reconciliations.	12/2016*
Implement recurring data reconciliations.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Implemented interface reconciliation capabilities between feeder systems and the general ledgers to ensure completeness in recording financial transactions.
- Implemented a standard interface control agreement compliant with audit requirements.
- Established feeder system to general ledger reconciliation procedures for each interfacing partner.

### Challenges

- Configuration management activities for system modifications and software release cycles require tight coordination from multiple parties.
- Evolving financial systems environment will continuously require new interface reconciliation development.
- Training and maintenance of new reconciliation procedures of functional personnel requires workload changes.

### Fund Balance with Treasury (Working Capital Fund)

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	12/2016
<b>Interim Milestones</b>	
Complete initial consolidated Fund Balance with Treasury reconciliation.	✓*
Evaluate activity-level reconciliations.	✓*
Implement consolidated reconciliation as a repeatable process.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Developed a draft consolidated reconciliation that incorporates outputs from transaction-level reconciliations performed across multiple Working Capital Fund activities. Refining the draft procedures in advance of receiving the FY 2016 year-end reconciliation reports.

#### Challenges

- Remediation of overage transactions affects the ability to obtain documentation and other support necessary to determine appropriate corrective actions.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓*
<b>Interim Milestones</b>	
Auditors issue suspense account audit report.	✓*
Complete and sign service level agreement with DFAS.	✓*
Implement recommendations from assessments.	✓*
Implement agreed upon service level agreement structures and Fund Balance with Treasury DFAS SSAE No. 16.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Addressed recommendations from DoD OIG and GAO audits related to suspense (clearing) accounts.
  - Processed discontinued research adjustments to address overaged suspense transactions.
  - Drafted procedures to include roles and responsibilities.
  - Updated financial statement disclosures.
  - Participated in cross-DoD working groups to address use of specific suspense accounts.
- Implemented key performance indicator measures to provide monthly Fund Balance with Treasury data as part of service level agreement with DFAS and support continued remediation efforts.

#### Challenges

- Remediation of overage transactions affects the ability to obtain documentation and support for determining corrective actions.

**Fund Balance with Treasury (Working Capital Fund)**

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	✓*
<b>Interim Milestones</b>	
Complete and sign service level agreement with DFAS.	✓*
Implement service level agreement structures and Fund Balance with Treasury DFAS SSAE No. 16.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Implemented monthly key performance indicator measures. This measure provides monthly Fund Balance with Treasury data as a part of the service level agreement with DFAS. These measures quantify counts and amounts of reconciling transactions and other internal controls to support further engagement in remediation activities

**Challenges**

- Remediation of overage transactions affects the ability to obtain documentation and other support for determining appropriate corrective actions.

### Journal Vouchers (Working Capital Fund)

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements	12/2016
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	09/2017
Interim Milestones	
Identify root causes to documentation deficiencies.	✓
OSD delivers data standards and GEX translation capabilities.	01/2017**
Develop, implement, and recommend corrective actions (when feasible) for supporting documentation.	✓*
Publish revised DON reimbursable work orders policy to address eliminations.	✓*
Revise G-invoicing implementation plan to address eliminations.	✓*
Navy ERP budget submitting office, Department of the Navy Assistant for Administration, and Marine Corps begin implementing G-invoicing.	06/2017**
Remaining budget submitting offices begin implementing G-invoicing.	09/2017**

\* Revised or completed since the May 2016 FIAR Plan Status Report.

\*\* OSD has not defined deployment schedules of critical data standards and system interfaces by non-DON entities, which could affect Navy budget submitting offices' implementation of G-invoicing.

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	✓*
Interim Milestones	
Complete manual journal voucher review for supportability and issue identification.	✓
Implement monitoring and compliance processes for manual DDRS journal vouchers.	✓
Identify root causes for manual DDRS journal vouchers.	✓
Implement FMO independent verification review of field-level journal vouchers.	✓*
Develop, implement, and recommend corrective actions.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Implemented a two-step governance and compliance process over established field-level journal voucher internal controls (i.e., Command Quality and Compliance Review and FMO independent verification). Field level journal voucher MOU signed in June 2016 by FMO and DFAS.
- Implemented, in coordination with Navy ERP, a system change for 18 key Naval Supply Systems Command (NAVSUP) Working Capital Fund contract authority general ledger accounts that allowed Navy ERP to utilize the SFIS Fund Type for segregation of Supply Management Contract Authority into Capital and Operating (12 journal vouchers totaling ~\$12 billion based on the FY 2015 population).

### Accomplishments

- Conducted a simulation of receiving a General Terms and Conditions download file to process a Reimbursable Work Order purchase request in Navy ERP.
- Identified recommendations for systems improvements in Navy financial management systems to facilitate transaction reconciliation and elimination by DFAS.
- Conducted four pilots of the General Terms and Conditions module in G-Invoicing with two different DoD Components. Identified and submitted a series of questions and concerns to OUSD(C).
- Collaborated with DFAS to develop five Navy Sub-CAPs (one for each Working Capital Fund system) in response to an NFR related to Trading Partner Adjustments and Eliminations identified during the SSAE No. 16 examination of DFAS processes.

### Challenges

- Dependencies with external organizations (i.e., other DoD organizations and federal agencies) to finalize data standards, GEX translation and interfaces, and policies and regulations governing intragovernmental transactions.
- Available time and resources to revise and deploy training programs to align with new policies and processes for G-Invoicing implementation.
- Systems limitations for both short- and long-term solutions.

### Challenges

- Navigating the complexities of the manual and automated journal voucher universe to identify root causes and improve supportability.

**Existence and Completeness/Valuation – Real Property (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	✓*
<b>Interim Milestones</b>	
Complete Phase II testing.	✓
Develop iNFADS Systems Change Request to implement plant replacement value.	✓*
Test and validate system change.	✓*
Implement Plant Replacement Value Systems Change Request.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Implemented corrective action plans addressing timeliness, segregation of duties, supporting documentation, and system data element information quality.
- Completed three rounds of existence and completeness testing, increasing reliability and accuracy rates in alignment with FIAR Guidance passing rates.
- Implemented an alternate valuation methodology using Plant Replacement Value in the APSR (iNFADS).
- Completed placed-in-service date testing in order to identify risk of material misstatement of accumulated depreciation.

**Challenges**

- Plant Replacement Value model will change during FY 2017 requiring restatement of baseline valuation.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Complete Phase II testing.	✓
Complete operations and maintenance capital improvement testing.	12/2016*
Implement operations and maintenance capital improvements corrective action plans.	01/2017*
Validate Military Construction valuation.	01/2017*
Validate operations and maintenance corrective action plans.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Developed a Real Property Existence and Completeness strategy to document a methodology for auditable existence and completeness activities.
- Developed processes and systems enhancements to incorporate new internal controls environment.
- Implemented operations and maintenance capital improvements system changes in NAVFAC financial system enabling the capture and capitalization of operations and maintenance funded construction costs.

**Challenges**

- None

**Existence and Completeness/Valuation – General Equipment (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	09/2017*
<b>Interim Milestones</b>	
Initiate financial reporting testing.	✓
Implement corrective action plans.	✓*
Verify baseline for all General Equipment assets.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Conducted an analysis on Quarter 3 and Quarter 4 of FY 2016 Asset Universe listings from all Budget Submitting Offices.
- Validated the DON \$1 million capitalization threshold for General Equipment.

**Challenges**

- Because of the large volume of over a million General Fund and Working Capital Fund General Equipment-Remainder assets with multiple financial systems, completion of 100 percent existence and completeness testing is extremely challenging.
- Because of the large volume (over a million) General Fund and Working Capital Fund General Equipment-Remainder assets within multiple financial systems, completion of 100 percent existence and completeness testing is extremely challenging.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Initiate financial reporting testing.	✓
Implement corrective action plans.	✓*
Determine Government Furnished Equipment go-forward methodology.	✓*
Achieve SFFAS No. 6 compliance.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Finalized Existence and Completeness Strategy for General Equipment-Remainder by prioritizing asset types based on materiality and focusing only on assets to be reported on the Balance Sheet.
- Developed a procedure for Budget Submitting Offices to submit asset universe listings on a quarterly basis that provide supporting detail of General Equipment-Remainder line items on Navy financial statements.

**Challenges**

- None

**Existence and Completeness/Valuation – Internal Use Software (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	03/2017
<b>Interim Milestones</b>	
Identify projects currently under development that need to be capitalized after September 30, 2017.	✓*
Accumulate and report software in development.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Implemented SFFAS No. 50, which provides for prospective reporting of Internal Use Software assets.
- Shared Internal Use Software Valuation Strategy with DON community to communicate strategy; which is prospective implementation of SFFAS No. 10, as allowed by SFFAS No. 50.

**Challenges**

- None

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Identify projects currently under development that need to be capitalized after September 30, 2017.	✓*
Accumulate and report software in development.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Established systems, processes, and procedures to record Internal Use Software assets in an APSR for all Commands.
- Created accountability and capitalization standards (decision trees) and shared with Commands to increase understanding of what assets qualify as Internal Use Software.
- Validated existing accountable Internal Use Software to be maintained in managerial systems and existing capital Internal Use Software to be reported in an APSR after 09/2016.
- Identified software not in the sustainment and operations lifecycle phase (software in development) within source systems.

**Challenges**

- None

**Existence and Completeness/Valuation – Inventory and Related Property (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	✓
<b>Interim Milestones</b>	
Develop corrective action plans.	✓*
Implement corrective action plans.	12/2016
Validate moving average cost calculation.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Created Navy Working Capital Fund-Supply Management Inventory asset listing that reconciles with the trial balance and supports the quarterly financial statement.
- Finalized process maps describing end-to-end financial accounting and stock-in-transit/carcass reporting procedures over Inventory.
- Finalized engineering change proposals to correct deficiencies within Navy ERP Inventory report extracts for trial balance reconciliation.

**Challenges**

- Reliance on DLA assertion of existence and completeness for Navy Working Capital Fund Inventory held and managed at Defense Distribution Depots.
- Lack of adequate source documentation to support depot level repairable unit price value. Assessing depot level repairable for deemed cost consideration.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	✓
<b>Interim Milestones</b>	
Develop corrective action plans.	✓*
Implement corrective action plans.	12/2016
Validate moving average cost calculation.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Validated production of Navy ERP asset listing is repeatable and sustainable using the July, August, and September Inventory reports.
- Finalized plan to validate and sustain the existence and completeness of Navy Working Capital Fund-Supply Management Inventory for financial reporting.
- Conducted Navy Working Capital Fund-Supply Management Inventory existence and completeness sustainment testing for the South East region.
- Finalized process cycle documentation describing Inventory related reconciliations and approval processes over Inventory adjustments.

**Challenges**

- Lack of accounting and financial reporting standard operating procedures that demonstrate Inventory reported is valued correctly.
- Navy ERP will require multiple engineering change proposals that impact Inventory valuation. If ERP system changes impacting valuation are not executed, reportable conditions related to Inventory values will be not identified.

**Environmental and Disposal Liabilities (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable process for estimating (identifying and valuing) and recording environmental and disposal liabilities.	09/2017*
<b>Interim Milestones</b>	
Conduct environmental and disposal liabilities stress testing.	✓
Complete internal validation of existence and completeness and valuation.	✓
Complete validation testing of estimation methodologies.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Completed internal beginning balance, valuation, and existence and completeness testing for Other Environmental Liabilities. Developed corrective actions to address gaps.

**Challenges**

- Completeness of the environmental liabilities universe is dependent on Property, Plant, and Equipment validation.

## IT SYSTEMS CRITICAL TO AUDIT

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

The Navy is continuing to consolidate data center operations to reduce IT control assessment requirements at the database and operating-system levels. Simultaneously, the Navy continues to find opportunities to reduce the number of legacy systems and consolidate application controls. To achieve this goal, the Navy oversees the initiation, reduction, consolidation, migration, and retirement of IT systems affecting audit readiness. A financial information system working group ensures stakeholders are involved in the decision process and facilitates cooperation and collaboration between IT and financial management.

Since 2012, the Navy has worked aggressively to identify control deficiencies across all material financial systems. The goal has been to employ a risk-based approach to immediately assess the audit readiness of key systems and develop corrective action plans to remediate control deficiencies. Assessment teams, led by experienced IT audit professionals, assessed critical IT general and application-level controls. The teams identified 628 IT control deficiencies across the 28 systems currently identified as material to audit; 179 (28 percent) have been remediated and closed. The Navy projects 95 percent completion of the FISCAM assessment corrective action plans by March 31, 2017.

The Navy received 181 IT NFRs resulting from the FY 2015 SBA audit. For the 2016 SBA audit, 123 (68 percent) of the NFR corrective action plans were remediated and submitted for testing.

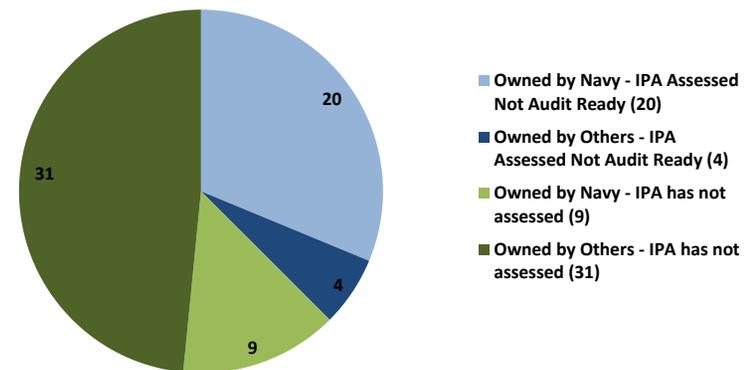
The DON CIO and Assistant Secretary of the Navy (FM&C) jointly developed enterprise IT control standards covering all 18 control families (National Institute of Standards and Technology (NIST)

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

### Status of Critical Systems

Figure III-4 summarizes the audit readiness status of systems relevant to the Navy financial statement audit, including systems owned and maintained by the Navy and systems owned and maintained by other organizations. System status reflects results of IPA audits through FY 2016. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

Figure III-4. Status of Systems Relevant to Navy Audit Readiness



## Information Technology

### General Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	04/2019
<b>Interim Milestones</b>	
Deliver 100% of deal breaker documentation for all material, financially- relevant General Fund and Working Capital Fund systems.	✓
Implement critical IT general and application-level controls across the IT portfolio with complete implementation of the risk management framework:	04/2019
Implement corrective actions for 50% of the FY 2015 SBA IT NFRs.	✓*
Implement corrective actions for 75% of the FY 2015 SBA IT NFRs.	12/2016
Implement corrective actions for 85% of the FY 2015 SBA IT NFRs.	09/2017
Implement corrective actions for 95% of the FY 2015 SBA IT NFRs.	06/2018
Implement corrective actions for 100% of the FY 2015 SBA IT NFRs.	04/2019

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Remediated and closed 72 percent of FISCAM corrective action plans for systems identified as material to audit.
- Remediated and submitted to the IPA 70 percent of NFRs identified during the FY 2015 SBA audit.
- Published a Financial Management Overlay to the Risk Management Framework to aid in developing risk-management strategies that address specific protection needs in systems with financial impact within defined risk tolerances. As system owners transition from DIACAP to the Risk Management Framework, the overlay will help them assess critical controls to ensure financial information systems attain financial statement auditability.
- Published the Enhanced Continuous Monitoring Program to provide oversight and ensure an audit-ready IT control environment. This program will involve annual testing of Financial Management Overlay controls and annual retesting of the remaining 14 NIST control families over a 3-year period.

### Challenges

- Identifying resources to support the identification of IT control deficiencies and implement corrective actions for a large number of legacy systems.
- Educating and training the IT system program management workforce on the FISCAM control standard methodology.
- Completing the transition to the Risk Management Framework for IT systems material to audit so that the Financial Management Overlay and Enhanced Continuous Monitoring Program may be applied to improve the auditability of the IT control environment.

## NAVY AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The audit readiness activities funded by the amounts in Figure III-5 include:

### Audit Readiness, Validations, and Audits

- 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 support IPA audits, including tools and data repositories.

### Financial Systems

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

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, Enterprise Resource Planning Systems. 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-5. Navy Audit Readiness Resources (Dollars in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Audit Readiness, Validations, and Audits	158	170	172	166	166	158
Financial Systems	61	61	55	51	50	49
<b>Total Resources</b>	<b>219</b>	<b>231</b>	<b>227</b>	<b>217</b>	<b>216</b>	<b>207</b>

## U.S. Marine Corps Audit Readiness

During FY 2016, the DoD OIG engaged an IPA to audit the Marine Corps FY 2017 General Fund financial statements. Similar to previous efforts, such as the audits of the Statement of Budgetary Resources and the SBA, the Marine Corps is leading the way for the Department on a multi-year mission to achieve an audit opinion on its full financial statements.

This mission will continue being difficult and challenging. The Marine Corps anticipates multiple audit findings from the audit of the FY 2017 financial statements. Achieving full financial statements auditability is a tremendous undertaking and success requires patience and consistent focus on corrective actions.

The Marine Corps will initially measure itself not by the opinion received, but by the reduction of findings from year to year, the accuracy and velocity of remediation, improved execution of funds, and improved property accountability and utilization in support of the warfighter and taxpayers' interest.

### Progress Since the May 2016 FIAR Report

The Marine Corps continued executing an aggressive, priority-driven, risk-based approach to achieving audit readiness. Specifically, the Marine Corps completed efforts to produce fully reconciled financial statement balances, a complete universe of transactions, and the valuation of mission-critical assets. The Marine Corps is building on successive years of SBA audits as well as rigorous efforts across the commands to identify, record, and value assets and liabilities. Actively engaged system owners, service providers, and fund holders are working to improve the timely and complete reporting of financial statement balances. At the close of FY 2016, the Marine Corps achieved the critical capabilities required by OUSD(C) and is currently under audit.

### Challenges to a Successful Audit

In a dynamic operating environment affected by the drawdown of forces abroad, reductions in the operating force, and equipment reset, significant progress has been made to identify and value the complete universe of assets for each material financial statement line item. Due to the volume and complexity of requirements to support the warfighter, the Marine Corps will continue to strengthen the internal control environment during early audit cycles and make adjustments to financial statement balances, as necessary.

In addition to locating and valuing a complex asset base, challenges include:

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

Despite these challenges, the Marine Corps sees value in progressing through audits in FY 2017 and beyond. Audit scrutiny and audit focused remediation efforts help leadership to more efficiently distribute resources in this era of fiscal restraint, while funding and equipping the warfighter for future conflicts.

## MARINE CORPS STRATEGIC OBJECTIVES FOR AUDIT SUCCESS

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

Three strategic objectives provide leadership and stakeholders with tangible goals and milestones for each audit cycle:

### Objective 1: Get the Auditors to the Field

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

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

transaction data and journal voucher information through to DDRS, which produces the reconciled financial statements.

When the auditors validate the financial statement compilation process, they may begin validating beginning balances and transactions through field-level sampling over the population. Objective 1 will be achieved when the auditors can fully reconcile and tie-out the financial statements, and start field-level testing.

### Objective 2: Take the Field

Objective 2 is to further improve business processes based on NFRs provided by the IPA. Field-level sample testing by the IPA is expected to result in NFRs, in addition to weaknesses identified during Marine Corps internal reviews. Through audit readiness efforts and prior audits, the Marine Corps has identified weaknesses and is working to correct these weaknesses during FY 2017. Additionally, the alternate valuation and estimation methodologies used for beginning balances will be subject to thorough audit scrutiny for the first time and may produce findings. The Marine Corps anticipates balance adjustments based on audit findings and activities, and is prepared to remediate, as required.

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

### Objective 3: Sustain Audit Gains

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

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and reportable conditions while simultaneously implementing an internal control plan and an organization to test these controls.

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

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

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

These three strategic objectives are effective gauges of audit progress and success. Each objective builds on previous accomplishments until an effective control environment is established and unmodified audit opinions are routine.

## PROGRESS REPORTING

Going to audit first carries a responsibility to report important lessons learned, identify findings that affect the entire Department,

and report progress made toward meeting strategic objectives. In future FIAR reports, the Marine Corps will track and report progress in five areas:

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

Figure III-6 identifies material weaknesses and NFRs, and the dates when the weaknesses and NFRs will be corrected. The Marine Corps remediated the current list of material weaknesses and anticipates new weaknesses as a result of the FY 2017 full financial statement audit.

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Figure III-6. USMC Material Weaknesses and Notices of Findings and Recommendations (✓ = Completed)

Material Weaknesses	Corrective Actions	Completion
<b>Financial Reporting</b>		
Offline Requisitions – Internet-ordering platforms lack adequate controls or do not interface with the accounting system.	A number of policies and internal controls have been implemented to address this weakness, including publishing the following policies: Marine Corps Order 4400.150 Consumer Level Supply Policy, Navy Marine Corps 4000.5 Supply Officers' Internal Control Handbook, and Naval Message Command Master Chief (CMC) WASHINGTON DC L/DTG021102Z OCT14/ NFR 1-14.	✓*
Timely Recording of Obligations – Due to some enterprise-wide systems and business practices, delays in recording obligations persist.	A number of policies and internal controls have been implemented to address this weakness, including publishing the following policies: Marine Corps Order 4400.150 Consumer Level Supply Policy, Navy Marine Corps 4000.5 Supply Officer's Internal Control Handbook, and Naval Message CMC WASHINGTON DC L/DTG021102Z OCT 14/ NFR 1 – 14. Additionally, the Deputy Commandant for Installations and Logistics is conducting the following internal controls reviews: Military Standard Requisitioning & Issue Procedures (MILSTRIP) Tri-Annual Review, MILSTRIP Quality Assurance Review, MILSTRIP Internal Controls Self Assessments, and FIAR internal control testing.	✓*
<b>IT Systems</b>		
Standard Accounting, Budgeting and Reporting System (SABRS) – Various IT control findings.	In coordination with SABRS management, continue to implement and monitor actions identified in the corresponding plan of action and milestones document to address identified internal control deficiencies. Eleven formal SABRS NFRs have not been remediated and require several types of actions, including implementing technical solutions, such as system change requests, system integration testing, system acceptance testing, and updating policies and procedures. Of the 11 open NFRs, 3 findings were identified during the FY 2015 SBA audit.	03/2017*
Marine Corps Total Force System – Various IT control findings.	Seven findings for Marine Corps Total Force System have not been remediated. The management team continues to implement and monitor corrective actions identified in their plan of action and milestones to address the internal control findings. The team successfully remediated 6 findings in FY 2011, 4 findings in FY 2012, 5 findings in FY 2013, and 10 findings in FY 2014. An additional 4 findings were identified during the FY 2015 SBA audit, yielding a total of 7 Marine Corps Total Force System NFRs.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## IT SYSTEMS CRITICAL TO AUDIT

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

In preparation for FISCAM assessments, the Programs and Resources, Risk and Compliance Branch conducted an internal materiality assessment to identify systems relevant and material to audit readiness, as well as the Marine Corps audit. Twelve systems were identified as material:

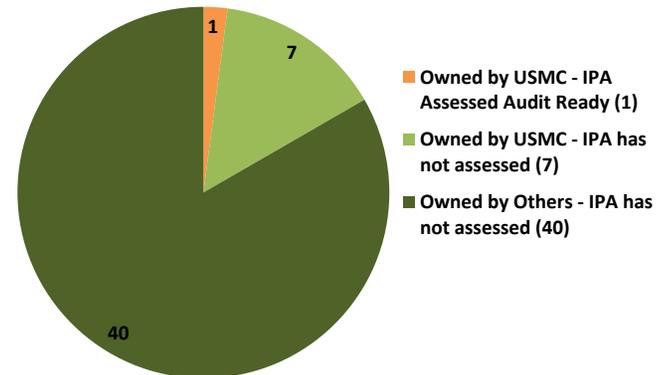
- Standard Accounting, Budgeting and Reporting System (SABRS)
- Defense Departmental Reporting System (DDRS)
- Defense Cash Accountability System (DCAS)
- Mechanization of Contract Administration Services (MOCAS)
- Marine Corps Total Force System (MCTFS)
- Defense Civilian Pay System (DCPS)
- Invoices Receipt Acceptance and Property Transfer (iRAPT) (Formerly Wide Area Work Flow)
- Global Combat Support System – Marine Corps (GCSS-MC)
- Internet Navy Facilities Assets Data Store (iNFADS)
- Defense Property Accountability System (DPAS)
- Syncada
- Ordnance Information System (OIS)

The Marine Corps is conducting FISCAM reviews for USMC-owned systems and coordinating with IT system service providers to ensure audit requirements are met.

### IT Systems Status

Figure III-7 summarizes the audit readiness status of systems relevant to the Marine Corps financial statement audit, including systems owned and maintained by the Marines Corps and systems owned and maintained by other organizations. System status reflects results of the IPA audits through FY 2016. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

**Figure III-7. Status of Systems Relevant to Marine Corps Audit Readiness**



## Information Technology

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	04/2017*
<b>Interim Milestones</b>	
Complete FISCAM assessment of MCTFS.	✓
Complete FISCAM assessment of MCORS.	✓
Complete FISCAM assessment of PR Builder.	✓
Complete FISCAM assessment of UD/MIPS.	04/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Completed multiple FISCAM assessments over relevant USMC financial systems.
- Developed corrective action plans and kicked off IT remediation activities for all FISCAM deficiencies.

### Challenges

- Identifying appropriate points of contact and stakeholders for IT systems, as well as complementary user entity controls for SSAE No. 16 examinations.
- Limited resources and timeline constraints have precluded the FISCAM team from conducting walkthroughs of certain systems. Resources are limited due to concurrent FISCAM testing and SBA IT audit testing.

## U.S. MARINE CORPS AUDIT READINESS RESOURCES

Despite budget constraints, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure III-8 include:

### Audit Readiness, Validations, and Audits

- 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 and data repositories.

### Financial Systems

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

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, Enterprise Resource Planning Systems. 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-8. USMC Audit Readiness Resources (Dollars in Millions)

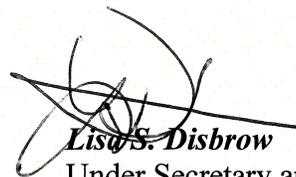
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Audit Readiness, Validations, and Audits	41	40	36	37	37	37
Financial Systems	1	1	1	1	1	1
<b>Total Resources</b>	<b>42</b>	<b>41</b>	<b>37</b>	<b>38</b>	<b>38</b>	<b>38</b>

## Message from the Department of the Air Force Chief Management Officer

*The Air Force is in the final stages of completing the Fiscal Year 2016 Schedule of Budgetary Activity (SBA) audit. Our Airmen and Service Providers continue to sustain accountability and deliver effective financial management as we standardize our processes, eliminate process deficiencies, and modernize our business systems. We have worked closely with our auditors to prioritize implementation of audit findings and recommendations. Corrective actions for many of the findings have already been fully implemented, and significant progress has been achieved for those actions that require longer term solutions.*

*Leadership's commitment remains critical to our success in compliance with the National Defense Authorization Act requirement for audit readiness. We are on a journey to transforming the enterprise and optimizing use of our mission resources. To sustain our progress, we are modernizing our financial management systems by leveraging the implementation of the Defense Enterprise Accounting and Management System (DEAMS) for critical business process improvements. DEAMS will provide the enterprise capability to support remediation of information technology audit findings identified by the Independent Public Accountant.*

*Although we continue making progress on our audit readiness to ultimately achieve an unmodified audit opinion, there is still much work to be done over the next 3-4 years. The nature and complexity of Air Force operations present challenges to our goals, which our Airmen and Service Providers must continually work to overcome. We have a roadmap built on past success, which provides a solid foundation for progress!*



**Lisa S. Disbrow**

Under Secretary and Chief Management Officer  
Department of the Air Force

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## IV. Air Force Audit Readiness

With less than a year left for the full financial statement audit, the Air Force is in a better position having successfully completed two SBA audits. Armed with lessons learned and best practices from the audits, the Air Force continues to enhance its preparations for a financial statement audit while improving its strategy to achieve auditability.

Air Force senior leadership is making prudent financial improvement decisions and ensuring Air Force personnel are accomplishing their mission in Air, Space and Cyber Space. Air Force senior leadership also continues to support the audit readiness goals and objectives, while focusing on meeting upcoming milestones through corrective actions. Major Command (MAJCOM) best practices and lessons learned are shared across the Air Force to maximize efficiencies and expedite completion of financial improvement and audit readiness tasks.

### Progress Since the May 2016 FIAR Report

Progress highlights since the May 2016 FIAR report include:

- Implemented and monitored corrective actions to address priority material weaknesses and NFRs resulting from the SBA audits.
- Continued valuation efforts for three major asset classes: Real Property, General Equipment, and Inventory and Related Property.
- Completed substantial Military Equipment baseline valuation for Priority One programs, which represents approximately 67 percent of the Military Equipment Net Book Value. Military Equipment makes up 85 percent of the General Equipment amount reported on the Balance Sheet.
- Began remediation efforts to achieve a logistics universe of transactions by hosting a workshop with stakeholders from Air



An F-22 Raptor flies by after receiving fuel from a KC-135 Stratotanker during exercise Red Flag 16-3 over Nellis Air Force Base, Nev., July 27, 2016. (Air Force photo by Tech. Sgt. David Salanitri.)

Force functional program offices and DFAS. Important outputs included agreed-upon objectives and milestones, and plans for future workshops to map transactional data flows between feeder systems, accountable property systems, and general ledger.

- Remediated Real Property physical inventories and supporting documentation collection for Phase I and Phase II installations. Site visits are being conducted to provide corrective action training to remaining Phase II installations. Approximately 58 site visits were completed.

### Challenges to Audit Readiness

While the Air Force continues to make progress toward full financial statement audit readiness in FY 2018, challenges remain:

## FIAR Plan Status Report

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- Identifying and extracting old transactions, especially those more than 10 years old, from legacy systems and obtaining supporting documentation is extremely difficult and requires extensive effort by the Air Force and its service providers.
- Establishing a complete population of mission-critical assets to support beginning balances is challenging and requires significant resources.
- Implementing cost accumulation and valuation procedures for mission-critical assets, requires significant business process changes and improvements across the Air Force enterprise, as well as its service providers.
- Instituting a documentation repository to maintain valuation supporting documentation.
- Validating and supporting beginning balances.
- Establishing a universe of transactions for Air Force Working Capital Fund Inventory and Related Property, including recurring reconciliations from the general ledger to various feeder systems, requires extensive resources.

All NFRs are tracked and assigned to the office with primary responsibility (functional owner). Air Force senior leadership, through oversight groups, works to ensure business processes are reengineered and IT systems modernized, as needed, to support audit readiness objectives and correct deficiencies.

With two SBA audits complete, the Air Force continues to prioritize corrective actions and focus on areas with the greatest impact on the audit readiness of its full financial statements. The Air Force has made great strides in enhancing its audit infrastructure resulting in a greater awareness of audit resource requirements and preparation across the Air Force for the full financial statements audit in FY 2018.

## SBA AUDIT RESULTS

The Air Force received a disclaimer of opinion on its FY 2016 SBA audit mainly due to internal controls not operating effectively, accounting policies and procedures inconsistent with GAAP, weaknesses in IT controls, and not providing timely supporting documentation for financial transactions. During the FY 2016 SBA audit, the Air Force received both new NFRs and reissued NFRs from the FY 2015 SBA audit where corrective actions have not been completed. Of the 225 NFRs (40 financial and 185 IT) from the FY 2015 SBA audit, the Air Force closed over 50 percent and provided a memorandum to the IPA informing them that the corrective actions had been implemented.

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Figure IV-1. Air Force Material Weaknesses and Notices of Findings and Recommendations (✓ = Completed)

Material Weaknesses	Corrective Actions	Completion
<b>Financial Reporting</b>		
Inability to validate the completeness of transactions underlying the Schedule.	Complete outstanding reconciliations, improve timeliness of remediation of variances, and strengthen system controls around inbound interfaces.	Ongoing*
Unsupported trading partner adjustments.	Continue to implement the G-Invoicing portion of the Treasury's application project.	Ongoing*
Lack of timely financial reporting.	Develop a plan to receive quarterly transactional GAFS-R data prior to issuing quarterly financial statements.	✓*
<b>Oversight and Monitoring of Internal Controls</b>		
Inability to maintain adequate documentation evidencing performance of the relevant controls and provide the documentation timely.	Develop sample packages to clearly illustrate the documentation required. Reinforce existing or develop new guidance on documentation retention requirements. Develop and implement refresher trainings with MAJCOMs.	✓*
Incomplete or inaccurate narrative descriptions.	Update cycle memos to accurately reflect business processes for business process gaps.	03/2017*
Issues with other oversight and monitoring.	Develop and implement a tiered testing strategy to address complementary user entity controls to enable control reliance.	06/2017
<b>Financial Information Systems</b>		
Material weaknesses previously identified still exist.	Develop measures to remediate gaps in account management and audit log control policies and procedures, configuration changes, segregation of incompatible duties, and interface controls.	Ongoing

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## GENERAL FUND FINANCIAL STATEMENTS

The Air Force is focused on the high-risk areas and critical capabilities identified by the Department. Figure IV-2 provides the

Air Force General Fund completion dates for each critical capability. Following Figure IV-2 are charts for each critical capability, except IT Controls, containing the dates for achieving the capability, accomplishments, and challenges.

**Figure IV-2. Air Force General Fund Audit Readiness Critical Capabilities (✓ = Completed)**

Air Force – General Fund		Completion	Validation
Universe of Transactions	Statement of Budgetary Resources	03/2017	09/2017
	Balance Sheet	09/2017*	09/2017
Fund Balance with Treasury		✓	✓
Journal Vouchers**-		03/2017	03/2017
Existence and Completeness, and Valuation of Assets**	Real Property (including Construction in Progress)	09/2017	09/2017
	General Equipment (including Military Equipment)	06/2017*	09/2017
	Internal Use Software	09/2017*	09/2017
	Inventory and Related Property	12/2017*	12/2017
Environmental Liabilities (DERP and Non-DERP)**		07/2017	09/2017
IT Controls		03/2017	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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

## Universe of Transactions – Schedule of Budgetary Activity (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	✓

### Accomplishments

- Demonstrated ability to produce a population of transactions (legacy and Defense Enterprise Accounting and Management System (DEAMS)) during the FY 2016 SBA audit.
- Provided FY 2016 General Accounting and Finance System – Base Level (GAFS-BQ) and DEAMS Quantitative Drill Down data files (with enhancements) to auditors. Enhancements included fully defined system source data fields for DEAMS transactions.

### Challenges

- None

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	✓

### Accomplishments

- Reconciled DEAMS to GAFS-Reengineered (GAFS-R) in FY 2016 with average match rates exceeding the 95 percent goal. For unmatched transactions, remediation procedures are ongoing.
- Implemented an automated database tool that identifies and monitors variances between the DEAMS general ledger and underlying modules.

### Challenges

- None

## Universe of Transactions – Statement of Budgetary Resources (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems.	03/2017
<b>Interim Milestones</b>	
Perform root cause analysis of significant issues (auditor identified and self-identified).	✓*
Design corrective action plans to correct general ledger account balances	12/2016
Implement corrective action plans, including training relevant accounting personnel.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Phase I included reconciling/matching transaction level data between the general ledger and source systems for each balance and appropriation, and remediation of significant differences.
- Root cause analysis and remediation are underway and prioritized based on balances and transactions critical to the full financial statement audit in FY 2018.

### Challenges

- Developing a universe of transactions for beginning balances that includes transactions initiated more than 10 years ago.
- Generating a universe of transactions in a dual environment for the Statement of Budgetary Resources (GAFS and DEAMS) presents additional reconciliation challenges.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2017
<b>Interim Milestones</b>	
Perform root cause analysis of significant issues (auditor identified and self-identified).	✓*
Design corrective action plans related to reconciling financial statement balances and transaction-level detail.	✓*
Design corrective action plans to correct general ledger account balances (e.g., restatements).	12/2016
Implement corrective action plans, including training relevant accounting personnel.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Reconciled transactions for beginning balances from the general ledger to feeder systems, assessed the quality of underlying data, and addressed anomalies.
- Prioritized remediation based on balances and transactions critical to the full financial statement audit in FY 2018.

### Challenges

- Reconciling general ledger data to reports used to facilitate triannual reviews may require system enhancements.
- Reconciling beginning balances to feeder and source systems, validating open obligations, and executing contract closeout to reduce stale and invalid balances require significant effort.

## Universe of Transactions – Balance Sheet (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	09/2017*
<b>Interim Milestones</b>	
Perform root cause analysis of significant issues (auditor identified and self-identified).	✓*
Implement corrective action plans, including training relevant accounting personnel.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developing a capability to produce a universe of transactions for non-Property, Plant, and Equipment Balance Sheet accounts based on percentage and age of transactions comprising each balance. Prioritized remediation based on balances and transactions critical to the financial statements audit in FY 2018.
- Held a logistics universe of transactions workshop with stakeholders across functional, financial management, and program offices. Refined the logistics universe of transactions strategy and execution timeline.

### Challenges

- Identifying source data, creating a universe of transactions, reconciling general ledger transactions to feeder systems.
- Finalizing selection of a data warehouse and software tool, and completing data assurance testing.
- Not all Property, Plant, and Equipment and Inventory and Related Property systems can produce a population of transaction detail.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017*
<b>Interim Milestones</b>	
Perform root cause analysis of significant issues (auditor identified and self-identified).	✓*
Design corrective action plans related to reconciling financial statement balances and transaction-level detail.	✓*
Design corrective action plans to correct general ledger account balances (e.g., restatements).	✓*
Implement corrective action plans, including training relevant accounting personnel.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- For non-Property, Plant, and Equipment Balance Sheet accounts, reconciled transactions for beginning balances from the general ledger to feeder systems, assessed the quality of underlying data, and addressed anomalies. Prioritized remediation based on impact to the full financial statement audit in FY 2018.

### Challenges

- Reconciling beginning balances to feeder and source systems (excluding Property, Plant, and Equipment) and validating supporting documentation.
- Unable to reconcile Property, Plant, and Equipment balances to the APSR, and unable to identify and store transaction level data.
- Obtaining stakeholder buy-in to establish teams responsible for implementing monthly APSR to general ledger reconciliations for each type of Property, Plant, and Equipment.

### Fund Balance with Treasury (General Fund)

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓

**Accomplishments**

- IPA examination validated Fund Balance with Treasury audit readiness in FY 2011. Sustained reconciliation procedures to identify, age, and resolve differences at the voucher level. In addition, this capability was validated during the FY 2015 SBA audit and is being evaluated in FY 2016.

**Challenges**

- None

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	✓

**Accomplishments**

- IPA examination validated audit readiness in FY 2011. Sustained process to track, age, and resolve items appearing on the Treasury Statement of Differences. In addition, this capability was validated during the FY 2015 SBA audit and is being evaluated in FY 2016.

**Challenges**

- None

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓

**Accomplishments**

- IPA examination validated Fund Balance with Treasury audit readiness in FY 2011. Sustained existing procedures to identify, age, and resolve transactions posted to suspense accounts. In addition, this capability was validated during the FY 2015 SBA audit, and is being evaluated in FY 2016.

**Challenges**

- None

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓

**Accomplishments**

- Annually, updating previously completed aging analysis. On track to have eight years of reconciled Fund Balance with Treasury activity at the beginning of FY 2018.

**Challenges**

- None

### Journal Vouchers (General Fund)

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	TBD
Critical Capability	Completion
B) Elimination Errors – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	03/2017
Interim Milestones	
Confirm proper use of sales codes.	12/2016*
Publish ERP schedule and submit trading partner data on 50% of federal accounts payable.	12/2016
Improve support for buyer-side elimination entries journal vouchers.	12/2016
Improve support provided in journal voucher packages.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Issued Air Force policy memo requiring the G-Invoicing general terms and conditions number be referenced on orders.
- Updated Air Force Instruction 65-118 to require trading partner data and G-Invoicing reference on orders.
- Deployed 75 percent of G-Invoicing.

#### Challenges

- Trading partner is not currently a mandatory data field in the legacy environment or in DEAMS.
- Process and system enhancements in DEAMS and Treasury implementation of G-Invoicing.

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
Interim Milestones	
Develop and implement business process, internal control, and supporting documentation corrective actions for recurring journal vouchers.	✓*
Validate implementation of corrective actions.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Incremental corrective actions targeting higher risk Air Force-wide recurring data call journal vouchers. Developing and refining processes and controls performed for each journal voucher.

#### Challenges

- Reducing the volume of journal vouchers through process and system enhancements.
- Maintaining complete and current business process and internal control documentation for recurring journal vouchers.
- Ensuring supporting documentation is identified, retained, and readily available.

## Existence and Completeness/Valuation – Real Property (General Fund)

Critical Capability	Completion
A) Establish an auditable baseline.	03/2017
<b>Interim Milestones</b>	
Installations correct existence and completeness and supporting documentation findings within the APSR.	03/2017
Complete existence and completeness, prioritize supporting documentation collection, and continue reporting on corrective actions for remaining installations.	03/2017*
Conduct Construction-in-Progress process map and POA&M summit. Define corrective action plans, implementing verifying and validating.	03/2017*
Define and develop civil engineer IT step by step manual workaround process maps to sustain RP asset capitalization during the installation IT transition from legacy IT to NexGen IT and to achieve FIAR compliance.	03/2017*
Increase Real Property APSR accuracy, completeness, and IT effectiveness by implementing corrective action plans, deploying SME teams to installations that provided training and guidance and hands-on assistance to the installation Real Property Officer.	03/2017*
Connect Real Property stakeholders across the enterprise by developing an Air Force Civil Engineer Portal, SharePoint, and reach back center to facilitate communications 24/7. Solicit feedback, prompt cross-feed; and announce guidance, instructions, best practices, and lessons learned updates.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Collected and developed existence and completeness supporting

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017
<b>Interim Milestones</b>	
Design and Construct – Stakeholders collaborate and develop strategy that includes policy revisions, process improvements, and system updates.	12/2016*
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	03/2017
Validate – Test go-forward processes to verify operational effectiveness. Track and report progress.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed a draft Acquire-to-Retire process narrative. Working sessions are being conducted to finalize the narrative.
- A4CA conducted a Construction-in-Progress summit to develop process maps with internal controls, plan-of-action and milestones, corrective action plans, business rules, and supporting documentation to improve the accuracy of accumulated costs during the construction of Real Property assets..
- A4C teamed with USACE and NAVFAC to develop service provider MOUs.

### Challenges

- Ensuring baseline and audit readiness activities are concurrent. Any delay in the strategy will cause a delay in baseline efforts.
- Delays in completion and validation of corrective actions causing slippages in design and construction, and implementation and validation of the Real Property audit readiness strategy.

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documentation and updated APSR at 12 installations.

- Developed and disseminated 39 corrective actions to remediate extensive deficiencies. In 06/2016, installations began monthly reporting on the status of implementing corrective actions.
- Provided corrective action plan training to remaining installations. 45 site visits have been completed.
- Conducted a Construction-in-Progress workshop and developed process maps to improve Real Property asset accountability and financial accounting. Defined corrective action plans to improve Construction-in-Progress transaction accuracy, timeliness, and transfer.
- Conducted Civil Engineer IT step-by-step manual work-around workshop. Developed process maps to sustain Real Property asset capitalization during transition from legacy IT to NexGen IT-Tririga. Developed a plan-of-action and milestones to guide and ensure effective implementation.
- Deployed NexGen IT to 12 installations.

### Challenges

- Suspense dates for completion of existence and completeness and collecting supporting documentation have been delayed.
- Validation strategy for corrective action plans has not been established.
- Recurring Real Property reconciliations between the Air Force and other DoD Components.
- Audit readiness Real Property scope (e.g., OCONUS Real Property).
- Effective partnerships and teaming, communication, interface, and support between NexGen IT – Tririga and DEAMS, USACE, and NAVFAC.

- Establishing effective partnerships and teaming, communication, interface, and support between NexGen IT – Tririga and DEAMS, USACE, and NAVFAC.

## Existence and Completeness/Valuation – General Equipment (General Fund)

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017*
<b>Interim Milestones</b>	
Establish Government Furnished Equipment baseline by obtaining asset level data from contractors.	✓
Complete existence and completeness, rights, internal control, and supporting documentation testing of Government Furnished Equipment assets.	12/2016*
Complete Priority 1 (Military Equipment) programs valuation.	✓*
Complete Priority 2 (Remaining Military Equipment).	03/2017
Complete remaining General Equipment subclasses.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed proposed Government Furnished Equipment strategy that is under review by stakeholders.
- Established a sustainment effort to monitor identified deficiencies and corrective actions.
- Transferred General Equipment vehicles to DPAS.
- Wrote-off obsolete and excess Special Tooling/Special Test Equipment assets.
- Substantively completed baseline valuation for Priority 1 (Military Equipment) programs.
- Initiated valuation of remaining 33 Military Equipment weapon system programs.
- Initiated discovery for valuation of the remaining non-Military

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	06/2017*
<b>Interim Milestones</b>	
Update corrective action plans for General Equipment.	✓
Update corrective action plans for Government Furnished Equipment assets.	✓
Update corrective action plans for Military Equipment assets.	✓
Design and Construct – Stakeholders collaborate and develop strategy that includes policy revisions, process improvements, and system updates.	12/2016*
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	03/2017*
Validate – Test go-forward processes to verify operational effectiveness. Track and report progress.	06/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Prepared Air Force Audit Agency Government Furnished Equipment findings matrix to ensure identified deficiencies will be corrected.
- Implemented four corrective action plans for General Equipment pending valuation.
- Identified 13 deficiencies prior to Government Furnished Equipment testing and during discovery.
- Continued to collaborate with stakeholders to develop the to-be environment for valuation, including end-to-end processes, internal controls, supporting documentation, and systems.

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Equipment General Equipment assets.

- Continued vehicle valuation by reviewing an updated Vehicle Deemed Cost Valuation spreadsheet received from the Vehicle Support Chain Operations Squadron.

### Challenges

- Not completing the Air Force Equipment Management System (AFEMS) Government Furnished Equipment module in 12/2016 may impact interim milestones.
- Validating the complete population of Government Furnished Equipment.
- Reliance on alternative valuation methods other than acquisition contracts due to contract structure.
- Concerns over completeness of assets maintained in AFEMS

- Collaborated with HAF/A4 and SAF/AQ to design and implement interim processes to value Military Equipment.
- Established a process to sustain valuation.

### Challenges

- Completing AFEMS audit readiness modifications before the FY 2018 audit.
- Implementing field-level internal controls and processes.
- Establishing a sustainable process to capture General Equipment universe of transactions and population of General Equipment assets.
- Timeliness in achieving to-be processes due to potential costs of implementing system change requirements, obtaining additional resources, and funding constraints.
- No existing process or system for Construction-in-Progress accounting and reporting.

## Existence and Completeness/Valuation – Internal Use Software (General Fund)

Critical Capability	Completion
A) Establish an auditable baseline.	03/2017
<b>Interim Milestones</b>	
Air Force will report an Internal Use Software balance of zero, per OUSD(C) guidance.	03/2017*
Determine Internal Use Software APSR.	02/2017*
Design and implement go-forward process.	✓
Validate go-forward process after implementation.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed Internal Use Software commercial off-the-shelf (COTS) strategy, which is under review by relevant stakeholders.
- Reviewed process and corrective action plan for Internal Use Software COTS-License.

### Challenges

- Processes have not been established in accordance with the DoD strategy for Internal Use Software and SFFAS No. 50.
- Identifying functional lead for Developed Software.
- COTS-License baseline is undetermined.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017*
<b>Interim Milestones</b>	
Design the to-be business process.	03/2017*
Implement go-forward process.	06/2017*
Establish an auditable valuation baseline.	✓*
Validate go-forward process after implementation.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Drafted as-is process flows for Joint Enterprise License Agreement/Enterprise License Agreement.
- Assessed gaps and established self-identified deficiencies.

### Challenges

- Identifying requirements and actionable items for COTS corrective action plan development and implementation.
- Establishing an auditable existence and completeness process is dependent on:
  - COTS baseline value per asset is greater than or equal to the capitalized value per DoD Internal Use Software strategy policy.
  - COTS-License universe and not all Air Force Internal Use Software.

### Existence and Completeness/Valuation – Inventory and Related Property (General Fund)

Critical Capability	Completion
A) Establish an auditable baseline.	12/2017*
<b>Interim Milestones</b>	
Complete asset accountability assertion for existence, completeness, and rights of Operating Materials and Supplies – Base Possessed.	12/2017*
Complete asset accountability assertion for existence, completeness, and rights of Operating Materials and Supplies – Contractor Managed and Possessed.	03/2017
Complete baseline valuation packages for Uninstalled Missile Motors, Aerial Targets, Spare Engines, Cruise Missiles, and Munitions.	✓
Complete baseline valuation package for Operating Materials and Supplies – Base Possessed and update APSR.	✓*
Perform monitoring between initial valuation package delivery and assertion.	✓*
Develop and design processes and system requirements updates for each inventory and related property asset group.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Briefed Air Force functional representatives on sustainment testing results for Aerial Targets, Uninstalled Missile Motors, Spare Engines, and Cruise Missiles.
- Arnold Air Force Base has started reporting assets not previously reported.
- Completed initial beginning balance baseline valuation packages

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017*
<b>Interim Milestones</b>	
Develop and design auditable processes and system requirements updates, compliant with SFFAS No. 3, for each inventory and related property asset group with the exception of Contractor Managed and Possessed AU.	12/2016*
Implement the SFFAS No. 3 compliant processes and complete required system updates.	12/2016
Implement processes and complete the required system updates to properly account for price paid beginning January 1, 2017.	12/2016*
Validate the go-forward activity.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Identified internal control deficiencies during annual sustainment testing for Cruise Missiles, Uninstalled Missile Motors, Aerial Targets, and Spare Engines.
- Identified process and control gaps and provided recommendations to develop auditable process and systems.
- Identified issues, such as failure to provide and maintain documentation for transactions recorded in the APSR and failure to perform and provide adequate support for physical inventories.
- Functional personnel are updating Air Force Instruction 21-103 to require annual physical inventories.
- Global Ammunition Control Point staff implemented an automated tool to calculate munitions moving-average cost in October.

for Munitions and Inventory/Operating Materials & Supplies Base Possessed utilizing the deemed cost approach.

- Sustainment of beginning balance baseline valuations will occur on a quarterly basis utilizing the deemed cost approach until a complaint process is developed and implemented.
- Developing an MOU with DHA for Defense Medical Logistics Standard Support (DMLSS) IT and operational controls for Inventory/Revenue/Expenses. Received feedback from Air Force Medical Operations Agency / Surgeon General and collaborating to adjudicate comments to finalize an MOU supplement.

### Challenges

- Inventory, and Operating Materials and Supplies Base Possessed:
  - Discovered additional assets not included in the initial Existence, Completeness, and Rights and Obligations assertion.
  - Assets are not tracked in an approved APSR and are not reported on financial statements.
- Contractor Managed and Possessed
  - Contract modifications needed for asset information (e.g., transactional detail, program asset listings) adds significant time to the audit readiness process.
  - Not all programs are submitting information for financial statement reporting due to the need for contract modifications.
  - Valuation will not begin until existence and completeness is completed and a complete asset population is validated.

- Developed an Expectation Management Agreement to be signed by all parties involved in the calculation of moving average cost.

### Challenges

- Complexity of identifying, developing, and implementing system requirements and corrective action plans for the APSRs used manage Inventory and Related Property assets will require significant time, resources, and funds.
- Inventory/Operating Materials & Supplies – Base Possessed assets are valued using standard cost, which is inconsistent with moving average cost valuation used for Depot Possessed assets, impacting people, processes, and systems. Assistant Secretary of the Air Force//Financial Management & Comptroller and Air Force Materiel Command (AFMC) are addressing the inconsistency.
- Munitions – Combat Ammunition System modernization is being reevaluated and AF/A4LW will review a replacement APSR (One Network). Modernization plans are to be completed by 06/2017, and a decision on the system to be used will be made in FY 2017.
- Contractor Managed and Possessed:
  - Weapons systems assets stored at Contractor Inventory Control Points are not recorded in an approved APSR.
  - Loading program assets in DPAS will take a considerable amount of time and effort. A4 is using the Service Development and Delivery Process to create an implementation schedule.

## Environmental and Disposal Liabilities (General Fund)

Critical Capability	Completion
A) Establish an auditable process for estimating (identifying and valuing) and recording environmental and disposal liabilities.	07/2017
<b>Interim Milestones</b>	
Restoration: Implement corrective actions related to completeness and valuation.	✓*
Restoration: Complete internal review and validation.	12/2016
Restoration: Enter sustainment phase of audit readiness.	01/2017
Military Equipment/Weapon Systems: Complete Discovery for General Equipment environmental disposals.	03/2017
Other Environmental Liabilities: Implement corrective actions related to completeness.	04/2017
Other Environmental Liabilities: Implement corrective actions related to valuation.	07/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Restoration – Completed discovery and made progress on nine corrective action plans (one open and eight closed).
- Restoration – Completed Phases I and II of Completeness Pilot Study. Discussed identification procedures during six installation site visits and developed a supporting documentation template for 223 installations to disclose details of installation history, site identification, and tracking.
- Other Environmental Liabilities – Environmental Corrective Action, Environmental Response at Operational Ranges, Environmental Closure Requirements, and Asbestos components completed discovery tasks and made progress corrective action plans (16 open and 4 closed).

### Challenges

- Restoration – Establishing a completeness baseline for DERP clean-up sites with supporting documentation.
- Restoration – Implementing new procedures to verify that the estimates are valid at the end of the fiscal year.
- Restoration – Having sufficient supporting documentation to justify the reasonableness of the cost model estimates for Remedial Action Cost Engineering Requirements estimation software.
- Other Environmental Liabilities – Recognizing program management costs, accounting treatment (including specific asbestos treatment), and supporting estimates produced by cost models per new OUSD(C) guidance increases the time and complexity of valuing Other Environmental Liabilities.
- Other Environmental Liabilities – The APSR does not contain the necessary data elements for cost model estimates, because no functional requirement exists for capturing and maintaining this data in a controlled, centralized repository that can be used for financial reporting.

## WORKING CAPITAL FUND FINANCIAL STATEMENTS

The Air Force strategy applies results from the General Fund audit readiness work to the Working Capital Fund. Remaining audit readiness activities can, therefore, focus more intensely on areas unique to Working Capital Fund processes.

Fund Balance with Treasury reconciliations for the Working Capital Fund have been performed since FY 2015. The Air Force is in the process of developing a universe of transactions infrastructure for

both financial and asset accountability transactions. Additionally, the journal voucher process has been updated, and asset accountability procedures are being improved.

Figure IV-3 provides the Air Force Working Capital Fund completion dates for the critical capabilities identified by the Department. Following Figure IV-3 are charts for each critical capability, except IT Controls, containing the dates for achieving the capability, accomplishments, and challenges.

**Figure IV-3. Air Force Working Capital Fund Audit Readiness Critical Capabilities (✓ = Completed)**

Air Force – Working Capital Fund		Completion	Validation
Universe of Transactions	Statement of Budgetary Resources	03/2017	09/2017
	Balance Sheet	03/2017	09/2017
Fund Balance with Treasury		✓	✓
Journal Vouchers		03/2017	03/2017
Existence & Completeness, and Valuation of Assets**	Real Property (including Construction in Progress)	09/2017	09/2017
	General Equipment	06/2017	09/2017
	Internal Use Software	09/2017*	09/2017
	Inventory and Related Property	03/2017	09/2017
Environmental Liabilities (DERP and Non-DERP)		N/A	N/A
IT Controls		03/2017	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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

## Universe of Transactions – Statement of Budgetary Resources (Working Capital Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	12/2016*
<b>Interim Milestones</b>	
Document Working Capital Fund system process flows.	✓
Reconcile Tier 2 systems (DDRS, GAFS-R).	✓*
Reconcile Tier 3 and 4 systems and FIABs (SMAS, DIFMS, and FIABS).	✓*
Complete universe of transactions for Tier 3 and FIABs.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Established desktop reconciliation capability for Tier 2 and Tier 4 systems.
- Established a sustainable Working Capital Fund capability based on the General Fund infrastructure.

### Challenges

- Unlike the General Fund where financial transaction details reside in one system, the Working Capital Fund has four general ledger systems for five business activities, each with varying systems and processes that receive different levels of summarized data from other systems.
- Journal vouchers entered at two Departmental-level (Tier 1 and Tier 2) systems and four general ledger-level (Tier 3 and Tier 4) systems.
- Working through security protocols to transfer large data files.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2017
<b>Interim Milestones</b>	
Document Working Capital Fund system process flows.	✓
Reconcile remaining Tiers 4, 5, and 6 systems.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Established desktop reconciliation capability for Tier 5 and Tier 6 systems.
- Established a sustainable Working Capital Fund capability based on the General Fund infrastructure.

### Challenges

- At least 22 different Tier 5 and Tier 6 financial systems feeding the four general ledger systems.
- Sustaining reconciliations and Quantitative Drill Downs requires a financial universe of transactions infrastructure, including data warehouses with reconciliation capabilities.
- Completing the Tier 4 reconciliations will be necessary to develop the first draft iteration of required Working Capital Fund Quantitative Drill Downs and reconciliations.

### Universe of Transactions – Balance Sheet (Working Capital Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2017
<b>Interim Milestones</b>	
Demonstrate reconciliation capability for sample Inventory and Related Property population.	✓*
Complete sustainable reconciliations for financial, Inventory and Related Property, and Property, Plant and Equipment universe,	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Documented process flows.
- Developed four-phase strategy.
- Established enterprise (macro-level) reconciliation template.

#### Challenges

- Finalizing selection of data warehouse and software tool, and completing data assurance testing.
- Obtaining repeatable financial statement and journal voucher data extracts to complete Property, Plant, and Equipment, and Inventory and Related Property reconciliations.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2017
<b>Interim Milestones</b>	
Demonstrate reconciliation capability for sample Inventory and Related Property population.	✓*
Complete sustainable reconciliations for financial, Inventory and Related Property, and Property, Plant and Equipment universe.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Documented process flows.
- Developed four-phase strategy.
- Identified accountable reconciliation offices of primary responsibility and updating policy.

#### Challenges

- Obtaining universe of transaction details from shared systems, such as DMLSS, managed by the Defense Health Agency.

### Fund Balance with Treasury (Working Capital Fund)

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	✓

**Accomplishments**

- Validated General Fund, Fund Balance with Treasury audit readiness in FY 2011 by an IPA examination. Sustained reconciliation procedures to identify, age, and resolve differences at the voucher level.
- Added Air Force Working Capital Fund to CCAS-AF Fund Balance with Treasury reconciliation in 10/2012 to track, age, and resolve unreconciled items.

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	✓

**Accomplishments**

- Validated Working Capital Fund, Fund Balance with Treasury audit readiness in FY 2011 by an IPA examination. Sustained reconciliation procedures to identify, age, and resolve differences at the voucher level.
- Added Air Force Working Capital Fund to CCAS-AF Fund Balance with Treasury reconciliation in 10/2012 to track, age, and resolve unreconciled items.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	✓

**Accomplishments**

- Validated General Fund, Fund Balance with Treasury audit readiness in FY 2011 by an IPA examination. Sustained reconciliation procedures to identify, age, and resolve differences at the voucher level.
- Added Air Force Working Capital Fund to CCAS-AF Fund Balance with Treasury reconciliation in 10/2012 to track, age, and resolve unreconciled items.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	✓

**Accomplishments**

- Updating previously completed aging analysis annually. Air Force Working Capital Fund, Fund Balance with Treasury can be reconciled back to 10/2012, when Air Force Working Capital Fund was added to CCAS-AF.

### Journal Vouchers (Working Capital Fund)

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	03/2017
<b>Interim Milestones</b>	
Population of Departmental journal vouchers complete.	✓
Obtain DFAS journal voucher logs for general ledger population.	12/2016
Critical Capability	Completion
B) Eliminate Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	03/2017
<b>Interim Milestones</b>	
Enhance supporting documentation.	✓*
Develop and strengthen general documentation standards for non-recurring journal vouchers.	✓*
Publish standards and business processes developed to support journal vouchers.	12/2016
Validate implementation of corrective actions.	01/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Established documentation criteria and a metrics and governance board to track progress.

#### Challenges

- Reverse engineering and modernizing enterprise-wide business processes and information technology systems to identify root causes of unsupported adjustments.

Critical Capability	Completion
C) Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
<b>Interim Milestones</b>	
Enhance supporting documentation.	✓*
Develop and strengthen general documentation standards for non-recurring journal vouchers.	✓*
Publish standards and business processes developed to support journal vouchers.	12/2016
Validate implementation of corrective actions.	01/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Established documentation criteria and a metrics and governance board to track progress.

#### Challenges

- Reverse engineering business processes to identify root causes of unsupported adjustments.

Modernizing enterprise-wide business processes and information technology systems to prevent unsupported adjustments.

**Existence and Completeness/Valuation – Real Property (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable baseline.	03/2017
<b>Interim Milestones</b>	
Complete existence and completeness, prioritize supporting documentation collection, and continue reporting on corrective actions for remaining installations.	03/2017*
Conduct Construction-in-Progress process map and POA&M summit. Define corrective action plans, implementing verifying and validating.	03/2017*
Define and develop civil engineer IT step by step manual workaround process maps to sustain RP asset capitalization during the installation IT transition from legacy IT to NexGen IT and to achieve FIAR compliance.	03/2017*
Increase Real Property APSR accuracy, completeness, and IT effectiveness by implementing corrective action plans, deploying SME teams to installations that provided training and guidance and hands-on assistance to the installation Real Property Officer.	03/2017*
Connect Real Property stakeholders across the enterprise by developing an Air Force Civil Engineer Portal, SharePoint, and reach back center to facilitate communications 24/7. Solicit feedback, prompt cross-feed; and announce guidance, instructions, best practices, and lessons learned updates.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017
<b>Interim Milestones</b>	
Design and Construct – Stakeholders collaborate and develop strategy that includes policy revisions, process improvements, and system updates.	12/2016*
Implement – Stakeholders ensure process owners begin executing go-forward strategy developed in the Design and Construct phase.	03/2017
Validate – Test go-forward processes to verify operational effectiveness. Track and report progress.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- Developed a draft Acquire-to-Retire process narrative. Working sessions are being conducted to finalize the narrative.
- A4CA conducted a Construction-in-Progress summit to develop process maps with internal controls, plan-of-action and milestones, corrective action plans, business rules, and supporting documentation to improve the accuracy of accumulated costs during the construction of Real Property assets.
- A4C teamed with USACE and NAVFAC to develop service provider MOUs.

**Challenges**

- Ensuring baseline and audit readiness activities are concurrent. Any delay in the strategy will cause a delay in baseline efforts.
- Delays in completion and validation of corrective actions causing slippages in design and construction, and implementation and

### Accomplishments

- Collected and developed existence and completeness supporting documentation and updated APSR at 12 installations.
- Developed and disseminated 39 corrective actions to remediate extensive deficiencies. In 06/2016, installations began monthly reporting on the status of implementing corrective actions.
- Provided corrective action plan training to 45 sites.
- Conducted a Construction-in-Progress workshop and developed process maps to improve Real Property asset accountability and financial accounting. Defined corrective action plans to improve transaction accuracy, timeliness, and transfer.
- Conducted Civil Engineer IT step-by-step manual work-around workshop. Developed process maps to sustain Real Property asset capitalization during transition to NexGen IT-Tririga. Developed a plan-of-action and milestones to guide and ensure effective implementation.
- Deployed NexGen IT to 12 installations.

### Challenges

- Suspense dates for completion of existence and completeness and collecting supporting documentation have been delayed.
- Validation strategy for corrective action plans has not been established.
- Recurring Real Property reconciliations between the Air Force and other DoD Components.
- Audit readiness Real Property scope (e.g., OCONUS Real Property).
- Effective partnerships and teaming, communication, interface, and support between NexGen IT – Tririga and DEAMS, USACE, and NAVFAC.

validation of the Real Property audit readiness strategy.

- Effective partnerships and teaming, communication, interface, and support between NexGen IT – Tririga and DEAMS, USACE, and NAVFAC.

## Existence and Completeness/Valuation – General Equipment (Working Capital Fund)

Critical Capability	Completion
A) Establish an auditable baseline.	03/2017
<b>Interim Milestones</b>	
Establish an auditable existence and completeness baseline.	12/2016*
Complete valuation of remaining General Equipment subclasses.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed a Government Furnished Equipment strategy that is under review by stakeholders.
- Established a sustainment effort to monitor identified deficiencies and progress on corrective actions.
- Transferred General Equipment vehicles to DPAS.
- Wrote-off obsolete and excess General Equipment assets for Special Tooling/Special Test Equipment.
- Initiated discovery for valuation of the remaining non-Military Equipment General Equipment assets.
- Continued vehicle valuation by reviewing the updated Vehicle Deemed Cost Valuation spreadsheet received from the Vehicle Support Chain Operations Squadron.

### Challenges

- Timely completion of the AFEMS Government Furnished Equipment module by 12/2016).
- Validation of the complete population of Government Furnished

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	06/2017
<b>Interim Milestones</b>	
Establish an auditable process for go-forward activity.	03/2017*
Implement interim manual go-forward process.	03/2017*
Validate interim, manual go-forward process.	06/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Prepared Air Force Audit Agency Government Furnished Equipment findings matrix to ensure identified deficiencies are corrected.
- Implemented four corrective action plans for General Equipment pending valuation efforts.
- Identified 13 Government Furnished Equipment deficiencies during discovery testing.
- Continued to collaborate with stakeholders to develop the to-be environment for valuation, including end-to-end processes, internal controls, supporting documentation, and systems.
- Established process to sustain valuation.

### Challenges

- Completing AFEMS modifications prior to the FY 2018 audit.
- Implementing field-level to-be internal controls and processes.
- Establishing a sustainable process to capture General Equipment universe of transactions and total current population of assets.

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Equipment.

- Reliance on alternative valuation methods other than acquisition contracts due to contract structure.
  - Concerns over completeness of assets maintained in AFEMS.
- Access to records for Air Force assets held by third parties.
  - Timeliness in achieving to-be processes due to potential costs of implementing system change requirements, obtaining additional resources, and funding constraints.
  - No existing process or system for accounting and reporting for Construction-in-Progress.
  - Delays due to program offices' competing priorities.

**Existence and Completeness/Valuation – Internal Use Software (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017*
<b>Interim Milestones</b>	
Air Force will report an Internal Use Software balance of zero, per OUSD(C) guidance.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- None

**Challenges**

- Identifying functional representatives for developed software.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	09/2017*
<b>Interim Milestones</b>	
Design the to-be business process.	03/2017*
Implement go-forward process.	06/2017*
Validate go-forward process after implementation.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- SAF/CIO A6 is establishing an interim audit readiness Internal Use Software strategy timeline.

**Challenges**

- SAF/CIO A6 is working on a comprehensive strategy to assert Internal Use Software that may impact interim milestones.
- Identifying functional representatives for developed software.

**Existence and Completeness/Valuation – Inventory and Related Property (Working Capital Fund)**

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017
<b>Interim Milestones</b>	
Complete Inventory (Depot).	03/2017
Complete Inventory (Base).	03/2017
Complete Inventory (Medical/Dental).	03/2017

**Accomplishments**

- Established baseline for Inventory (Base and Medical/Dental).
- Began examination of Inventory (Base).
- Evaluating deemed cost strategies.
- Obtained senior leadership support for integrated analysis.

**Challenges**

- Completing corrective actions for Inventory and reconciliation procedures.
- Inventory/Operating Materials and Supplies, Spare Parts – Discussions are being held within the Air Force to ensure the best baseline and audit ready process for Inventory and Operating Materials and Supplies Spare Parts (Depot and Base).
- Validation of a consistent moving average cost methodology between Depot and Base Possessed in their respective APSRs.

Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Complete Inventory (Depot).	03/2017
Complete Inventory (Base).	03/2017
Complete Inventory (Medical/Dental).	03/2017

**Accomplishments**

- Inventory (Depot) MOU with DLA updated.
- Inventory (Base and Medical/Dental) policies updated.
- AF/Surgeon General actively engaged on Inventory (Medical/Dental) audit readiness activities.

**Challenges**

- Updating policy over inventory and reconciliation procedures for Depot supply and maintenance activities.
- Completing corrective actions for inventory and reconciliation procedures.
- Implementing IT system updates and modernizing IT infrastructure.
- Obtaining SSAE No. 16 examination reports and documentation from service providers in time to support annual audits.

## IT SYSTEMS CRITICAL TO AUDIT

The Air Force identified 48 system or system enclaves that are Air Force owned and directly support Air Force financial processes. The large number of IT systems that process financial information presents a significant challenge to audit readiness. The Air Force is deploying modernized systems that will consolidate its systems footprint, as well as looking for additional ways to reduce the IT environment.

The Air Force defined five critical activities to help pinpoint where IT needs to be improved to make business and audit processes more efficient and support accountability of financial data. The five critical activities for each Air Force IT system are:

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

### Assessments (FISCAM and Blue Book)

All Air Force-owned systems that support financial processes receive audit-like assessments based on control objectives in the FISCAM and on system requirements in the DFAS Blue Book for accounting conformance. Deficiencies identified by the assessments are analyzed against established control frameworks to determine weaknesses and help prioritize corrective actions. The assessments also help prepare Air Force system owners for the rigor of a financial audit and provide an auditor’s perspective on the effectiveness of controls and security of the systems.

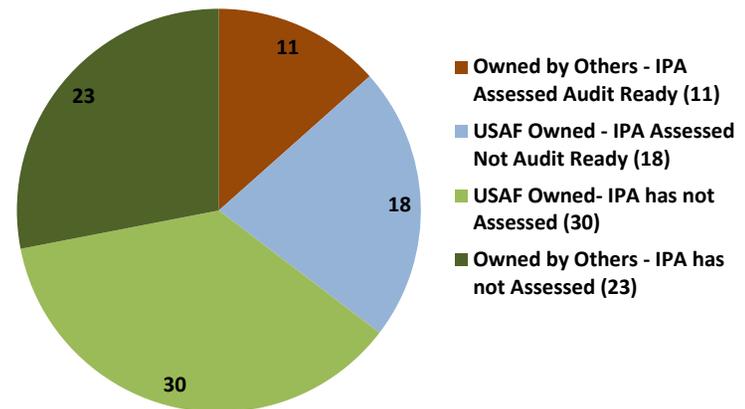
## Corrective Action and Validation

After identifying issues through the assessments, functional system owners and program offices develop corrective actions. The Air Force closely tracks and monitors corrective action progress to ensure all aspects of the issues have been resolved. By monitoring and validating corrective actions in one system, lessons learned can be applied to other systems, saving time and resources.

## IT Systems Status

Figure IV-4 summarizes the audit readiness status of systems relevant to the Air Force financial statement audit, including systems owned and maintained by the Air Force and systems owned and maintained by other organizations. System status reflects results of the IPA audits through FY 2016. For systems that have not yet been included in an IPA audit, the figure shows the number of systems that still need to be assessed.

Figure IV-4. Status of Systems Relevant to Air Force Audit Readiness



## Information Technology

### General Fund and Working Capital Fund

Critical Capability	Completion
A) Implement critical information technology general and application controls for material, financially- relevant systems.	03/2017
<b>Interim Milestones</b>	
Complete IT application control FISCAM procedures.	12/2016
Complete IT general control FISCAM procedures.	12/2016
Complete Blue Book assessment.	✓
Develop and implement corrective action plans.	03/2017
Validate audit readiness.	03/2017

### General Fund Accomplishments

- 42 of 48 IT systems have completed Application and General Control FISCAM assessments.
- 255 of 323 FISCAM critical issues have been self-reported as closed and signed closure memos are in progress.
- 146 FISCAM CAP closure memos have been signed by system team and validation efforts currently in progress.
- 100 FY 2015 IT NFR corrective action plan closure memos have been signed and forwarded to the external auditor for validation.
- 39 IT systems have completed their Blue Book assessments.
- 25 of 71 Blue Book critical issues have been self-reported as closed and signed closure memos are in progress.
- Blue Book final report delivered 06/2016.

### Working Capital Fund Accomplishments

- 10 of 13 Working Capital Fund IT systems have completed their Application and General Control FISCAM assessments.
- 52 of 68 FISCAM critical issues have been self-reported as closed and signed closure memos are in progress.
- 7 IT systems have completed their Blue Book assessments.
- 7 of 22 Blue Book critical issues have been closed self-reported as closed and signed closure memos are in progress.

### IT Challenges

- Integrating IT systems and common data standards for financial information exchange.
- Developing or modifying policies, standards, and procedures addressing financial system account management, audit log management, configuration management, interface review and reconciliation, and segregation of duties for implementation consistency across Air Force financial systems.
- Developing guidance specific to financial management as it relates to Air Force’s transition into the Risk Management Framework. Current Air Force and DoD guidance addresses only cyber security controls and does not provide control requirements for Financial Management systems.

## 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-5 include:

### Audit Readiness, Validations, and Audits

- 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 support IPA audits, including tools and data repositories.

### Financial Systems

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

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, Enterprise Resource Planning Systems. 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-5. Air Force Audit Readiness Resources (Dollars in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Audit Readiness, Validations, and Audits	80	90	108	129	132	134
Financial Systems	30	30	30	30	30	30
<b>Total Resources</b>	<b>110</b>	<b>120</b>	<b>138</b>	<b>159</b>	<b>162</b>	<b>164</b>

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## Message from the DoD Deputy Chief Financial Officer

*Other Defense Organizations (ODOs), commonly referred to as the “fourth estate,” make up nearly one-fifth of all DoD resources and play a vital role in ensuring the entire Department can meet both its mission and audit goals. Comprising some 50 individual organizations or funds, their missions span the entire Department, creating many interdependencies and making full audit readiness even more complex. Collectively and individually, this group plays a unique and important role—often with responsibilities as both service providers and stewards of their own resources.*

*As the DoD headquarters’ entity that presents the consolidated agency-wide financial statements for audit, my office also supports the fourth estate preparations for audit. We have established teams of experienced accountants and auditors to guide the ODOs through the process of preparing for a financial statement audit or examination. After initial enterprise-wide efforts focused solely on the military departments, the fourth estate is rapidly catching up. Six entities are already sustaining audit opinions, and during fiscal year (FY) 2016, two large agencies—Defense Logistics Agency and Defense Information Systems Agency—began full financial statement audits.*

*The remaining organizations and funds are working to achieve audit readiness. Our top priority is fixing known problems, while also identifying other impediments to producing auditable financial statements. We are performing monthly testing to validate improvements and progress toward our goal of achieving full financial statement audit readiness by FY 2018. It is imperative that we institutionalize annual audit work and continue practicing, learning, and correcting deficiencies as we go. There is no substitute for the practical experience of going under audit or examination.*

*While challenges lie ahead, the senior leaders of the fourth estate organizations share the Department’s commitment to audit readiness. With continued hard work, I am confident this part of our DoD enterprise will join the Department in achieving its audit goals.*



  
Mark E. Easton  
Deputy Chief Financial Officer  
Department of Defense

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## V. Other Defense Organizations Audit Readiness

Six ODOs received audit opinions on their FY 2015 financial statements. As shown in Figure V-1, five ODOs are sustaining unmodified opinions, and one is correcting deficiencies and strengthening controls with the goal of receiving an unmodified opinion.

**Figure V-1. FY 2015 Financial Statement Audit Opinions**

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

### Defense Intelligence Agencies

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

In FY 2015, the National Reconnaissance Office sustained its seventh unmodified opinion. The National Security Agency, Defense Intelligence Agency, and National Geospatial-Intelligence Security

Agency received a disclaimer of opinion. The Defense Intelligence Agencies were again audited in FY 2016.

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

### ODO AUDIT STRATEGY

The ODO audit strategy is integral to the overall DoD strategy. The strategy groups reporting entities into four tiers based on materiality, whether the entity is required by OMB to undergo an audit, and whether the entity is already undergoing a stand-alone audit of its financial statements. The strategy also facilitates a combination of IPA examinations and full financial statement audits to help the Department achieve audit readiness of its consolidated financial statements. As prescribed in the audit strategy, the reporting entities are grouped into four categories:

- Tier 1 – Military Services and the Military Retirement Fund
- Tier 2 – Large Defense Agencies
- Tier 3 – Mid-Tier Defense Agencies
- Tier 4 – Small Defense Agencies

#### Tier 1 – Military Services and the Military Retirement Fund

Tier 1 includes the Military Services’ General Funds and Working Capital Funds, and the Military Retirement Fund. The Military Retirement Fund prepares standalone financial statements, which have consistently achieved unmodified audit opinions. Tier 1 entities account for about 72 percent of FY 2015 budgetary resources.

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### Tier 2 – Large Defense Agencies

Tier 2 ODOs include material Defense Agencies, USSOCOM, USTRANSCOM, and funds that will be separately audited beginning with their FY 2018 financial statements. Tier 2 entities account for about 23 percent of FY 2015 budgetary resources.

### Tier 3 – Mid-Tier Defense Agencies

Tier 3 ODOs include the remaining material Defense Agencies and funds and will undergo annual examinations beginning in FY 2017. Tier 3 entities account for about 4 percent of FY 2015 budgetary resources.

### Tier 4 – Small Defense Agencies

The Defense Agencies, organizations, and funds not included in one of the above categories are not material to the DoD-wide financial statements. These entities will continue to improve internal controls and will be included in audit of the FY 2018 DoD Consolidated Financial Statements. Tier 4 entities account for about 1 percent of FY 2015 budgetary resources.

This section of the report contains detailed audit readiness information and accomplishments for the Tier 2, Tier 3, and Tier 4 ODOs. See the respective Military Department section for the strategy and status of each Military Service.

## OUSD(C) SUPPORT TO THE ODOs

The OUSD(C) is supporting ODO audit readiness work to address the critical capabilities and has targeted resources to help solve major issues. Tiger teams comprising a government lead and IPA auditors with experience in the critical capability areas have been formed around the issues of:

- Entity-Level Controls (ELCs)
- Journal Vouchers

- Monthly Testing
- NFR Remediation and Monitoring
- Property, Plant, and Equipment
- Universe of Transactions

In FY 2016, the tiger teams began discovery work and developing corrective actions. Highlights of tiger team activities include:

- **Entity-Level Controls Team.** ELCs consist of an organization's structure, policies, procedures, processes, and other activities to achieve its mission. The team conducted 11 workshops to assist the ODOs in identifying and documenting ELCs.
- **Journal Voucher Team.** Partnering with DFAS, the team developed a coding schema to be used to identify, track, and accumulate reasons for journal vouchers. The team is also monitoring system error and deficiency corrective actions. In addition, the team met with system owners to discuss corrective actions or improvements needed to minimize journal vouchers.
- **Monthly Testing Team.** Meeting with the ODOs during and after each testing cycle, the team ensured corrective actions were understood to prevent repetitive failures and to determine if deficiencies were remediated.
- **Notice of Findings and Recommendations Team.** Working with the ODOs, the team monitored and validated corrective actions resulting from the FY 2015 SBA examinations.
- **Property, Plant, and Equipment Team.** Working with the ODOs, the team developed and executed corrective action plans for ODOs with material Property, Plant, and Equipment. The team also reviewed or developed processes and valuation methodologies. To support opening balances, the team conducted baseline testing and developed corrective action plans. In addition, the team drafted an implementation guide for establishing opening balances using deemed cost methodologies.

### Universe of Transactions Pilot

The OUSD(C), working with the DCMO, DoD CIO, DFAS, and USSOCOM is conducting a pilot project to develop and provide an automated capability that will be used by USSOCOM to produce a complete, accurate, and reconcilable universe of transactions from numerous disparate accounting and feeders systems.

The pilot project has:

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

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

## Tier 2 – Large Defense Agencies

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

- Defense Commissary Agency (DeCA)
- Defense Contract Audit Agency (DCAA)

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

The FY 2016 General Fund and Working Capital Fund financial statements for the Defense Information Systems Agency and the FY 2017 General Fund, Working Capital Fund, and Transaction Fund financial statements for the Defense Logistics Agency are also under full financial statement audits. The results of these audits are expected in FY 2017. Medicare-Eligible Retiree Health Care Fund received a modified opinion on its FY 2015 financial statements, and work is taking place to achieve an unmodified opinion. The remaining Tier 2 ODOs are not yet under audit, and audit readiness work continues for:

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

## DEFENSE INFORMATION SYSTEMS AGENCY

DISA's FY 2016 General Fund and Working Capital Fund financial statements are under full financial statement audit. The IPA contract was awarded and kicked off in May 2016.

### Progress Since the May 2016 FIAR Report

Highlights since the last FIAR report include:

- Held the audit entrance conference, emphasizing the need for open communication and collaboration.
- Updated process flows and narratives to reflect new business.
- Briefed the DISA Audit Committee and DISA senior leadership on DISA's audit posture, including key account reconciliations.

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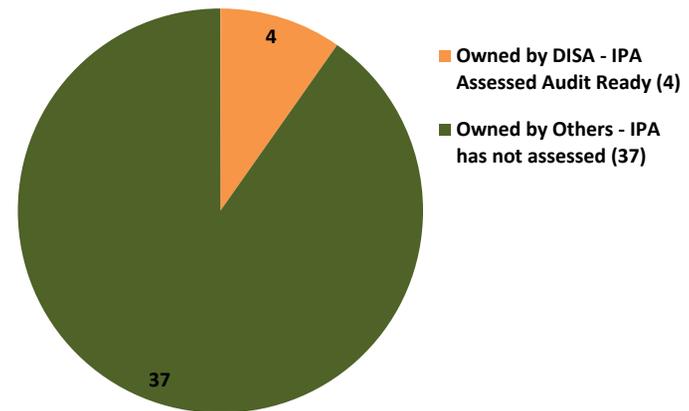
- Provided responses within 48 hours to 306 initial prepared by client requests.
- Provided several walkthroughs and presented a detailed training to the IPA.
- Hosted site visits with IPA at multiple locations. All visitor authorization requests for scheduled visits have been submitted and approved.

As the IPA nears the end of the initial planning phase and enters the internal control and testing phase, several additional prepared by client requests are anticipated. No NFRs have been issued thus far.

### IT Systems

Figure V-2 summarizes the audit readiness status of systems relevant to DISA, including systems owned and maintained by DISA and systems owned and maintained by other organizations. System status reflects results of the IPA assessments through FY 2016. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

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



## DEFENSE LOGISTICS AGENCY

In August 2016, an IPA began an audit of the FY 2017 General Fund, Working Capital Fund, and Transaction Fund financial statements. This represents a significant accomplishment for the Department's largest combat support agency providing worldwide logistics support in peacetime and wartime to the Military Services, several civilian agencies, and foreign countries.

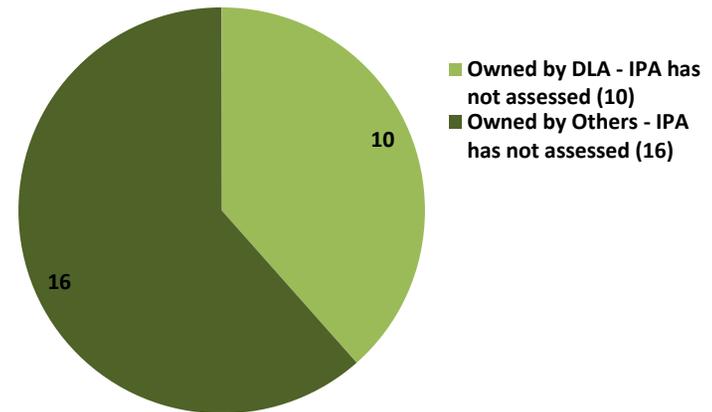
### Progress Since the May 2016 FIAR Report

DLA completed corrective actions for two NFRs from the FY 2015 SBA audit. The corrective actions ensure sufficient audit evidence is maintained and appropriation transfers are recorded correctly.

### IT Systems

Figure V-3 summarizes the audit readiness status of systems relevant to DLA, including systems owned and maintained by DLA and systems owned and maintained by other organizations. System status reflects results of the IPA assessments through FY 2016. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

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



### Notices of Findings and Recommendations

DLA received five NFRs from its FY 2015 SBA audit. The NFRs were prioritized as three critical and two observational. DLA completed corrective actions for two of the critical NFRs and created a corrective action plan for the remaining critical NFR. DLA also implemented corrective actions to address two observational NFRs. Senior management is monitoring critical NFRs and reports progress monthly to the ODO Subcommittee.

Figure V-4 identifies material weaknesses and NFRs, and the dates when the weaknesses and NFRs will be corrected.

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Figure V-4. Defense Logistics Agency Material Weaknesses and Notices of Findings and Recommendations (✓ = Completed)

Material Weaknesses	Corrective Actions	Completion
<b>Financial Reporting</b>		
Lack of sufficient audit evidence for selected transactions.	Clarified evidential matter requirements relative to the proper receipt and acceptance of Military Interdepartmental Purchase Request (MIPR) orders. <ul style="list-style-type: none"> <li>• Published instructions specifying evidential matter requirements for receipt and acceptance of MIPR orders</li> <li>• Conducted weekly MIPR user discussions</li> <li>• Established MIPR Help Desk to assist users</li> <li>• Tested internal control over invoices</li> <li>• Issued memorandums and an evidential matter matrix, outlining the required evidential matter for DLA-processed transactions</li> </ul>	✓
Inability to support completeness of disbursements and collections.	Developing corrective actions that tie to the OUSD(C) FIAR Fund Balance with Treasury tiger team’s schedule. Developing a monitoring process for DLA General Fund that includes a monthly reconciliation of DLA Fund Balance with Treasury in EBS and DDRS to Treasury Trial Balance using data provided by DFAS. This process will become a standard operating procedure, and a monitoring team will support and examine reconciliation differences going forward.	01/2017*
Appropriation transfer incorrectly recorded.	<ul style="list-style-type: none"> <li>• Collaborated with OUSD(C) to update PBAS to ensure reprogrammed appropriations are properly recorded.</li> <li>• Updated the standard operating procedures.</li> <li>• Revised the Trial Balance Management Process Cycle memoranda to ensure authorized appropriation transfers are timely and accurately reflected in the financial statement.</li> </ul>	✓
Samples selected from the Enterprise Business System general ledger extract could not be tied directly to the supporting documentation using the existing data fields.	Developed an auditor’s guide on Enterprise Business System evidential matter retrieval procedures that will be provided to the IPA as a reference guide for data sampling.	✓
The accounting treatment used is not compliant with the standard transactions defined by the USSGL Treasury Financial Manual.	Received updated guidance from OUSD(C) and assessing compliance.	✓

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## DEFENSE HEALTH PROGRAM

DHP comprises the Defense Health Agency (DHA), Military Department's Service Medical Activities (SMAs), and DHA Directorates. DHP provides worldwide healthcare for the Armed Forces, family members, and others entitled to healthcare. DHP also includes the Medicare-Eligible Retiree Healthcare Fund.

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

### Progress Since the May 2016 FIAR Report

Highlights since the last FIAR report include:

- Made significant progress developing and implementing critical corrective actions for deficiencies identified during the FY 2015 SBA examination.

- Continued to improve and expand the DHP enterprise audit infrastructure and optimize a collaborative enterprise audit approach.
- Established an internal assessment team for compiling and analyzing a complete list of journal vouchers to classify categories. In collaboration with DFAS, DHP is analyzing journal voucher root causes.
- Awarded an audit readiness support contract in August 2016.

### DHP Critical Capabilities

Figure V-5 provides the completion dates for each critical capability. Following Figure V-5 are charts for each critical capability containing the dates for achieving the capability, accomplishments, and challenges. Information on systems material to audit follows the critical capabilities.

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**Figure V-5. Defense Health Program Audit Readiness Critical Capabilities (✓ = Completed)**

Critical Capability		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Schedule of Budgetary Activity	09/2017	12/2017
	Statement of Budgetary Resources	09/2017	12/2017
	Balance Sheet	09/2017	12/2017
Fund Balance with Treasury		09/2017	12/2017
Journal Vouchers		12/2017	12/2017
Existence and Completeness, and Valuation of Assets	Real Property (including Construction in Progress)	12/2017	12/2017
	General Equipment (including Military Equipment)	06/2017	06/2017
	Internal Use Software	03/2017	06/2017
Environmental Liabilities		09/2017	12/2017
IT Controls		09/2017	12/2017

## Defense Health Program – Universe of Transactions Schedule of Budgetary Activity

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	✓

### Accomplishments

- DFAS dedicated personnel to assist DHP with financial statement compilation and reporting.

### Challenges

- Data integrity issues with the DDRS-IE report complicate reconciliation for each general ledger population of transactions to DDRS-Budgetary (DDRS-B).
- DFAS is finalizing a new report using Oracle Business Intelligence Enterprise Edition, but it will not be ready until 01/2017.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017

### Accomplishments

- Identified feeder systems that post to each DHP general ledger.
- DFAS dedicated personnel to assist DHP with feeder system reconciliations.

### Challenges

- Learning curve for new contractor support team to perform reconciliations identified.
- Obtaining feeder and entitlement systems data.

## Defense Health Program – Universe of Transactions Statement of Budgetary Resources

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	09/2017*
<b>Interim Milestones</b>	
Reconcile general ledger population of transactions to the general ledger trial balance.	✓*
Reconcile each general ledger population of transactions to the DDRS-B.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Completed initial architecture and basic functionality of a universe of transactions tool. Tested reconciling general ledger details to unadjusted trial balances from seven of the Military Services’ and one Defense Agencies’ accounting systems.
- Established internal controls ensuring data in the budget execution reporting system is consistent with data reported in the financial statements.

### Challenges

- Ability to obtain a complete detail transaction population.
- Inconsistent data formats and content.
- DHP’s dependency on the DoD OCIO implementation after completion of the USSOCOM pilot program.
- Numerous legacy, nonintegrated, nonstandard feeder systems impact the financial statements.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017
<b>Interim Milestones</b>	
Reconcile feeder systems for DHA-C and USUHS.	09/2017

### Accomplishments

- Identified feeder/source systems that post to each DHP general ledger.
- Dedicated DFAS staff for DHP to assist with feeder system reconciliations.
- Collaborated with DoD OCIO on new approach for feeder system transaction reconciliation, which is being tested in a USSOCOM pilot program.

### Challenges

- Training a new team to perform reconciliations.
- Obtaining data from numerous feeder and entitlement systems.
- DHP’s dependency on the DoD OCIO implementation after completion of the USSOCOM pilot program.
- Numerous legacy, nonintegrated, nonstandard feeder systems impact the financial statements.

## Defense Health Program – Universe of Transactions Balance Sheet

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	09/2017*
<b>Interim Milestones</b>	
Reconcile general ledger population of transactions to the general ledger trial balance.	✓*
Reconcile general ledger transactions to the DDRS-B.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Contributed to the initial architecture and basic functionality of the universe of transaction tool. Tested reconciling general ledger details to the unadjusted trial balances from seven of the Military Services’ and one Defense Agencies’ accounting system.
- Reconciled DDRS-B transactions to DDRS-AFS, and DDRS-AFS to the Statement of Budgetary Resources.

### Challenges

- Obtaining a complete population for DDRS-B and DDRS-AFS.
- Inconsistent external data formats and content.
- Automation is required to support the volume of key financial reporting systems reconciliation and variance remediation.
- DHP’s dependency on the DoD OCIO implementation after completion of the USSOCOM pilot program.
- Numerous legacy, nonintegrated, nonstandard feeder systems impact the financial statements.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017

### Accomplishments

- Identified feeder and source systems that post to each DHP general ledger.
- Dedicated DFAS staff for DHP to assist with feeder system reconciliations.
- Collaborated with DoD OCIO on new approach for feeder system transaction reconciliation, which is being tested in a USSOCOM pilot program..

### Challenges

- Training a new team to perform reconciliations.
- Obtaining data for numerous feeder and entitlement systems.
- DHP’s dependency on the DoD OCIO implementation after completion of the USSOCOM pilot program.
- Numerous legacy, nonintegrated, nonstandard feeder systems impact the financial statements.

## Defense Health Program – Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	09/2017
<b>Interim Milestones</b>	
OUSD(C) updates DoD FMR to further define Fund Balance with Treasury reconciliation requirements.	✓
DFAS asserts audit readiness for DCAS SSAE No. 16. examination.	✓
DFAS asserts audit readiness for DRRT SSAE No. 16. examination.	✓*
OUSD(C) and DFAS develop standard process for DCAS daily reconciliations and reporting.	06/2017
DFAS implements DRRT Increment 3+.	09/2017
OUSD(C) and DFAS implement GEX/SLOA Centralized Service that generates and passes standardized data between systems and validates lines of accounting prior to processing transactions.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS continued to identify Cash Management Report root cause variances and develop corrective actions.
- DFAS partnered with OUSD(C) to automate the identification of variances to enable timely resolution and increase the accuracy of financial statements.
- DFAS has improved business processes and controls to ensure disbursement and collection activities from disbursing officers are provided and included in the Cash Management Report.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense accounts).	09/2016
<b>Interim Milestones</b>	
DFAS develops and implements standardized controls for Suspense Accounts.	✓
DFAS submits Revenue Account white paper to OUSD(C) Program Budget for approval.	✓*
OUSD(C) Program Budget submits Revenue Account white paper to OMB and Treasury.	✓*
DFAS implements new Revenue Accounts.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS worked with OUSD(C) and Treasury to establish new Treasury accounts for DoD Thrift Savings Plan withholdings. Effective FY 2017, the new accounts will eliminate the use of suspense accounts for withholdings.
- DFAS working group completed analysis of options, developed an optimum solution, and presented the solution to OUSD(C) to establish new Treasury accounts for miscellaneous revenue activities in suspense accounts. OUSD(C) is reviewing the solution and coordinating it with OMB for final approval.
- DFAS worked with OSD and Treasury to establish new Treasury accounts for royalties, one of five of DoD miscellaneous revenue activities. Effective FY 2017 royalty collections will no longer be reported in the suspense account. DFAS continues to work to establish the remaining revenue accounts.

## FIAR Plan Status Report

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- DFAS developed additional metrics to monitor and track timely resolution of Fund Balance with Treasury differences.

### Challenges

- Fund Balance with Treasury reconciliations for TI-97 are complicated because Treasury issues funding and provides reports at the Treasury Account Symbol (or appropriation) level, which does not provide detail activity information at the reporting entity level.
- DFAS tools for Cash Management Report reconciliation to Treasury are constrained by limitations of sensitive activities.

### Challenges

- Delay in establishing new revenue accounts with Treasury will delay resolving audit findings.

## Defense Health Program – Fund Balance with Treasury

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	05/2017
<b>Interim Milestones</b>	
DFAS implements standard processes for Deposits in Transits Statement of Differences.	✓*
DFAS implements standard processes for Check Issue Statement of Differences.	12/2016
DFAS implements standard processes for IPAC Statement of Differences.	03/2017
DFAS validates controls for standard processes.	05/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS prepared corrective action plans addressing Statement of Differences report outstanding balances.

### Challenges

- Developing an effective means to address Statement of Differences process timing issues is difficult.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	09/2017*
<b>Interim Milestones</b>	
DCFO issues DoD FMR to provide guidance on establishing an auditable beginning balance.	✓
DFAS completes aging analysis.	✓*
DFAS assesses ability to perform monthly reconciliations and support balances.	04/2017
DFAS performs monthly reconciliations and test supporting documentation for prior years.	06/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS prepared corrective action plans addressing Fund Balance with Treasury beginning balances.

### Challenges

- Lack of supporting documentation for beginning balances.

## Defense Health Program – Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	✓
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	12/2017
Interim Milestones	
Submit FY 2017 and FY 2018 estimated costs for systems requirements.	✓*
DHP components implement interim six-point control plan.	12/2016
DHP components publish ERP schedule for compliance with G-Invoicing business architecture.	03/2017
DHP components fund and build interfaces to include compliance with data standards.	12/2017
Submit trading partner data on 100% of federal accounts payable records.	12/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- None

### Challenges

- Awaiting Treasury approval of data standards, update of the Treasury Financial Manual, and system changes to G-Invoicing to align to the target process and data standard.

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
Interim Milestones	
DCFO/DFAS perform root cause analysis on DDRS journal vouchers.	✓*
DCFO/DFAS develop corrective actions for DDRS journal vouchers.	✓*
Tier 3 and Tier 4 Entities, OUSD(C), system owners, DFAS Implement corrective actions for DDRS journal vouchers.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- OUSD(C) and DFAS made significant progress in identifying and recommending remediation of systemic and process deficiencies that result in manual journal vouchers.
- OUSD(C) and DFAS analyzed and developed narratives to document the rational, posting logic, examples, and controls for standard, automated journal vouchers. DFAS will periodically review and update the narrative.

### Challenges

- Reporting entities are reliant on legacy accounting and feeder systems that are difficult to replace or phase out because of wide use. It is prohibitively expensive and time consuming to convert from legacy systems to ERPs and non-legacy feeder systems by the end of FY 2017.

## Defense Health Program – Existence and Completeness/Valuation of Assets Real Property, Including Construction in Progress

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2017
<b>Interim Milestones</b>	
Planning and status assessment.	✓
Data assessment and remediation.	09/2017*
Data reconciliations.	09/2017*
Implement existence and completeness controls and supporting documentation.	12/2017
Validate historical cost, recalculate accumulated depreciation/amortization, adjust APSRs, and adjust financial statements.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Verified the Construction-in-Progress valuation methodology.
- Developed a testing approach and plan to verify existence and completeness.
- Obtained SMA Real Property procedures.

### Challenges

- Identifying operating and capital leases.
- Establishing processes to reconcile Real Property general ledger transactions to APSRs.
- Military Department support for existence and completeness testing and valuation of medical real property assets.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017*
<b>Interim Milestones</b>	
Validate historical costs.	03/2017*
Recalculate accumulated depreciation.	03/2017*
Adjust APSR and financial statements.	03/2017*
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	09/2017
<b>Interim Milestones</b>	
Assess valuation as-is controls and supporting documentation.	09/2017*
Implement valuation to-be controls and supporting documentation corrective actions.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Significant progress validating APSR completeness.

### Challenges

- Dependency on external organizations, service providers, and Military Departments to implement corrective action plans.
- DHP enterprise complexity, multiple APSRs, and availability of Military Department documentation for Real Property records.

## Defense Health Program – Existence and Completeness/Valuation of Assets General Equipment

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	06/2017*
<b>Interim Milestones</b>	
Identify equipment population/design test plan	✓
Testing completed	06/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed an enterprise physical inventory schedule.
- Documented and assessed existence, completeness, and valuation control environment.

### Challenges

- Configuration of the General Equipment APSR (DMLSS) and the volume of transactions requires customized asset listing.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017
<b>Interim Milestones</b>	
Validate historical costs.	03/2017*
Recalculate accumulated depreciation.	03/2017*
Adjust APSR and financial statements.	03/2017
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Assess valuation as-is controls and supporting documentation.	12/2016*
Implement valuation to-be controls and supporting documentation corrective actions.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Obtained population list of General Equipment above and below the capitalization threshold for baseline valuation testing.
- Issued General Equipment sample of 45 assets to DHP components for review.
- Developed testing plan, samples, and initiated testing.

### Challenges

- Configuration of the General Equipment APSR (DMLSS) and volume of transactions requires customized asset listing.

## Defense Health Program – Existence and Completeness/Valuation of Assets Internal Use Software

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2016
<b>Interim Milestones</b>	
Complete Internal Use Software inventory.	12/2016

### Accomplishments

- Obtained DoD IT Portfolio Repository list of Internal Use Software to identify software costs.
- Gathered policies and procedures to understand and document internal controls.
- Determined processes to record Internal Use Software costs in financial systems.

### Challenges

- Lack of supporting documentation.
- Need to design new process and procedures.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017
<b>Interim Milestones</b>	
Determine access to historical cost.	03/2017
Adjust the APSR.	03/2017
Adjust financial statements.	03/2017
<b>Critical Capability</b>	
B) Establish an auditable valuation process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Assess valuation as-is controls and supporting documentation.	12/2016*
Implement valuation to-be controls and supporting documentation corrective actions.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed Internal Use Software corrective action plan.

### Challenges

- Gathering asset data is difficult because of multiple APSRs and financial systems.

### Defense Health Program – Environmental Liabilities

Critical Capability	Completion
Establish an auditable process for estimating (identifying and valuing) and recording environmental and disposal liabilities.	09/2017
<b>Interim Milestones</b>	
Identify real property assets.	06/2017
Assess inventory of real property assets to determine which might have current Environmental and Disposal Liabilities.	09/2017
Evaluate which medical property assets might potential have long term environmental and Disposal Liabilities.	09/2017

#### Accomplishments

- None

#### Challenges

- Difficult to identify which medical assets have Environmental and Disposal Liabilities.

## Defense Health Program – Information Technology

Critical Capability	Completion
Implement critical information technology general and application controls for material, financially-relevant systems.	09/2017
<b>Interim Milestones</b>	
SSAE No. 16 examination System CUECs: Complete documentation of control design.	✓
SSAE No. 16 examination System CUECs: Complete testing of control operating effectiveness.	12/2016*
SSAE No. 16 examination System CUECs: Corrective actions Implemented.	12/2016*
Self-Review CUECs: Complete documentation of control design and complete test of control design effectiveness.	03/2017
Self-Review CUECs: Complete testing of control operating effectiveness and corrective actions developed.	06/2017
Self-Review CUECs: Corrective actions implemented.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

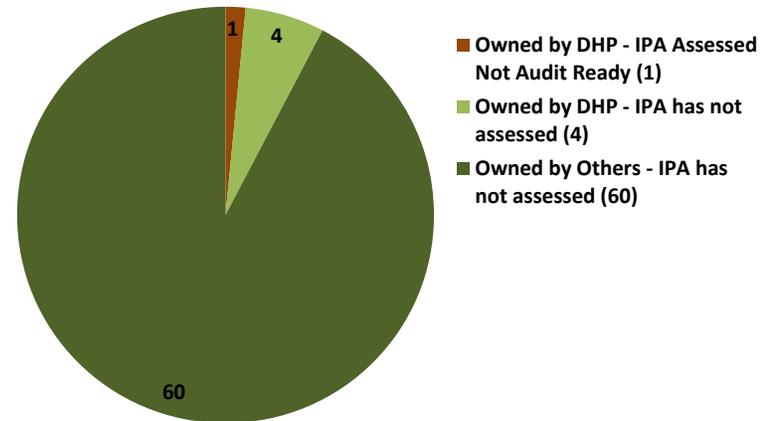
- Prepared high-level corrective action plans for DHP components.

### Challenges

- Requirement to concurrently support audit readiness and financial management operations exceeds the capacity of available government and contractor resources.
- Require clarification of roles and responsibilities.
- Difficulty coordinating with external organizations.

Figure V-6 summarizes the audit readiness status of systems relevant to DHP, including systems owned and maintained by DHP and systems owned and maintained by other organizations. System status reflects results of the IPA assessments through FY 2016. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

**Figure V-6. Status of Systems Relevant to DHP Audit Readiness**



## U.S. SPECIAL OPERATIONS COMMAND

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

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

### Progress Since the May 2016 FIAR Report

Highlights since the last FIAR report include:

- As a subject matter expert, USSOCOM supported the OUSD(C) Universe of Transactions Working Group to create and pilot the automated solution for accounting and feeder system data. This solution will allow USSOCOM to effectively produce and maintain a fully reconciled universe of transactions, which is USSOCOM's most significant challenge to achieving audit

readiness. USSOCOM transactions are generated by more than 10 different accounting systems and hundreds of feeder systems that process millions of transactions a year.

- Increased the efficiency of reconciling accounting system transactions to DDRS by automating the process.
- After validating Military Service acceptance of completed Real Property assets, removed the assets from USSOCOM financial statements in accordance with OUSD(C) guidance and Title 10.
- Documented and tested Real Property Construction-in-Progress process. Identified reconciliation process weaknesses, such as an incomplete reconciliation between construction agent reported projects to USSOCOM tracked projects.

### USSOCOM Critical Capabilities

USSOCOM is focused on high-risk areas and critical capabilities identified by the Department. Figure V-7 provides the completion dates for each critical capability. Following Figure V-7 are charts for each critical capability containing the dates for achieving the capability, accomplishments, and challenges. Information on systems material to audit follows the critical capabilities.

Figure V-7. USSOCOM Audit Readiness Critical Capabilities (✓ = Completed)

Critical Capability		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Schedule of Budgetary Activity	12/2017	03/2018
	Statement of Budgetary Resources	12/2017	03/2018
	Balance Sheet	12/2017	03/2018
Fund Balance with Treasury		09/2017	12/2017
Journal Vouchers		03/2017	06/2017
Existence and Completeness, and Valuation of Assets	Real Property (including Construction in Progress)	06/2017	12/2017
	General Equipment (including Military Equipment)	07/2017	12/2017
	Internal Use Software	N/A	N/A
	Inventory and Related Property	07/2017	12/2017
IT Controls		N/A	N/A

Note: USSOCOM does not own Internal Use Software or financial systems, including general ledger/accounting and feeder systems. The 65 systems relevant to USSOCOM audit readiness are owned by other DoD Components. None of those 65 systems has yet been assessed by an IPA.

## U.S. Special Operations Command – Universe of Transactions Schedule of Budgetary Activity

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2017*
<b>Interim Milestones</b>	
Obtain transaction details that fully reconcile to month-end DDRS general ledger submission and source feeder files by detailed schedule dates below.	✓*
Reconcile to individual financial statement line items.	✓*
Basic functionality of the system developed with a limited population of feeder and accounting system data.	12/2016
Full functionality of the system developed with a full population of feeder and accounting system data.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Developed ability to fully reconcile detailed accounting system transactions to the DDRS general ledger monthly.
- Automated the process for reconciling accounting system transactions to DDRS and increased efficiency.
- Developed ability to reconcile quarterly balances in DDRS to individual financial statement line items.

### Challenges

- Dependencies on Military Service processes and systems limit implementation of corrective actions.
- Unassigned data in DDRS-B does not map to accounting systems.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2017*
<b>Interim Milestones</b>	
Acquire required interface files (DFAS/DCFO TT).	✓
Design reconciliations for all remaining financial statement line items (DFAS/DCFO TT).	11/2016
Basic system functionality developed with a limited population of feeder and accounting system data.	03/2017*
Full system functionality developed with a full population of feeder and accounting system data.	12/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Piloting a universe of transactions solution for DoD accounting and feeder systems data, which will allow USSOCOM to produce and maintain a reconciled universe of transactions from more than 10 accounting and hundreds of feeder systems.

### Challenges

- Nonstandard file layouts and formats, and a lack of defined transactional flow between accounting and feeder systems.
- Dependencies on Military Services' processes and systems limit implementation of corrective actions.
- USSOCOM must follow the pilot project time table, which is not scheduled to be complete until 12/2017.
- Sensitive activities' transactions cannot be readily validated.

## U.S. Special Operations Command – Universe of Transactions Statement of Budgetary Resources

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2017*
<b>Interim Milestones</b>	
Obtain transaction details that fully reconcile to month-end DDRS general ledger submission and source feeder files by detailed schedule dates below.	✓*
Reconcile to individual financial statement line items.	✓*
Basic functionality of the system developed with a limited population of accounting system data.	12/2016*
Full functionality of the system developed with a full population of feeder and accounting system data.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Automated the process for reconciling accounting system transactions to DDRS and increased efficiency.
- Developed ability to reconcile quarterly balances in DDRS to individual financial statement line items.

### Challenges

- Dependencies on Military Service processes and systems limit implementation of corrective actions.
- Various Military Service accounting systems are unable to report historical data, including some beginning balance data.
- Unassigned data within DDRS-B does not map to accounting systems.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2017*
<b>Interim Milestones</b>	
Acquire required interface files (DFAS/DCFO TT).	✓
Design reconciliations for all remaining financial statement line items (DFAS/DCFO TT).	11/2016
Basic functionality of the system developed with a limited population of feeder and accounting system data.	03/2017*
Full functionality of the system developed with a full population of feeder and accounting system data.	12/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Piloting a universe of transactions solution for DoD accounting and feeder systems data, which will allow USSOCOM to produce and maintain a reconciled universe of transactions from more than 10 accounting and hundreds of feeder systems.

### Challenges

- Nonstandard file layouts and formats, and a lack of defined transactional flow between accounting and feeder systems.
- Dependencies on Military Services' processes and systems limit implementation of corrective actions.
- USSOCOM must follow the pilot project time table, which is not scheduled to be complete until 12/2017.
- Sensitive activities' transactions cannot be readily validated.

## U.S. Special Operations Command – Universe of Transactions Balance Sheet

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	05/2017*
<b>Interim Milestones</b>	
Obtain transaction details that fully reconcile to month-end DDRS general ledger submission by detailed schedule dates below.	05/2017*
Reconcile to individual financial statement line items.	05/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Performed a gap analysis for balance sheet line items to determine current transactional flow to DDRS and the financial statements. With this understanding, USSOCOM can develop a universe of transactions that reconciles to its balance sheet.
- Performed tie-point reconciliations between budgetary and proprietary transactions. Identified which tie-points are not functioning correctly to recommend remediation to DFAS and the Military Departments.

### Challenges

- Dependencies on Military Service processes and systems limit implementation of potential corrective action plans.
- Various Military Service accounting systems are unable to report historical data, including some beginning balance data.
- Unassigned data within DDRS-B does not map to accounting systems. Nonstandard data and systems.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	12/2017*
<b>Interim Milestones</b>	
Acquire required interface files (DFAS/DCFO TT).	✓
Design reconciliations for all remaining financial statement line items (DFAS/DCFO TT).	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Piloting a universe of transactions solution for DoD accounting and feeder systems data, which will allow USSOCOM to produce and maintain a reconciled universe of transactions from more than 10 accounting and hundreds of feeder systems.

### Challenges

- Dependencies on Military Services' processes and systems limit implementation of corrective actions.
- USSOCOM must follow the pilot project time table, which is not scheduled to be complete until 12/2017.

## U.S. Special Operations Command – Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	09/2017
<b>Interim Milestones</b>	
DCFO updates DoD FMR to further define Fund Balance with Treasury reconciliation requirements.	✓
DFAS asserts audit readiness for DCAS SSAE No. 16. examination.	✓
DFAS asserts audit readiness for DRRT SSAE No. 16. examination.	✓*
OUSD(C) and DFAS develop standard process for DCAS daily reconciliations and reporting.	06/2017
DFAS implements DRRT Increment 3+.	09/2017
OUSD(C) and DFAS implement GEX/SLOA Centralized Service, which allows generating and passing standardized data between systems and validating lines of accounting prior to processing transactions.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS collaborated with process stakeholders to prepare Assertion and Audit packages by FIAR assessable units.

### Challenges

- Treasury issues funding and provides reports at the appropriation level, not at the reporting-entity level, which complicates reconciliations.
- DFAS tools for Cash Management Report reconciliation to Treasury are constrained by limitations of sensitive activities.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days ("suspense" accounts).	03/2017*
<b>Interim Milestones</b>	
DFAS develops and implements standardized controls for Suspense Accounts.	✓
DFAS submits Revenue Account white paper to OUSD(C) Program Budget for approval.	✓*
OUSD(C) Program Budget submits Revenue Account white paper to OMB and Treasury.	✓*
DFAS implements new Revenue Accounts.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS submitted a draft memorandum for Revenue Transactions to OUSD(C)/Program Budget for approval.
- DFAS completed a Revenue Transactions memorandum.

### Challenges

- DFAS is working with Treasury to establish accounts for revenue transactions that had formerly been posted to suspense accounts. Delay in establishing the accounts will delay resolving audit findings.

## U.S. Special Operations Command – Fund Balance with Treasury

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	05/2017
<b>Interim Milestones</b>	
DFAS implements standard processes for Deposits in Transits Statement of Differences.	✓*
DFAS implements standard processes for Check Issue Statement of Differences.	12/2016
DFAS implements standard processes for IPAC Statement of Differences.	03/2017
DFAS validates controls for standard processes.	05/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS developed a standard process for tracking, researching, and resolving in-transit collection deposits.

### Challenges

- Timing differences of posting of collections and disbursements between Treasury and TI-97 Fund Balance with Treasury create differences that prevent reconciliation.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	06/2017*
<b>Interim Milestones</b>	
DCFO issues DoD FMR to provide guidance on establishing an auditable beginning balance.	✓
DFAS completes aging analysis.	✓*
DFAS assesses ability to perform monthly reconciliations and support balances.	04/2017
DFAS performs monthly reconciliations and test supporting documentation for prior years.	06/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS completed an aging analysis to identify the starting point for TI-97.

### Challenges

- Lack of supporting documentation needed for aged balances.

## U.S. Special Operations Command – Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	06/2017
<b>Interim Milestones</b>	
Customers to receive logs from DDRS-B, DDRS-AFS, and Accounting Systems to include system generated JVs, beginning balances, trial balance input adjustments, pre-processing, ELECTRA, memo, and all other adjustments	12/2016
UTB to ATB reconciliation to reconcile with amounts - all adjustments: 1) UTB to ATB, 2) Accounting Systems, 3) UTB in DDRS-B, and 4) ATB in DDRS-AFS	12/2016*
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	N/A*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Challenges

- Awaiting Treasury approval of submitted data standards, subsequent update of the Treasury Financial Manual, and system changes to G-Invoicing to align to the target process and data standard.

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
<b>Interim Milestones</b>	
DCFO/DFAS perform root cause analysis on DDRS journal vouchers.	✓*
DCFO/DFAS develop corrective actions for DDRS journal vouchers.	✓*
Tier 3 and Tier 4 Entities, OUSD(C), system owners, DFAS Implement corrective actions for DDRS journal vouchers.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- The DFAS/FIAR Journal Voucher Tiger Team completed and presented journal voucher metrics for DDRS journal vouchers by source system and primary root cause.
- Developed and coordinated a journal voucher support MOU between USSOCOM and DFAS.
- Reviewed DFAS analysis and developed remediation efforts for unsupported journal vouchers.

### Challenges

- DFAS and OUSD(C) cannot readily implement corrective actions due to coordination with system owners to ensure required system changes are developed and implemented to remediate failed tie points and other system limitation issues.
- DFAS and reporting entities must coordinate with other DoD

stakeholders to receive financial information in a timely manner and record financial data and accounting transactions in accounting systems.

- DFAS and reporting entities must implement and execute solutions to support both manual and system-generated journal vouchers.
- Reporting entities rely on legacy accounting and feeder systems that are difficult to replace or phase out because of wide use.
- DFAS enters some journal vouchers for unassigned data in DDRS-B instead of the accounting systems that create unsupported amounts on USSOCOM financial statements.

## U.S. Special Operations Command – Existence and Completeness/Valuation of Assets Real Property, Including Construction-in-Progress

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	02/2017
<b>Interim Milestones</b>	
Perform book-to-floor and floor-to-book assessment to validate existence and completeness baseline, including occupancy percentages.	12/2016*
Perform materiality analysis	✓
Critical Capability	Completion
B) Establish an auditable process for go-forward activity related to existence and completeness for Construction in Progress.	02/2017
<b>Interim Milestones</b>	
Test real property, including Construction in Progress, acquisition, management, and disposition business processes to validate that internal controls are in place and effective; and supporting documentation is available to support go-forward activities.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- In accordance with OUSD(C) guidance and Title 10, removed all completed Real Property assets from financial statements after validating Military Service acceptance of the assets.
- Documented and tested the Construction-in-Progress process. Results will address some weaknesses in reconciliation processes, such as an incomplete reconciliation between

Critical Capability	Completion
A) Establish an auditable valuation baseline.	06/2017*
<b>Interim Milestones</b>	
Identify capital asset population.	✓*
Based on existence and completeness results, identify most time and cost effective GAAP-compliant valuation methodology available for imputed cost.	05/2017*
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	06/2017*
<b>Interim Milestones</b>	
Validate the completeness and accuracy of Construction in Progress valuation and imputed costs.	✓*
Define sustained process for full cost for real property, including Construction in Progress and imputed costs.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- In accordance with OUSD(C) guidance Title 10, removed all completed Real Property assets from financial statements after validating Military Service acceptance of the assets.
- Documented and tested the Construction-in-Progress process. Results will address some weaknesses in reconciliation processes, such as an incomplete reconciliation between construction agent-reported projects to USSOCOM-tracked projects.

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construction agent-reported projects to USSOCOM-tracked projects.

### Challenges

- Reconciling Real Property unique item identifiers to Construction-in-Progress transactions is difficult because financial data does not contain item codes or Real Property unique item identifiers.

### Challenges

- Ensuring Construction-in-Progress values reconcile to Military Service recorded acquisition costs creates a challenge for maintaining an audit trail.

## U.S. Special Operations Command – Existence and Completeness/Valuation of Assets General Equipment, Including Military Equipment

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017*
<b>Interim Milestones</b>	
Obtain an asset listing of assets and as-is environment documentation.	✓*
Perform assessment to validate existence and completeness baseline.	12/2016*
Critical Capability	Completion
B) Establish an auditable process for go-forward activity related to valuation for General Equipment, including Military Equipment including Construction in Progress.	03/2017*
<b>Interim Milestones</b>	
Validate the completeness and accuracy of General Equipment processes.	✓*
Test the General Equipment processes.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Began assessing sensitive activity General Equipment processes.
- Validated Military Service documentation against USSOCOM processes.
- Reviewed implementation of prior corrective actions.

### Challenges

- Dependencies on Military Service processes and systems limit corrective actions, particularly APSR weaknesses.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	07/2017
<b>Interim Milestones</b>	
Identify capital asset population	✓*
Determine valuation methodology and value assets	05/2017
Reconcile APSR and financial statements	06/2017
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	07/2017
<b>Interim Milestones</b>	
Define sustained process for full cost for General Equipment	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Identified capital asset population for valuation.
- Compiled Military Service documentation for valuation of common assets and determined valuation methodology for Special Operations Forces' assets.

### Challenges

- Dependencies on Military Service processes and systems limit corrective actions, particularly APSR weaknesses.
- Different capitalization thresholds adhered to at different Service Components creates a challenge to have a consistent entity-level accounting policy.

## U.S. Special Operations Command – Existence and Completeness/Valuation of Assets Inventory and Related Property

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017*
<b>Interim Milestones</b>	
Obtain an asset listing and as-is environment documentation.	✓
Complete corrective actions to remediate data reconciliation and deficiencies.	03/2017*
Critical Capability	Completion
B) Establish an auditable process for go-forward activity.	03/2017*
<b>Interim Milestones</b>	
Validate the completeness and accuracy of Operating Materials and Supplies processes.	✓*
Validate that internal controls are in place and effective and supporting documentation is available.	11/2016
Develop and implement corrective actions to remediate process, internal control, systems, and documentation deficiencies.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Documented Operating Materials and Supplies processes at Headquarters USSOCOM.

### Challenges

- Dependencies on Military Service processes and systems.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	07/2017*
<b>Interim Milestones</b>	
Identify Operating Materials and Supplies population.	✓*
Determine valuation methodology and value assets.	06/2017
Reconcile APSR and financial statements.	07/2017
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	08/2017
<b>Interim Milestones</b>	
Validate the completeness and accuracy of Operating Materials and Supplies valuation processes.	07/2017*
Define sustained process for full cost for Operating Materials and Supplies.	01/2017*
Test the Operating Materials and Supplies processes to support valuation activities.	11/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Determined method for expensing Operating Materials and Supplies.

### Challenges

- Dependencies on Military Service processes and systems.
- Differences in the accounting treatment of Inventory and Related Property at different service components.

## U.S. TRANSPORTATION COMMAND

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

USTRANSCOM's force of Soldiers, Sailors, Airmen, Marines, Coast Guardsmen, civilians, and commercial partners accomplishes a wide array of joint mobility missions. With its people, trucks, trains, railcars, aircraft, ships, information systems, and infrastructure, as well as through its commercial partners providing 1,203 aircraft and 379 vessels in the Civil Reserve Air Fleet and Voluntary Intermodal Sealift Agreement, respectively, USTRANSCOM provides the most responsive strategic mobility capability in the world.

USTRANSCOM comprises the following Transportation Component Commands (TCCs) and division:

- Army Military Surface Deployment and Distribution Command (SDDC)
- Navy Military Sealift Command (MSC)
- Air Force Air Mobility Command (AMC)
- USTRANSCOM Command Staff (CMD)
- Defense Courier Division (DCD)

USTRANSCOM is preparing for an audit of its FY 2018 financial statements. In doing so, the Command has been aggressively working to remediate deficiencies, test and strengthen controls, and develop an audit support infrastructure.

## Progress Since the May 2016 FIAR Report

Highlights since the last FIAR report include:

- USTRANSCOM participated in two reconciliation summits led by DFAS to identify critical feeder system reconciliations required to complete a universe of transactions for DEAMS and Transportation Financial Management System (TFMS), and to delineate roles and responsibilities between USTRANSCOM, DFAS, Surface Deployment and Distribution Command (SDDC) and AMC. The project involved assessing the reconciliations and developing remediation activities to resolve gaps. Sixty-one system-to-systems were reconciled and a nine step process developed to reconcile and test data.
- USTRANSCOM is leveraging the findings from DoD Component General Fund SBA audits to identify areas for increased scrutiny and to prioritize corrective actions on high-risk areas have the greatest impact on audits.
- USTRANSCOM developed a G-Invoicing implementation plan, encompassing CMD/DCD and the TCCs and incorporating the six key interim controls.
- Cost accounting, as it applies to Transportation Working Capital Fund rates, has been successfully documented, and cost reflective rate development is tested randomly throughout the year of execution.
- Internal control testing has been accomplished for Rate Application and Rate Build-Up for Transportation of Things, Open Obligations, and journal vouchers.
- USTRANSCOM maintains a tracking mechanism for hundreds of corrective action plans throughout the Command.
- In accordance with accounting standards, USTRANSCOM and its components have written off all Internal Use Software.

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- SDDC remediated 86 percent TFMS FISCAM findings; remaining 14 percent are under review. 100 percent of Integrated Business System (IBS) FISCAM findings have been remediated.
- SDDC closed 95 percent financial statement corrective action plans and closed and/or validated 34,547 open obligations.
- AMC closed 73 percent financial statement corrective action plans.
- DFAS is performing the following reconciliations on behalf of USTRANSCOM: DEAMS to GAFS-R, TFMS to GAFS-R, GAFS-R transaction detail to GAFS-R trial balance, GAFS-R to DDRS-B, FMS to DDRS-B, and DDRS-B to DDRS-AFS. DFAS is working to resolve identified variances.
- DFAS and USTRANSCOM developed a methodology to demonstrate USTRANSCOM has capability to identify and age Fund Balance with Treasury variances, as well as a process to research and resolve the variances on a monthly basis.

**USTRANSCOM Critical Capabilities**

Figure V-8 provides the completion dates for each critical capability. Following Figure V-8 are charts for each critical capability containing the dates for achieving the capability, accomplishments,

and challenges. Information on systems material to audit follows the critical capability charts.

**Figure V-8. U.S. Transportation Command Audit Readiness Critical Capabilities (✓ = Completed)**

Critical Capability		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	03/2017	09/2017
	Balance Sheet	03/2017	09/2017
Fund Balance with Treasury		03/2017*	09/2017
Journal Vouchers		06/2017	09/2017
Existence and Completeness, and Valuation of Assets	Real Property (including Construction in Progress)	12/2016*	09/2017
	General Equipment (including Military Equipment)	03/2017*	09/2017
	Internal Use Software	08/2017	09/2017
Environmental Liabilities		✓*	✓*
IT Controls		12/2016	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## U.S. Transportation Command – Universe of Transactions Statement of Budgetary Resources

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2017

### Accomplishments

- Perform general ledger to financial statement reconciliations on a monthly and quarterly basis.
- Developed a plan to resolve variances identified in monthly general ledger to financial statement reconciliations.
- Sustained quarterly reconciliations from DDRS-B and DDRS-AFS to financial statements.
- Sustained reconciliations of DDRS to trial balances and accounting system detail.
- Variance and root cause analysis ongoing for monthly reconciliations.
- Worked with DFAS to implement a monthly DEAMS to GAFS-R reconciliation.

### Challenges

- Variances identified in monthly DEAMS to GAFS-R reconciliation due to legacy to SFIS conversion issues.
- DEAMS direct feed to DDRS-B continues to be delayed.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2017*
<b>Interim Milestones</b>	
Perform scoping assessment of feeder systems.	✓
Begin discovery procedures and scripting reconciliation to accounting systems.	✓
Complete scoping assessment of feeder systems.	12/2016
Complete scripting reconciliation to accounting systems.	12/2016
Complete identification and resolution of differences.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Partnered with DFAS to develop and assess feeder system reconciliations to accounting systems.
- Held two feeder system summits to develop a comprehensive list of Transportation Working Capital Funds specific DEAMS and TFMS feeder systems and identified the roles and responsibilities for reconciliations development and sustainment. MSC feeder system summit planned for 11/2016.
- Partnered with DEAMS FMO to leverage quantitative drill down efforts of TI-57 funds.

### Challenges

- Varying data formats, size constraints, and systems reporting limitations.
- Timeline of completion uncertain for DFAS reconciliation.

## U.S. Transportation Command – Universe of Transactions Balance Sheet

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	03/2017

### Accomplishments

- Developed plan to resolve variances identified in monthly general ledger to financial statement reconciliations.
- SDDC General Ledger (GL), TFMS, direct feed to DDRS-B completed for August reporting, eliminating TFMS to GAFS-R interface.
- Sustained quarterly reconciliations from DDRS-B and DDRS-AFS to financial statements.
- Sustained reconciliations of DDRS to trial balances and accounting system detail.
- Worked with DFAS to implement a monthly DEAMS to GAFS-R reconciliation.

### Challenges

- Resolving variances identified in monthly DEAMS to GAFS-R reconciliation due to legacy conversion issues.
- DEAMS TD to DEAMS TB reconciliation variances caused by encumbrance journals in DEAMS TD.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	03/2017*
<b>Interim Milestones</b>	
Perform scoping assessment of feeder systems.	✓
Begin discovery procedures and scripting reconciliation to accounting systems.	✓
Complete scoping assessment of feeder systems	12/2016
Complete scripting reconciliation to accounting systems.	12/2016
Complete identification and resolution of differences.	12/2016

### Accomplishments

- Partnered with DFAS to develop and assess feeder system reconciliations to accounting systems.
- Held two feeder system summits to develop a comprehensive list of Transportation Working Capital Funds specific DEAMS and TFMS feeder systems and to identify roles and responsibilities for reconciliation development and sustainment. FMS feeder system summit scheduled for 09/2016.
- Partnered with DEAMS FMO to leverage quantitative drill down efforts for TI-57 funds.

### Challenges

- Varying data formats, size constraints, and systems reporting limitations.

## U.S. Transportation Command – Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	03/2017*
<b>Interim Milestones</b>	
Develop Transportation Working Capital Fund - Columbus Cash Accountability System reconciliation tool.	✓*
Monthly walk-through with DFAS.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS is using Consolidated Cash Accountability System (CCAS) to reconcile Fund Balance with Treasury between DoD Component general ledgers and Treasury for AMC, SDDC, CMD and DCD.
- DFAS is using the Cash Reconciliation Tool (CRT) to reconcile Fund Balance with Treasury between MSC's general ledger and Treasury.
- Constructed a Fund Balance with Treasury guide that provides an overview of Fund Balance with Treasury reconciliation process for Transportation Working Capital Funds.
- Developed a monthly framework with DFAS, demonstrating USTRANSCOM has the tools to identify and age Fund Balance with Treasury variances and a process to research and resolve variances.

### Challenges

- Determining how to clear and resolve aged CCAS and CRT variances are unsupported.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (suspense" accounts).	12/2016*
<b>Interim Milestones</b>	
Create monthly management product for aging AMC and MSC suspense items.	✓
Sustain monthly management products.	✓
Identify solution for AMC aged suspense.	✓

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- DFAS has fully reconciled the AMC suspense account and identified a large volume of transactions to research and resolve, and identified a timeline to clear the suspense account.
- AMC is no longer using a suspense account due to business process improvements.

### Challenges

- Improvements needed in managing ODO suspense accounts, as described in a recent DoD OIG report. Determining how suspense accounts impact USTRANSCOM and if USTRANSCOM requires a specific TI-97 suspense account.

## U.S. Transportation Command – Fund Balance with Treasury

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	12/2016*
<b>Interim Milestones</b>	
Identify disbursing office sources and aging of Transportation Working Capital Fund schedule of differences.	✓
Assess root cause/implement solution for any material schedule of differences.	✓

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Began working with DFAS Disbursing Offices to identify processes and tools to resolve Statement of Differences variances.

### Challenges

- Multiple DSSNs make it difficult to identify, age, and resolve transactions reported on Treasury's Statement of Differences within 30 days.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- AMC, DCD, and CMD implemented CCAS in 10/2010 and on track to have eight years of reconciled Fund Balance with Treasury activity at the beginning of FY 2018.
- SDDC implemented CCAS in 04/2012 and on track to have five years of reconciled Fund Balance with Treasury activity at the beginning of FY 2018.

### Challenges

- Establishing auditable beginning balances for Fund Balance with Treasury.

## U.S. Transportation Command – Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	06/2017
<b>Interim Milestones</b>	
DFAS provides USTRANSCOM a log of all Transportation Working Capital Funds journal vouchers posted monthly. DFAS also performs financial statement reconciliations.	✓
Each journal voucher accomplished during the period to be analyzed for completeness and purpose. Processes leading to unsupported or erroneous/correcting journal vouchers will be further researched to develop corrective actions leading to improved business practices.	12/2016
Corrective actions have been remediated, and all journal vouchers completed during the review period are supported and valid.	03/2017
UTB to ATB reconciliation to reconcile with amounts - all adjustments: 1) UTB to ATB, 2) Accounting Systems, 3) UTB in DDRS-B, 4) ATB in DDRS-AFS.	06/2017
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	03/2017
<b>Interim Milestones</b>	
Submit FY 2017 and FY 2018 estimated costs for systems requirements.	✓
Build general terms and conditions in G-Invoicing, participate in training, build intragovernmental transactions orders with applicable trading partner data.	03/2017*

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
<b>Interim Milestones</b>	
DCFO/DFAS perform root cause analysis on DDRS journal vouchers.	✓*
DCFO/DFAS develop corrective actions for DDRS journal vouchers.	✓*
Tier 3 and Tier 4 Entities, OUSD(C), system owners, DFAS Implement corrective actions for DDRS journal vouchers.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Service Provider Journal Vouchers:
  - DFAS/OUSD(C) tiger team completed review of DDRS journal vouchers for supportability and elimination.
  - Developed 20 improvement plans for which USTRANSCOM is directly responsible (6 closed, 14 open).
  - SDDC general ledger TFMS, providing direct feed to DDRS-B beginning 08/2016 reporting in 09/2016, eliminating journal vouchers for tie point issues between TFMS and GAFS-R.
  - Conducted monthly progress update meetings with USTRANSCOM components to complete improvement plans.

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Execute 75% of Reimbursable Authority in G-Invoicing (GTC only); submit trading partner data on 25% of federal accounts payables records.	03/2017*
Submit trading partner data on 50% of federal accounts payable records.	12/2016
Execute 100% of reimbursable authority in G-Invoicing (general terms and conditions only); submit trading partner data on 100% of federal accounts payable records.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Approved G-Invoicing Implementation memorandum issued to all Components standardizing interagency agreements and completing general terms and conditions with G-Invoicing for reimbursable activity.
- G-Invoicing POA&M submitted to OUSD(C).

### Challenges

- Awaiting Treasury approval of data standards, update of the Treasury Financial Manual, and system changes to G-Invoicing to align to the target process and data standard.

### Component Journal Vouchers:

- Sampled and tested 45 field site journal vouchers from 02/2016 for supportability; 149 of 756 attributes did not pass and seven corrective action plans delivered. DFAS has remediated the seven corrective action plans.
- Second round of sample testing of 45 journal vouchers from 06/2016 in progress.
- DEAMS systemic issue corrected to send anticipated reimbursements to GAFS-R and ultimately to DDRS.

### Challenges

- Due to coordination challenges with feeder system owners, DFAS and OUSD(C) cannot readily implement the improvement plans to ensure required SCRs are implemented to remediate failed tie points and other system limitation issues.

## U.S. Transportation Command – Existence and Completeness/Valuation of Assets Real Property, Including Construction in Progress

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2016*
<b>Interim Milestones</b>	
Evaluate existing asset listings.	✓
Develop corrective action plans.	✓
Provide clear and consistent guidance to USTRANSCOM components regarding Real Property documentation and inclusion.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Obtained historical documentation and photos for assets.
- Assembled a tiger team to develop consistent processes and documentation across USTRANSCOM components.
- Air Force deployed Nex-Gen for Real Property and Minor Construction tracking at Scott Air Force Base.

### Challenges

- Establishing a Nex-Gen interface to DEAMS.
- Validating Component data for completeness and auditability.
- Identifying and implementing a shared access filing system to be used by all Components and external resources for supporting documentation
- SDDC Real Property is maintained in GFEBS, but accounted for in TFMS.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	12/2016*
B) Establish an auditable valuation process for go-forward activity.	12/2016*
<b>Interim Milestones</b>	
Review Construction in Progress process to ensure appropriate Capital assets are being depreciated.	✓*
Document inventory process plan as a repeatable process.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Reconciled Real Property to financial statements.
- Assembled a Real Property tiger team to develop consistent processes and documentation across USTRANSCOM components.
- Developed two corrective action plans for Real Property valuation.

### Challenges

- Retaining documentation to support costs reported on financial statements.

## U.S. Transportation Command – Existence and Completeness/Valuation of Assets General Equipment, Including Military Equipment

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017*
<b>Interim Milestones</b>	
Complete inventory of assets.	✓*
Establish monthly testing process.	03/2017*
Complete corrective actions associated with Discovery.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Identified process discrepancies and developed teams to resolve discrepancies.
- Assembled a General Equipment tiger team to develop consistent processes and documentation across USTRANSCOM components.
- Developed 55 corrective action plans for General Equipment.

### Challenges

- Identification and implementation of shared access filing system to be utilized by all Components and external resources for supporting documentation.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017*
<b>Interim Milestones</b>	
Complete inventory of assets.	✓*
<b>Critical Capability</b>	
<b>Completion</b>	
B) Establish an auditable valuation process for go-forward activity.	03/2017
<b>Interim Milestones</b>	
Document inventory process as a repeatable process.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- Identified process discrepancies and developed teams to resolve discrepancies.
- Assembled a General Equipment tiger team to develop consistent processes and documentation across USTRANSCOM components.

### Challenges

- Implementation of new property systems and procedures that are consistent across all USTRANSCOM components.

## U.S. Transportation Command – Existence and Completeness/Valuation of Assets Internal Use Software

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	✓*
<b>Interim Milestones</b>	
TCJ6 to determine appropriate APSR for Internal Use Software.	✓*
Review/inventory/valuation of Internal Use Software.	✓*
Test newly implemented go-forward strategy.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- TCJ6 developed a plan to implement Remedy as the APSR.
- Assembled an Internal Use Software tiger team to develop consistent processes and documentation across USTRANSCOM components.
- Developed USTRANSCOM component checklist to document Internal Use Software write-off procedures.
- Developed USTRANSCOM component checklist to ensure processes are consistent and auditable.

### Challenges

- Deployment of DPAS may be lengthy due to training and funding requirements.
- Identification and implementation of shared access filing system to be utilized by all Components and external resources for supporting documentation.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017*
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	08/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

- USTRANSCOM has written-off Internal Use Software in accordance with OUSD(C) guidance.
- Assembled an Internal Use Software tiger team to develop consistent processes and documentation across USTRANSCOM components.
- Identified process discrepancies and developed teams to resolve the discrepancies.

### Challenges

- None

## U.S. Transportation Command – Information Technology

Critical Capability	Completion
Implement critical information technology general and application controls for material, financially-relevant systems.	12/2016
<b>Interim Milestones</b>	
Test control design effectiveness.	✓*
Develop test plans.	✓*
Remediate 30 FISCAM corrective actions.	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Accomplishments

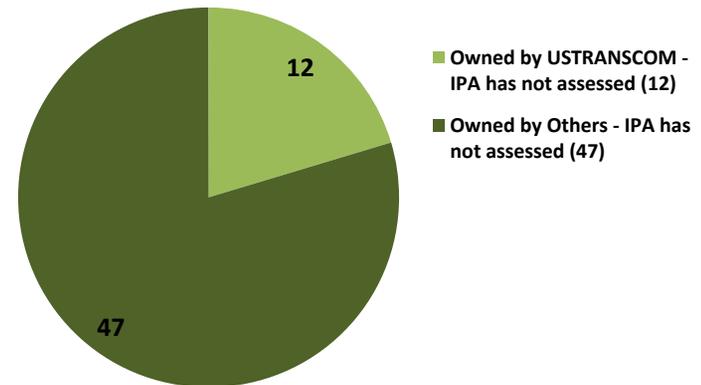
- Completed self-assessments of all systems.
- Remediated Global Air Transportation Execution System (GATES) and IBS.
- Completed TCAQ-SPS self-assessment.

### Challenges

- Completing 180 corrective action plans identified during the TCAQ-SPS assessment.
- Remediating 72 TFMS corrective action plans.
- Developing and implementing CUECs corrective action plans.

Figure V-9 summarizes the audit readiness status of systems relevant to USTRANSCOM, including systems owned and maintained by USTRANSCOM and systems owned and maintained by other organizations. System status reflects results of the IPA assessments through FY 2016. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

**Figure V-9. Status of Systems Relevant to USTRANSCOM Audit Readiness**



## Tier 3 and Tier 4 Reporting Entities Audit Readiness

The Department's strategy for achieving audit readiness for Tier 3 reporting entities is to undergo annual IPA examinations. The scope of the examinations is expanding each year to ensure complete audit readiness in preparation for the audit of the DoD Consolidated Financial Statements. Financial statement examinations are planned for FY 2017 and FY 2018 and will focus on the SBR and material lines on the Balance Sheet. The strategy also includes monthly internal control testing by the OUSD(C).

Unlike Tier 3 ODOs, Tier 4 entities are not undergoing annual IPA examinations due to their materiality. The strategy for Tier 4 entities is to undergo audit readiness self-assessments and to make improvements to business processes, test and strengthen controls, and work with service providers to implement corrective actions.

### Tier 3 – Mid-Tier Defense Agencies

Tier 3 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:

Tier 3 ODOs with SBA examinations:

- Chemical Biological Defense Program (CBP)
- Defense Advanced Research Projects Agency (DARPA)
- Defense Threat Reduction Agency (DTRA)
- Missile Defense Agency (MDA)
- Washington Headquarters Services (WHS)

Tier 3 ODOs with financial statement mock audits:

- Defense Contract Management Agency (DCMA)

- DoD Education Activity (DoDEA)
- Defense Security Cooperation Agency (DSCA)
- Office of the Chairman of the Joint Chiefs of Staff (OCJCS)

The SBA examinations and financial statement mock audits identified issues that these ODOs must remediate during FY 2016.

### Tier 4 – Small Defense Agencies

Reporting entities not included in the other ODO categories are conducting self-assessments. Together, these ODOs account for less than 1 percent of the Department's budgetary resources. These ODOs will continue audit readiness work and strengthen internal controls, but will only be audited as part of the FY 2018 DoD Consolidated Financial Statements audit.

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

The Tier 4 ODOs are:

- Burden Sharing Account by Foreign Allies, Defense
- Business Transformation Agency (BFY 2012/2013 funds)
- Defense Acquisition University (DAU)
- Defense Cooperation Account
- Defense Finance and Accounting Service, General Fund
- Defense Gift Fund
- Defense Human Resources Activity (DHRA)
- Defense Media Activity
- Defense Micro Electronics Agency

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

### Progress Since the May 2016 FIAR Report

Highlights since the last FIAR report include:

- Tier 3 ODOs have implemented 85 percent of Tier 3-owned corrective action plans from the FY 2015 SBA examinations and are better positioned for the upcoming SBR examinations.
- Tier 3 reporting entities are prepared to undergo FY 2017 examinations of the Statement of Budgetary Resources and material Balance Sheet lines.
- All Tier 3 ODOs have transitioned to an ERP, with the last reporting entity moving from a legacy accounting system to the Defense Agencies Initiative (DAI) ERP in 10/2016. DAI eliminates legacy accounting system weaknesses and better supports the controls needed for an audit.
- Tier 3 reporting entities created or strengthened MOUs with service providers and sub-allotment partners ensuring integration and understanding of roles and responsibilities for controls and supporting documents critical to an audit.
- Tier 3 ODOs updated business process documentation to include control activities to achieve service provider identified complementary user entity controls and entity level control objectives.

### Challenges to Audit Readiness

- **Sensitive Activities.** Underlying transactions to amounts reported on many DoD financial statements contain dollar amounts from sensitive activities, which adds a significant challenge since the auditors need access to sensitive financial information and supporting documentation. The Department must balance the need for transparency in providing access to transactions to financial statement auditors and the need to maintain and protect national security.

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- **Feeder System Reconciliations.** The Department has numerous legacy nonintegrated, nonstandard feeder systems impacting the financial statements. Completeness of financial transactions cannot be proven without reconciliations of the material feeder systems to the accounting systems.
- **Beginning Balances.** Some Tier 3 and Tier 4 entities may not be able to fully obtain supporting detailed transactions or sufficient documentation to support all opening balances. Reconciling opening balances may be difficult, because there are many years of prior balances that have never been reconciled, and supporting documentation may no longer be available.
- **Shared Appropriations.** Tier 3 and Tier 4 entities share the same appropriations or Treasury accounts, which complicate reconciliations at the ODO-level.
- **Unsupported Elimination Adjustments.** The Department's automated solution to reconcile trading partner data will not be implemented until after the FY 2018 audit has started. Most entities are adjusting financial transactions to trading partner's data without detailed support.
- **Sub-Allotments.** Sub-allotting funds from one Component to another adds to the complexity of business processes and contributes to the inability to reconcile detailed transactions to the financial statements and produce timely supporting documentation. The reporting entities data from sub-allotments could be in several accounting and feeder systems, which makes ensuring controls are designed and operating effectively challenging.

### Notices of Findings and Recommendations

In FY 2015, CBDP, DARPA, DTRA, MDA, and WHS completed IPA SBA examinations. NFRs pertained to critical capabilities and issues categorized in Figure V-11. The OUSD(C) is tracking ODO corrective actions to ensure they are properly and timely implemented. In addition, the OUSD(C) is sharing IPA-identified deficiencies and solutions across the Department, because the deficiencies at one Component are likely to be deficiencies across the Department.

Figure V-11. Tier 3 Notices of Findings and Recommendations

Finding Category	Finding Description	Completion
Entity-Level Controls	Control activities at the entity-level were not defined or assessed.	12/2016
Internal Control Activities	Internal Controls failed tests of design, were not implemented as designed, or failed tests of operating effectiveness.	03/2017
Key Supporting Documentation	Supporting documentation provided to the IPA did not support attributes of recorded transactions selected.	03/2017

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Finding Category	Finding Description	Completion
Assertion Package Documentation	FIAR Guidance required work products were either not provided to the IPA or the documentation provided was inconsistent.	12/2016
Audit Response Infrastructure	Documentation was not submitted to the IPA timely.	12/2016
IT Controls	Financial systems and supporting infrastructure did not have adequate general IT controls, interface controls, or application-level controls.	12/2016
Service Provider Reports	Some SSAE No. 16 examination reports were not provided to the IPA.	12/2016
Complementary User Entity Controls related to Service Provider Processes	Some required service provider complementary user entity controls were not implemented.	12/2016

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**Tier 3 and 4 Critical Capabilities**

Figure V-12 provides the completion dates for each critical capability. Following Figure V-12 are charts for each critical

capability containing the dates for achieving the capability, accomplishments, and challenges.

**Figure V-12. Tier 3 and Tier 4 Entities' Audit Readiness Critical Capabilities**

Critical Capability		Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	09/2017	12/2017
	Balance Sheet	09/2017	12/2017
Fund Balance with Treasury		06/2017	09/2017
Journal Vouchers		03/2017	06/2017
Existence and Completeness and, 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 Related Property	12/2016	03/2017
Environmental Liabilities		12/2016	03/2017
IT Controls		09/2017	12/2017

### Tier 3 and Tier 4 Entities – Universe of Transactions Statement of Budgetary Resources (General Fund)

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	09/2017

**Accomplishments**

- Completed the initial architecture and basic functionality of the universe of transaction solution. Tested the capability to reconcile general ledger details to unadjusted trial balances for 7 Military Service and 1 Defense Agency accounting systems.
- DFAS developed formal training on the Universe of Transactions. Training started in 09/2016 and provides information that will strengthen the processes and controls.

**Challenges**

- Some ODOs have transactions in numerous nonintegrated, nonstandard ERPs and legacy accounting systems that impact the financial statements. Completeness of financial transactions cannot be proven without reconciling all systems.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017

**Accomplishments**

- DFAS created a DoD Reconciliation Project aimed at improving reconciliations in business end-to-end processes, assessing reconciliations, and remediating gaps to include developing missing reconciliations.
- The reconciliations logic developed for the DoD Reconciliation Project will be functional requirements for the TI-97 universe of transaction solution.

**Challenges**

- Numerous legacy, nonintegrated, nonstandard feeder systems impact the financial statements, and completeness of financial transactions cannot be proven without reconciling all material feeder systems.

## Tier 3 and Tier 4 Entities – Universe of Transactions Balance Sheet

Critical Capability	Completion
A) Able to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting system.	09/2017

### Accomplishments

- Completed the initial architecture and basic functionality of the universe of transaction solution. Tested the capability to reconcile general ledger details to unadjusted trial balances for 7 Military Service and 1 Defense Agency accounting systems.
- DFAS developed formal training on the Universe of Transactions. Training started in 09/2016 and provides information that will strengthen the processes and controls.

### Challenges

- Some ODOs have transactions in numerous nonintegrated, nonstandard ERPs and legacy accounting systems that impact the financial statements. Completeness of financial transactions cannot be proven without reconciling all systems.

Critical Capability	Completion
B) Able to reconcile population of transaction details to feeder, source, and originating systems.	09/2017

### Accomplishments

- DFAS established a DoD Reconciliation Project aimed at improving reconciliations in business end-to-end processes, assessing reconciliations, and remediating gaps to include developing missing reconciliations.
- The reconciliations logic developed for the DoD Reconciliation Project will be functional requirements for the TI-97 universe of transaction solution.

### Challenges

- Numerous legacy, nonintegrated, nonstandard feeder systems impact the financial statements, and completeness of financial transactions cannot be proven without reconciling all material feeder systems.

### Tier 3 and Tier 4 Entities – Fund Balance with Treasury

Critical Capability	Completion
A) Process and tools to identify, age, and resolve differences between the general ledgers (proprietary and budgetary) and Treasury (at voucher-level).	09/2017
<b>Interim Milestones</b>	
OUSD(C) updates DoD FMR update to further define Fund Balance with Treasury reconciliation requirements.	✓
DFAS asserts audit readiness for DCAS SSAE No. 16. examination.	✓
DFAS asserts audit readiness for DRRT SSAE No. 16. examination.	✓*
OUSD(C) and DFAS develop standard process for DCAS daily reconciliations and reporting.	06/2017
DFAS implements DRRT Increment 3+.	09/2017
OUSD(C) and DFAS implement GEX/ SLOA Centralized Service, which allows generating and passing standardized data between systems and validating lines of accounting prior to processing transactions.	09/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- DFAS continued to identify root causes of Cash Management Report variances and actions to correct.
- DFAS partnered with the OUSD(C) to automate identification of variances to enable timely resolution and increase the accuracy of financial statements.
- DFAS improved business processes and controls to ensure disbursement and collection activities from disbursing officers are provided and included in the Cash Management Report.

Critical Capability	Completion
B) Process and tools to identify, age, and resolve transactions posted to budget clearing accounts within 60 days (“suspense” accounts).	✓
<b>Interim Milestones</b>	
DFAS develops and implements standardized controls for Suspense Accounts.	✓
DFAS submits Revenue Account white paper to OUSD(C) Program Budget for approval.	✓*
OUSD(C) Program Budget submits Revenue Account white paper to OMB and Treasury.	✓*
DFAS begin implementing new Revenue Accounts.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- DFAS worked with OUSD(C) and Treasury to establish new Treasury accounts for Thrift Savings Plan withholdings. Effective FY 2017, the new accounts will eliminate using suspense accounts for withholdings.
- DFAS working group completed analysis of options, developed an optimum solution, and presented the solution to OUSD(C) to establish new Treasury accounts for miscellaneous revenue activities in suspense accounts.
- DFAS worked with OUSD(C) and Treasury to establish new Treasury accounts for royalties, one of five of DoD miscellaneous revenue activities. Effective FY 2017, royalty collections will no longer be reported in the suspense account. DFAS continues to work to establish the remaining revenue accounts.

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- DFAS developed additional metrics to monitor and track timely resolution of Fund Balance with Treasury differences.

### Challenges

- Multiple ODOs share the same appropriations. Fund Balance with Treasury reconciliations for TI-97 are complicated because Treasury issues funding and provides reports at the Treasury account symbol (or appropriation) level, which does not provide detail activity information at the reporting entity-level.
- DFAS tools for Cash Management Report reconciliation to Treasury are constrained by limitations of sensitive activities.
- Identifying, remediating, and supporting aged variances.
- Some reporting entities may not be able to fully obtain supporting detailed transactions or sufficient documentation to support opening balances. Reconciling opening balances may be difficult because there are many years of prior balances that have never been reconciled and supporting documentation may no longer be available.

### Challenges

- Delay in establishing the new Treasury accounts will delay full resolution of audit findings.

### Tier 3 and Tier 4 Entities – Fund Balance with Treasury

Critical Capability	Completion
C) Process and tools to identify, age, and resolve transactions reported on Treasury's statements of differences within 30 days.	05/2017
<b>Interim Milestones</b>	
DFAS implements standard processes for Deposits in Transits Statement of Differences.	✓*
DFAS implements standard processes for Check Issue Statement of Differences.	12/2016
DFAS implements standard processes for IPAC Statement of Differences.	03/2017
DFAS validates controls for standard processes.	05/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- DFAS prepared corrective action plans addressing Statement of Differences Report outstanding balances.

#### Challenges

- Multiple disbursing offices and limited information included in the Statement of Differences Report add complexity in resolving aged balances.

Critical Capability	Completion
D) Perform aging analysis and apply reconciliations backwards to any years possible.	06/2017
<b>Interim Milestones</b>	
OUSD(C) issues DoD FMR provide guidance on establishing an auditable beginning balance.	✓
DFAS completes aging analysis.	✓*
DFAS assesses ability to perform monthly reconciliations and support balances.	04/2017
DFAS performs monthly reconciliations and test supporting documentation for prior years.	06/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- DFAS prepared corrective action plans addressing Fund Balance with Treasury beginning balances.

#### Challenges

- Lack of supporting documentation needed for aged balances.

### Tier 3 and Tier 4 Entities – Journal Vouchers

Critical Capability	Completion
A) Provide a universe of journal vouchers that reconciles to the financial statements.	06/2017
<b>Interim Milestones</b>	
Customers to receive logs from DDRS-B, DDRS-AFS, and Accounting Systems to include system generated journal vouchers, beginning balances, trial balance input adjustments, pre-processing, ELECTRA, memo, and all other adjustments.	12/2016
UTB to ATB reconciliation to reconcile with amounts - all adjustments: 1) UTB to ATB, 2) Accounting Systems, 3) UTB in DDRS-B, 4) ATB in DDRS-AFS.	06/2017
Critical Capability	Completion
B) Elimination Entries – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements related to intra-component and intra-departmental elimination entries.	03/2017
<b>Interim Milestones</b>	
Estimated FY 2017/FY 2018 system requirement costs.	✓
Components to implement interim six point control plan and continue to build general terms and conditions in accordance with DoD Instruction 4000.19.	12/2016*
Components publish ERP schedule for compliance with G-Invoicing business architecture.	03/2017*
Components fund/build all interfaces to include SFIS and PRDS compliancy.	12/2017*
Submit trading partner data on 100% of federal accounts payable records.	12/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

Critical Capability	Completion
C) All Other Journal Vouchers – Eliminate or support material journal vouchers and other adjustments made to financial transactions, trial balances, and financial statements for all other journal vouchers.	03/2017
<b>Interim Milestones</b>	
OUSD(C) and DFAS perform root cause analysis on DDRS journal vouchers.	✓*
OUSD(C) and DFAS develop corrective actions for DDRS journal vouchers.	✓*
Tier 3 and Tier 4 Entities, OUSD(C), system owners, DFAS Implement corrective actions for DDRS journal vouchers.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- OUSD(C) and DFAS made significant progress identifying and recommending remediation actions for systemic and process deficiencies that result in manual journal vouchers.
- OUSD(C) and DFAS analyzed and developed narratives to document the rational, posting logic, examples, and controls for standard, automated journal vouchers within the DoD financial reporting system. DFAS will periodically review the narrative to update it, as needed.

#### Challenges

- Reporting entities rely on legacy accounting and feeder systems that are difficult to replace or phase out because of DoD-wide use. It will be prohibitively expensive and time consuming to convert from legacy systems to ERPs and non-legacy feeder systems by the end of FY 2017.

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### Accomplishments

- Published the DoD Intragovernmental Data Standard.
- Created initial draft of a new DoD Instruction to define the target process for eliminations.

### Challenges

- Awaiting Treasury approval of data standards, update of the Treasury Financial Manual, and system changes to G-Invoicing.

### Tier 3 and Tier 4 Entities – Existence and Completeness/Valuation of Assets Real Property, Including Construction-in-Progress (General Fund)

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	03/2017
<b>Interim Milestones</b>	
Perform prioritization analysis.	✓
Perform testing.	✓
Implement corrective actions.	03/2017
Critical Capability	Completion
B) Establish auditable go-forward existence and completeness processes.	03/2017
<b>Interim Milestones</b>	
Develop to-be process documentation.	✓*
Perform internal control and IT testing.	12/2016
Implement corrective actions.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Established a policy for reporting OCONUS Real Property, and began mitigating issues identified during discovery testing.

#### Challenges

- Real Property asset listing has not been validated, and complete Construction-in-Progress records are not readily available for testing.
- Certain assets are sensitive and access for testing is a challenge.
- Completeness of geographically dispersed ODO assets.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017
<b>Interim Milestones</b>	
Establish and document baseline valuation methodology.	✓
Perform valuation baseline testing.	12/2016*
Implement corrective actions.	03/2017*
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	03/2017*
<b>Interim Milestones</b>	
Complete to-be process documentation.	✓*
Perform process internal control testing.	12/2016*
Implement corrective actions.	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Evaluated auditability of the cost factors used in the Plant Replacement Value model for baseline valuation.
- Established policies on the valuation of land and land rights opening balances, and revised accounting useful lives to align with asset useful life data.

#### Challenges

- Plant Replacement Value model to be used for the valuation baseline needs to be validated.
- System functionality and IT controls impede readiness efforts.

### Tier 3 and Tier 4 Entities – Existence and Completeness/Valuation of Assets General Equipment, Including Military Equipment (General Fund)

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2016*
<b>Interim Milestones</b>	
Perform prioritization analysis.	✓
Perform testing.	✓
Implement corrective actions.	12/2016*
Critical Capability	Completion
B) Establish auditable go-forward existence and completeness processes.	12/2016
<b>Interim Milestones</b>	
Develop to-be process documentation.	✓
Perform internal control and IT testing.	✓*
Implement corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Began testing processes and internal controls.
- Began mitigating issues identified during discovery testing.

#### Challenges

- Auditability of recorded General Equipment assets relies on an asset listing that is validated as complete and accurate. Accessing records for sensitive assets.
- Visibility of government furnished equipment and contractor acquired government property.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	03/2017*
<b>Interim Milestones</b>	
Establish and document baseline valuation methodology.	✓
Perform valuation baseline testing.	12/2016
Implement corrective actions.	03/2017
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	12/2016
<b>Interim Milestones</b>	
Complete to-be process documentation.	✓
Perform process internal control testing.	✓*
Implement corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Developed a method to identify the most significant capital improvements, and started valuation of existing assets and testing baseline values.
- Developed a valuation methodology.

#### Challenges

- Construction-in-Progress requires availability of direct and indirect costs and ability to allocate them to end items in a timely manner.
- Implementing the valuation approach requires the ability to accurately capture acquisition program costs.

### Tier 3 and Tier 4 Entities – Existence and Completeness/Valuation of Assets Internal Use Software (General Fund)

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2016
<b>Interim Milestones</b>	
Determine Internal Use Software opening balance option.	✓
Critical Capability	Completion
B) Establish auditable go-forward existence and completeness processes.	12/2016
<b>Interim Milestones</b>	
Develop to-be process documentation.	✓
Perform internal control and IT testing.	✓*
Implement corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Developed standard operating procedures for managing Internal Use Software.
- Issued an accountability memorandum that will support Internal Use Software accounting.

#### Challenges

- Writing down Internal Use Software to zero value without impacting Working Capital Fund rates or APSR functionality.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	12/2016
<b>Interim Milestones</b>	
Write off unsupported Internal Use Software balances.	✓*
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	12/2016
<b>Interim Milestones</b>	
Complete to-be process documentation.	✓
Perform process internal control testing.	✓*
Implement corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Developed a valuation methodology.
- Developed a revised acquisition rule for Internal Use Software to facilitate auditable valuation.

#### Challenges

- The software universe is complex and some Internal Use Software is used by multiple Components.
- Enterprise licenses are individually negotiated, complicating the application of Internal Use Software policy.

### Tier 3 and Tier 4 Entities – Existence and Completeness/Valuation of Assets Inventory and Related Property (General Fund)

Critical Capability	Completion
A) Establish an auditable existence and completeness baseline.	12/2016
<b>Interim Milestones</b>	
Perform prioritization analysis.	✓
Perform testing.	✓
Implement corrective actions.	✓*
Critical Capability	Completion
B) Establish auditable go-forward existence and completeness processes.	12/2016
<b>Interim Milestones</b>	
Develop to-be process documentation.	✓
Perform internal control and IT testing.	✓*
Implement corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Began testing processes and internal controls.
- Began mitigating issues identified during testing.

#### Challenges

- Auditability of recorded Inventory and Related Property relies on an asset listing that is validated as complete and accurate.
- Accessing sensitive assets.
- Visibility of government furnished material and contractor acquired government property.

Critical Capability	Completion
A) Establish an auditable valuation baseline.	12/2016
<b>Interim Milestones</b>	
Establish and document baseline valuation methodology.	✓
Perform valuation baseline testing.	✓*
Implement corrective actions.	12/2016
Critical Capability	Completion
B) Establish an auditable valuation process for go-forward activity.	12/2016
<b>Interim Milestones</b>	
Complete to-be process documentation.	✓
Perform process internal control testing.	✓*
Implement corrective actions.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

#### Accomplishments

- Started valuation of existing assets.
- Began testing baseline values.
- Developed a valuation methodology.

#### Challenges

- Complex systems that become components of larger systems are difficult to differentiate between equipment and Operating Materials and Supplies.
- Accurately reporting Operating Materials and Supplies balances requires manual effort.

### Tier 3 and Tier 4 Entities – Environmental Liabilities (General Fund)

Critical Capability	Completion
Establish existence and completeness of Environmental and Disposal Liabilities.	✓
<b>Interim Milestones</b>	
Identify high risk Environmental and Disposal Liabilities categories.	✓
Perform testing.	✓
Implement corrective actions.	✓

**Accomplishments**

- Developed justification for excluding operational ranges from Environmental Liabilities.

**Challenges**

- None

Critical Capability	Completion
Valuation of Environmental and Disposal Liabilities	12/2016
<b>Interim Milestones</b>	
Establish Environmental and Disposal Liabilities estimation methodology and approach required for each Environmental and Disposal Liability type (e.g., asbestos, equipment disposal, real property closure requirements).	✓
Perform testing to validate estimation methodology	✓*
Establish sustainment approach for updating cost estimates on an annual basis.	12/2016

\* Revised or completed since the May 2016 FIAR Plan Status Report.

**Accomplishments**

- None

**Challenges**

- Developing accurate and auditable cost estimates for Environmental and Disposal Liabilities relies on the completeness and accuracy of Real Property and General Equipment asset records.
- The accuracy and auditability of cost estimates for Environmental and Disposal Liabilities is impacted by the structure and availability of itemized cost detail in construction and demolition contract data.

### Tier 3 and Tier 4 Entities – Information Technology

Critical Capability	Completion
Implement critical information technology general and application controls for material, financially-relevant systems.	09/2017
<b>Interim Milestones</b>	
Document and test control design and corrective action plans for the most material complementary user entity controls.	✓
Remediate findings from SSAE No. 16 examinations.	09/2017

#### Accomplishments

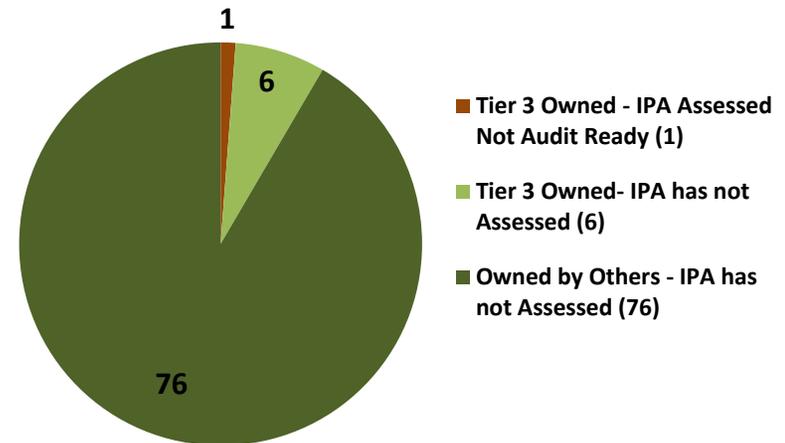
- DAI deployed by 6 Tier 3 and 9 Tier 4 entities.
- DAI received a qualified opinion on an SSAE No. 16 examination for the period 10/2015 – 06/2016.
- Participated in workshops to improve use of SSAE No. 16 examination reports and better identify complementary user entity controls.
- Received supplemental guidance to the new system certification and accreditation process that defined supplemental activities required to concurrently address audit readiness requirements.
- Completed Standard Financial Information Structure - compliance assessments for primary accounting systems.

#### Challenges

- Developing and implementing corrective action plans.

Figure V-10 summarizes the audit readiness status of systems relevant to Tier 3 ODOs, including systems owned and maintained by a Tier 3 entity and systems owned and maintained by other organizations. (Tier 4 entities are not included.) System status reflects results of the IPA assessments through FY 2016. For systems that have not yet been assessed by an IPA, the figure shows the number of systems that still need to be assessed.

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



## ODO AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure V-13 include:

### Audit Readiness, Validations, and Audits

- 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

- 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, Enterprise Resource Planning Systems. 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-13. Other Defense Organizations Audit Readiness Resources (Dollars in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Audit Readiness, Validations, and Audits	247	275	269	232	230	221
Financial Systems	8	5	5	5	5	3
<b>Total Resources</b>	<b>255</b>	<b>280</b>	<b>274</b>	<b>237</b>	<b>235</b>	<b>224</b>

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## Message from the Director, Defense Contract Management Agency

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

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

*DCMA has completed three Statements on Standards for Attestation Engagements Number 16 examinations during fiscal years (FY) 2014, 2015, and 2016. These examinations provided valuable insight to the operational activities and applicable internal controls of our organization. We used the examination results to help us isolate and understand problem areas, identify areas where we could get out in front and improve our internal controls over contract management processes, and to highlight—then celebrate—what our workforce is doing well. We corrected a number of areas that were great candidates for changes and improvements that otherwise may not have been surfaced.*

*As we prepare to initiate our FY 2017 examination we continue to stand ready to support our customers in their internal control testing and examination requirements. DCMA recognizes that our success directly impacts our customers' success. We are: One team, one voice, delivering global acquisition insight that matters. Audit readiness matters!*



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

## Message from the Director, Defense Finance and Accounting Service

*As we begin fiscal year (FY) 2017, the Military Services enter another year of audit, while some of our DoD customers are undergoing their first full financial statement audit. As our customers move forward with the audit strategy, the Defense Finance and Accounting Service (DFAS) remains fully committed to achieving the Department's Financial Improvement and Audit Readiness (FIAR) Plan, and we remain focused on audit readiness of our systems, data, processes, controls, and supporting documentation. We recognize our readiness has a direct effect on the Department's auditability. We hold ourselves accountable by documenting our processes, testing our controls, and remediating issues. Furthermore, we continue to partner with our customers to ensure we are integrating the critical elements of end-to-end processes.*



*Since FY 2012, DFAS has achieved success through our Statements on Standards for Attestation Engagements No. 16 (SSAE No. 16). To date, DFAS has received 18 favorable opinions on 5 DFAS services, including Civilian Pay, Military Pay, Contract Pay, Disbursing, and Financial Reporting. We continue to progress in our efforts as we execute our audit readiness strategy and expand our SSAE No. 16s. In FY 2016, we included the Defense Cash Accountability System, and in FY 2017, we plan to assert Vendor Pay and the Department 97 Reconciliation and Reporting Tool. We strive to achieve and sustain the SSAE No. 16 unmodified opinions, and we continue to conduct self-reviews on our processes and systems in accordance with our Managers' Internal Control Program.*

*As we transition from a state of audit readiness to one of audit steadiness, DFAS continues to use a framework of effective business management, effective internal controls, and sufficient, accessible, and current documentation. We are dedicated to providing timely documentation, demonstrating that controls are properly designed, operating effectively, and properly accounting for transactions. The Department's auditability is our priority. We are committed to proactively addressing audit findings while continuing to provide the first-class pay, accounting, and reporting services that our customers deserve!*

A handwritten signature in black ink that reads "Teresa A. McKay". The signature is written in a cursive, flowing style.

**Teresa A. McKay**  
Director

## Message from the Defense Information Systems Agency

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

*The Agency continuously strives to improve processes, enhance controls, and validate information. At DISA, audit is an enterprise-wide endeavor. The entire DISA workforce actively embraces the day-to-day challenges associated with audit readiness in order to sustain our audit posture. In May 2016, a contract was awarded for an audit of our FY 2016 Working Capital Fund and General Fund financial statements. This audit is underway and we look forward its' results in the upcoming months.*



  
LTG Alan R. Lynn  
Director

## Message from the Director, Defense Logistics Agency

*The Defense Logistics Agency (DLA) is a DoD service provider in a number of diverse areas. In preparing for our General Fund, Working Capital Fund, and Transaction Fund financial statement audits, we've improved internal processes and procedures. Our ability to meet our service provider responsibilities has directly benefited from those changes.*

*The DoD-wide business systems DLA owns have completed their annual Statements on Standards for Attestation Engagements Number 16 (SSAE No. 16) examinations by an independent public accounting firm. DoD agencies must rely on these systems to pass their own financial statement audits. DLA remediated last year's SSAE No. 16 findings and continues to monitor and sustain our enterprise-wide control policies and procedures. Our customers and their auditors can rely on DLA systems to provide accurate, timely, and secure information.*

*The Military Services depend on the processes and procedures at various DLA depots for the receiving, storing, and issuing of Military Service-owned items in DLA custody. Following discussions with the Military Services on the scope and required Complementary User Entity Controls, DLA is now undergoing this area's first SSAE No. 16 examination. As the examination progresses, DLA will provide updates to the Military Services and discuss the results in depth. In addition, DLA is working closely with the Military Services to define an attestation engagement that addresses the Military Service-owned items quantity balances in a manner that directly supports their financial statement audits.*

*As a human resources service provider to 12 Fourth Estate agencies, DLA is responsible for the employee record set-up and maintenance of 45,000 civilian employees, some of whom also receive permanent duty travel services from DLA. We are working closely with these agencies and responding to all audit-related requests in a timely manner.*

*To support DoD in our service provider roles, DLA will address each IPA-identified finding. We remain firmly committed to supporting DoD's goal of auditable financial statements.*



  
Andrew E. Busch, Lt. Gen., USAF  
Director

## VI. Service Providers Audit Readiness

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

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

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

### DoD Service Providers

The DoD service providers are:

- Department of the Army
- U.S. Army Corps of Engineers (USACE)
- Naval Facilities Engineering Command (NAVFAC)

- Defense Contract Management Agency (DCMA)
- Defense Finance and Accounting Service (DFAS)
- Defense Human Resources Activity (DHRA)
- Defense Information Systems Agency (DISA)
- Defense Logistics Agency (DLA)

### AUDIT READINESS STRATEGY AND SERVICE PROVIDERS

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

- Issued specific service provider guidance in the FIAR Guidance
- Directed the service providers to identify material systems and is monitoring system audit readiness activity
- Requires service providers to undergo a controls examination by an IPA after completing financial improvement work
- Monitors IPA controls 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

### Examinations of Service Provider Controls

When service providers complete financial improvement work, controls examinations are conducted by an IPA in accordance with SSAE No. 16, "Reporting on Controls at a Service Organization." In April 2016, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued SSAE No. 18, "Attestation Standards: Clarification and Recodification." SSAE No. 18 requires that controls be implemented at the service organization that monitors the effectiveness of controls at the sub-service organization and is effective for IPA examination reports dated after May 1, 2017.

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To improve Department-wide efficiency, service providers that provide services to three or more Component customers must obtain an IPA examination on controls. The results of the examination are provided by the IPA in an SOC-1 Report (Service Organization Controls Report) that can then be used by Component customer financial statement auditors, saving time and money.

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

### SERVICE PROVIDER AUDIT READINESS

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

#### Department of the Army

The Army has two service provider roles and responsibilities:

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

#### Acquisition of Conventional 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, providing ammunition procurement and management. Ammunition is reported by the

Military Services as Operating Material and Supplies on the Balance Sheet.

As a service provider, the Army maintains physical custody over ammunition stock owned by the other Military Services and visibility for these assets in the two accountable property systems of record: LMP and Standard Army Ammunition System-Modernized. To comply with FIAR service provider requirements, the Army is:

- Executing a single set of audit readiness activities for the Army and other Military Services.
- Performing monthly internal control testing of business processes to identify and mitigate deficiencies.

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

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

The Army completed the following audit readiness activities:

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

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The Army is preparing to implement FIAR Guidance valuation requirements for ammunition as part of the Army's overall valuation strategy for other Operating Material and Supplies assets.

### **Real Property Engineering Services and Construction**

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

USACE has received clean audit opinions on its Civil Works financial statements since FY 2008. USACE serves as a construction agent for the Army, therefore, its business processes and internal controls are applicable to the Army's Real Property asset management and audit readiness activities, as well as those of its other Component customers.

In support of its Component customers, USACE:

- Manages and oversees military construction programs through the construction process, which includes Construction-in-Progress reporting and accounting.
- Maintains and provides real estate documents upon acceptance of Real Property.
- Manages Real Property that is acquired by lease, easement, license, permit, or similar real estate instruments.
- Manages and oversees the acquisition, improvement, and disposal of land.
- Disposes of excess real estate including disposals mandated by the BRAC or public law.

### **Naval Facilities Engineering Command**

NAVFAC constructs and maintains facilities, delivers utilities and services, and provides capabilities to Navy expeditionary combat

forces. NAVFAC also supports the Air Force, USMC, and Defense Agencies.

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

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

### **Defense Contract Management Agency**

DCMA received a modified opinion with six NFRs on the FY 2016 SSAE No. 16 examination for Contract Pay. Corrective action plans for all NFRs have been implemented. DCMA's FY 2017 assertion and examination timeframe is scheduled for October 1, 2016 – June 30, 2017, with an examination report expected in August 2017.

DCMA is assisting its Component customers' SBA audits by providing controls and process documentation for Contract Pay and SSAE No. 16 examinations.

### **Defense Finance and Accounting Service**

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

In FY 2015, DFAS disbursed \$477 billion and processed 135.7 million pay transactions for 6.3 million military and civilian employees, including retirees and annuitants, 11.8 million invoices, and 5.7 million travel payments. DFAS maintained 1,367 active appropriations and managed \$834 billion in military retirement and health care fund investments.

### **SBA Audit Support**

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

- Civilian Pay – Unmodified opinion for the period October 2015 – June 2016
- Military Pay – Modified opinion with qualified language for the period October 2015 – June 2016
- Standard Disbursing – Unmodified opinion for the period October 2015 – June 2016
- Contract Pay – Unmodified opinion for the period October 2015 – June 2016
- Financial Reporting – Modified opinion with qualified language for the period October 2015 – July 2016

The first SSAE No. 16 examination for the Defense Cash Accountability System (DCAS) began in FY 2016 for the period March 2016 – September 2016.

For processes and systems that are not part of an SSAE No. 16 examination, DFAS conducts self-reviews and system reviews in accordance with FIAR Guidance and FISCAM. DFAS also sustains an effective Managers' Internal Control Program to ensure processes are documented, controls are effectively tested, and corrective actions are fully remediated.

### **Full Financial Statement Audit Support**

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

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

### **Defense Information Systems Agency**

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

For the fifth consecutive year, DISA received an unmodified opinion for application hosting services on its SSAE No. 16 examination. In FY 2016, DISA conducted its second SSAE No. 16 examination on the Automated Time and Attendance and Production System (ATAAPS) and received a modified opinion. DISA is dedicated to resolving the four NFRs provided by the auditor and is on target to complete corrective actions. DISA continues to support the

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Components and has engaged an IPA to conduct follow-on SSAE No. 16 examinations for both hosting services and ATAAPS for the period October 2016 – June 2017.

### Defense Logistics Agency

DLA has two service provider roles:

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

#### Military Service-Owned Items in DLA Custody

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

#### IT Systems

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

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

SSAE No. 16 examinations were completed for:

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

The FY 2017 SSAE No. 16 examination reports are expected in August 2017.

### Defense Human Resources Activity – Defense Manpower Data Center

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

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

#### Defense Civilian Personnel Data System Support

In October 2015, DHRA-DMDC assumed the operation and maintenance of DCPDS, the Department's civilian personnel system used to initiate, approve, and process personnel actions for civilian employees. DCPDS supports over 800,000 active civilian personnel records and is the feeder system to the payroll system maintained by DFAS. The Components rely on DCPDS, including relevant system controls, to ensure the completeness, accuracy, validity, and restricted access to civilian personnel actions. Additionally, DHRA-DMDC hosts the personnel system at a contractor-managed data center. DCPDS received an unmodified opinion on its SSAE No. 16 examination for the period October 1, 2015 – June 30, 2016.

#### Defense Travel System Support

In October 2015, DHRA-DMDC assumed the operation and maintenance of DTS. In coordination with the Defense Travel Management Office, DHRA-DMDC maintains DTS, which has interfaces that manage, execute, and calculate the costs to reimburse

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

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

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

### Remaining Audit Readiness Actions

- Conduct LMP FISCAM assessment and implement corrective actions.
- Provide documentation and test results to customers for asserting audit readiness on their Operating Material and Supplies assets.
- Provide internal control catalogues and supporting documentation to customer auditors to assess the inherent and control risks.
- Conduct an SSAE No. 16 examination. Completion is planned for Quarter 3 of FY 2017.

### Completion Dates for Milestones (✓ = Completed)

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

### Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All transactions are recorded and properly classified (individual item identifier, where applicable, asset type, controlling organization) within the APSR.	✓
Physical inventories are conducted to validate the existence (APSR records reconcile to physical inventory).	✓
Physical inventories are conducted to validate transactions recorded in the APSR pertain to the Component (identification number where applicable, asset marked with Components name).	✓
All transactions are consistently categorized by type in APSR, summarized, or reported from period to period.	✓
All transactions are recorded and properly classified (individual item identifier where applicable, asset type, controlling organization) within the APSR.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	12/2016

## U.S. Army Corps of Engineers – Real Property

### Overview

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

### Remaining Audit Readiness Actions

- In preparation for the full Real Property assertion, the Army and USACE will continue to review and validate Land, Capital Leases, Leasehold Improvements, and Construction-in-Progress balances.

### Challenges

- Obtaining historical asset acquisition documentation to support valuation costs for Army Real Property assets constructed under the military construction appropriation 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	12/2016
Reporting Entity Assertion Support	12/2016
Assertion	12/2016

### 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.	12/2016*
Appropriate construction in progress amounts are transferred to the DoD Component in a timely manner upon completion of the project.	12/2016*
All material systems achieve the FISCAM IT general and application-level general control objectives.	✓

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Navy Facilities Engineering Command – Real Property

### Overview

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

### Remaining Audit Readiness Actions

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

### Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Implemented Alternative Valuation	✓*
Reporting Entity Assertion Support	03/2017*
Assertion	✓*
Sustainment Testing (Existence and Completeness, and Controls Tests)	03/2017*
CIP and Financial Reporting Corrective Actions	03/2017*
Non-Military Construction Appropriation Capital Improvement Corrective Actions	03/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	12/2016*
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	03/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Defense Contract Management Agency

### Overview

- Received a modified opinion with 6 NFRs on the FY 2016 SSAE No. 16 examination for Contract Pay. The NFRs pertained to access controls, segregation of duties, and business process controls.
- FY 2015 corrective action plans have been closed. Created corrective action plans to address FY 2016 examination and internal testing deficiencies. Testing was completed 09/2016.
- Conducted a workshop addressing complementary user entity controls needed to satisfy customer control objectives.

### Remaining Audit Readiness Actions

- Finalize existing Contract Pay MOUs to define service provider and reporting entity customer responsibilities.
- Continue periodic internal control testing of Contract Pay sample transactions.
- Support customer FY 2017 testing and examination requests.
- Reevaluate and determine scope of FY 2018 SSAE No. 16 examination.
- Determine impact of new SSAE No. 18 audit standard and support FY 2017 examination under new standard.

### SSAE No. 16 Examinations (✓ = Completed)

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Defense Finance and Accounting Service – Financial Reporting

### Overview

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

### Remaining Audit Readiness Actions

- DFAS remediated seven FY 2015 NFRs, covering both business process and IT controls and were included in testing for the FY 2016 examination.
- DFAS received 10 NFRs with the FY 2016 SSAE No. 16 report. NFRs included findings in the areas of business process and system controls.
- 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 G-Invoicing.

### Challenges

- Engaging the Military Services and Defense Agencies in 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	09/2017
10/2015 – 07/2016	Modified*	10*	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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.	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Defense Finance and Accounting Service – Defense Cash Accountability System

### Overview

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

### Remaining Audit Readiness Actions

- Conduct an SSAE No. 16 examination for the period March 2016 – September 2016.

### Challenges

- Increased complexity due to the large number of stakeholders, both DFAS and non-DFAS.
- Dynamic nature of planned system changes.

### SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2016 – 09/2016	Examination in Progress		

### 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.	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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

### Overview

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

### Remaining Audit Readiness Actions

- Test relevant processes and IT controls, and implement any corrective actions.

### Challenges

- Implementing corrective actions is complex due to the large number of stakeholders, both DFAS and non-DFAS.
- Communicating scope, including complimentary user entity controls, to all stakeholders.
- Dynamic nature of planned system changes.
- Incorporating sensitive activity environment.

### Completion Dates for Milestones (✓ = Completed)

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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.	08/2018*
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	08/2018*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Defense Finance and Accounting Service – Vendor Pay

### Overview

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

### Remaining Audit Readiness Actions

- Implement remaining corrective actions.
- Prepare documentation for an SSAE No. 18 examination of the Vendor Pay entitlement process.

### Challenges

- Implementing corrective actions is complex due to the large number of stakeholders, both DFAS and non-DFAS.
- Communicating complementary user entity controls and complementary subservice organization controls to stakeholders.
- Dynamic nature of planned system changes.
- Ensuring the material systems supporting the Vendor Pay SSAE No. 18 examination achieve the general and application control objectives.

### SSAE No. 16 Examinations (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	12/2016*
Reporting Entity Assertion Support	12/2016*
Assertion	12/2016*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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.	08/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	08/2017

## Defense Information Systems Agency – Automated Time Attendance and Production System

### Overview

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

### Strategy Summary

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

### Challenges

- Insufficient documentation for privileged access and access level requested. DISA management will ensure access level for personnel is being reviewed and revalidated.
- No formal MOU between DISA and DFAS established on their respective responsibilities. The MOU is being staffed at DISA.

### SSAE No. 16 Examinations (✓ = Completed)

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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 accountable property systems of record for items in DLA custody.
- DLA uses the same receipt, storage, and issuance processes and policies for Military Service-owned items as it does for DLA-owned inventory items.
- DLA support affects Military Service financial reporting for the items in DLA custody. DLA established an MOU with each Military Service that defines DLA support of Military Service audits and addresses controls relevant to financial reporting.

### Remaining Audit Readiness Actions

- Continue working with the Military Services to assess the full scope of assurances needed from DLA to support their financial statement audits.
- Support the first SSAE No. 16 examination.
- Support the IPA performing other audit procedures over quantity.
- Continue monitoring and sustaining enterprise-wide control policies and procedures.

### SSAE No. 16 Milestones (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
01/2016 – 07/2016	Examination in Progress		

### 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 08/2016 on the SSAE No. 16 examination for the period October 2015 – June 2016.
- Held customer complementary user entity controls discussions to ensure understanding.
- Continuing support through FY 2017 SSAE No. 16 examination with reporting period of October 2016 – June 2017.

### Remaining Audit Readiness Actions

- Implement corrective actions and recommendations from the FY 2016 SSAE No. 16 examination with a focus on improving configuration management controls and monitoring activities.
- Continue monitoring and sustaining enterprise-wide control policies and procedures.
- Address remaining NFRs prior to auditor review in FY 2017.

### Challenges

- Balancing customer requirements for increasing audit coverage with ability to support mission functions.

### SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
09/2013 – 02/2014	Modified	4	✓
10/2014 – 06/2015	Modified	5	✓
10/2015 – 06/2016	Modified*	9*	01/2017*
10/2016 – 06/2017*	Examination in Progress*		

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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 Agencies Initiative

### Overview

- DAI is an ERP being deployed to most Defense Agencies and organizations other than the Military Departments.
- Held customer complementary user entity controls discussions to ensure understanding.
- Continuing DLA support through FY 2017 SSAE No. 16 examination.

### Remaining Audit Readiness Actions

- Based on FY 2016 SSAE No. 16 examination, revising control objectives and control activity language to avoid scope discrepancies and presentation issues, and to ensure testable controls are provided during the reporting period.
- Continue monitoring and sustaining enterprise-wide control policies and procedures.

### SSAE No. 16 Examinations (✓ = Completed)

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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 government receipt and acceptance of goods and services.
- Received a modified opinion on the SSAE No. 16 examination for the period October 2015 – June 2016.
- Held customer complimentary user entity controls discussions to ensure understanding.
- Continuing DLA support through FY 2017 SSAE No. 16 examination with reporting period October 2016 – June 2017.

### Remaining Audit Readiness Actions

- Continue monitoring and sustaining enterprise-wide control policies and procedures.
- Address report exceptions prior to auditor review in FY 2017 by adding and testing additional control activities in the output monitoring control objective.

### SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2014 – 08/2014	Modified	10	✓
10/2014 – 06/2015	Modified	4	✓
10/2015 – 06/2016	Modified*	4*	01/2017*
10/2016 – 06/2017*	Examination in Progress*		

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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

### Overview

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

### Remaining Audit Readiness Actions

- Ensure the FY 2016 SSAE No. 16 examination NFRs corrective action plans are implemented and efficient. The corrective actions address deficiencies in security management, risk assessments, access controls, configuration management and processing control, and segregation of duties.
- Prepare for the FY 2017 SSAE No. 18 examination by conducting pre-audit meetings to review lessons learned, preparing supporting documentation, and ensuring MOUs are in place with the Military Departments and ODOs.
- Continue to refine internal DMDC enterprise procedures.

### SSAE No. 16 Examinations (✓ = Completed)

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### 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. Enterprise Resource Planning Systems

The Department's ability to produce auditable financial statements is dependent on an audit ready systems environment that includes Enterprise Resource Planning systems (ERPs). The Department's ERP investments help lead to better financial controls, mitigate material weaknesses, and aid in achieving clean audit opinions. The integrated design and tight controls of the ERPs provide the foundational elements of a sustainable IT business environment. An audit ready systems environment is essential to effectively and efficiently sustaining audit readiness.

As many IT controls as possible are embedded in each ERP to reduce the possibility of human error and automate processes. Effective, automated controls are essential to audit readiness and minimizing the amount of testing to be performed by auditors. Progress has been substantial, but the extent to which internal controls have been embedded within an ERP depends on the system and program maturity, as well as the ERP's business purpose. As the scope of the Department's audits grows, the ability of auditors to rely on the automated controls within the ERPs takes on even more importance.

Component plans for deploying ERPs vary and some of the projected dates extend beyond September 30, 2017. The FY 2018 full financial statement audits will include a combination of ERPs and legacy systems.

This section provides information on each ERP. See the Military Department and Other Defense Organization sections for the audit readiness status of each Component's systems environment.

### DEPARTMENT OF THE ARMY

The Army ERPs are:

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

Since completion of the FY 2015 SBA audit and during the ongoing FY 2016 SBA audit, the ERP program management offices have made progress remediating deficiencies and material weaknesses. Progress examples include the following:

- GFEBS – During the FY 2016 SBA audit, the IPA issued 19 IT general controls NFRs; two were remediated and validated.
- GCSS-A – During the FY 2016 SBA audit, the IPA issued 17 NFRs based on IT general controls testing to date.
- LMP – During the FY 2016 SBA audit, the IPA issued 22 NFRs, based on its IT general controls testing.

For each Army ERP, the charts provide an overview and brief description, program costs, impact on legacy systems, and IT controls; implementation milestones; and status of financial reporting objectives.

## General Fund Enterprise Business System (GFEBS)

### Overview

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

### Program Cost (Dollars in Millions)

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

### Impact on Legacy Systems

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

### Information Technology Controls (✓ = Completed)

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## FIAR Plan Status Report

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

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

### GFEBs Financial Reporting Impact

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

## FIAR Plan Status Report

### 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
<b>Statement of Budgetary Resources</b>				
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	✓	✓
<b>Mission-Critical Assets Existence and Completeness</b>				
General Equipment	10	1	03/2017*	06/2017*
Real Property	10	9	12/2016	03/2017
Operating Materials and Supplies	10	1	03/2017*	06/2017*
Inventory	10	N/A	N/A	N/A

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## Logistics Modernization Program (LMP)

### Overview

- LMP is the world’s largest, integrated supply chain, maintenance, repair, and overhaul, planning, execution, and financial management system. It is designed to sustain, monitor, measure, improve, and modernize logistics support.
- LMP handles 7 million transactions daily and \$19 billion in inventory and is deployed to over 30,000 users in more than 50 worldwide locations. LMP interfaces with more than 80 systems and exceeds industry standards with a system response time of less than 2 seconds per transaction 98 percent of the time.
- LMP Increment 2 added 9,000 new users and gave 5,000 users additional functionality. It provides new and expanded capabilities addressing business transformation and DoD policies for Item Unique Identification standards.

### Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	2 (8 CCSS, 42 SDS) <sup>1</sup>
Legacy Systems Scheduled for Sunset	18
Legacy Systems Interfaced to Date	81
Legacy Systems to Be Interfaced	5

<sup>1</sup> 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 – Capital Inv. Program	1,253.4	1,392.0
AWCF – Operations	1,209.3	2,658.5
Operations and Maintenance Army	115.7	181.3
Base Realignment and Closure	3.1	3.1

Note: Program Cost is for Increments 1 and 2; To Date is as of July 31, 2016; Completion cost (total lifecycle cost) is estimated.

### Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	03/2017*
Configuration Management	✓	✓
Segregation of Duties	✓	✓*
Contingency Planning	✓	✓
Completeness	✓	✓*
Accuracy	✓	✓*
Validity	✓	✓*
Confidentiality	✓	✓*
Availability	✓	✓*
<b>Increment 2</b>		
IT General Controls (CM, AC, SD)	05/2017*	09/2017*
IT Application Controls	05/2017*	09/2017*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## FIAR Plan Status Report

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

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

## FIAR Plan Status Report

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### LMP Financial Reporting Impact

System compliance reviews are an important step toward relying on controls within LMP. Integration between LMP and GFEBS consists of budget execution and obligation transactions that are reported on the Statement of Budgetary Resources (SBR). Additionally, LMP is an APSR for a portion of Army operating materials and supplies.

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

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## 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 provides supply and financial capabilities at the tactical unit and installation warehouse levels and was completed in 12/2015. Wave 2 is deploying maintenance, property book accountability, unit supply, and additional financial capabilities to every tactical and installation level unit.
- GCSS-A Wave 1 was completed 12/2015 and was fielded to approximately 285 Units, and 14,677 users. Wave 2 deployment is 46 percent complete.

### Impact on Legacy Systems

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

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

### Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	1,053.1	1,062.9
Procurement	494.8	891.1
Operations and Maintenance	381.8	1,977.7

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

### Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	12/2016*
Configuration Management	✓	✓*
Segregation of Duties	✓	✓
Contingency Planning	✓	✓*
Completeness	✓	✓*
Accuracy	✓	✓*
Validity	✓	✓*
Confidentiality	✓	✓*
Availability	✓	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## FIAR Plan Status Report

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

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

### GCSS-A Financial Reporting Impact

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

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

## FIAR Plan Status Report

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

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
<b>Statement of Budgetary Resources</b>				
Fund Balance with Treasury	29	7	✓*	06/2017
Supplies (MILSTRIP)	22	21	✓*	09/2017
Financial Reporting	4	4	✓*	03/2017
Other Budgetary Activity	18	4	✓*	03/2017
Appropriations Received	13	2	✓*	03/2017
Reimbursable Work Order – Grantor	22	12	✓*	03/2017
Reimbursable Work Order – Acceptor	7	4	✓*	03/2017
<b>Mission-Critical Assets Existence and Completeness</b>				
General Equipment	10	9	✓*	04/2017
Operating Materials and Supplies	10	9	✓*	04/2017
Inventory	10	9	✓*	04/2017

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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

### Overview

- IPPS-A is the web-based solution for integrating human resources capabilities across Army components. IPPS-A will alleviate the reliance on more than 40 stove-piped systems that do not efficiently share information. IPPS-A will provide a centralized resource to soldiers, leaders, and human resource professionals for managing personnel and pay information.
- IPPS-A Increment I was deployed to over 1.1 million soldiers in 07/2015, providing standardized reports with conditional displays by grade (Enlisted, Officer, Warrant Officer) and component.
- IPPS-A Increment I establishes a total Army relational database standardizing data from 15 legacy systems. Increment I has no impact on financial transactions as its purpose is to generate multi-component Soldier Record Brief using standardized data.
- Increment I supports data accuracy by providing reports to soldiers to review and correct information in legacy systems.
- Increment II is in the Development and Deployment Phase of the acquisition lifecycle. Increment II, Release 2 is the first release containing auditable content and is slated for release completion of a Limited Fielding Decision in Quarter 3 of FY 2018.

### Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset <sup>1</sup>	34
Legacy Systems Interfaced to Date (Increment I)	15
Legacy Systems to Be Interfaced (Increments I and II)	87

<sup>1</sup> Upon complete deployment of Increment II, 34 systems are scheduled to be sunset.

### Program Cost (Dollars in Millions) costs not updated

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

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

### Information Technology Controls (✓ = Completed)

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

Note: IPPS-A Increment I is not relevant to the financial statements and did not undergo controls testing. IPPS-A Increment II, Release 2, is in the design stage, and IT controls testing and correction dates have not been solidified.

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

## FIAR Plan Status Report

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

Note: IPPS-A is in the design stage. Percent of total budget authority has not been determined.

## FIAR Plan Status Report

### IPPS-A Financial Reporting Impact

The PeopleSoft ERP was selected for Army's integrated personnel and pay system in part because of its ability to meet FIAR requirements. IPPS-A will feed SFIS-compliant data to GFEBs. Although IPPS-A is required for audit readiness, it will not be deployed in time to support the FY 2018 full financial statement audit. Lessons learned from the SBA audit will be incorporated in

the design and development of Increment II. Increment II is being designed and developed to be compliant with FISCAM, FFMIA, SFIS, and BEA and will assist in eliminating a number of the Army's material weaknesses. Current Army systems will continue to provide information for audit readiness until IPPS-A is deployed.

### IPPS-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
<b>Statement of Budgetary Resources</b>				
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	04/2019*	10/2019*
Civilian Pay	11	0		
Reimbursable Work Order – Acceptor	7	0		
Other Budgetary Activity	18	0		
Financial Reporting	4	0		
<b>Mission-Critical Assets Existence and Completeness</b>				
General Equipment	10	0		
Real Property	10	0		
Operating Materials and Supplies	10	0		
Inventory	10	0		

\* Revised or completed since the May 2016 FIAR Plan Status Report.

## DEPARTMENT OF THE NAVY

The DON has two ERPs impacting audit readiness:

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

For each DON ERP, there are charts that provide:

- Overview and brief description, program costs, impact on legacy systems, and IT controls
- Implementation milestones
- Status of financial reporting objectives

## 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. There are approximately 72,000 Navy ERP users.
- Navy ERP implemented a change management strategy including user training, communications, and on-site user support. Data-conversion risks were mitigated through legacy data cleansing, data conversions, and use of advanced data conversion tools.
- Navy ERP conducted a review with Assistant Secretary of the Navy for Research, Development and Acquisition in August 2016 and identified a need for a new governance structure to manage the growing demand signal. The new governance working group will coordinate the process of developing a new governance structure and to better balance workforce capacity across a prioritized, funded workload.

### Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date <sup>1</sup>	86
Legacy Systems Scheduled for Sunset	5
Legacy Systems Interfaced to Date	66
Legacy Systems to Be Interfaced	0

<sup>1</sup> As of 09/2016.

### Program Cost (Dollars in Millions)

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

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

### Information Technology Controls (✓ = Completed)

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

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

## 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 <sup>1</sup>

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

### Navy ERP Financial Reporting Impact

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

activities. 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
<b>Statement of Budgetary Resources</b>					
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 <sup>1</sup>	N/A	N/A	N/A
Civilian Pay	13	12	9	✓	✓
Reimbursable Work Order – Acceptor	12	12	8	✓	✓
Other Budgetary Activity	8	0	N/A	N/A	N/A
Financial Reporting	10	10	10	✓	✓
<b>Mission-Critical Assets Existence and Completeness</b>					
Real Property	10	0 <sup>2</sup>	N/A	N/A	N/A
Inventory	10	10	10	✓	✓
Operating Materials and Supplies	10	10	10	✓	✓
General Equipment	10	10	10	✓	09/2017

<sup>1</sup> Military Pay transactions are not processed within Navy ERP.

<sup>2</sup> 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/Logistics Chain Management Increment 1 (GCSS-MC/LCM Increment 1)

### Overview

- GCSS-MC provides the core of a modern, web-enabled, centrally managed Logistics Chain Management enterprise system.
- GCSS-MC/LCM Increment 1 is the ERP for supply and maintenance.
- GCSS-MC/LCM strategy includes Increment 1 and future planning for enterprise tools to provide software configuration for replacing existing LCM functions, master data repository, and Business Process Modeling to bring Platform-as-a-Service to LCM.
- A Tactical Service Oriented Architecture is in place, Increment 1 Oracle ERP is in sustainment, and Defense Property Accountability System (DPAS) was adopted.

### Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	316.6	320.5
Procurement	80.5	88.3
Operations and Maintenance	659.6	1,265.0

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

### Impact on Legacy Systems

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

### Information Technology Controls (✓ = Completed)

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

## FIAR Plan Status Report

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

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

## FIAR Plan Status Report

### GCSS-MC Financial Reporting Impact

GCSS-MC/LCM Increment 1 achieved Full Deployment on December 23, 2015. The system is refreshing to the Oracle 12 e-Business Suite in 2017 for implementation Quarter 1 of FY 2018. The Marine Corps uses DPAS for military equipment valuation and reporting of military equipment capitalized assets in Marine Corps financial statements.

Inventory balance and valuation of operating materials and supplies is transferred from Increment 1 to the Marine Corps financial system of record, Standard Accounting Budgeting and Reporting System (SABRS), via the General Ledger Journal Funds Check interface.

DPAS accounts for General Property, Plant, and Equipment, and Increment 1 will report military equipment capitalized assets. This capability will be satisfied with the development of inventory valuation for fixed assets or by use of the DPAS.

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 Marine Corps 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
<b>Statement of Budgetary Resources</b>				
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		

## FIAR Plan Status Report

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
<b>Mission-Critical Assets Existence and Completeness</b>				
Military Equipment	10	0		
Real Property	10	0		
Inventory	10	0		
OM&S	10	10	✓	✓
General Equipment	10	0		

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

## DEPARTMENT OF THE AIR FORCE

The Air Force ERPs are:

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

### 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 serves as the target core financial system for all Air Force financial and mixed financial system modernization and development programs. It provides the Air Force with a SFIS and USSGL compliant core accounting system.

DEAMS is currently deployed to half of its expected user base of 22,800 and is operating at 114 Active, Reserve, and Air National Guard locations. Software releases in FY 2016 and FY 2017 enable

deployments to overseas locations and provide major acquisition program functionality to support the remaining deployments.

### Air Force Integrated Personnel and Pay System

AF-IPPS is a web-enabled, Commercial-Off-the-Shelf based solution that integrates many military personnel and pay processes into one self-service system, enabling maintenance of a single authoritative member record for human resources and military pay. An FFMIA-compliant system, AF-IPPS functionality supports audit readiness general and application controls. A Full Deployment Decision is projected for Quarter 3 of FY 2020.

For each Air Force ERP, charts provide an overview and brief description, program costs, impact on legacy systems, and IT controls; implementation milestones; and status of financial reporting objectives.

## 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 a transaction-based general ledger to seven Air Force Major Commands and USTRANSCOM, as of 08/2016.

### Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	524.931	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. Critical change impact to be determined.

### Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	6*
Legacy Systems Interfaced to Date	39
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	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	12/2016
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

## FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		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)	TBD*	26
Full Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivable Management, Fund Balance with Treasury (General Fund)	TBD*	100 <sup>1</sup>

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### DEAMS Financial Reporting Impact

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

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

## FIAR Plan Status Report

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

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

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

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

<sup>2</sup> Applies to Transportation Working Capital Fund only.

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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

### Overview

- Web-enabled, COTS-based solution integrating military human resources and pay systems for the Total Force, consisting of nearly 500,000 Air Force Active, Guard, and Reserve members.
- Full deployment decision is projected for Quarter 3 of FY 2020, aligned with the revised strategy decision in 12/2015 to integrate pay within the existing human resource system (MilPDS), utilizing Oracle Payroll in EBS.
- AF-IPPS will subsume the functionality currently performed by the Air Force instance of DJMS/AC and DJMS/RC for military pay transactions.
- Technical challenges include network architecture constraints, data management, interface integration, common-infrastructure governance, and synchronization between AF-IPPS implementation and other Air Force systems.

### Impact on Legacy Systems

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

Note: AF-IPPS Systems Requirement Document (SRD) is under development based on the revised strategy. Legacy system requirements will be identified within the new SRD, projected for completion in 11/2016.

### Program Cost (Dollars in Millions)

Program Cost by Appropriation	To Date	Completion
Research, Development, Test, and Evaluation	166.9	163.7
Procurement	--	8.99

Note: Completion costs (FY 2016 – FY 2021) based on AFIPPS Program Office Program Office Estimate, as of 08/2016.

### 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 Major Automated Information Systems (MAIS) program. Information Technology Controls will be tested post contract award.

## FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Full Deployment of Payroll Integration	<u>Deploys the following capabilities:</u> <ul style="list-style-type: none"> <li>• Payroll Integration within existing Human Resource System</li> <li>• Generate Airman Payroll</li> <li>• Integrate with Accounting Systems</li> <li>• Disburse Direct to Treasury</li> <li>• Interface with Required Systems</li> <li>• Self-Service Actions for Airmen</li> <li>• Reduced Pay Errors</li> </ul>	03/2020*	100

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

### AF-IPPS Financial Reporting Impact

AF-IPPS will be a financial feeder system to DEAMS that will produce SFIS-compliant data. AF-IPPS will replace two major legacy systems – DJMS/AC and DJMS/RC – and integrate with the existing human resource system – MilPDS. AF-IPPS will interface with a number of other legacy personnel and pay 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 included in 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
<b>Statement of Budgetary Resources</b>				
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		
<b>Mission-Critical Assets Existence and Completeness</b>				
Military Equipment	0	0		
Real Property	0	0		
Inventory	0	0		
Operating Materials and Supplies	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 (ODO). The DAI objective is to achieve and sustain an auditable business environment with accurate, timely, authoritative financial data. The primary goal is to deploy a standardized system to improve cost of ownership, financial management capability, and achieve and maintain compliance with the Department's Business Enterprise Architecture and Standard Financial Information Structure.

To date, 16 Defense organizations have implemented DAI:

- Defense Acquisition University (DAU)
- Defense Applied Research Projects Agency (DARPA)
- Defense Contract Management Agency (DCMA)
- Defense Health Agency (DHA)
- Defense 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 (USUHS)

An additional 6 Defense organizations will deploy DAI:

- FY 2017
  - Defense Human Resources Activity (DHRA)
  - Defense Operational Test and Evaluation (DOT&E)
  - Defense Security Cooperation Agency (DSCA)
  - DoD Office of the Inspector General (DoD OIG)
- FY 2018
  - Washington Headquarters Services (WHS)
  - Defense Contract Audit Agency (DCAA)

## Defense Agencies Initiative (DAI)

### Overview

- DAI is the primary accounting system used by 16 Defense Agencies and other Defense organizations. Additional deployments in FY 2017 and FY 2018 are being considered.
- 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, and Working Capital Fund.
- A qualified opinion on an SSAE No. 16 examination was received for the period 10/2015 – 06/2016.

### Impact on Legacy Systems

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

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

### Program Cost (Dollars in Millions)

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

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

### Information Technology Controls (✓ = Completed)

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

## FIAR Plan Status Report

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

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A ACAT III		✓	N/A <sup>1</sup>
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 <sup>1</sup>
Deployment	Deployed to Defense Technology Information Center as a pilot with a maturation of these capabilities.	✓	N/A <sup>1</sup>
Milestone B ACAT III		✓	N/A <sup>1</sup>
Deployment	Deployed to Missile Defense Agency and Uniformed Services University of the Health Sciences with a further maturation of these capabilities.	✓	N/A <sup>1</sup>
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 <sup>1</sup>
Deployment	Deploy to four agencies with maturation of Initial Operating Capabilities and agency requirements.	✓	N/A <sup>1</sup>
Deployment	Deploy to four agencies with additional maturation of Initial Operating Capabilities and agency requirements.	✓	N/A <sup>1</sup>
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 <sup>1</sup>
Milestone B	Authorized development of Increment 2, Release 1, the technology upgrade of existing DAI agencies to Oracle Release 12.	✓	N/A <sup>1</sup>
Release 1	Upgrade Oracle Release 11.5.10 to Release 12 to existing agencies.	✓	55 <sup>2</sup>
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 <sup>2</sup>

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

\* Revised or completed since the May 2016 FIAR Plan Status Report.

<sup>1</sup> N/A as Increment 1 will be subsumed when Increment 2, Release 1 deploys in May 2015. Increment 1 was an unbaselined program.

<sup>2</sup> 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
<b>Statement of Budgetary Resources</b>				
Contract Pay	29	29	✓	✓
Supplies (MILSTRIP)	29	0		
Vendor Pay	29	29	✓	✓
Reimbursable Work Order – Grantor	29	29	✓	✓
Fund Balance with Treasury	14	14	✓	✓
Appropriations Received	5	5	✓	✓
Military Pay	13	0		
Civilian Pay	13	13	✓	✓
Reimbursable Work Order – Acceptor	12	12	✓	✓
Other Budgetary Activity	8	8	✓	✓
Financial Reporting	10	83	✓	✓
<b>Mission-Critical Assets Existence and Completeness</b>				
Military Equipment	10	6	✓*	✓*
Real Property	10	6	✓*	✓*
Inventory	10	0		
Operating Materials and Supplies	10	0		
General Equipment	10	6	✓*	✓*

\* Revised or completed since the May 2016 FIAR Plan Status Report.

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## Appendix 1. HASC Panel on Defense Financial Management and Auditability Reform Recommendations

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

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

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

Since the May 2016 FIAR Plan Status Report, the Department has determined three recommendations previously cited as partially met have been met (1.2, 1.6, and 2.1). Of the panel's 29 recommendations, 13 have been met.

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

## FIAR Plan Status Report

Figure A1-1. DoD Actions on FIAR Strategy and Methodology Recommendations

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

## FIAR Plan Status Report

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

## FIAR Plan Status Report

HASC Panel Recommendations		Status	DoD Actions Taken and Planned
1.5	The Under Secretary of Defense (Comptroller), in consultation with the Deputy Chief Management Officer of the Department of Defense, the secretaries of the military departments, and the heads of the defense agencies and field activities, should incorporate risk mitigation plans to support the meeting of future interim milestones in the FIAR Plan.	Partially Met	<p>The Department is executing a four-pronged approach to address risk management:</p> <ol style="list-style-type: none"> <li>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.</li> <li>2) Defined the critical path for achieving full financial statement auditability for FY 2018. Tasks and milestones have been included in the FIAR Guidance and the semiannual FIAR report.</li> <li>3) Reinforced the importance of internal controls over areas of significant risk by updating the FIAR Guidance with a new chapter dedicated to internal controls and by deploying an NFR tracking tool to monitor corrective actions.</li> <li>4) Implement new A-123 enterprise risk management requirements; and identify, track, and report on material weaknesses that require corrective actions in the Annual Statement of Assurance.</li> </ol>
1.6	The FIAR Governance Board should attest to whether the DoD is on track to achieve audit readiness in 2017 in each FIAR Plan Status Report.	Met	<p>Recently, the FIAR Governance Board reported to a DoD senior management group that the Department is on track to achieve audit readiness in 2017 and proceed with audits in FY 2018, consistent with progress reported in the November 2016 FIAR Report. Additionally, FIAR Governance Board members coordinate on all FIAR reports, attesting to the report's accuracy and completeness. On behalf of all members of the FIAR Governance Board, the co-chairmen each submit a message for inclusion in the FIAR Report reporting progress and restating their commitment to achieving audit readiness by the end of FY 2017. The directors of four service providers and the Military Department chief management officers also submit messages.</p>

## FIAR Plan Status Report

Figure A1-2. DoD Actions on Challenges To Achieving Financial Management Reform and Auditability Recommendations

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

## FIAR Plan Status Report

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
2.4	To reduce improper payments, the Department should re-evaluate its methodology for identifying and reporting improper payments.	Partially Met	<p>The Department continues to review methodologies for reducing improper payments. For example, DFAS re-evaluated and enhanced its Commercial Pay and Travel Pay statistical sampling methodologies with the addition of two pay systems. The change in methodology increased sample size and frequency from quarterly to annually.</p> <p>The remaining seven programs will continue to review their methodologies for identifying improper payments and will change their sampling plans: DFAS –Military Pay, Civilian Pay, Military Retirement; USACE-Commercial Pay and Travel Pay; and Navy ERP and Commercial Bill Pay Office Naples.</p>
2.5	<p>To reduce Anti-Deficiency Act violations, the Department should:</p> <ul style="list-style-type: none"> <li>• Perform an analysis of the causes for its ADA violations and then develop and implement procedures to address identified causes.</li> <li>• Ensure that key funds control personnel are adequately trained to prevent, detect, and report ADA violations.</li> </ul>	Met	<p>The Department identified the most frequent causes of its Anti-Deficiency Act violations and issued guidance on tracking and reporting Anti-Deficiency Act violations.</p> <p>The Department also requires Military Departments and Components to review and evaluate training records to ensure personnel certifying and handling funds have financial management and fiscal law training.</p>
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>DFAS created and provided monthly updates for metrics to better track progress regarding problem disbursements, in-transits, and unmatched disbursements. The metrics are sent monthly to all Components for tracking and decision-making purposes. DFAS also identifies and tracks root causes, and develops and monitors improvement plans until issues are resolved. The Department will continue regular analyses until it can replace legacy systems with ERP systems.</p>

## FIAR Plan Status Report

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
2.7	The Department should identify and institutionalize best practices, as applicable, throughout the DoD to reinforce the full engagement of those functional communities outside of the financial management community in audit readiness efforts.	Partially Met	<p>The Department uses FIAR Governance Board and FIAR Committee meetings to engage all relevant functional communities to discuss challenges and best practices. Best practices are shared among the Components, such as:</p> <ul style="list-style-type: none"> <li>• OUSD(C) solution to be used by the Military Departments for valuing existing real property assets (Plant Replacement Value).</li> <li>• OUSD(C) conducted a communication assessment and implemented methods to improve stakeholder outreach and audit readiness messaging.</li> <li>• Army use of an Air Force environmental liability cost estimation tool.</li> <li>• Navy developed audit response tool being implemented by the Army and Air Force.</li> <li>• Air Force developed Fund Balance with Treasury reconciliation tool being implemented by the Navy.</li> </ul>
2.8	The Department should develop a forum in which the military commands can share lessons learned from their respective audit readiness efforts.	Met	Military Departments and Defense Agencies regularly share lessons learned within their organization through various forums, such as newsletters, quarterly reviews, and stakeholder meetings. FIAR Subcommittee, FIAR Committee, FIAR Governance Board meetings, and weekly FINOPs meetings specifically dedicated to the MILDEPs act as forums for sharing information external to a Component.

## FIAR Plan Status Report

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.	Met	Service provider audit readiness milestones and the status and plans for SSAE No.16 examinations are reported to OUSD(C) and briefed at the FIAR Committee and FIAR Governance Board meetings every 60 days. Status is also reported in the semiannual FIAR Plan Status Report. In addition, the OUSD(C) and Components monitor service provider milestones, progress, and challenges during service provider working group meetings. Construction service providers (e.g., USACE, NAVFAC, Air Force Safety Center) are not being addressed at this time.

## FIAR Plan Status Report

Figure A1-3. DoD Actions on Financial Management Workforce Recommendations

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

## FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
		<p>satisfy the requirement for competency assessment, gap assessments, and future projections for competency identification and gap analysis.</p> <p>The FM OFCM submitted system change requests for improving the current Defense Competency Assessment Tool for future mission-critical occupational series and mission-critical occupational assessments to DCPAS. DCPAS committed to making the changes in time for the next round of assessments of FM mission critical occupations in April 2017.</p> <p>Phase 4: The OFCM continues to research the feasibility of assessing the civilian financial management workforce in other functional areas. The FM community has worked closely with the acquisition community to perform competency assessments for FM personnel assigned to acquisition’s Business-Financial Management, Business-Cost Estimating, and Auditing career fields. FM personnel included acquisitions personnel in previous FM competency assessments and will include them in the upcoming assessments in 2017. Per section 845 of the FY 2016 NDAA, the legislative requirement for financial management is to assess the civilian and military workforce. The HASC Panel recommendation included an additional requirement to assess the competencies of contractor personnel performing financial management functions. However, assessing the competencies of contractor personnel performing financial management-related functions is outside the scope of responsibility and authority of the financial management community.</p>

## FIAR Plan Status Report

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

## FIAR Plan Status Report

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

## FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
		<p>authorized for FM in the FY 2016 NDAA. The first difference is the use of the term “private sector organization” vice “nontraditional defense contractor.” Next, the civil service commitment would be “equal to the length of the assignment” rather than “at least equal to three times the length of the assignment.” The third difference deals with the duration of the exchange, recommending a period of not less than three months and not more than two years vice not more than one year.</p> <p>The FM community is coordinating with the acquisition community regarding implementation plans subject to the FY 2017 NDAA and will report results in the FY 2018 – 2023 Strategic Workforce Plan.</p>

## FIAR Plan Status Report

Figure A1-4. DoD Actions on ERP System Implementation Efforts Recommendations

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
<b>ERP SYSTEM IMPLEMENTATION EFFORTS</b>		
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>	<p>The OUSD(C) and ODCMO agreed that FIAR Plan Status Reports should include more detail regarding ERP programs to better evaluate progress toward auditability and timely implementation of corrective actions, and to increase confidence in the management of these investments. Each FIAR report since 2012 has included a separate section on the nine Military Service ERPs and DAI.</p> <p>The Department is taking a data-driven approach to managing Defense business systems as portfolios of investments. The goal is to aggregate data from authoritative data sources and tools used by the PPBE, acquisition, and funds certification processes to track and manage the overall performance of systems portfolios including ERPs.</p>
4.2	<p>The ERP program offices should integrate FIAR milestones into their program schedules. ERP program managers should be evaluated on their ability to maintain FIAR milestones as well as program acquisition-related milestones.</p>	<p>Each system program office is responsible for including requirements in their systems including FIAR requirements. The Services self-reported that they included FIAR milestones and requirements in their schedules. This only applies for the ERP systems in the acquisition process (e.g., DAI, DEAMS, IPPS). Programs in development were provided requirements for inclusion in their respective program schedules. ERPs are also incorporating systems changes resulting from findings discovered during audits and examinations. Systems changes are vetted via the Components systems' configuration control boards.</p> <p>The OUSD(C) developed a methodology for financial systems to</p>

## FIAR Plan Status Report

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 being used in the management and oversight of ERP Implementations, including:</p> <ul style="list-style-type: none"> <li>• Increasing discipline in requirements management.</li> <li>• Reengineering business processes before focusing on material solutions.</li> <li>• Reducing customizations to commercial software.</li> <li>• Sustaining leadership involvement throughout the lifecycle.</li> <li>• Emphasizing organizational change management to ensure</li> </ul>

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

## FIAR Plan Status Report

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

## FIAR Plan Status Report

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

## FIAR Plan Status Report

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

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HASC Panel Recommendation	Status	DoD Actions Taken and Planned
<p>4.8 The Department should: (1) evaluate the causes of system interface problems; (2) determine whether the number of interfaces can be reduced (e.g., by incorporating activities performed by legacy systems into the ERPs); and (3) determine what improvements can be made to support more effective interfaces between systems.</p>	<p>Partially Met</p>	<p>As required by the FY 2012 NDAA Sect 901, the Department updated the Business Process Reengineering Assessment Guidance on September 28, 2012.</p> <p>In FY 2014, the business process reengineering assessment process was integrated in Organizational Execution Plan reviews to support investment decisions and to validate the need to tailor commercial-off-the-shelf systems for unique requirements and interfaces, ensuring such requirements have been eliminated or reduced to the maximum extent practicable.</p> <p>The Department is increasingly approaching investment decisions with a portfolio view to reduce or eliminate unique requirements and interfaces. The Department has begun to implement process improvements across all systems through the implementation of strategic initiatives, including the use of the global exchange to increase the interoperability and exchanging of standardized data between systems. There is also a strategy to reduce the number of existing legacy systems over the next several years, which will reduce the need for a high number of interfaces. These efforts should reduce issues associated with point-to-point interfaces.</p>

## FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
<p>4.9 The DoD DCMO, in coordination with the Director for Operation, Test and Evaluation and Deputy Assistant Secretary of Defense for Development, Test and Evaluation, should assess information system control testing needs for all ERPs being developed by the DoD and determine whether appropriate workforce levels and corresponding skill sets exist within the Department's developmental and operational test communities. The Department should take actions to address any identified shortfalls.</p>	<p>Partially Met</p>	<p>DOT&amp;E does not perform testing for all systems, but provides guidance to assist organizations in performing testing. In July 2014, the DCFO established an independent testing program with DCMO support through the Joint Interoperability Test Command to test systems for compliance with financial management requirements, such as SFIS, SLOA, and USSGL.</p>

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## Appendix 2. Acronyms

Acronym	Definition
ACAT	Acquisition Categories
ADA	Anti-Deficiency Act
AF	Air Force
AFCOS	Automated Fund Control Order System
AFEMS	Air Force Equipment Management System
AF-IPPS	Air Force Integrated Personnel Pay System
AFMC	Air Force Materiel Command
AICPA	American Institute of Certified Public Accountants
ALTESS	Acquisitions, Logistics & Technology Enterprise Systems
AMC	Air Mobility Command
AMCOM	Aviation and Missile Command
APSR	Accountable Property System of Record
ARCENT	Army Central
ARNG	Army National Guard
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
ASC	Army Sustainment Command

Acronym	Definition
ATAAPS	Automated Time Attendance and Production System
ATB	Adjusted Trial Balance
AWCF	Army Working Capital Fund
BEA	Business Enterprise Architecture
BRAC	Base Realignment and Closure
CAP	Corrective Action Plan
CAPS-W	Computerized Accounts Payable System - Windows
CBDP	Chemical Biological Defense Program
CCAS	Consolidated Cash Accountability System
CCAS-AF	Commodity Command Standard System
CECOM	Communications Electronics Command
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMC	Command Master Chief
CMD	Command Staff

## FIAR Plan Status Report

Acronym	Definition
CMO	Chief Management Officer
COTS	Commercial Off-the-Shelf
CEUCS	Complementary User Entity Controls
DAAS	Defense Automatic Addressing System
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCD	Defense Courier Division
DCFO	Deputy Chief Financial Officer
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCPS	Defense Civilian Payroll System
DCPDS	Defense Civilian Personnel Data System
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements

Acronym	Definition
DDRS-B	Defense Departmental Reporting System – Budgetary
DEAMS	Defense Enterprise Accounting and Management System
DECA	Defense Commissary Agency
DERP	Defense Environment Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHP	Defense Health Program
DHRA	Defense Human Resources Activity
DIACAP	DoD Information Assurance Certification and Accreditation Process
DIFMS	Defense Industrial Financial Management System
DISA	Defense Information Systems Agency
DJMS	Defense Joint Military Pay System
DJMS-AC	Defense Joint Military Pay System – Active Component
DJMS-RC	Defense Joint Military Pay System – Reserve Component
DLA	Defense Logistics Agency
DMA	Defense Medical Activity

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Acronym	Definition
DMDC	Defense Manpower Data Center
DMEA	Defense Media Activity
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DoDEA	DoD Education Activity
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 POW/MIA Accounting Agency
DPAS	Defense Property Accountability System
DRRT	Development of the Defense Reconciliation and Reporting Tool
DSCA	Defense Security Cooperation Agency
DSS	Distribution Standard System
DTIC	Defense Technical Information Center
DTRA	Defense Threat Reduction Agency
DTS	Defense Travel System
DTSA	Defense Technology Security Administration

Acronym	Definition
ECC	Enterprise Central Component
ELC	Entity-Level Controls
EMCA	Enterprise-Wide Cost Accounting
ERP	Enterprise Resource Planning System
ES	Executive Summary
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
FISCAM	Federal Information System Controls Audit Manual
FM	Financial Management
FM&C	Financial Management and Comptroller
FMO	Office of Financial Operations
FMP	Office of Financial Policies and Systems
FMR	Financial Management Regulation
FY	Fiscal Year

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Acronym	Definition
GAAP	Generally Accepted Accounting Principles
GAFS	General Accounting and Finance System
GAFS-BQ	General Accounting and Finance System – Base Level
GAFS-R	General Accounting and Finance System – Reengineered
GAO	Government Accountability Office
GATES	Global Air Transportation Execution System
GCSS-A	Global Combat Support System-Army
GCSS-MC	Global Combat Support System-Marine Corps
GCSS-MC/LCM	Global Combat Support System-Marine Corps/Logistics Chain Management
GEX	Global Exchange
GFEBs	General Fund Enterprise Business System
GL	General Ledger
GTAS	Ground-to-Air Signal
HASC	House Armed Services Committee
HQARS	Headquarters Accounting and Reporting System
HR	Human Resources
IBS	Integrated Booking System

Acronym	Definition
IGT	Intergovernmental Transactions
iNFADS	Internet Naval Facilities Assets Data Store
IPA	Independent Public Accountant (or Accounting Firm)
IPAC	Intra-Governmental Payment and Collection
IPP	Invoice Processing Payment
IPPS-A	Integrated Personnel Pay System – Army
iRAPT	Invoicing, Receipt, Acceptance, and Property Transfer
IT	Information Technology
JITC	Joint Interoperability Test Command
JM&L	Joint Munitions and Lethality
LCM	Logistics Chain Management
LMP	Logistics Modernization Program
MAIS	Major Automated Information Systems
MAJCOM	Major Command
MCTFS	Marine Corps Total Force System
MDA	Missile Defense Agency
MEDCOM	Medical Command

## FIAR Plan Status Report

Acronym	Definition
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MIPR	Military Interdepartmental Purchase Request
MOCAS	Mechanization of Contract Administration Services
MOU	Memorandum of Understanding
MSC	Military Sealift Command
NAVADMIN	Navy Administrative
NAVFAC	Naval Facilities Engineering Command
NAVSUP	Naval Supply Systems Command
NDAA	National Defense Authorization Act
NFR	Notice of Findings and Recommendations
NIST	National Institute of Standard and Technology
OCJCS	Office of the Joint Chiefs of Staff
ODCMO	Office of the Deputy Chief Management Officer
ODO	Other Defense Organization
OEA	Office of Economic Adjustment
OEP	Organization Execution Plans
OFCM	OSD Functional Community Manager

Acronym	Definition
OIG	Office of the Inspector General
OIS	Ordnance Information System
OMB	Office of Management and Budget
OPNAV	Office of the Chief of Naval Operations
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PADDS	Procurement Automated Data and Document System
PBAS	Program Budget Allocation System
PBUSE	Property Book Unit Supply Enhanced
PMO	Program Management Office
POA&M	Plans of Actions and Milestones
PP&E	Property, Plant, and Equipment
PRDS	Purchase Request Data Standard
PRV	Plant Replacement Valve
RP	Real Property

## FIAR Plan Status Report

Acronym	Definition
SABRS	Standard Accounting, Budgeting and Reporting System
SAMS	Standard Army Maintenance System
SASC	U.S. Senate Committee on Armed Services
SARSS	Standard Army Retail Supply System
SBA	Schedule of Budgetary Activity
SBR	Statement of Budgetary Resources
SCR	Software Change Request
SDDC	Surface Deployment and Distribution Command
SES	Senior Executive Service
SFFAS	Statements of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SIDPERS	Standard Installation/Division Personnel System
SMA	Service Medical Activity
SMAS	Standard Materiel Accounting System
SME	Subject Matter Expert
SME	Subject Matter Expert
SOC-1	Service Organization Controls Report

Acronym	Definition
SOMARDS	Standard Operation and Maintenance Army Research and Development System
SPS	Standard Procurement System
SSAE	Statement on Standards for Attestation Engagements
STANFINS	Standard Financial System
STARS	Standardized Accounting and Reporting System
STARS-HCM	Standard Accounting and Reporting System – Headquarters Claimant Module
TACOM	Tank-Automotive and Armaments Command
TBD	To Be Determined
TFMS	Transportation Financial Management System
TI	Treasury Index
ULLS-AE	Unit Level Logistics System-Aviation Enhanced
USACE	United States Army Corps of Engineers
USD(C)	Under Secretary of Defense (Comptroller)
USD(C) AT&L	Under Secretary of Defense (Comptroller) Acquisition, Technology and Logistics
USMC	United States Marine Corps
USSGL	U.S. Standard General Ledger

## FIAR Plan Status Report

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Acronym	Definition
USSOCOM	U.S. Special Operations Command
USTRANSCOM	U.S. Transportation Command
USUHS	Uniformed Services University of the Health Sciences

Acronym	Definition
UTB	Unadjusted Trial Balance
WHS	Washington Headquarters Services

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FINANCIAL IMPROVEMENT AND AUDIT READINESS

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