

**U.S. Department of Defense**



# **Financial Improvement and Audit Readiness Plan**

## **FIAR Plan**

**September 30, 2008**



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*The September 2008 Financial Improvement and Audit Readiness (FIAR) Plan marks an important milestone for the Department of Defense. Today, 38 percent of the Department's \$3.8 trillion in assets and liabilities have unqualified audit opinions and an additional 7 percent are audit ready. By the end of FY 2009 the Department will have achieved unqualified audit opinions on 55 percent – roughly \$2.1 trillion – of our assets and liabilities, with an additional 11 percent ready for audit.*

*This progress is a reflection of the focused and thoughtful efforts of so many in our financial and functional communities. The Department remains committed to meet its financial goals and to obtain a clean audit opinion of its consolidated financial statements.*

  
Gordon England  
Deputy Secretary of Defense





*The Department of Defense began the journey of reaching a clean audit opinion on its full financial statements in early 2000. This goal demanded we revisit our enterprise business system strategies and formalize the approach for resolving internal control weaknesses and minimizing risk. Since then, we have institutionalized “Check It,” an internal management controls program that is delivering results; developed an architecture framework that forms the foundation for all business system designs; launched 12 enterprise systems solutions that are integral to our audit strategy; and established an audit readiness and sustainment methodology that ensures long-term success through the application of OMB Circular A-123, Appendix A.*

*The results are significant and measurable. The Department has reduced materials weaknesses by 85 percent, freed up billions of dollars for the warfighting mission by increasing financial operations efficiency, and achieved an unqualified audit opinion on 38 percent of our assets and liabilities, with another 17 percent to be completed in FY 2009.*

*The FIAR Plan has evolved to drive and capture this progress. Today, the Department has a clear strategy for continuing and sustaining improvements, and addressing near-term and long-term goals. We recognize the job is not done, but we know the path for achieving a clean audit opinion is defined and clearly laid before us.*

A handwritten signature in black ink, appearing to read "D Brook".

Douglas A. Brook

*Acting Under Secretary of Defense (Comptroller)*



## Executive Summary

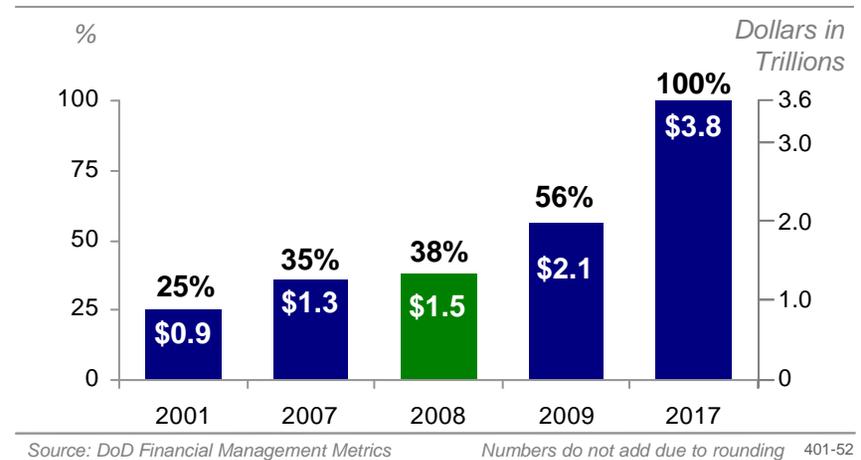
The Department of Defense (DoD) initiated the Defense Financial Improvement and Audit Readiness (FIAR) Plan in 2005 to set the course for improving financial information and achieving audit readiness. The FIAR Plan has three goals: 1) provide timely, reliable, accurate, and relevant financial information; 2) sustain improvements through an effective internal control program; and 3) achieve unqualified audit opinions on DoD annual financial statements.

The Department has made significant progress in achieving FIAR goals. Today, \$1.5 trillion or 38 percent of \$3.8 trillion of the Department's assets and liabilities (Figure 1) have received an unqualified audit opinion, including the U.S. Army Corps of Engineers Civil Works, which for the first time has received an unqualified audit opinion on its financial statements. Additionally, the TRICARE Management Activity Contract Resource Management organization's \$247 billion or 7 percent of assets and liabilities, and the Navy Weapons Systems Environmental Liability have been validated as audit ready (Figure 2).

The Department of Defense is arguably the most complex organization in the world. The Department:

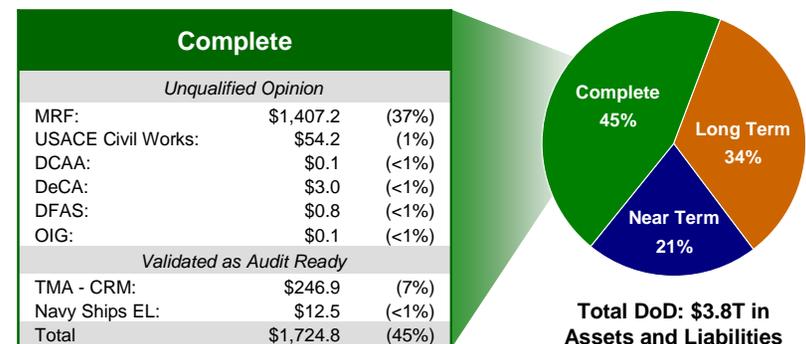
- Includes 4 Military Services; 17 Defense Agencies, 11 Field Activities and Other Defense Organizations; and the Joint Chiefs of Staff that oversee 10 worldwide Combatant Commands.
- Receives over 50 percent of the U.S. Government's discretionary budget.
- Employs more than 3 million military and civilian personnel.
- Occupies over 545,000 buildings, facilities, and structures in the United States, U.S. Territories, and 39 foreign countries.

Figure 1. Progress Toward Unqualified Audit Opinions



- Operates several thousand business and financial information systems.
- Records millions of global, daily financial transactions.

Figure 2. DoD Reporting Entity Improvements



\*Note: Asset and Liability amounts as of September 30, 2008. Numbers may not add due to rounding

With an organization as complex as the Department, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) must ensure progress continues and risks are effectively mitigated.

The first FIAR Plan identified financial management improvement priorities, established standard Business Rules for financial management improvement efforts, and aligned itself with other business transformation efforts based on a line-item framework. The FIAR Plan's incremental and prioritized approach has not changed, however, the line-item framework has been made more complete by breaking down the business and financial environment into segments. The OUSD(C) plays an active role in overseeing, managing, and

monitoring Component improvement efforts through the FIAR Plan.

The September 2008 FIAR Plan continues where the March 2008 FIAR Plan left off. The strategy to achieve auditability and improve financial management is woven with the Department's strategy to deploy financial system solutions that ensure long-term sustainability (Section I).

Section II highlights accomplishments and efficiencies attained since the inception of the FIAR Plan, and system successes that tie directly to financial management improvement. Sections III and IV break down the remaining portion of the Balance Sheet into near- and long-term goals. These strategies and some significant results are listed in Figure 3.

Figure 3. DoD Financial Management Accomplishments

Strategy	Results
<p><b>Achieve Auditability:</b></p> <ul style="list-style-type: none"> <li>• Deliver Results</li> <li>• Approach Governed by Business Rules</li> <li>• Incremental and Prioritized</li> </ul>	<ul style="list-style-type: none"> <li>• USACE Civil Works obtained an unqualified audit opinion for the first time</li> <li>• 5 additional entities obtained unqualified audit opinions</li> <li>• 1 entity obtained qualified audit opinions</li> <li>• Validated TMA-CRM as audit ready</li> </ul>
<p><b>Improve Financial Management:</b></p> <ul style="list-style-type: none"> <li>• Efficiency in Financial Operations</li> <li>• Check It Campaign</li> <li>• Correcting Material Weaknesses</li> </ul>	<ul style="list-style-type: none"> <li>• DFAS increased productivity by 65 percent, resulting in \$369 million in savings</li> <li>• Avoided \$308 million of interest penalties</li> <li>• Implemented internal controls “Check It” campaign saving over \$3 billion in 24 Components over 2 years</li> <li>• Reduced material weaknesses by 85 percent from 116 to 17</li> </ul>
<p><b>Deploy Financial System Solutions:</b></p> <ul style="list-style-type: none"> <li>• DAI</li> <li>• SFIS</li> <li>• Business Intelligence for Decision-Making</li> </ul>	<ul style="list-style-type: none"> <li>• Deployed DAI for one Defense Agency and started implementation for others</li> <li>• Implemented SFIS for financial reporting in the legacy environment for Air Force, Marine Corps, and Defense Agencies</li> <li>• Established Business Intelligence tool for informed decision-making</li> </ul>
<p><b>Meet Near-Term Goals:</b></p> <ul style="list-style-type: none"> <li>• Key Milestones</li> <li>• Best Practices</li> </ul>	<ul style="list-style-type: none"> <li>• MERHCF projected to receive an unqualified audit opinion</li> <li>• USMC SBR projected to receive an unqualified opinion</li> <li>• DISA projected to receive an unqualified opinion</li> </ul>
<p><b>Chart the Future:</b></p> <ul style="list-style-type: none"> <li>• Priority Segments</li> <li>• Solving Challenges</li> </ul>	<ul style="list-style-type: none"> <li>• Refocused strategy and refined approach for resolving impediments</li> <li>• Using standard business processes to ensure comprehensive solutions</li> </ul>

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## I. Financial Improvement and Audit Readiness

The financial management improvement challenges facing the Department of Defense (DoD) are vast and complex. With over \$3.8 trillion in combined assets and liabilities, producing auditable financial statements has required a strategic, long-term plan that addresses issues incrementally and by priority. The Defense Financial Improvement and Audit Readiness Plan (FIAR), first put in place in December 2005, has evolved as lessons were learned and progress made. The Department continues to work aggressively to achieve FIAR's three goals:

- Providing timely, reliable, accurate, and relevant financial information to decision makers.
- Sustaining improvements through an effective internal control program.
- Producing auditable financial statements.

### STRATEGY

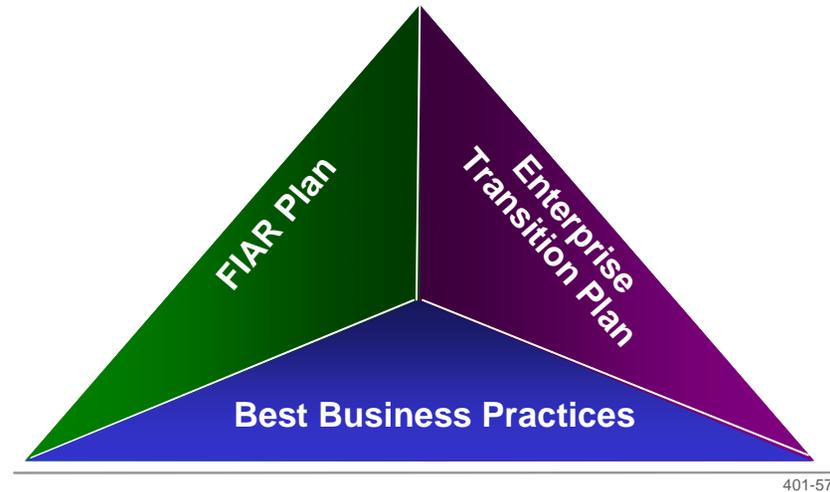
A three-pronged strategy (Figure 4) unites financial management improvement with business transformation efforts by integrating:

- The FIAR Plan
- The Enterprise Transition Plan
- Best Business Practices

**The FIAR Plan** organizes and prioritizes the financial improvement efforts of the Military Departments and Defense Logistics Agency. The FIAR Plan provides a consistent, structured approach for measuring auditability progress, allows transparency into the challenges facing DoD, and highlights progress.

**The Enterprise Transition Plan (ETP)** organizes and prioritizes efforts to modernize DoD business and financial systems. For

Figure 4. Three-Pronged Strategy



most of the Department, success in financial management improvement is dependent on system modernization initiatives. The FIAR Plan and the ETP are closely monitored and linked to ensure that parallel but dependent efforts are aligned through implementation. For example, the Standard Financial Information Structure (SFIS), part of the ETP, is a business transformation effort that standardizes financial information across the Department so that cost information can be compared at the lowest level of detail.

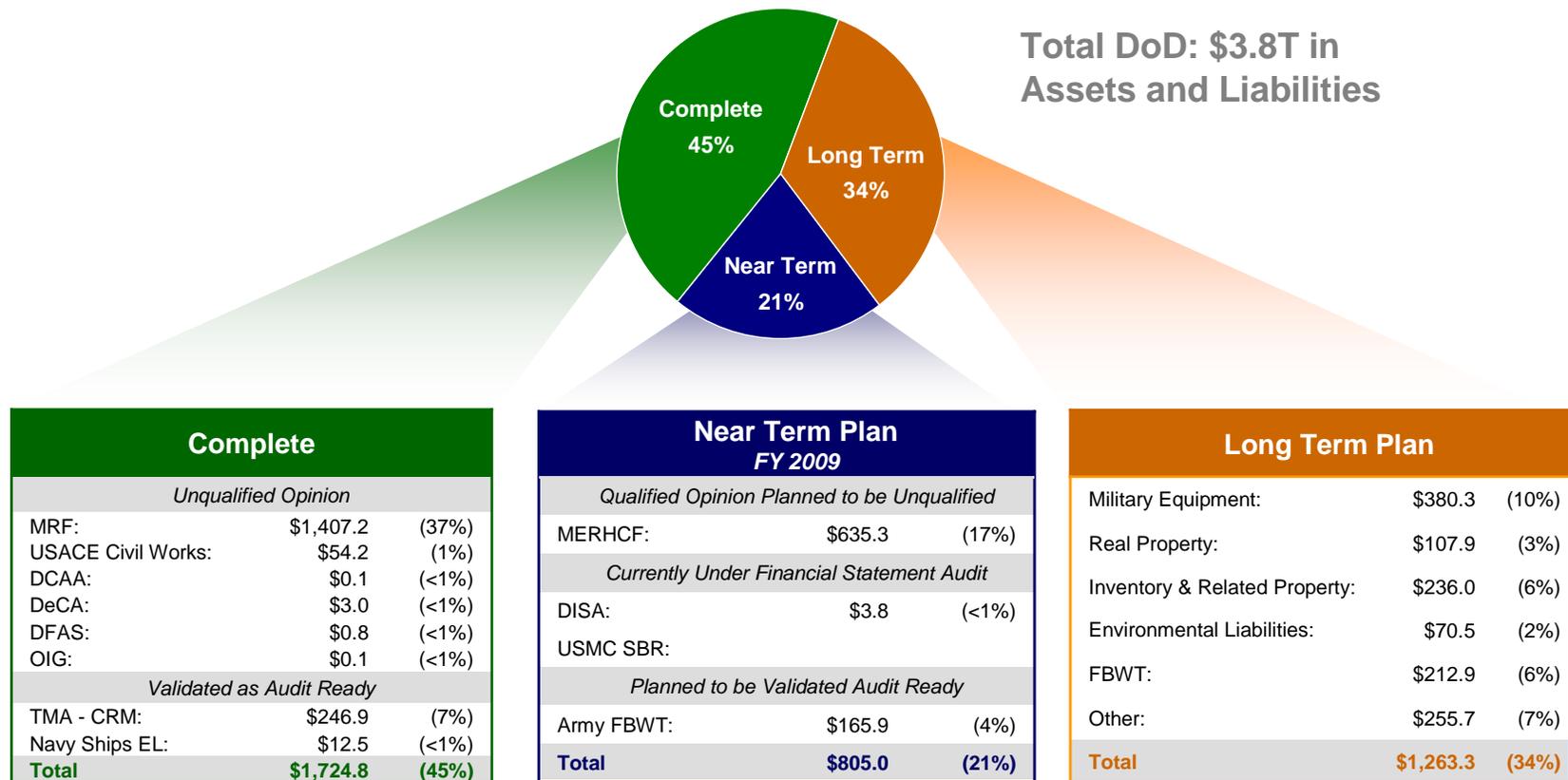
**Best Business Practices** shape the Department's business and financial improvement efforts. As best practices are identified or developed, they are incorporated in the FIAR Plan and, if appropriate, the ETP. For example, standard processes, controls, data elements, and Business Rules for managing real property construction-in-progress were developed and incorporated in the Business Enterprise Architecture and ETP, and are being implemented by the Components through work plans represented by milestones in the FIAR Plan. This strategy,

over time, will result in efficiencies and cost savings and will better meet the long-term needs of the Department.

The strategy is delivering results (Figure 5). By the end of FY 2008, 38 percent of the Department's assets and liabilities – roughly \$1.5 trillion – have received an unqualified opinion, and the TRICARE Management Activity Contract Resource

Management organization's \$247 billion (7 percent) in assets and liabilities has been validated as audit ready. An additional \$635 billion in assets and liabilities is expected to be unqualified in FY 2009, bringing the total amount of unqualified assets and liabilities to 55 percent. Such success is a direct result of a flexible approach that encourages innovation while focusing on

Figure 5. Achieving Clean Audit Opinions



\*Note: Asset and Liability amounts as of September 30, 2008. Numbers may not add due to rounding

FIAR goals. Long-term goals and milestones are in place for obtaining an unqualified audit opinion on the remaining 34 percent. (See Sections III and IV for more information on the Department’s near- and long-term goals.)

**APPROACH**

When the FIAR Plan was launched, the Department had to first establish the goal of achieving auditability, and second, develop within its workforce an understanding of audit requirements.

Over time, the Department has expanded the FIAR Plan to be more comprehensive, however, the FIAR approach and goals remain standardized across the enterprise. The FIAR approach:

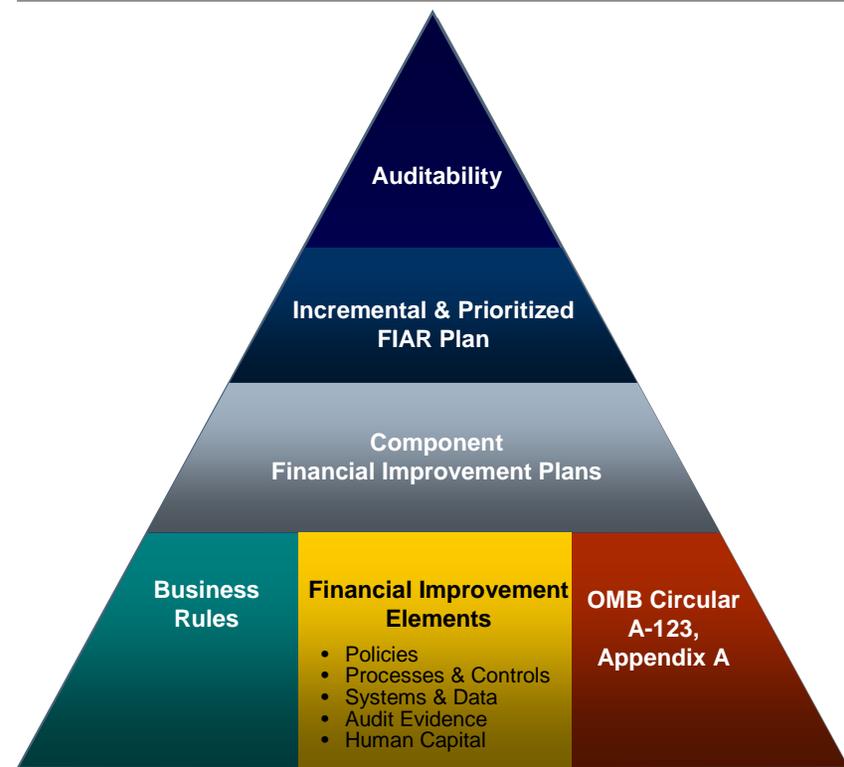
- Drives progress through **incremental and prioritized** improvement objectives and segments.
- Requires **Component Financial Improvement Plans** that focus on business process improvements and .
- Structures improvement efforts and ensures consistency through the mandatory use of **Business Rules**.
- Focuses improvement work on five **essential elements of financial improvement** (Policies, Processes & Controls, Systems & Data, Audit Evidence, and Human Capital).
- Applies **OMB Circular A-123, Appendix A**, to confirm continued audit readiness and provide assurance that controls are effective.

Figure 6 shows how the parts of the approach support auditability.

**Incremental and Prioritized**

Because the Department’s extensive global business and financial operations cannot be assessed and made audit ready simultaneously, the FIAR Plan’s approach is incremental and prioritized. The approach breaks down the Department’s business and financial environment into segments. A segment is

**Figure 6. Approach to Achieving Auditability**



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a financial statement line item or an entire financial statement. A segment may also be the operations of a significant organization or command within a financial statement reporting entity. Segment examples are:

- Fund Balance with Treasury (Balance Sheet line).
- Military Equipment (General Property, Plant and Equipment Balance Sheet line) and its related Acquire to Retire business process.
- U.S. Marine Corps.

Segments are prioritized based on a number of factors, including:

- Material impact.
- Complexity of deficiencies or corrective actions.
- Dependency on and timing of systems modernization.
- Business Transformation initiatives (e.g., Standard Financial Information Structure (SFIS)).
- Availability of resources.

The FIAR Subcommittee identifies and recommends segment priorities to the FIAR Committee. The FIAR Committee considers the recommendations of the Subcommittee, and based on their deliberations, recommends segment priorities to the USD(C) for approval.

Auditor-identified and self-identified material weaknesses also affect how the Department prioritizes segments. Military Equipment and Real Property, for example, are two segments that are material, have had long-standing weaknesses. Therefore, Military Equipment and Real Property are priority segments in the FIAR Plan.

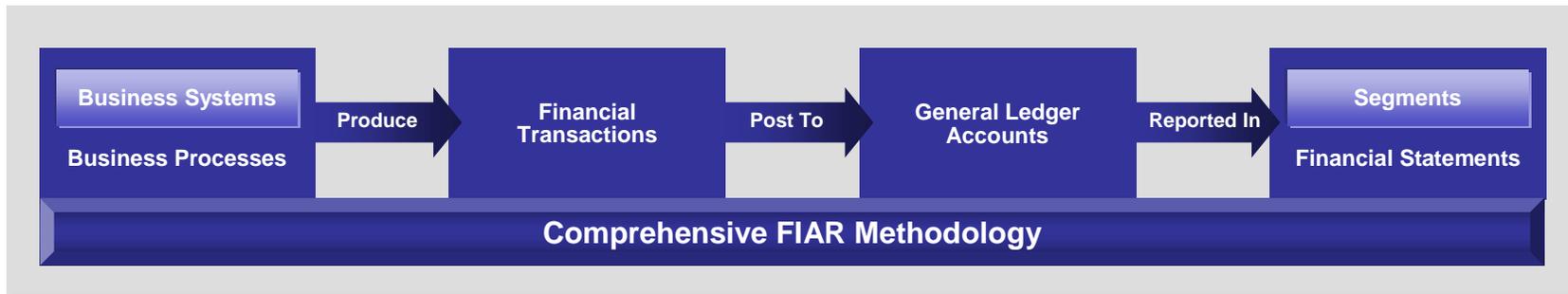
**Component Financial Improvement Plans**

At the Component-level, improvement activities focus on business processes. A business process produces numerous business events. Acquire to Retire, for example, includes entering into contracts, receiving assets, and placing them into service. Each business event triggers financial transactions that must be accurately and timely recorded in the general ledger and documented. The general ledger and supporting documentation are used to prepare financial statements. Figure 7 shows how segments of the financial environment link to business processes.

Each Component maintains a complex, detailed Financial Improvement Plan (FIP) for managing tasks, and timelines for conducting discovery activities, evaluating and modernizing business and financial processes and systems, testing and strengthening internal controls, correcting deficiencies and weaknesses, preparing for audit, and validating audit readiness.

Organizing FIP activities within a business process structure provides a systematic approach for identifying and conducting thorough evaluations and assessments of the business events that generate financial transactions. It also provides a consistent format across the Components' Financial Improvement Plans.

**Figure 7. Segment to Process Relationship**



This consistency allows better oversight and comparability for monitoring progress and identifying shared dependencies.

There are seven business processes that produce the preponderance of financial transactions in the Department of Defense, and that are addressed in the FIAR Plan and Component FIPs.

- Acquire to Retire
- Hire to Retire
- Procure to Pay
- Order to Cash
- Plan to Stock
- Environmental Liabilities
- Budget to Report

(See Appendix 1 for a definition of each business process.)

Figure 8 illustrates *Procure to Pay*, the business process the Department uses to purchase goods and services. *Procure to Pay* includes seven process steps.

The Procure to Pay business process begins with preparing requisitions, determining the best sources (vendors), preparing and awarding purchase agreements or contracts, receiving goods or services, processing vendor invoices, and paying vendors for the goods and services that were delivered or

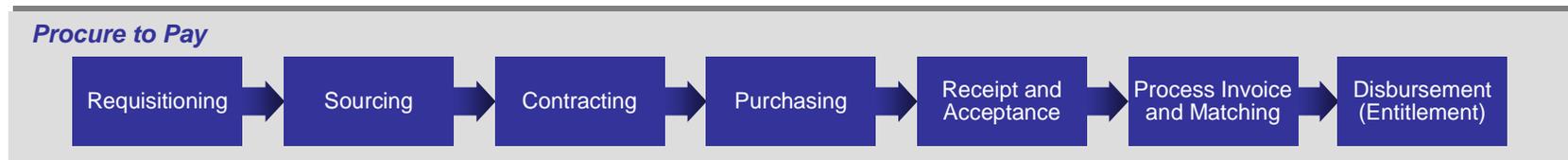
performed. Many of the process steps trigger financial transactions that must be both timely and accurately recorded in Component financial systems. Understanding the business process and using it to organize improvement actions ensures more complete and comprehensive financial improvement and audit readiness.

Each Military Department is implementing one or more Enterprise Resource Planning (ERP) systems. Coordination of the remediation efforts defined in the FIPs with the ERP efforts is critical since many of the process improvements will be accomplished within the new systems. The ERP schedules are an integral part of the FIAR Plan and the FIPs. The timeline and relationship to achieving incremental financial improvement and auditability is depicted in Appendix 2. More information on the ERPs may be found in the Enterprise Transition Plan.

**Business Rules**

The Department's efforts to achieve and sustain financial improvement and audit readiness are governed by Business Rules that are uniformly applied. The Business Rules guide the process for examining operations; diagnosing and correcting problems; achieving audit readiness; validating audit readiness; and sustaining audit readiness through annual internal control testing and assessments.

**Figure 8. Procure to Pay**



The first two Business Rules are the key steps in preparing for audit. The Business Rules are as follows:

1. **Discovery and Correction:** Management evaluates individual financial segments, identifies weaknesses and deficiencies, and performs corrective actions.
2. **Segment Assertion:** Management asserts Audit Readiness to the Office of the Inspector General (OIG) and Office of the OUSD(C) for concurrence.
3. **Audit Readiness Validation:** Management asserts compliance with applicable GAAP, laws and regulations, and internal control reliability. OIG or an Independent Public Accounting (IPA) firm validates management’s assertion using an examination engagement.
4. **Audit Readiness Sustainment:** Verification of segments is conducted using OMB Circular A-123, Appendix A, as guidance.
5. **Financial Statement Assertion:** Management asserts financial statement audit readiness to the OIG and OUSD(C) for concurrence.
6. **Financial Statement Audit:** OIG or IPA firm audits the organization’s financial statements.

Monitoring progress by Business Rules is one way that the Department tracks audit readiness. By reviewing where a segment is in the Business Rules cycle, DoD can project auditability. Appendix 7 contains detailed information on key milestone progress for near- and long-term priority segments.

**Financial Management Improvement Elements**

During the Discovery and Correction phase of the Business Rules, each Component reviews, tests, and evaluates account balances and business processes within a segment. The evaluation ensures compliance with laws, regulations, and policies. A segment’s policies, processes, controls, systems,

data, and audit evidence are also evaluated and assessed. Therefore, five elements of financial improvement affect the accuracy, reliability, and auditability of financial statement information:

- Policies
- Processes & Controls
- Systems & Data
- Audit Evidence
- Human Capital

A description of the activity and requirements for each element is provided below.

**Policies**

A review of policies ensures that Component regulations, procedures, and other guidance are consistent with Generally Accepted Accounting Principles (GAAP), applicable federal and DoD business and financial management laws, regulations, and policies (LRPs). Reviews are not limited to financial LRPs. Often, functional LRPs affect the financial community’s ability to properly record transactions. For example, the Defense Federal Acquisition Regulation was recently modified to prescribe requirements for capturing the cost of Military Equipment in accordance with federal accounting standards. Guidance to the acquisition community must be changed, and the new guidance

**Example: Policies**

*OUSD(C) recently issued revised policy requiring the recognition of imputed revenue and costs for real property owned by one entity and used in the operations of another. This policy has a significant impact on the reporting of real property assets on Component balance sheets. Components now must update their regulations and procedural documents to incorporate this important policy change.*

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evaluated in the audit readiness process to ensure compliance. Additionally, reviews of Component guidance must consider whether changes to processes and systems necessitate modification of procedural guidance and other documents.

**Processes & Controls**

A review and evaluation of processes ensures that business and financial processes produce accurate and timely financial information. Processes may be manual, automated, or both.

Actions to achieve this objective must be coordinated with business transformation initiatives, system deployments, and other process improvements. For example, a review of processes may require the Component to determine whether a legacy system should be replaced.

A review and evaluation of processes coincides with a review and evaluation of controls. OMB Circular A-123, Appendix A, which is applied to document, test, and strengthen internal controls, begins with documenting and flow-charting processes.

A review and evaluation of controls ensures that proper controls are in place to achieve:

- Effectiveness of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal management controls promote efficiency, reduce the

risk of asset loss, improve the reliability of financial information reported on financial statements, and facilitate compliance with laws, regulations, and policies. During Discovery and Correction, Components perform a risk assessment of business processes, document existing controls, design missing controls, test controls, and implement corrective action plans for control gaps or failures. Efforts under the controls element meet OMB Circular A-123, Appendix A requirements.

**Systems & Data**

A review and evaluation of systems and data ensures system capabilities and functionalities reliably produce the financial data needed to record and report financial transactions. Activities also include testing and evaluating controls, and confirming that system documentation is up-to-date, properly maintained, and readily available for auditors. Evaluation and assessment is limited to material systems within or supporting a segment at the time of a management assertion. Systems include:

- Financial or Accounting Systems
- Mixed Systems (Business and Financial systems)
- Business Systems (e.g., Time and Attendance Systems)

Additionally, systems should be compliant with the Federal Financial Management Improvement Act (FFMIA). Specific policy and guidance on FFMIA is contained in Volume 1, Chapter 3 of the DoD Financial Management Regulation.

**Example: Processes & Controls**

*DoD recently reengineered the processes and controls for managing, recording, and reporting Construction-in Progress (CIP), but they have yet to be fully implemented by the Components. Implementing the new processes and controls is essential to properly valuing real property assets and reporting them on DoD financial statements.*

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**Example: Systems & Data**

*DoD is presently deploying an ERP, referred to as the Defense Agencies Initiative (DAI), for the Defense Agencies and Field Activities that will replace numerous legacy accounting and other systems (e.g., time and attendance, contract management, and accountability systems). DAI modernizes financial management capabilities, eliminates material weaknesses, and achieves financial statement auditability.*

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When applicable, a review and evaluation is conducted of how data was cleansed and migrated into new or modified systems. Beginning and ending balances are also reviewed and evaluated to ensure that the underlying data meets required management assertions (valuation, allocation, completeness, and cutoff). In addition, the review ensures that supporting documentation for the beginning balances is readily available to auditors, which is particularly important when alternative methods have been used to value assets.

### **Audit Evidence**

In an audit, the auditor looks for evidential matter to determine if management has prepared financial statements in material compliance with GAAP and to support management's assertions related to the financial statements. Audit assertions can be either explicit or implicit and can be classified according to the following broad categories:

- Existence or Occurrence
- Completeness
- Rights and Obligations
- Valuation or Allocation
- Presentation and Disclosure

Evidential matter consists of the underlying accounting data and all corroborating information and is critical to management's

#### **Example: Audit Evidence**

*Essential to successful audits is maintaining acceptable and readily available audit evidence. Through the FIAR Plan, DoD is ensuring the Components properly prepare for future audits by having the right audit evidence readily available. This means saving and maintaining source documents such as leases to support capital leases and invoices and receiving reports to support inventory.*

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assertion of audit readiness. Sufficient competent evidential matter is obtained through inspection, observation, inquiries, and confirmations, and forms a reasonable basis for an opinion regarding the financial statements under audit. It is the responsibility of the entity preparing the financial statements to maintain and make readily available supporting documentation.

Evidence in support of the financial statements includes the books of original entry, the general and subsidiary ledgers, related accounting manuals, and records such as worksheets and spreadsheets supporting cost allocations, computations, and reconciliations. This evidence, often in electronic form, is considered accounting data and is critical to the performance of a financial statement audit.

Though accounting data alone is not considered sufficient support for financial statements, it forms the beginning of the "audit trail." An auditor starts with the accounting data and traces it back to corroborating evidential matter at the source.

Corroborating evidential matter includes both written and electronic information, such as checks; records of electronic fund transfers; invoices; contracts; meeting minutes; confirmations and other written representations by knowledgeable people; information obtained by the auditor from inquiry, observation, inspection, and physical examination; and information developed by, or available to, the auditor that helps reach conclusions through valid reasoning.

To successfully support the financial statement assertions, audit evidence must be valid, relevant, and sufficient. The Department must, therefore, improve its ability to maintain and provide competent, relevant audit evidence.

**Example: Human Capital**

*As the Department changes policies, improves processes, strengthens controls, and deploys new systems, DoD employees must be trained on changing environments to remain effective and efficient. The Department has created and delivered Military Equipment training modules to DoD-wide personnel responsible for new business and financial processes, and has published best practices guides for Environmental Liabilities and Real Property that serve as ready-reference documents.*

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**Human Capital**

A review and evaluation of human capital ensures that Components have the right number of people with the right skills, knowledge, and experience to accomplish financial management improvement goals. Successful financial management requires hiring and maintaining a sufficient mix of people with functional knowledge, subject matter expertise, and general analytical skills vital to performing each process step. Carrying out the business and financial objectives of most process steps requires a multidisciplinary staff.

Efforts related to human capital include establishing staffing requirements, recruiting and retaining staff with needed technical expertise, defining roles and responsibilities, preparing current position descriptions, issuing performance objectives, and training employees to perform associated tasks.

**OMB Circular A-123, Appendix A**

The FIAR Approach incorporates control and balance testing in the Discovery and Correction phase. Audit testing ensures audit impediments are identified and corrective actions are focused on the issues that directly impede auditability.

The Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Control," Appendix A,

"Internal Control over Financial Reporting," prescribes a process for assessing internal control over financial reporting and requires an annual management assurance statement that addresses the effectiveness of the process. Implementing Appendix A helps the Department identify control weaknesses that must be addressed prior to audit readiness and evaluate effectiveness of controls over time.

**CONTINUAL IMPROVEMENT**

The Components have integrated their efforts to implement OMB Circular A-123, Appendix A, requirements with financial improvement work. Improved internal controls and regularly scheduled control testing ensure business and financial operations are performing as expected and improvements are sustained over time.

The Department's financial improvement progress is closely monitored by the Deputy Secretary of Defense, and Department and Component senior leadership.

Changes to the FIAR strategy since the first FIAR Plan was issued include:

- Employing audit testing to identify impediments during Discovery and Correction.
- Prioritizing improvement efforts based on their impact on overall DoD and Federal Government auditability.
- Focusing on business processes to more effectively address root causes to audit impediments.
- Performing continuous testing and remediation.
- Incorporating internal control testing and remediation during financial improvement and audit readiness work.
- Conducting segment validations (vice line item audits).
- Limiting audits to Component financial statements.

To further help the Components prepare for audit, the OUSD(C) is updating the audit assertion package criteria based on lessons learned from recent auditability work. The key changes are:

- **Discovery and Correction:** An audit methodology is used to test segment controls, balances, and supporting documentation to determine if sufficient and appropriate audit evidence exists to support the financial statement assertions. These test audits identify specific business process weaknesses and enable management to prioritize and apply resources to correcting the weaknesses. As correction efforts proceed, Components continue to apply audit procedures to segment account balances in a process of continuous assessment and improvement.

- **Segment Assertion:** Management applies audit procedures using personnel with sufficient objectivity (e.g., Service Audit Agency personnel) to assess the readiness of the segment for audit. Upon determination by management that all audit impediments for a segment have been corrected and the segment is ready for audit, the Component prepares and delivers an Assertion Package to the DoDIG and OUSD(C) for evaluation.

The FIAR Plan is solidly focused to achieve the three FIAR goals and compliance with GAAP by a proven approach that employs audit testing, systematic and thorough improvement efforts coordinated with the modernization of business processes and systems, and a strong and comprehensive internal control program.

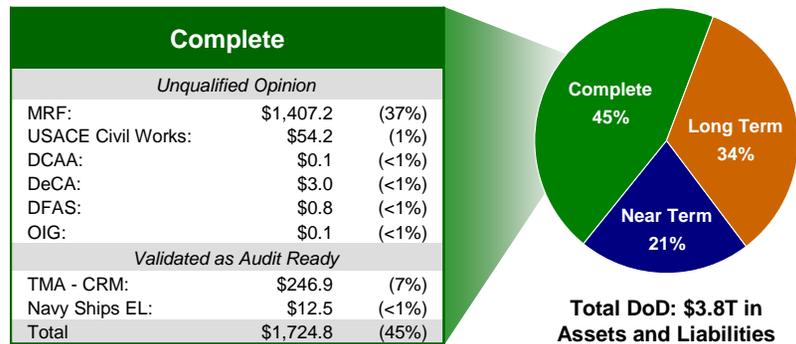
## II. Achieving Auditability and Improving Operations

The FIAR Plan details the long-term financial improvement plans and progress of the Departments of the Army, Navy, and Air Force, and the Defense Logistics Agency (DLA).

The substantial cumulative amount in financial improvement and audit readiness achievements equates to \$1.5 trillion, or 38 percent, in assets and liabilities having received an unqualified audit opinion. This includes the U.S. Army Corps of Engineers, which, for the first time, has received an unqualified audit opinion on its full financial statements. Additionally, the TRICARE Management Activity Contract Resource Management organization's \$247 billion or 7 percent in assets and liabilities, and the Navy Weapons Systems Environmental Liability have been validated as audit ready.

Six reporting entities received an audit opinion on their FY 2008 financial statements (Figure 9). For the fourth consecutive year, the Department has received favorable audit reviews on three DoD-wide financial statement line items (Figure 10).

**Figure 9. DoD Reporting Entity Improvements**



\*Note: Asset and Liability amounts as of September 30, 2008. Numbers may not add due to rounding

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**Figure 10. Financial Statement Line Items Receiving Favorable Audit Reviews**

DoD-Wide Financial Statement Line Items	Audit Reviews
Investments	Favorable
Federal Employees' Compensation Act Liabilities	Favorable
Appropriations Received	Favorable

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New systems have led to greater efficiencies and reduced costs. Consistent plans have helped keep tasks in focus and progress on track. Revised policies that capture lessons learned and tightened internal controls ensure continued compliance and keep improvements from slipping back. Accomplishments can be tracked in a number of ways, including progress by Business Rules (Figures 11 and 12) and by financial management improvements, efficiencies, or system deployments.

### AUDIT ACCOMPLISHMENTS

The Department is making substantial progress in achieving audit readiness. The Air Force Appropriations Received and Nonexpenditure Transfers have been validated as audit ready.

**Figure 11. Sustaining Audit Readiness**

Business Rule	Segment	Values
Audit Readiness Sustainment	DLA Contingent Legal Liabilities	less than \$1 million
	Air Force Appropriations Received	\$156.8 billion
	Air Force Nonexpenditure Transfers	\$2,750.4 billion
	TMA Contract Resource Management Segment Balance Sheet	\$841.0 million in assets and \$246.1 billion in liabilities
	Navy Nuclear and Conventional Ships Environmental Liability	\$12.5 billion

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**Figure 12. Segment Audit Readiness Status**

Business Rule	Segment	Values
Financial Statement Audit Underway	DISA General Fund Balance Sheet	\$1.6 billion in assets and \$204.7 million in liabilities
	DISA Working Capital Balance Sheet	\$1.2 billion in assets and \$823.0 million in liabilities
Audit Readiness Validation	TMA Uniformed Services University of the Health Sciences Segment Balance Sheet	\$225.5 million in assets and \$14.0 million in liabilities
	TMA Uniformed Services University of the Health Sciences Segment SNC and SCNP	SNC \$209.0 million SCNP \$211.5 billion
Segment Asserted	Navy Contingent Legal Liabilities	\$3.5 billion
	TMA Contract Resource Management Segment SNC, SCNP, SBR	SNC \$22.0 billion SCNP 245.3 billion SBR \$12.6 billion
	TMA Uniformed Services University of the Health Sciences Segment SBR	\$282.6 million

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- Formed the CFO Academy in Partnership with the CFO Council and the National Defense University’s Information Resources Management College.
- Identified 641 potential Anti-Deficiency Act violations associated with interagency purchases made during the FY 2004 through FY 2006 period. As of October 31, 2008, 623 cases or 97 percent were found not to have violated the Anti-Deficiency Act, and 17 cases or 2 percent were reportable violations. The one case that remains is expected to be completed by December 2008.
- Since 2001, DoD has avoided \$308 million in interest penalties, while doubling the dollar amount of payments made. This results in more dollars being available for operational needs.
- Resolved \$2.9 billion in variance with U.S. Treasury in intragovernmental transactions.
- Helped other federal agencies collect over \$137.5 million in bad debts.

**FINANCIAL MANAGEMENT IMPROVEMENTS**

Other improvements address overall financial management issues to ensure that progress continues and best practices are fully implemented. For example, the Department has revised over 75 percent of the Department’s Financial Management Regulation 519 chapters. The revised chapters comply with accounting standards, statutory requirements, and audit recommendations, and strengthen internal controls. Other highlights of improving financial management follow:

- Implemented “Check It” Campaign identifying over \$3 billion in savings in 24 Components.
- Established Business Intelligence for Decision-Making (commonly called the Executive Dashboard) to manage cash flow at the “Top Line.”

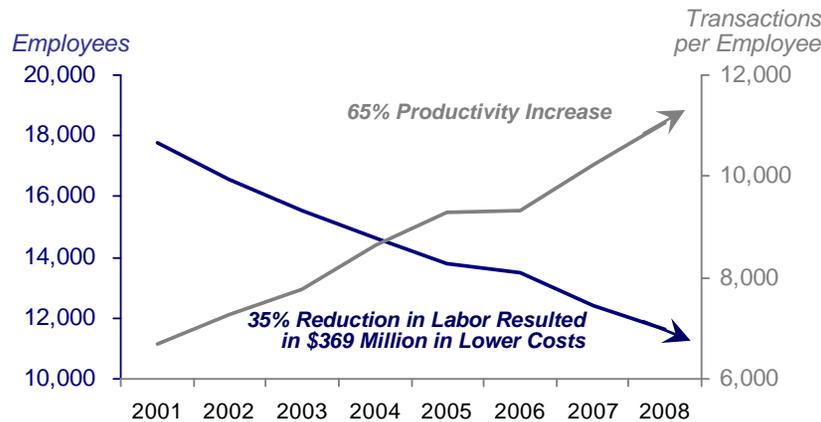
**Efficiencies in Financial Operations**

The Defense Finance and Accounting Service (DFAS) is the world’s largest finance and accounting operation and serves the needs of the entire Department of Defense. Since 2001, DFAS has increased productivity by 65 percent (Figure 13) for a cost savings of \$369 million.

Other improvements include:

- Provided direct support to the warfighters and their families by:
  - Suspending or waiving more than \$14 million in debt for wounded warriors.

**Figure 13. Increasing DFAS Productivity While Lowering Costs**



Source: Defense Finance and Accounting Service

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- Eliminating the backlog of wounded warrior debt cases.
- Improving Active Component military pay accuracy to 99.4 percent and timeliness to 97.1 percent. Currently, 98.1 percent of pay problems are resolved within 20 days.
- Reducing the turnaround time for casualty travel vouchers from 15 days to 3 days.
- Preventing debt and overpayments by the timely stopping or changing of hardship duty-related pay entitlements for wounded warriors.
- Providing military pay advisory services at medical sites to minimize and resolve pay issues.
- Improved the accuracy of the Accounts Payable-Public line by eliminating the payroll posting of \$114 million from accounts payable to its proper classification as Other Liabilities.
- Implemented a Lean Six excellence program and obtained savings of approximately \$133 million with 332 certified

green belts, 32 certified black belts, and 1 certified master black belt.

- Improved the review and payment of Butterbaugh claims for restoration or payment of annual leave filed by DoD employees called to Military Active Duty.
- Improved visibility into Global War on Terror funds appropriated, funds allocated, payments made, and remaining funds available.
- Began using the Defense Departmental Reporting System-Budgetary for budgetary reporting in the Military Retirement Fund to reduce processing time and input errors.
- Improved the quality and timeliness of the Global War on Terror cost-of-war reports to Congress.
- Reduced delinquent accounts receivable by 39 percent to \$800 million.
- Deployed an automated accounts payable database tool and recorded approximately \$2 billion in previously unrecorded payables.
- Implemented an Enterprise Risk Management Program to improve oversight of risk and controls across Agency processes. Over 1,000 key processes were flow-charted, tested, and risk mitigation plans were implemented.
- Improved oversight of audit compliance by initiating high visibility audit management business rules for Global War on Terror and other financial audits.
- Increased electronic invoicing through Wide Area Workflow from 65 percent to 84 percent.
- Maintained improper payments for military and civilian pay and military retirement pay significantly below the OMB threshold of 2.5 percent.

- Established a Financial Management Center of Excellence to develop and integrate DoD-wide standard finance and accounting business practices.
- Selected as one of four federal payroll providers under the President's Management Agenda e-payroll initiative. The Defense Civilian Pay System (DCPS) processes pay for approximately 900,000 Federal employees from multiple agencies including the Departments of Defense, Energy, Health and Human Services, and Veterans Affairs; the Environmental Protection Agency; the Executive Office of the President; and the Broadcast Board of Governors.
- Reconciled the Accounts Payable process flows between the source systems and reporting systems ensuring that no gaps in documentation exist.
- Completed flowcharting vendor pay entitlement systems from source to the financial statements. This provides auditable documentation and identifies all vendor pay accounts payable.
- Documented the process flow from the known entitlement systems to the Accounts Payable-Public line on the Audited Financial Statements of the Components and identified internal control points.

### **Delivering Results through "Check It"**

The Department launched "Check It," an award-winning Internal Management Controls campaign in October 2006. "Check It" draws the workforce's attention to the need for internal controls and good stewardship by reminding the workforce that "what gets checked, gets done."

In the first year, the Department focused on getting the "Check It" message out through an intense multi-media effort that included public service announcements and posters. In the second year, the Deputy Secretary of Defense began biannually

recognizing Components that have made significant improvements in internal controls.

The first round awarded first place to the Multi-National Security Transition Command – Iraq. The second round attracted 26 process improvements from 14 DoD Components that together accounted for \$2 billion in savings. The U.S. Transportation Command and the U.S. Marines Corps tied for first place for internal controls improvements to strategic distribution and small arms transit shipments, respectively.

Earlier this year, the Public Relations Society of America awarded "Check It" its top honor, the Silver Anvil, from among 875 private, government, and nonprofit organization entries in the internal communications category. The Silver Anvil Awards are widely recognized as the nation's premier awards for public relations practices.

### **Correcting Material Weaknesses**

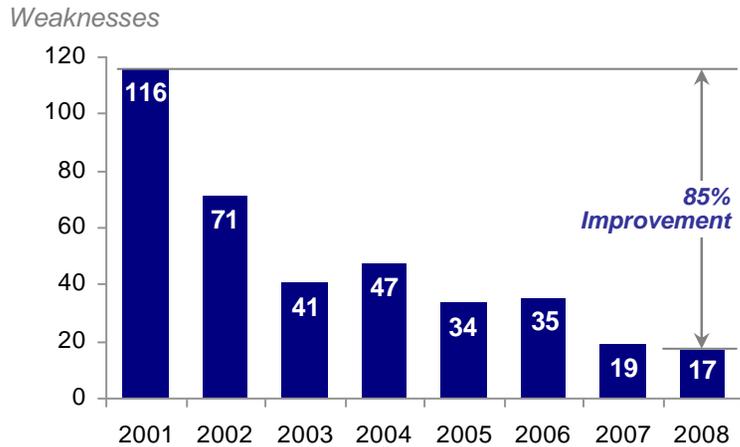
Through the Managers' Internal Control Program, the Department self-assesses the effectiveness of its controls. Self-assessments are performed in accordance with the OMB Circular A-123.

The Managers' Internal Control Program assesses the effectiveness of management controls, and nonfinancial functions and processes, as prescribed by Appendix A for financial reporting.

The emphasis on strengthening controls is paying off. For example:

- Army improved process to prevent excess supplies, resulting in a savings of \$6.4 million in FY 2007.
- Air Force improved efficiency of pharmacy production and saved \$3.5 million in FY 2007.

**Figure 14. Reducing Internal Management Control Weaknesses**



Source: FY 2001-2007 DoD Performance and Accountability Reports

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- Marine Corps improved the amphibious assault vehicle depot production line and reduced the FY 2008 cycle time by 25 percent, reduced cost below budgeted baseline, reduced overtime by 50 percent, and improved quality targets on rework.

As part of this program, Components annually self-report material weaknesses with projected completion dates. The Department reduced self-identified internal management control weaknesses from 116 in 2001 to 17 in 2008 (Figure 14).

**DEPLOYING FINANCIAL SYSTEM SOLUTIONS**

Many of the Department-wide and Component-level auditability efforts are dependent on system modernization efforts.

**Defense Agencies Initiative**

The Department has developed a single Enterprise Resource Planning (ERP) system for the Defense Agencies, Field Activities, and Other Defense Organizations. The Defense

Agencies Initiative’s (DAI) primary objective is to achieve an auditable and CFO Act-compliant system environment. DAI is a standardized system solution that also complies with the Department’s Business Enterprise Architecture (BEA) and the General Services Administration Financial Systems Integration Office requirements. DAI provides real-time access to accurate financial data and reveal stovepipe practices that limit process efficiencies.

Other DAI outcomes include:

- Accurate, timely, and authoritative financial information for informed decisions.
- Financial management processes that are efficient, effective, and nearly paperless.
- Use of state of the art technology and proven best business practices.
- Reduction in the number of legacy business systems supporting Defense Agencies’ financial management workload.

The Department achieved Initial Operating Capability (IOC) in 10 months. Implementation is being rolled out in three waves. Wave 1, which began October 2008, includes DISA, MDA, DTRA, DARPA, and BTA, which is now fully operational.

**Standard Financial Information Structure**

The National Defense Authorization Act of 2005 (NDAA) requires an information infrastructure that integrates budget, accounting, program information, systems, and performance. OMB Circular A-127, “Financial Management Systems,” and the revised implementation guidance for FFMA, require financial management systems to use an agency-wide financial information classification structure that is consistent with the U.S. Standard General Ledger (USSGL). Further, Financial Systems Integration Office system requirements direct that the

accounting classification elements and definitions be standardized to ensure uniform and efficient accounting treatment, classification, and reporting. The Department of Defense's answer to these requirements is the Standard Financial Information Structure (SFIS), which will provide a:

- Common business language that facilitates planning, programming, budgeting, and monitoring budget execution.
- Reduction in the cost of auditability by standardizing financial reporting across DoD.
- Way to report revenues and expenses by programs versus by appropriation categories thus enabling decision-makers to compare programs and associated activities and costs across DoD.
- Basis for common valuation of DoD programs, assets, and liabilities.

During Phase 1 of SFIS development, the Department identified and defined the data elements needed to support DoD financial statements and external reporting. SFIS Phases 2 and 3 addressed enterprise-wide cost accounting requirements and improves the Department's ability to determine total cost of business, operations, programs, and missions. Current efforts are focusing on prioritizing SFIS implementation and providing guidance to Components for adopting the standard based on their legacy, interim, and target environments, including Component-level ERPs.

As of September 2008, the Department has implemented SFIS in its legacy accounting system environment for external reporting. This enables the Department to generate reports in SFIS format for every reporting entity and standardizes the financial information that is generated from 33 legacy accounting systems.

### **Intragovernmental Value-Added Network**

To eliminate the material weakness related to Intragovernmental Transactions (IGT), the Department is implementing the Intragovernmental Value-Added Network (IVAN). This established functionality aids proper financial eliminations and meets internal control requirements for fiscal law compliance while helping the Department avoid Anti-Deficiency Act violations. The automated solution, IVAN, was developed in July 2007 to validate IGT requirements and address the IGT eliminations material weakness.

The IVAN solution will:

- Provide Department-wide visibility of reimbursable transactions within and outside of DoD.
- Aid accounting for and reconciling of IGT reimbursable transactions.
- Assist in reducing and/or eliminating potential Anti-Deficiency Act violations.
- Reduce the significant manpower required to process and reconcile IGT transactions.
- Provide better information for improved financial reporting and strategic sourcing decisions.
- Eliminate paper processes (form centric) and replace with electronic commerce (data centric).

DoD completed proofs of concept for intra-DoD transactions (Level 2) in FY 2007, and interagency or non-DoD purchases (Level 1) in FY 2008. A total of 37 interagency orders and \$31 million were processed in IVAN during FY 2008, including transactions with the General Services Administration and the Departments of Interior and Health and Human Services. IVAN moved to production in October 2008 and will be at full operating capability in April 2009.

**Business Intelligence for Informed Decision-Making**

The Executive Dashboard, founded on the OUSD(C) Financial Management Metrics Program, began in 2001 with the Presidential focus on Performance Management. The Executive Dashboard enables senior leaders to monitor current year appropriated funds, the status of financial management improvement initiatives, and spending on the Global War on Terror. DoD Components use the Dashboard for Spend Plan Submission/Budget Execution Variance Analysis.

Budget execution information in the Dashboard includes daily obligations and execution status as well as monthly obligations for the current year, the Global War on Terror, and Comptroller special interest areas. Focus areas include reporting agencies, the DoD Financial Indicators Report, and workforce management.

The obligation and execution data are updated directly from the enterprise accounting systems for both daily and monthly execution data. All the data are now available at one location, rather than scattered over several places. For the first time, the Comptroller has an updated daily view in one place.

The Executive Dashboard includes:

- Provides accurate and timely Component- and appropriations-level budget execution against budget authority and spend information for continuous informed enterprise decision-making.
- Ensures data integrity by using a centralized, automated solution that is integrated with enterprise accounting systems.
- Facilitates enterprise-level management of financial and accounting operation performance efficiencies.
- Provides a desktop business intelligence tool to approximately 160 OUSD(C) and 110 Component users.

- Maintains an audit trail of budget execution, and financial and accounting operations performance metrics for trend analyses.

The Executive Dashboard has been fully operational since January 2008.

**SPOTLIGHTING THE COMPONENTS****Army**

The Army is replacing its aging general fund accounting systems (the Standard Finance System (STANFINS), developed in the late 1960s, and the Standard Operation and Maintenance Army Research and Development System (SOMARDS)) with a customized, commercial off-the-shelf Enterprise Resource Planning system. The General Fund Enterprise Business System (GFEBS) replaces the functionality of over 80 additional systems used by the Army. When fully deployed, GFEBS will integrate general ledger management, payment management, receivables management, funds management, cost management, real property, and asset management and reporting in one system.

The technology demonstration release in July 2006 validated that the system design meets Army's requirements. In 2008, the Army achieved a major accomplishment by fielding GFEBS in Fort Jackson, South Carolina. Two hundred twenty-one end-users are using GFEBS for daily operations. Users in the Army Budget Office and in DFAS are also benefitting from this release. GFEBS currently has direct interfaces with 16 previously standalone systems.

Once deployed Army-wide in 2011, GFEBS will be the system for conducting all financial and asset management operations and will integrate non-financial functional data for the entire Army. It will interface with 54 systems and replace functionality in 71 more. Every organization in the Army—from headquarters,

to command- and operational-levels—will benefit from the reengineered business processes and GFEBS' new capabilities.

### **Air Force**

The Air Force has developed a methodology for implementation of the OMB Circular A-123, Appendix A.

The Air Force, with agreement from OUSD(C), proposed to create a prototype methodology during FY 2008 to merge Appendix A implementation with the FIAR Plan business process segmentation approach. The methodology will model for DoD Components how to converge Appendix A review requirements with the revised audit readiness strategy.

Air Force formed an integration team to merge the efforts of the FIAR Plan and ETP with the required Appendix A internal control review efforts. To create a methodology to restructure the previously completed process narratives and flowcharts, Air Force program management reviewed the business processes identified in the BEA. After the review, guidance was modified and revised templates released. Both the General Fund and Working Capital Fund areas were realigned with the new end-to-end segment approach.

The first phase of required work in the prototype (process narratives, flow charts) was completed on March 30, 2008. On May 1, 2008, Air Force completed the risk analysis, developed detailed test plans, completed control assessments, and performed testing when appropriate. Air Force provided OSD Comptroller with the implementing guidance, formats and lessons learned to assist in developing DoD guidance for all components in FY 2009. All required work in the program year was completed on an accelerated schedule.

This prototype was successful in meeting requirements of Appendix A, implementing a common methodology, and sustaining the program. Integration of these three programs is

essential to meeting the mission and providing accurate, reliable, and timely information.

### **Department of the Navy**

The Department of the Navy Financial Improvement Plan (DON FIP) Program Office has been a strong leader in DoD's effort to achieve auditability. When DoD launched the FIAR effort, Navy established an aggressive program structure, effectively resourced it, and gave it strong support from the Secretary on down. The DON FIP Program Office coordinated improvements while encouraging major commands to seek independent, creative solutions that could then be transferred to other Navy organizations. Many of Navy's strategies are reflected in the FIAR Plan and being adopted DoD-wide.

To support Navy's decentralized strategy, the DON FIP put an innovative communications plan in place that keeps each program office tuned-in to the latest FIP developments and strategy. The program manager conducts regular video teleconferences for all FIP workers, as well as regular one-on-one meetings with each organization. There is also a FIP website for sharing information, a quarterly newsletter, and a program brochure. In addition, the program manager hosts an annual 2-day conference on new developments and training.

Under the slogan, "Know Your Business, Control Your Future," the DON FIP program office guided a team of over 200 as they methodically documented every major Navy command's business processes and systems, and identified key financial control points. The team has now moved into testing the design and operating effectiveness of key controls. Periodic, successful testing of these controls provides assurance of accurate financial data for improved decision making and stewardship of taxpayers' dollars.

The DON FIP has achieved results. Several Department of the Navy organizations have completed documentation and controls testing and will assert audit readiness on financial processes this

year. These include the U.S. Marine Corps, Naval Research Laboratories, and Military Sealift Command. In addition, several business segments, including Environmental Liabilities (totaling nearly half of Navy's liabilities), and Disbursements and Collections will assert audit readiness in FY 2009.

### **Defense Logistics Agency**

DLA's high operational standards and culture of excellence in resource stewardship permeate DLA's approach to auditability. DLA personnel, from depot floor to boardroom, are supported by the following:

- **Accountability.** DLA business processes are segmented into end-to-end business cycles (EBCs) with each EBC owned by a member of the Senior Executive Service. The EBC owners are responsible for operational and financial outcomes, and for achieving long-term, sustainable audit readiness in that area.
- **Business Cycle Teams.** The EBC support infrastructure uses integrated teams comprised of both operational and financial management personnel. The business cycle teams document DLA's operational and associated financial processes to a standard that meets auditor requirements. The documentation includes manual and automated, internal and external processes. Business Cycle Teams are also responsible for resolving audit impediments in their respective EBC.
- **Enterprise Governance Structure.** A results-focused enterprise governance structure includes senior DLA leadership and DFAS, DLA's external accounting service organization.
- **Standardization.** The documentation completed by the Business Cycle Teams enables DLA to identify and correct processes not yet standardized.

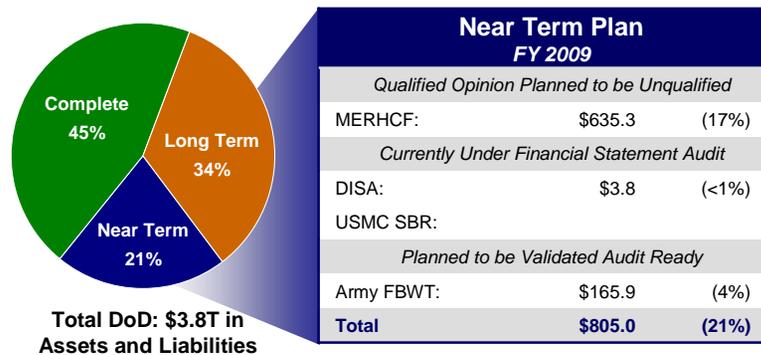
- **Internal Controls.** An efficient, strong, and well-documented system of internal controls exists throughout DLA.
- **Systems Support.** DLA has an effective and efficient risk management system, and provides its financial managers with strong systems support, capabilities, and training. A communications system and documentation management system are also in place.

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### III. Meeting Goals in the Near-Term

The Department is focusing on achieving unqualified audit opinions on another 18 percent or \$635 billion in assets and liabilities in FY 2009. This near-term goal includes achieving unqualified audit opinions for the Medicare-Eligible Retiree Health Care Fund. This section provides detailed information on the FY 2009 near-term goals, as well as other goals that contribute to the auditability of the balance sheet. Appendix 7 contains detailed information on key milestone progress for near- and long-term priority segments.

Figure 15. Near-Term Goals



\*Note: Asset and Liability amounts as of September 30, 2008. Numbers may not add due to rounding

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### MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND

Medicare-Eligible Retiree Health Care Fund (MERHCF) is a special fund established by Congress in 2001 to provide mandatory funding for certain health care entitlements. It covers Medicare-eligible DoD beneficiaries (military retirees, retiree family members, dependents, and survivors); and pays for Operations and Maintenance, and Military Personnel costs in Military Treatment Facilities (MTF), for purchase care not

covered by Medicare, and for pharmacy services. MERHCF also accrues the Department’s liability for future health care costs of MERHCF beneficiaries.

In FY 2009, MERHCF projects a change from a qualified opinion, which it has had for the past 6 years, to an unqualified audit opinion on its financial statements by addressing its most significant audit impediment and implementing an improved process for estimating future costs. MERHCF represents 17 percent of DoD assets and liabilities.

#### Accomplishments to Date

- Received qualified audit opinions each year since FY 2003.
- Resolved auditor-identified material weakness concerning backlog of purchased care claims.

#### Medicare-Eligible Retiree Health Care Fund:

##### Key Milestones to Achieving Auditability

Completion Date	Key Milestone	Projected Outcome
Feb 2009	DoD Office of the Actuary defines improved basis for estimation of actuarial liability for care provided to MERHCF beneficiaries in MTFs and annual prospective payment to the Services for care provided in MTFs to MERHCF beneficiaries.	Current method is based on un-auditable data for care provided in MTFs. Proposed methodology will be supportable and auditable.
Mar 2009	Estimate impact of new policy on FY 2008 and FY 2009 liabilities and distributions.	Modeling impact of change to estimation method will allow for constructive discussion on pros and cons of the new approach.

**Medicare-Eligible Retiree Health Care Fund:**

**Key Milestones to Achieving Auditability**

Completion Date	Key Milestone	Projected Outcome
Mar 2009	DoD Office of Business & Economic Analysis, Health Affairs Prospective Payment Office, and General Counsel provide input on per capita methodology.	Obtain consensus on developed methodology, which will ensure compliance with laws, regulation, and policy.
Jun 2009	Draft revised policy (DoDI 6070.2, DoDD 6070.1) to incorporate new methodology and release for coordination.	Issue and disseminate instructions and directives for proper implementation of methodology.
Jun 2009	Coordinate per capita methodology with MERHCF Board of Actuaries.	Reach consensus on developed methodology. Make changes if necessary.
Aug 2009	Complete policy coordination and revise DoD Instruction.	Issue and disseminate instructions and directives for proper implementation of methodology.
Sep 2009	Implement methodology to develop FY 2010 MERHCF distribution plan.	Calculate, reimburse and report direct care costs in accordance with GAAP.
Sep 2009	DoD Office of the Actuary computes FY 2009 MERHCF health care liability.	Calculate and report direct care liability IAW GAAP.
Nov 2009	MERHCF qualified audit opinion upgraded to unqualified audit opinion.	Enables the Department to rely on accurate, reliable, and timely information to effectively manage the health care program and costs for the Uniformed Services Medicare-eligible retiree, family members, and survivors.

**Impediments to Auditability**

By using a per capita rate reimbursement methodology to estimate the actuarial liability for the care provided to MERHCF beneficiaries in MTFs and annual prospective payment to the Services for care provided in MTFs to MERHCF beneficiaries, the Department will address the material weakness and provide a basis for changing the MERHCF audit opinion from qualified to unqualified.

**ARMY FUND BALANCE WITH TREASURY**

Fund Balance with Treasury (FBWT) is the total amount of funds on deposit with the Treasury Department. Collections and disbursements increase or decrease the balance, respectively. New funds come to the account from appropriations, transfers, reimbursements from other agencies, and borrowed funds. The fund balance is decreased when funds are spent, invested, or transferred to other federal agencies.

For FY 2009, the Army’s goal is to assert audit readiness on FBWT reconciliation. FBWT reconciliation audit readiness means that Army will have instituted the processes and controls needed to capture and maintain detailed support for the transactions posted to Army Treasury accounts and Army FBWT general ledger accounts, regularly compare the balances, and resolve discrepancies by identifying transactions not posted either to Treasury or the general ledger.

Army will assert that all known weaknesses have been identified and corrected, proper controls are in place, and data is fairly represented as of the balance sheet date for FBWT, representing 4 percent of the Department’s assets and liabilities.

**Accomplishments to Date**

- Identified all federal and DoD requirements to accurately report FBWT.

**Financial Improvement and Audit Readiness Plan**

September 2008

- Completed FMFIA and OMB Circular A-123, Appendix A, documentation for the FBWT process.
- Developed an audit readiness validation plan to correct deficiencies to assert Army General Fund's FBWT.
- Received auditor input that audit readiness validation plan is sufficient to implement an accurate, auditable, and sustainable business process for reporting Army General Fund's FBWT.

**Army Fund Balance with Treasury:**

**Key Milestones to Achieving Auditability**

Completion Date	Key Milestone	Projected Outcome
Jan 2009	Compile data warehouse of transaction detail.	Provides detail support for balances, audits and ensures compliance with laws, regulations, and policies.
Jan 2009	Complete Army management and quality review of assertion	Provides proper internal controls and ensures consensus in the organization.
Feb 2009	Finalize assertion package documentation and presentation.	Ensures assertion package meets OSD Comptroller criteria.
Mar 2009	Assert Army General Fund, Fund Balance with Treasury reconciliation.	Allows management to assert that data is timely, reliable and accurate.
Sep 2009	Obtain DoDIG opinion on Army's ability to conduct Army GF FBWT reconciliation.	Provides independent confirmation that assertion is fairly stated and in compliance with GAAP.

**Impediments to Auditability**

- Capturing, recording and reconciling source documentation for disbursement transactions made by disbursing offices around the world is complex.

- Support for balances is not maintained at the transaction level and therefore not yet available to auditors.

The Army is working to ensure the reconciliation process complies with Treasury FBWT standard operating procedures and resources are provided.

**U.S. MARINE CORPS**

The Marine Corps, an operating service under the Department of the Navy, is working diligently to improve financial management practices, identify material weaknesses, document policies, processes and procedures and remediate known or identified deficiencies. The Marine Corps has established the goal of becoming audit ready and achieving a favorable audit opinion for its Statement of Budgetary Resources (SBR) in FY 2009. This goal represents independent verification of accurate and reliable financial information contained in the SBR.

**Accomplishments to Date**

- Reduced the number of financial processes performed at field level from 700 to 59, thereby promoting greater standardization and increased timeliness and reliability of financial information.
- Identified third party service provider dependencies, including transaction counts and amounts.
- Implemented transactional system interface between the personal property accounting system (DPAS) and the Marine Corps primary general ledger accounting system (SABRS) for accuracy, transparency, and ease of asset valuation.
- Expanded and standardized key internal control testing from 41 individual testing actions in FY 2007 to 909 individual testing actions in FY 2008 across the Marine Corps, thereby greatly increasing the confidence level and data integrity related to financial information and reporting.

- Completed independent internal control and source documentation assessments for key internal controls over financial business processes and for transaction-level source documentation testing through to the SBR. The results of both initiatives provided the Marine Corps with independent confirmation of the reliability of their key internal controls and identified controls requiring additional remedial action.
- Completed mapping budget and execution data to financial and business processes to validate use, expenditure, and recording of annual appropriations. This initiative is critical to the verification of accurate and reliable transactional data and financial information, as well as compliance with appropriation law and regulation and consistent with OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.
- Defined business process flows and conducted associated risk and control analysis to jointly comply with OMB Circular A-123, Appendix A, and to link Marine Corps internal control policies, procedures, and environment to the financial environment.
- Reviewed transactional data accuracy and trading partner information of the prime Marine Corps financial system, SABRS, to standardize recording and reconciling trading partner transactions.
- Increased use of Web-based interactive applications including transaction validation and vendor payment activity using Wide Area Work Flow (WAWF) for vendor invoicing and payment systems.
- Created audit queries to extract transaction-level data from the primary general ledger system (SABRS) to meet audit required supporting documentation. The transaction-level data is intended to link through the feeder systems to the source documentation.

- Standardized formal tri-annual review processes and procedures to support clear and transparent data for decision making.

**Marine Corps:  
Key Milestones to Achieving Auditability**

<b>Completion Date</b>	<b>Key Milestone</b>	<b>Projected Outcome</b>
Nov 2008	Complete remediation and documentation of weaknesses identified in discovery process for SBR	IPA identified several impediments to audit of the SBR. Marine Corps is implementing process, control and system changes to address these issues and achieve SBR audit readiness.
Dec 2008	DoDIG and OUSD(C) complete review of Marine Corps final testing and remediation efforts for SBR audit readiness	DoDIG and OUSD(C) joint concurrence with Marine Corps assertion of SBR audit readiness.
Dec 2009	Statement of Budgetary Resources Audit Opinion	Positive audit opinion on the SBR provides senior leadership confidence in the data for day-to-day management.

**Impediments to Auditability**

- Historical cost baseline valuation to support capital asset acquisition costs is not consistently available due to mixed financial system limitations or insufficient source documentation to support asset acquisition in prior years. The Marine Corps is initiating, testing and implementing policies and procedures to mitigate historical cost and documentation deficiencies. In addition to remediating current deficiencies, this action is directed to the standardization of policies and procedures needed to provide timely and reliable financial information for the accurate valuation of future capital asset acquisitions.

- Present procedures for accountability of deployed military equipment preclude the ability to sufficiently assert asset existence. This deficiency increases the risk that deployed asset valuation is materially overstated or understated. In conjunction with strengthening procedures for deployed asset accountability, the Marine Corps is linked to current Federal Accounting Standards Advisory Board initiatives to evaluate, and modify, as appropriate, the valuation and validation accounting and accountability standards.
- The Marine Corps relies on external service providers to provide information critical to remediating deficiencies and achieving auditability. The Marine Corps is actively working with its service providers to achieve reasonable assurances of audit confidence in service provider automated systems and services. Marine Corps is incorporating remedial actions into its audit readiness priorities and timeline.
- The Marine Corps must reduce its reliance on outside-the-system procedures that it currently uses to address third party service provider systems reliability and compliance issues. The Marine Corps is working to increase reliance on its automated systems environment, thus reducing audit risk and increasing assertion confidence.

**DEFENSE INFORMATION SYSTEMS AGENCY**

The Defense Information Systems Agency (DISA) has remediated its material weaknesses and deficiencies and has asserted audit readiness on its FY 2007 General Fund and Working Capital Fund Balance Sheets. The DoDIG is auditing these Balance Sheets, which represent \$3.3 billion in General Fund and Working Capital Fund assets and liabilities. DISA is also working to achieve a successful audit of its full set of FY 2009 financial statements.

**Accomplishments to Date**

- Asserted audit readiness on the General Fund and Working Capital Fund FY 2007 Balance Sheet by:
  - Identifying third party service provider dependencies to better manage financial recording and reporting requirements and prioritize corrective actions. This accomplishment further supported and strengthened management’s assertion supporting the eventual full statement audit engagement in FY 2009.
  - Identifying and mapping business process flows and conducting associated risk and control analysis to jointly comply with OMB Circular A-123, Appendix A and audit readiness milestones.
- Initiated a financial statement audit for the FY 2007 Balance Sheet.

**Defense Information Systems Agency:  
Key Milestones to Achieving Auditability**

<b>Completion Date</b>	<b>Key Milestone</b>	<b>Projected Outcome</b>
Jun 2009	Complete field work for FY 2007 balance sheet audit for General Fund and Working Capital Fund.	DoDIG issues draft audit report.
Jun 2009	DoDIG and OUSD(C) review DISA assertion package for full financial statements.	DoDIG and OUSD(C) joint concurrence with DISA assertion of full financial statements audit readiness.
Sep 2009	Initiate audit engagement for FY 2009 financial statements.	Unqualified audit opinion.

***Impediments to Auditability***

- Reconciling FBWT is challenging due to the difficulty in collecting and maintaining supporting documentation for FBWT transactions. This challenge stems from the fact that DISA shares an appropriation with other Defense agencies, and disbursements are made on DISA's behalf by many organizations.

### IV. Charting the Future

While intensely focused on the FY 2009 near-term goal, the Department is also working aggressively to resolve auditability impediments in several material areas, or *priority segments*, to meet the long-term objective of auditability on the final one-third of DoD assets and liabilities and the DoD Consolidated Financial Statements. Achieving the long-term goal requires identifying audit impediments within five priority segments:

- Military Equipment
- Real Property
- Inventory and Related Property
- Environmental Liabilities
- Fund Balance with Treasury

The strategy for resolving audit impediments, improving financial information, and achieving auditability of the final one-third of the balance sheet, as well as for maintaining or sustaining auditability was described in Section I. As described in that section, the FIAR strategy employs an audit methodology to identify impediments to auditability and a continuous improvement approach for identifying, implementing, and testing solutions in DoD business processes.

Figure 16 demonstrates the Department’s progress to date and the projected results of near-term and long-term efforts.

This section contains descriptions of accomplishments to date, impediments to auditability, and milestones leading to audit readiness for each priority segment. Appendix 7 contains detailed information on key milestone progress for near- and long-term priority segments.

Figure 16. Long-Term Goals



\*Note: Asset and Liability amounts as of September 30, 2008. Numbers may not add due to rounding

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**PRIORITY SEGMENTS**

**Military Equipment**

The Department reported \$380 billion (net book value) in Military Equipment on its FY 2008 financial statements (23 percent of DoD assets).

The Department's long-term goals are to report Military Equipment on DoD financial statements accurately, timely, and reliably and to provide decision makers with more information about Military Equipment so that they can make better informed decisions.

The Department forecasts achieving audit readiness for Military Equipment by FY 2014 for the Army, Navy, and FY 2016 for the Air Force.

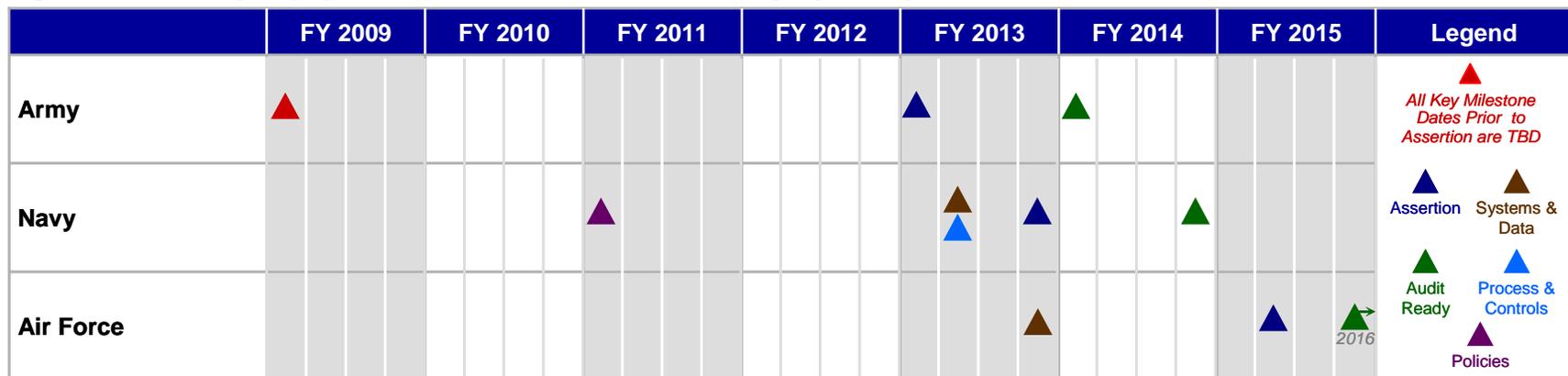
The following section includes accomplishments to date, a summary chart showing projected audit readiness dates by Component (Figure 17), a table of key milestones that lead to auditability, and a description of impediments to auditability.

**Accomplishments to Date**

The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD(AT&L)) is making progress toward audit readiness for Military Equipment and has:

- Developed 10 principle-based business rules that convert military equipment from being expensed annually to being capitalized under GAAP.
- Standardized valuation methodology and reviewed over 1,100 acquisition programs to assess capitalization.
- Established an estimate of historical cost of military equipment in service using budget authority documents.
- Developed CAMS-ME (Capital Asset Management System - Military Equipment), a fixed asset accounting system for capturing asset acquisition costs and depreciating those costs over the asset's useful life.
- Developed a process for program managers to attest to the accuracy of the information used in CAMS-ME as an internal control.

**Figure 17. Military Equipment Audit Readiness Summary by Component**



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- Established policy for structuring contract line items to support financial reporting, and developed two Business/Financial Management Analyst tools to facilitate application of the policy to military equipment.
- Developed new software to enable Components to transition from using the CAMS-ME Portal for asset status updates to a more efficient automated process using the Item Unique Identification (IUID) Registry. Department of Navy is using this process to update assets for ships and airplanes.
- Developed an Environmental Liabilities Quick Reference Tool to determine the presence of and properly account for environmental liabilities in DoD equipment.
- Developed online training classes and completed over 5,000 training events for physical inventories, foundations of government property, proper financial accounting treatment for military equipment, and fiscal and physical accountability and management of DoD equipment.

#### Army

- Developed a compliance program to meet the OMB Circular A-123, Appendix A, requirements to document processes, identify risks and controls, and incorporate Military Equipment into the Army's annual statement of assurance.
- Created the Asset Accountability Improvement Plan (AAIP) to guide and support proper valuation and visibility over Military Equipment end items.

#### Navy

- Identified 34 Military Equipment programs not managed in an Accountable Property System of Record (APSR). Twenty of these programs have been added to the Defense Property Accountability System as an interim solution before migration to Navy ERP.

- Commenced discovery effort to define current Military Equipment end-to-end processes in Navy ERP environment at NAVAIR (Naval Air Systems Command) in order to define, implement, and validate "to be" processes and system changes to ultimately enable Navy-wide audit readiness for valuation and accountability.

#### Air Force

- Implemented system process changes for two primary accountability systems of record for military equipment; REMIS (Reliability and Maintainability Information System) and RAMPOD (Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods). These system changes closed Air Force Audit Agency audit findings. The audit findings included two recommended system control issues in RAMPOD and four system control recommendations for REMIS.
- Completed an initial load of asset accountability and valuation records in REMIS and reconciled it with CAMS-ME. This has prepared the Air Force for a migration to full use of REMIS and RAMPOD as its systems of record.
- Established a training program and delivered training for maintaining accountability and valuation records and processes within REMIS and RAMPOD.

**Military Equipment: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
1. Complete IUID Registry interface to CAMS-ME to automate asset updates for Navy small craft.	OUSD(AT&L) & Navy	Dec 2008	Systems & Data	Interface automates the quarterly asset update to CAMS-ME and eliminates manual updates by program managers.
2. Complete CAMS-ME Spiral 2.2B.	OUSD(AT&L)	Feb 2009	Systems & Data	Provides capability to perform activity based depreciation, perform contract based valuations, obtain data from the DPAS, and enhances the interface with the IUID Registry.
3. Begin using Contract-Based Valuations (CBV).	OUSD(AT&L)	Jun 2009	Processes & Controls	CBV begins the transition from average cost estimates (methodology used to establish baseline) to full cost per end item.
4. Complete cut-over to activity-based depreciation for Navy and Marine Corps aircraft.	OUSD(AT&L)	Dec 2009	Processes & Controls	Activity-based depreciation takes into account surges and underruns in use for operations and training and provides more accurate depreciated values.
5. Complete IUID Registry interface to CAMS-ME for USMC to automate asset updates.	OUSD(AT&L) & USMC	Jun 2010	Systems & Data	Interface automates quarterly updates to CAMS-ME and eliminates manual updates by program managers.
6. Analyze requirements to properly report Military Equipment and begin implementation.	Army	Dec 2010	Policies	Completes identification of requirements to plan and facilitate implementation.
7. Complete OMB Circular A-123, Appendix A-related activities, including process documentation, risk analyses, testing, and developing and implementing corrective action plans.	Army	Dec 2010	Processes & Controls	Implements an effective control environment and program to report auditable Military Equipment values.
8. Implement sustainable processes to properly report Military Equipment.	Army	Sep 2011	Processes & Controls	Completes implementation of processes to essential to capturing full cost, depreciation and reporting of Military Equipment.
9. Obtain full operational capability of GFEBs.	Army	Sep 2011	Systems & Data	Completes implementation of GFEBs to report auditable Military Equipment values.
10. Initiate discovery efforts at NAVAIR.	Navy	Dec 2008	Policies, Processes & Controls, Systems & Data	Current Military Equipment policies, processes, controls, systems and data will be documented and evaluated to identify deficiencies.

**Military Equipment: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
11. Develop “to be” environment.	Navy	Dec 2009	Processes & Controls, Systems & Data, Policies	Strategy, functional requirements, and guidance to implement and test auditable Military Equipment processes in Navy ERP environment are defined and documented.
12. Configure and test “to be” environment.	Navy	Mar 2012	Processes & Controls, Systems & Data, Policies	Military Equipment processes in Navy ERP environment are implemented, tested, and validated in the pilot program office.
13. Roll-out new military equipment process in Navy ERP.	Navy	Jun 2013	Processes & Controls, Systems & Data, Policies	Military Equipment processes in the Navy ERP environment are implemented, tested, and validated at appropriate Navy commands.
14. Achieve DEAMS Initial Operational Capability.	Air Force	Mar 2010	Systems & Data	When fully operationally and interfaced with ECSS and applicable legacy systems, DEAMS will provide a key component necessary to properly report Military Equipment values.
15. Complete AFAA audit of initial values in REMIS.	Air Force	Jun 2010	Systems & Data	Allows confirmation of accurately valued and recorded Military Equipment.
16. Complete AFAA audit of REMIS valuation process.	Air Force	Jun 2010	Systems & Data	Review completion validates whether REMIS has adopted standard operating procedures to properly value and report Military Equipment values.
17. Achieve ECSS Full Operational Capability.	Air Force	Sep 2013	Systems & Data	When fully operational, ECSS will provide consistent real-time information for standardized reporting, as well as total asset visibility.

**Impediments to Auditability**

**Historical Costs.** Since military equipment was expensed at time of placement in service, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6 until 2003, the Department’s accounting systems were not designed to accumulate costs at the level of detail needed to capture the full cost of equipment. The systems were designed to support the appropriations process by tracking expenditures to the associated Congressional appropriations/acquisition programs. Since implementation of SFFAS No. 23, Eliminating the Category National Defense Property, Plant, and Equipment, in

FY 2003, the Department has been required to track costs and provide supporting detail at a much lower level in order to support the valuation of individual capitalized assets. DoD will be unable to provide this level of detail until Component ERP systems have been fully implemented. The Department is working with the Federal Accounting Standards Advisory Board (FASAB) to gain support for estimating the cost of capitalized assets until ERP systems are available.

**Full Cost.** The accounting standards specify that the full cost (direct and indirect) of an asset includes all costs required to bring an asset to a form and location suitable for its intended

use. Most DoD accounting systems do not capture indirect costs (systems engineering, training, and program management) and apply them to projects and programs. The Department is working with the Accounting and Auditing Policy Committee (AAPC) to develop indirect-cost guidance. Generally, indirect costs are immaterial to the overall acquisition program and do not impact investment decisions. Based on this, the Department believes that indirect costs should be expensed.

**Modifications.** Accounting standards specify that modifications are capitalized. The Department has difficulty distinguishing between maintenance and modification costs, determining how to treat a series of modifications incorporated into an end item at the same time, and estimating the useful life of a group of modifications. For example, service on a tank may involve cleaning rust, cutting metal to support a new system configuration, and adding new electronic systems. If considered separately, some of this effort might be classified as maintenance or might be expensed as being below the capitalization threshold. The Department is working with the AAPC to develop guidance relating to the treatment of modification costs. The guidance in the accounting standards is limited, and determining whether something should be expensed as maintenance or capitalized as modifications is subjective. The Department believes that management classification decisions should be accepted.

**Spare Parts.** The Department believes that spare parts should be treated as operating materials and supplies (OM&S). The accounting standards currently indicate that assets that have a useful life in excess of two years, that are not acquired for sale, that are acquired for use by the entity, and that exceed the capitalization threshold, are to be reported as equipment. The Department currently classifies aircraft engines as OM&S. Some believe that the definition in the accounting standards would require that engines be reported as equipment. The Department is working with the AAPC to develop guidance relating to the treatment of spare parts.

**Deployed Assets.** The Department is unable to readily verify the location and continued existence of assets (primarily ground vehicles) that have been deployed to high-threat areas. For example, High Mobility Multi-Wheeled Vehicles (HMMWV) deployed to war zones are moved based on day-to-day requirements. At a particular time, it is impossible to track a single HMMWV to verify its existence. The Department is working with the AAPC to develop guidance relating to the treatment of deployed assets.

**Group/Composite.** There are several issues relating to Group and Composite (G&C) valuation, including whether items below the capitalization threshold may be capitalized, how to verify asset existence when capitalization is based on dollars, and how to establish useful life. Currently, assets such as field hospitals are valued using a G&C methodology. Some of the embedded equipment has a value in excess of the capitalization threshold and some of the items would be expensed if they could be separately identified in the accounting system. The Department is working with the AAPC to develop guidance relating to the use of Group and Composite depreciation.

**Property in the Possession of Contractors.** Contractors develop equipment, such as special test and special tooling, for the Government on Cost type contracts and then estimate the cost of this equipment using internal systems. Since these internal systems are not audited, questions have been raised as to whether the resulting estimates are valid. Contractors use various methods, including parametric estimating, to develop costs for items delivered to the Government. The Department is working with the AAPC to develop guidance relating to the valuation of Property in the Possession of Contractors.

**Real Property**

The Department owns over \$108 billion (net book value) in Real Property, which is 7 percent of DoD balance sheet assets. DoD Real Property includes more than 545,000 buildings, facilities and structures, and approximately 30 million acres of land on over 5,400 worldwide sites. Reporting auditable real property values on DoD financial statements is one of the Department’s material weaknesses. Resolving this weakness is a DoD priority.

The Department forecasts achieving audit readiness for Real Property by FY 2014 for the Army, Navy, Air Force, and Defense Logistics Agency.

The following section includes accomplishments to date, a summary chart showing projected audit readiness dates by Component (Figure 18), a table of key milestones that lead to auditability, and a description of impediments to auditability.

**Accomplishments to Date**

OUSD(AT&L)

- Issued policy standardizing data requirements for real

property systems that will improve financial reporting and management of real property assets.

- Issued requirements for standard business processes and management controls to improve the accuracy of construction-in-progress cost information.
- Assigned unique site identifiers to all DoD-owned real property sites, which eliminate ambiguity and ensure consistent reporting, and automated the process for updating and maintaining the identifiers.
- Assigned a unique identifier to each DoD real property asset that links financial transactions to assets using SFIS. This ensures more accurate and complete financial data for real property and facilitates reconciliation between record systems.

Army

- Issued a draft real property audit readiness handbook, which, when finalized, will serve as a comprehensive “how to guide” for installation personnel.

**Figure 18. Real Property Audit Readiness Summary by Component**



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Navy

- Standardized processes to more accurately and timely record the acceptance and placement in service of real property assets.
- Implemented new processes to enable more accurate reporting of acquisition, capital improvements, depreciation, capital leases, construction-in-progress, disposal, and heritage assets and stewardship land.
- Improved reporting accuracy by completing systems changes to the Naval Facilities Assets Data Store (iNFADS).

Air Force

- Completed and issued a property accountability directive prescribing requirements for Real Property accountability and reporting that is expected to improve the reliability and auditability of real property information.

- Implemented the remaining data elements of the Real Property Inventory Requirements (RIPR) for the Air Force Real Property system (ACES-RP) to achieve real property accountability.

DLA

- Began development of EBS module to hold DLA real property data and manage facilities projects. Real property data will be RPIR compliant and integrated with financial data.
- Completed site visits to the Marine Corps Logistics Base in Albany, Georgia and the Anniston Army Depot in Alabama as part of a program to baseline real property used by DLA at military installations, verify real property inventory data, and collect required documentation.

**Real Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
1. Implement a fully net-centric environment.	Army	Sep 2009	Systems & Data	Achieve Web services interface between the Army's Real Property Inventory system and RPAD.
2. Complete DoD-wide asset reconciliation.	Army	Sep 2010	Systems & Data, and Processes & Controls	Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy.
3. Complete evaluation, testing, strengthening, and documenting internal controls to include OMB A-123, Appendix A requirements and procedures for regular, periodic testing.	Army	Sep 2010	Processes & Controls	Effective internal controls provide management with assurance that processes and systems are working as required and real property information is reliable.

**Real Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
4. Account and report imputed costs for Real Property assets.	Army	Dec 2010	Policies, and Processes & Controls	Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs.
5. Complete deployment of accountable system of record for real property (asset management). Test system functionality and determine whether the system is FFIA compliant.	Army	Sep 2011	Systems & Data	Deployment of an accountable system of record improves the reliability and timeliness of real property information and makes such information more readily available to management. An accountable system of record eliminates manual processes, reducing manpower costs, and replaces a legacy system that is more costly to operate and maintain.
6. Establish Real Property acquisition value baseline.	Army	Sep 2011	Policies, and Processes & Controls	Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy.
7. Provide accurate Real Property data.	Army	Sep 2012	Systems & Data, and Processes & Controls	Fully implement RPIR and CIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory.
8. Implement a fully net-centric environment.	Navy	Sep 2009	Systems & Data	Achieve Web services interface between the Navy's Real Property Inventory system and RPAD.
9. Complete DoD-wide asset reconciliation.	Navy	Sep 2010	Systems & Data, and Processes & Controls	Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy.
10. Account and report imputed costs for Real Property assets.	Navy	Dec 2010	Policies, and Processes & Controls	Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs.
11. Provide accurate Real Property data.	Navy	Sep 2012	Systems & Data, and Processes & Controls	Fully implement RPIR and CIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory.

**Real Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
12. Establish Real Property acquisition value baseline.	Navy	Sep 2012	Policies, and Processes & Controls	Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy.
13. Implement a fully net-centric environment.	Air Force	Sep 2009	Systems & Data	Achieve Web services interface between the Air Force's Real Property Inventory system and RPAD.
14. Complete DoD-wide asset reconciliation.	Air Force	Sep 2010	Processes & Controls, and Systems & Data	Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy.
15. Account and report imputed costs for Real Property assets.	Air Force	Dec 2010	Policies, and Processes & Controls	Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs.
16. Establish Real Property acquisition value baseline.	Air Force	Sep 2011	Policies, and Processes & Controls	Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy.
17. Provide accurate Real Property data.	Air Force	Sep 2012	Processes & Controls, and Systems & Data	Fully implement RPIR and CIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory.
18. Implement a fully net-centric environment.	DLA	Sep 2009	Systems & Data	Achieve Web services interface between DLA's Real Property Inventory system and RPAD.
19. Account and report imputed costs for Real Property assets.	DLA	Dec 2010	Policies, and Processes & Controls	Publish policy for imputed costs of Real Property. Implement the interim solution for reporting imputed costs.

**Real Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
20. Complete DoD-wide asset reconciliation.	DLA	Sep 2010	Processes & Controls, and Systems & Data	Establish system interfaces between Military Departments/Defense Agencies and OSD System of Record to enable implementation of a standardized reconciliation methodology and assertion of real property data accuracy.
21. Provide accurate Real Property data.	DLA	Sep 2012	Processes & Controls, and Systems & Data	Fully implement RPIR and CIPR in alignment with ETP milestones. Implement procedures to validate data quality to include conducting periodic physical inventory.
22. Establish Real Property acquisition value baseline.	DLA	Sep 2012	Policies, and Processes & Controls	Publish policy that standardizes methodology for developing a Real Property acquisition value baseline. Implement the methodology, compile and validate supporting documentation, and assert baseline accuracy.

**Impediments to Auditability**

The Department’s financial community is working closely with the Office of the Deputy Under Secretary of Defense for Installations and Environment and Real Property/Installation Commands to eliminate Real Property audit impediments including unsupported opening balances (i.e., documentation for historical costs). Other impediments to auditability include imputed revenue and costs, and systems modernization.

**Capturing Asset Level Costs.** The department needs to agree on and implement a management cost strategy for implementation of SFIS managerial cost elements across the department to enable visibility to actual life-cycle costs of individual real property assets. This capability is specifically needed to enable reporting the imputed cost and revenue amounts using the actual cost. The management cost method will provide standard methodologies to allocate costs in order to

obtain meaningful cost information for management enabling informed cost management decisions for the real property programs within DoD. The methodology will be compliant with FASAB cost management requirements. Through working group efforts of the DoD functional and financial Real Property communities a strategy will be developed and with leadership approval a plan for implementation will be put in place.

**Opening Balances/Historical Costs.** The Department owns Real Property assets that were acquired in colonial times (e.g., Fort Monroe, Virginia), during the Army campaigns into Indian Territory (e.g., Fort Sill, Oklahoma), as well as overseas such as in Germany and South Korea. Most of the original facilities are fully depreciated or have been demolished, but many remain in use today through capital improvements and modernization projects. Placing a value on the land and over 545,000 structures (old or recently constructed) with acceptable

supporting documentation is a significant challenge. The Department is working with OMB and FASAB to identify an acceptable solution that avoids incurring millions of dollars to search hundreds of installations for historical records or to develop alternative methods to resolve this audit impediment.

**Imputed Revenue and Costs.** The Department recently changed its Real Property reporting policy (i.e., Preponderance of Use policy) requiring revenue and cost recognition to be imputed, recorded, and reported in financial statements. This change in policy eliminates an audit impediment, since the preponderant use policy was not in compliance with GAAP. Implementing the new imputed revenue and cost requirements is a significant challenge because real property records within and between DoD Components must be reconciled and adjusted, and an acceptable method for determining the amounts to be imputed must be developed and implemented. To facilitate this change in policy, a senior working group will be established to ensure the new policy is expeditiously and properly implemented. An interim solution will be implemented by FY 2011; a final solution is dependent on implementation of cost accounting systems and SFIS across the Department.

**Real Property Systems Modernization.** The Army, Air Force, and DLA are replacing or modernizing their real property management systems, which also serve as their subsidiary ledgers for real property financial management and reporting. System modernizations require extensive changes to processes, procedures, and internal controls. Data must also be cleansed and migrated. System efforts in DoD are always a challenge due to its size and complexity; therefore, the Components' system modernization plans impact when audit readiness will be achieved.

The financial and functional communities are also working to improve the reliability and availability of information needed to more effectively manage real property assets. Significant progress has been made, but much remains to be done.

**Valuation Methodology for Unsupported Assets.** The Department needs to define and implement an alternate methodology for assets without supporting documentation. The methodology should include standards for assets that cannot be deflated from the plant replacement guide due to the absence of a supportable in-service date.

**DoD-Wide Asset Reconciliation.** The Department needs to establish procedures and methodology for reconciling real property records. Reconciliations must be supportable and verifiable. There are mutual dependencies between the Army, Navy, Air Force, and Defense Agencies.

**Inventory and Related Property**

The Department reported \$236 billion in Inventory and Related Property (I&RP) on its FY 2008 financial statements (14 percent of DoD assets). The Military Services and DLA hold 99 percent of these assets. I&RP predominantly comprises inventory items held for sale, such as in DLA operations, and OM&S, which are items held for issuance, not for sale. I&RP includes rations, various types of expendable supplies, ammunition, missiles, spare parts, and aircraft engines.

The Department’s long-term goal is to ensure I&RP is properly valued, reported, and auditable, and, more importantly, correct inventory levels are maintained and supplied to the warfighter when and where needed. To meet this goal, the financial community is working closely with the logistics community.

The Department projects achieving I&RP audit readiness in FY 2015 for DLA, and in FY 2016 for the Army, Navy, and DLA.

The following section includes accomplishments to date, a summary chart showing projected audit readiness dates by Component (Figure 19), a table of key milestones that lead to

auditability, and a description of impediments to auditability.

**Accomplishments to Date**

OUUSD(C)

- Updated and issued DoD Financial Management Regulations consistent with accounting standards for valuing I&RP at the moving average cost.

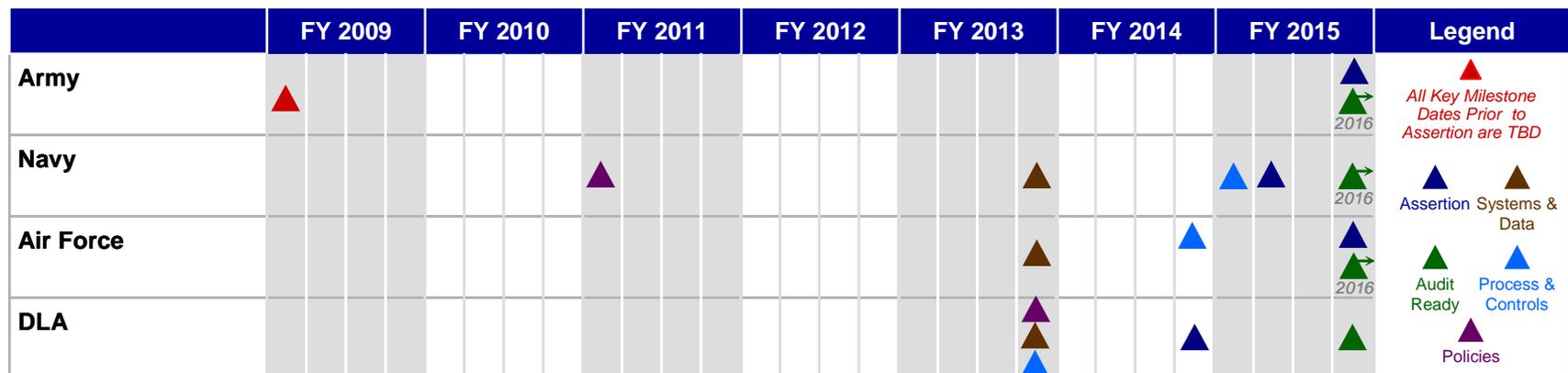
Army

- Implemented Logistics Modernization Program (LMP) system at CECOM (Communications and Electronics Command). LMP provides the capability to properly value inventory items for Army Working Capital Fund activities.

Air Force

- Implemented compliant valuation principles for OM&S through upgrades to inventory and stock management systems.
- Implemented the moving average cost (MAC) methodology for inventory.

**Figure 19. Inventory and Related Property Audit Readiness Summary by Component**



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DLA

values the inventory in accordance with policy and the accounting standard.

- Implemented Enterprise Business System (EBS) for Inventory Control Points with the exception of fuels. EBS

**Inventory and Related Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Expected Impact/Outcome
1. Complete review, correction or modification, and documentation of business and financial processes.	Army	Sep 2010	Processes & Controls	Provides assurance to management that processes are working effectively and that actions impacting I&RP, such as acquisition and disposal, are being timely and accurately recorded.
2. Complete evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A, requirements and procedures for regular, periodic testing.	Army	Sep 2010	Processes & Controls	Effective internal controls provide management with assurance that processes and systems are working as required and that I&RP information is reliable.
3. Complete deployment of LMP and GCSS-A. Test systems functionality and verify if the systems are FFMIA compliant.	Army	Sep 2010	Systems & Data	Deployment of LMP and GCSS-A improves the reliability and timeliness of I&RP information and makes such information more readily available to management.
4. Cleanse and migrate data to LMP and GCSS-A. Data cleansing and migration is fully documented. Documentation for current year transactions is readily available and acceptable to auditors.	Army	Sep 2014	Systems & Data	Provides management with assurance that I&RP is accurate and reliable and prepares the Army for successful audits.
5. Develop auditable opening balances (historical baseline) with appropriate supporting documentation that is readily available for auditors.	Army	Sep 2015	Systems & Data, Audit Evidence	Achieves existence, completeness, and valuation financial statement management assertions. Ensures management has a complete inventory of I&RP items.
6. Complete deployment of Navy ERP for I&RP, and evaluate and assess Navy ERP to verify it is FFMIA compliant.	Navy	Sep 2013	Systems & Data	Ensures reliability and accuracy of I&RP information and makes such information more readily available to management.
7. Cleanse and migrate data to Navy ERP. Data cleansing and migration is fully documented. Documentation for current year transactions is readily available and acceptable to auditors.	Navy	Sep 2013	Systems & Data	Provides management with assurance that I&RP information is accurate and reliable and prepares the Navy for successful audits.

**Inventory and Related Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Expected Impact/Outcome
8. Develop auditable opening balances (historical baseline) with appropriate supporting documentation that is readily available for auditors.	Navy	Sep 2015	Systems & Data, Audit Evidence	Achieves existence, completeness, and valuation financial statement management assertions. Ensures management has a complete inventory of I&RP thereby improving I&RP decisions.
9. Complete review, correction or modification, and documentation of business and financial processes.	Navy	Sep 2015	Processes & Controls	Provides assurance to management that processes are working effectively and that actions impacting I&RP, such as acquisition and disposal, are being timely and accurately recorded.
10. Complete evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A, requirements and procedures for regular, periodic testing.	Navy	Sep 2015	Processes & Controls	Effective internal controls provide management with assurance that processes and systems are working as required and that I&RP information is reliable.
11. Implement a sustainable physical inventory process that includes regular reconciliations supported by documentation and internal controls.	Air Force	Sep 2011	Processes & Controls	A sustainable physical inventory process will provide Air Force management with reliable data on asset availability and supply chain management., while ensuring positive control of Air Force property through the global logistics network.
12. Implement Moving Average Cost (MAC) in accordance with the DoDFMR Volume 4, Chapter 4, for accounting for the latest repair cost in the inventory valuation for inventory.	Air Force	Sep 2012	Systems & Data	Converting all inventory valuation to MAC will provide a consistent valuation method across the Air Force and DoD providing management with enterprise-wide visibility of asset values.
13. Properly record post-award acquisition data to ensure valid acquisition cost used to value Inventory.	Air Force	Sep 2013	Processes & Controls, Systems & Data	A complete baseline valuation will include accurate acquisition data that represents the cost of bringing each asset into serviceable inventory held for sale. This supportable acquisition cost combined with correct MAC calculation will provide management an accurate and auditable Inventory valuation.
14. Achieve Full Operational Capability for Expeditionary Combat Support System (ECSS).	Air Force	Sep 2013	Systems & Data	The Full Operating Capably of ECSS will provide the Air Force with a compliant enterprise logistics system that will produce reliable and auditable financial reports and provide visibility of all asset data and costs.

**Inventory and Related Property: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Expected Impact/Outcome
15. Implement a sustainable, auditable process to track and document in-transit inventory moving between systems, service organizations, or third party inventory control points.	Air Force	Sep 2014	Processes & Controls	Eliminating unreconcilable balances between inventory shipments and receipts will provide Air Force management with visibility of the value of assets between locations and entities.
16. Complete review, correction or modification, and documentation of business and financial processes.	DLA	Sep 2013	Processes & Controls	Provides assurance to management that processes are working effectively and that actions impacting I&RP, such as acquisition and disposal, are being timely and accurately recorded.
17. Complete evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A, requirements and procedures for regular, periodic testing.	DLA	Sep 2013	Processes & Controls	Effective internal controls provide management with assurance that processes and systems are working as required and that I&RP information is reliable.
18. Complete deployment EBS. Test EBS functionality and verify if the system is FFIA compliant.	DLA	Sep 2013	Systems & Data	Deployment of EBS improves the reliability and timeliness of I&RP information and makes such information more readily available to management.
19. Cleanse and migrate data to EBS. Data cleansing and migration is fully documented. Documentation for current year transactions is readily available and acceptable to auditors.	DLA	Sep 2013	Systems & Data	Provides management with assurance that I&RP information is accurate and reliable and prepares the DLA for successful audits.
20. Develop auditable opening balances (historical baseline) with appropriate supporting documentation that is readily available for auditors.	DLA	Sep 2014	Systems & Data, and Audit Evidence	Achieves existence, completeness, and valuation of financial statement management assertions. Ensures management has a complete inventory of I&RP thereby improving I&RP decisions.

**Impediments to Auditability**

**Opening Balances.** The Department stocks over 4 million different types of I&RP items. Many of the supply items have a very low turnover rate (years), creating a significant challenge in properly valuing opening balances and having acceptable supporting documentation for verifying acquisition costs. The Department is working with OMB and FASAB to develop

alternative methods for resolving this audit impediment or identify an acceptable solution that avoids incurring millions of dollars to research and find acquisition records.

**Inventory Transfers.** Significant quantities of I&RP are being transferred from BRAC (Base Realignment and Closure) activities to the other DoD installations. Properly valuing the items included in these transfers is a considerable challenge

because the actual acquisition costs were not recorded in I&RP legacy systems. Rather, most I&RP legacy systems use latest acquisition cost without an allowance for gains or losses to approximate historical cost to value items, which is not in accordance with accounting standards. Furthermore, when the inventories are transferred to the enduring sites, they are not accompanied by sufficient supporting acquisition documentation to determine the actual acquisition costs. Therefore, alternative methods will have to be used to value much of the transferred I&RP items.

**Systems Modernization.** The Military Departments and DLA are replacing the I&RP systems with ERPs. Properly and successfully implementing ERPs is a significant challenge due to the size, complexity, and global footprint of the Components. In addition, ERP deployments require extensive changes to processes, procedures, and internal controls. Data must also be cleansed and migrated.

**Environmental Liabilities**

The Department reported \$71 billion in Environmental Liabilities on its FY 2008 financial statements (3 percent of DoD liabilities).

The long-term goal is to report Environmental Liabilities on DoD financial statements accurately, timely, and reliably, and provide management with reliable and relevant information to manage environmental cleanup programs and activities.

A complete and accurate accounting of environmental liabilities will assist in establishing and managing cleanup priorities, developing and defending budget estimates, and forecasting environmental cleanup costs and liabilities.

The Department forecasts achieving audit readiness for Environmental Liabilities by FY 2010 for the Navy, FY 2012 for the Air Force, FY 2013 the Army, and FY 2016 for DLA.

The following section includes accomplishments to date, a summary chart showing projected audit readiness dates by Component (Figure 20), a table of key milestones that lead to auditability, and a description of impediments to auditability.

**Accomplishments to Date**

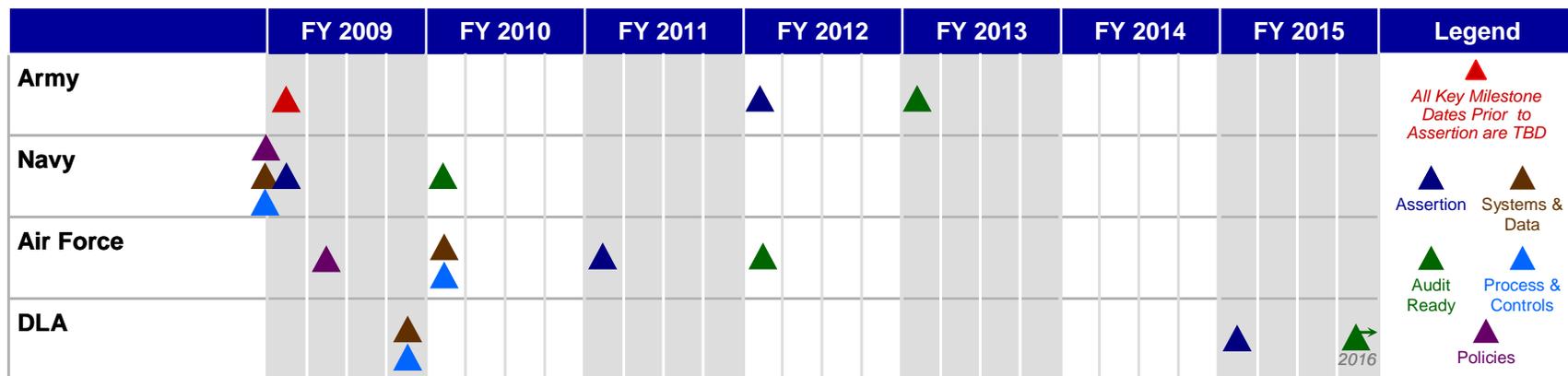
OSD

- Published an Environmental Liabilities Best Practices Guide that provides best practices for approaching an audit, and properly accounting for and supporting environmental liabilities in financial statements.
- Published the Environmental Liabilities Recognition, Valuation, and Reporting Requirements document that includes the necessary data, process model, and business rules to be implemented in Component business operations and systems to provide complete and auditable environmental liabilities for financial statement reporting.

Army

- Obtained FFMIA compliance certification on two Environmental Liability tracking systems, Army Environmental Database – Compliance Clean-up (AEDB-CC) and Army Environmental Database – Restoration (AEDB-R) from Army Audit Agency.
- Developed a plan to recognize, value, and report

**Figure 20. Environmental Liabilities Audit Readiness Summary by Component**



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environmental closure liabilities associated with real property assets.

Navy

- Completed documentation and correction of processes and procedures for identifying, estimating, and reporting Defense Environmental Restoration Program (DERP), Non-DERP, and BRAC environmental liability estimates.
- Completed a fence-to-fence survey at all Navy installations and Navy estimated environmental disposal liabilities for ships and submarines, both conventional and nuclear, and for Non-DERP environmental liabilities developed preliminary cost estimates.

Air Force and DLA

- Completed initial documentation and correction of processes and procedures for creating, changing, reviewing, approving

and liquidating DERP, Non-DERP, and BRAC environmental liability estimates.

Army, Navy, Air Force and DLA

- DERP established and documented a process to accomplish supervisory review and approval of liability estimates.

DLA

- Completed a validation of the Environmental Liability Training Program and adequate internal controls exist and comply with the current OSD Training Guidance.
- Internal review of DLA’s Environmental Liability cost estimation process reflects a consistent methodology using the Remedial Action Cost Estimation Requirements (RACER) model as a tool for cost estimating Environmental Liability cleanup and closure actions.

**Environmental Liabilities: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
1. Non-DERP: Document and correct processes and procedures for creating, updating, reviewing, approving, and liquidating EL estimates.	Army	Sep 2009	Processes & Controls	The process for developing cost estimates will be documented, controls will be working effectively, and Non-DERP amounts will be audit ready.
2. Non-DERP: Document that PP&E records have been reviewed for EL and properly record the liability.	Army	Sep 2009	Processes & Controls	The process to identify and classify property, plant and equipment with EL will be documented and support achieving audit readiness.
3. Non-DERP & CAMD: Complete and document initial estimates for EL sites.	Army	Sep 2009	Processes & Controls	Non-DERP and CAMD EL initial estimates will be completed, documented, and audit ready.
4. Non-DERP & CAMD: Populate data gathering tool with inventory of EL sites, estimates, anticipated closure dates, and cumulative costs incurred.	Army	Sep 2009	Processes & Controls	The data gathering tool, when fully populated, supports achieving audit readiness.
5. Non-DERP: Establish and document process to accomplish supervisory review and approval of the EL estimates.	Army	Sep 2010	Processes & Controls	The supervisory review and approval process assists in becoming and sustaining audit readiness.

**Environmental Liabilities: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
6. Complete corrective actions for facility closure, asbestos, and non-military equipment EL.	Air Force	Dec 2009	Processes & Controls	Processes and controls for facility closure, asbestos and non-military equipment liability will be documented and available for audit assertion.
7. Complete implementation of Environmental Liability Service.	Air Force	Sep 2010	Systems & Data	Environmental Liability Service provides lower-risk functionality and eliminates most manual processes for DERP programs.
8. DERP: Identify universe of EL candidate units, facilities, property and/or operations.	DLA	Sep 2009	Processes & Controls, and Systems & Data	Documented complete list of all environmental liability areas with associated linkages to the real property asset record supports achieving and sustaining audit readiness.
9. DERP: Document that all PP&E records have been reviewed for existing EL and properly reported.	DLA	Sep 2009	Processes & Controls	Completed analysis of the DERP process identifying and classifying PP&E with EL will be annotated on the financial statement and maintained until linkages to dependencies are ready for audit validation.
10. DERP: Complete and document initial estimates for EL sites.	DLA	Sep 2009	Processes & Controls	Completed and documented environmental liability estimates for DERP sites supports achieving audit readiness.

**Impediments to Auditability**

**OSD**

Federal financial standards require that environmental liabilities associated with General Property, Plant, and Equipment be recognized on DoD’s financial statements. In July 2006, and in consultation with Installations and Environmental (I&E) Component representatives, ODUSD(I&E) undertook and completed a business process reengineering for EL recognition, valuation, and reporting. Progress has been made in establishing a standard business process reengineering implementation strategy for environmental liabilities associated with real property assets. DoD has not defined a standard

implementation strategy for recognition and valuation of environmental liabilities associated with equipment items.

**Army**

The chief impediment to audit readiness for Army Environmental Liabilities is resource constraints. For functional areas with assets that have environmental liabilities, progress is impeding by only having a limited number of people with the environmental expertise to recognize, value, and report environmental liabilities. Although resources are limited, Army is committed to completing the audit readiness tasks on time.

Environmental liabilities reported on the Army financial statement include a number of DoD programs for which the Army is the executive agent, some of which have measured

more progress in reporting than others. A goal in FY 2009 will be to properly segment the FIAR Plan programs to reflect recent changes in the DoD Financial Management Regulation, and to show more accurate progress in recognizing, valuing, and reporting environmental liabilities.

#### Air Force

Process changes for environmental liabilities must be implemented as a result of consolidating management of DERP under the Air Force Center for Engineering and Environment during FY 2008 and early FY 2009. Installation-level work force reductions add risk for assuring quality of cost estimates. The FY 2010 implementation of the Environmental Liability Service will provide lower-risk functionality and eliminate most manual processes for DERP programs.

The Air Force must also complete development and documentation of the processes to estimate liabilities for aspects of Non-DERP not previously reported: 1) cleanup at non-US overseas locations, 2) facility closures other than landfills, 3) military equipment, 4) non-military equipment, and 5) asbestos. The Air Force will complete documentation and corrective actions for these areas by mid FY 2009. The potential for changes to requirements as a result of on-going inter-agency and inter-DoD discussions on Non-DERP closure and disposal liability add uncertainty for achieving that goal.

#### DLA

The identification of a complete Environmental Liability universe is dependent on a complete and accurate inventory of all Real Property asset records where DLA Environmental Liability may have an associated presence. The Real Property assessment is scheduled on a 5-year (20 percent) cycle. DLA is working to develop an updated plan based on this dependency.

**Fund Balance with Treasury**

The Department reported \$468 billion in Fund Balance with Treasury on the FY 2008 financial statements (28 percent of DoD assets). FBWT represents the funds entrusted to the Department by Congress to make expenditures and pay liabilities. The U.S. Treasury requires agencies to reconcile FBWT accounts on a monthly basis to ensure the integrity and accuracy of financial data. In essence, this is the same as an individual balancing their checkbook with their monthly bank statement. The Department must have supporting documentation for all accounting entries affecting FBWT, and those detailed records must match the transactions reported to and recorded by the U.S. Treasury.

In April 2008, the Department formed a working group to address the issues that have prevented Components from reconciling their accounts with Treasury. Already, the group has made significant progress in defining clear requirements for reconciliation, as well as in evaluating and recommending technology solutions that will assist in collecting, maintaining, and matching transaction detail. As a result, the Department

projects achieving FBWT audit readiness in FY 2009 for the Army, in FY 2010 for Navy, in FY 2011 for DLA, and in FY 2013 for Air Force.

The following section includes accomplishments to date, a summary chart showing projected audit readiness dates by Component (Figure 21), a table of key milestones that lead to auditability, and a description of impediments to auditability for FBWT.

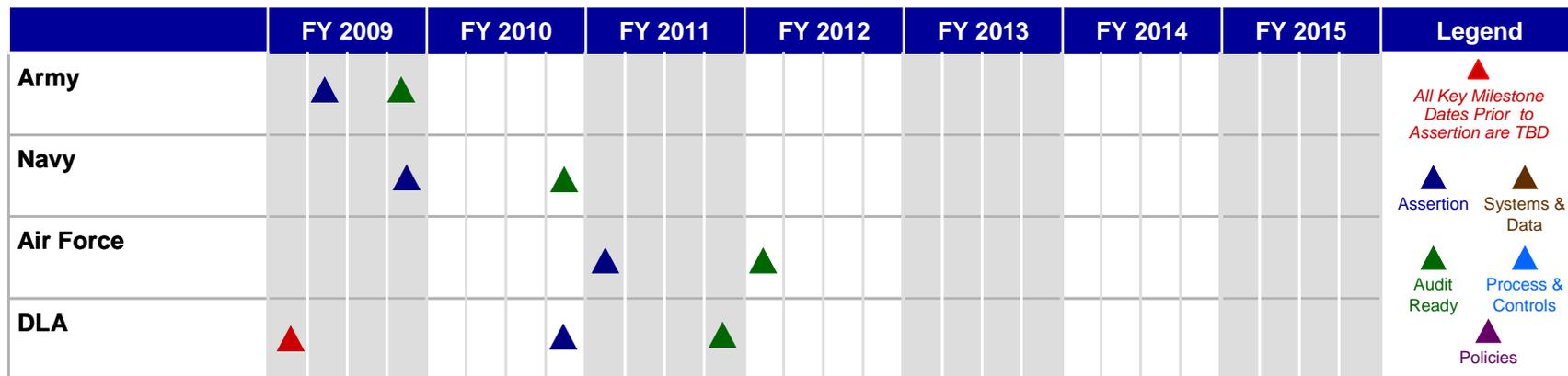
**Accomplishments to Date**

Navy

(Navy has broken FBWT down into three segments: 1) Fund Receipt and Distribution; 2) Collections; and 3) Disbursements.)

- Completed discovery and documentation of process flows; identified key controls; and developed testing strategy to test the operational effectiveness of key controls for all three segments.
- Executed testing procedures to test the operating effectiveness of Collections and Disbursements.

**Figure 21. Fund Balance with Treasury Summary by Component**



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Air Force

- Developed and tested a standard operating procedure and a reconciliation template for monthly reconciliation of Air Force and Treasury balances at a detail level.
- Identified systems and transaction-level data to support FBWT reconciliation.

DLA

- Reduced 97 percent or \$168 million of the Working Capital Fund unsupported undistributed transactions.
- In support of DLA's FBWT, DFAS developed a business plan that will achieve FBWT auditability by September 30, 2010. DLA has funded the plan, and DFAS is assigning additional resources to clear problem disbursements and document FBWT business processes.

**Fund Balance with Treasury: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
1. Implement Business Activity Monitoring (BAM) reconciliation functionality	Navy & DFAS	Dec 2008	Systems & Data	The Navy will use the BAM tool to analyze problem transactions and reconcile FBWT for GF. Success has been achieved on the WCF for FBWT through the use of the Cash Reconciliation Tool.
2. Verify implementation of FBWT reconciliation remediation processes and procedures for collections and disbursements	Navy & DFAS	Mar 2009	Processes & Controls	The Navy has capitalized on OMB Circular A-123, Appendix A, internal controls efforts to rapidly advance capability to verify and correct weaknesses disbursements and collections.
3. Develop a plan to implement the proposed FBWT SOP and Reconciliation Template.	Air Force & DFAS	Dec 2008	Processes & Controls	The SOP and template will provide a framework for reconciling and documenting the FBWT process and achieving auditability.
4. Evaluate the impact of the reconciliation SOP and template on auditability of largest portions of AF FBWT.	Air Force & DFAS	Mar 2009	Processes & Controls	The SOP and template and update reconciliation procedures will be tested to ensure that they support auditability of larger funds.
5. Complete assessment of the capabilities of available systems to facilitate the reconciliation process.	Air Force & DFAS	Mar 2009	Systems & Data	An automated strategy is critical to reducing the level of manual workload during the completion of monthly reconciliations.
6. Assess and determine required resource and skill sets.	Air Force & DFAS	Jun 2009	Processes & Controls	The Air Force will be able to properly resource the reconciliation and system development efforts.
7. Design and document tested monthly process to perform FBWT reconciliations for Air Force account symbols.	Air Force & DFAS	Dec 2009	Processes & Controls	Establishes the requirements for maintenance of auditable Air Force FBWT accounts.

**Fund Balance with Treasury: Key Milestones to Achieving Auditability**

Key Milestone	Component	Completion Date	Financial Improvement Element	Projected Outcome
8. Implement systemic solution and create management reports to enable monitoring of success.	Air Force & DFAS	Mar 2010	Processes & Controls	Ability to monitor timely resolution of cash backlog items and communicate non-compliance to senior management.
9. Research and reconcile current and past unreconciled balances to the extent that detailed information is available.	Air Force & DFAS	Jun 2010	Processes & Controls	Reconciliation enables old unreconciled balances to be stabilized and isolated. At this point, the disposition of the unreconciled balances can be separately addressed and resolved.
10. Complete testing of the FBWT reconciliation process to validate corrective actions and develop a management assertion package	Air Force & DFAS	Sep 2010	Processes & Controls	Use audit procedures to test Air Force ability to assert that Air Force FBWT is reconciled with Treasury's balance.
11. Correct Statement of Differences for deposits, payments and collections, and check issue discrepancies.	DLA & DFAS	Mar 2009	Processes & Controls	Corrections ensure differences are being managed and are at an immaterial amount.
12. Correct unsupported disbursements and in-transit deficiencies.	DLA & DFAS	Sep 2009	Processes & Controls	Disbursements comprise the vast majority of transactions related to FBWT. Correcting the issues preventing accurate supported accounting records for disbursements is critical to success.
13. Correct unmatched disbursements and collections deficiencies.	DLA & DFAS	Mar 2010	Processes & Controls	Matching collections and disbursements with budgetary accounting records is a crucial aspect of management control over funds. Correcting weaknesses in this area is critical to executing the Department's responsibility to safeguard public funds.
14. Perform discovery and correction on systems and implement compensating controls to mitigate and assist with the tracking, reporting, and correction of undistributed disbursements and collections.	DLA & DFAS	Sep 2010	Systems & Data	Identifies system deficiencies and corrects them, and ensures controls are working effectively to achieve audit readiness.

***Impediments to Auditability***

The Department's operations span the world and are designed to be deployable, flexible, and responsive to supporting contingencies. Maintaining detailed records for accounting events in this environment is a great challenge. The Department is working to complete system interfaces and data warehouses that will support the collection and maintenance of accounting records from the hundreds of systems involved in disbursing funds for the Department around the globe.

A lack of data standards makes sharing of detailed disbursement information across the Department difficult. The Department is implementing the Standard Financial Information Structure to address this issue.

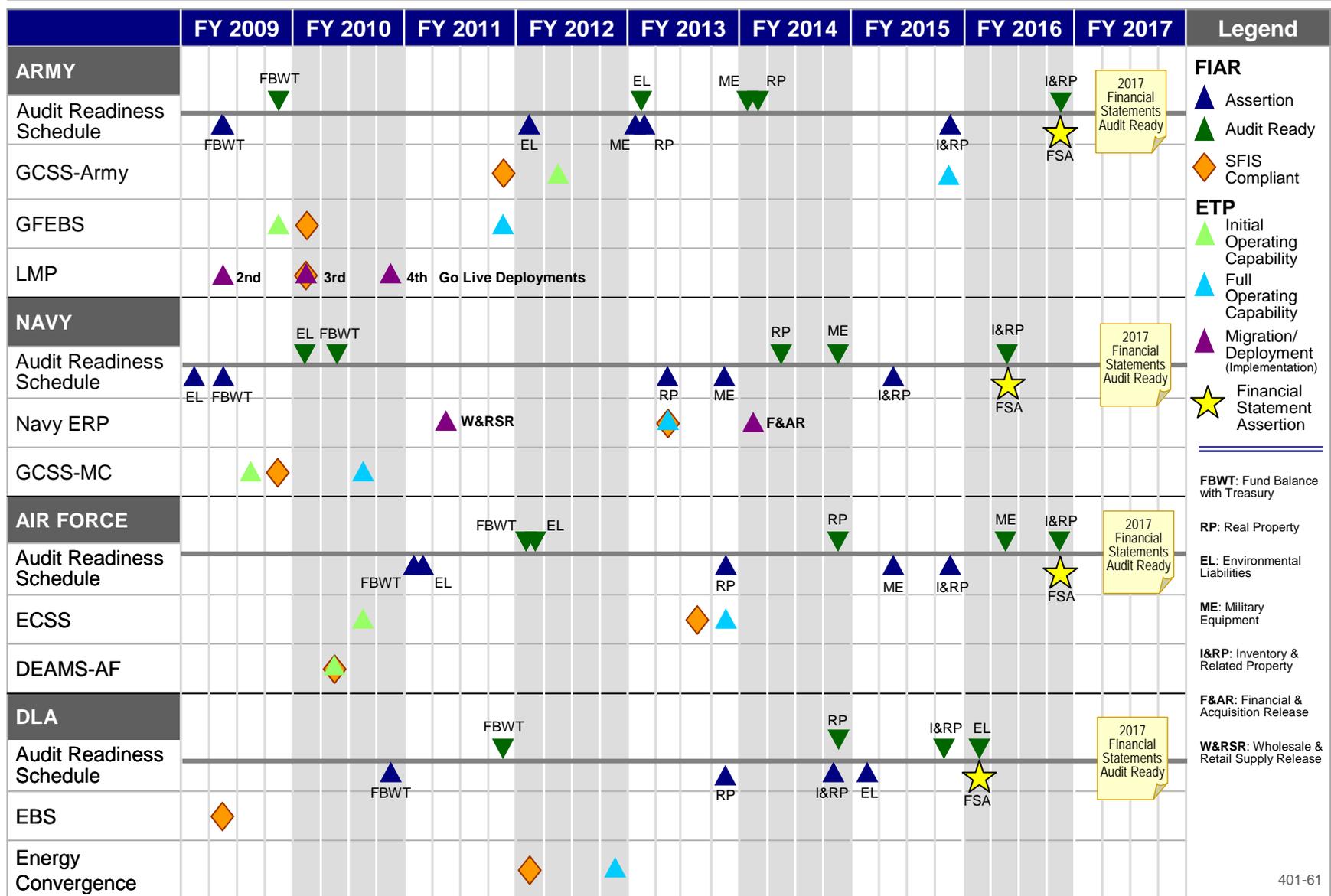
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## Appendix 1 – Business Processes

Business Process	Business Process Definition
Acquire to Retire	Acquire to Retire encompasses all business functions necessary to obtain, manage, and dispose accountable and reportable property (capitalized and non-capitalized assets) through their entire life-cycle. This includes such functions as requirements identification, sourcing, contract management, purchasing, payment management, general property, plant & equipment management and retirement.
Hire to Retire	Hire to Retire encompasses all business functions necessary to plan for, hire, develop, assign, sustain and separate personnel resources in the Department of Defense.
Procure to Pay	Procure to Pay encompasses all business functions necessary to obtain goods and services. This includes such functions as requirements identification, sourcing, contract management, purchasing, payment management, and receipt/debt management.
Order to Cash	Order to Cash encompasses all business functions necessary to accept and process customer orders for services and/or inventory held for sale. This includes such functions as managing customers, accepting orders, prioritization of orders, fulfilling orders, performing distribution, managing receivables, and managing cash collections.
Plan to Stock-Inventory Management	Plan to Stock encompasses all business functions necessary to plan, procure, produce, inventory, and stock materials used both in operations and maintenance (O&M) as well as for sale.
Environmental Liabilities	Environmental Liabilities encompasses all business functions necessary to identify environmental cleanup, closure, or disposal issues that represent an environmental liability of the Department, to develop cost estimates and expenditures related to the actions required to eliminate identified environmental liabilities, and to report appropriate financial information about the environmental liability.
Budget to Report	Budget to Report encompasses all business functions necessary to plan, formulate, create, execute against and report on the budget and business activities of the entity. This includes updates to the general ledger.

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Appendix 2 – Audit Readiness and ERP Deployment Timelines



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## Appendix 3 – Federal Requirements

For many years, the Executive and Legislative branches have worked together to realize an accountable, results-oriented government that strives every day to better serve the American people. Many initiatives and laws shape the Department of Defense's strategy for improving financial management and achieving audit readiness. Brief descriptions of the most predominant follow:

**The Chief Financial Officers Act of 1990 (PL 101-576) (CFO Act)** was the first of a series of management reform legislation designed to improve the general and financial management of the Federal government. It laid the foundation for other key legislative reforms that followed a common thread of increased accountability and better management practices. The CFO Act requires that each Federal agency improve its systems of accounting, financial management, and internal controls so that issued financial information is reliable and fraud, waste, and abuse are deterred. Further, each agency must prepare timely, complete, consistent, and reliable financial statements for Congress and the Administration to use in financing, managing, and evaluating Federal programs.

**The Federal Managers Financial Integrity Act of 1982 (PL 97-255) (FMFIA)** requires all functions within DoD to assess the effectiveness of management controls. The CFO Act built on the FMFIA by establishing internal controls for financial management and systems. Under the FMFIA, if material deficiencies are discovered, DoD must report those deficiencies with scheduled milestones leading to the resolution of the deficiency. The ongoing evaluation and testing of controls ensures that obligations and costs comply with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for on financial and statistical reports.

**The Federal Financial Management Improvement Act of 1996 (PL 104-208) (FFMIA)** addresses the need for agencies to have systems that can generate reliable, useful, and timely information with which to make informed decisions and ensure accountability on an ongoing basis. FFMIA requires DoD to develop a corrective action plan when its financial management systems do not comply with Federal financial management system requirements. FFMIA does three things:

- Establishes in statute certain financial management system requirements that are already Executive Branch policies. Specifically, Section 803(a) requires each agency to implement and maintain systems that comply substantially with:
  - Federal financial management system requirements,
  - applicable Federal accounting standards, and
  - the Standard General Ledger at the transaction level;
- Requires auditors to report on agency compliance with Section 803(a) as part of financial statement audit reports.
- Requires agency heads to determine, based on the audit report and other information, whether financial management systems comply with FFMIA. If systems do not comply with FFMIA, agencies must develop remediation plans and file them with OMB.

**The Clinger-Cohen Act of 1996 (PL 104-106) (also known as the Information Technology Management Reform Act of 1996)** sets forth a variety of initiatives to support better decision making for capital investments in information technology. The need for better decision making has led to the development of the Federal Enterprise Architecture and better-informed capital investment and control processes.

**The Government Management Reform Act of 1994 (PL 103-356)** requires changes in four main areas: limitation on pay, human resource management, streamlining management control, and financial management.

**The National Defense Authorization Act for FY 2002 (PL 107-107), Section 1008, “Reliability of Department of Defense Financial Statements”** describes the requirements for the Annual Report on Reliability, limits the use of resources for preparing unreliable financial statements, requires information submitted to auditors, and limits the Inspector General’s audits to procedures required by Generally Accepted Government Auditing Standards. For Components that cannot rely on their financial statements, the section concentrates on redirecting resources from preparing financial statements to improving the systems underlying financial management and improving financial management policies, procedures, and internal controls within the Department of Defense.

**The Anti-Deficiency Act (ADA) (31 U.S.C. Chapters 13 and 15)** prevents departments and agencies from making or authorizing obligations or expenditures in advance or in excess of an appropriation. Government agencies establish administrative control systems for keeping obligations within the amount of apportionment and for detecting violations. Violations of the ADA are subject to administrative and penal sanctions and must be reported through the Executive Branch to Congress.

**The Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” Appendix A, “Internal Control Over Financial Reporting”** prescribes a strengthened management process for assessing internal control over financial reporting. Appendix A also requires an annual management assurance statement that specifically addresses the effectiveness of internal control over financial reporting based on the results of management’s assessment.

Creating an annual Statement of Assurance includes flowcharting key business processes that impact financial report balances; identifying and assessing risks within the processes and related internal controls; testing controls believed to be effective and correcting or establishing controls found to be deficient; and reporting on the results of the assessments and tests.

**The Office of Management and Budget Circular A-127, “Financial Management Systems,”** serves as a reference document for government-wide financial management systems. It prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

Agency financial management systems must comply with the following requirements:

- **Agency-wide Financial Information Classification Structure.** The design of the financial management systems must reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger.
- **Federal Accounting Standards.** Agency financial management systems must maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB).
- **Agency financial management systems must conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems.** Functional requirements are defined in the Federal Financial Management Systems Requirements publication series issued by the Financial Systems Integration Office.

## Appendix 4 – Managing the FIAR Plan

To manage the FIAR Plan and ensure that DoD-wide financial improvement efforts continue to mature and are integrated with transformation activities across the Department, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) established the FIAR Directorate, a program management office. The Department also looks to the Financial Management Leadership Council to oversee the management of the FIAR Plan.

### The Financial Management Leadership Council

The Financial Management Leadership Council (FMLC) is chaired by the Under Secretary of Defense Comptroller (USD(C)) and meets monthly. The FMLC comprises financial management senior executives from the Military Services, Defense Logistics Agency, Defense Information Systems Agency, Business Transformation Agency, Defense Finance and Accounting Service, and OUSD(C). The Deputy Inspector General for Auditing acts as an adviser, and senior representatives from the Office of Management and Budget and the Government Accountability Office also attend. The FMLC monitors FIAR Plan progress and challenges, and makes recommendations to the USD(C), who establishes FIAR Plan priorities.

### The FIAR Committee

The FIAR Committee, a chartered organization, leads the process for establishing and monitoring FIAR Plan priorities. Chaired by the Assistant Deputy Under Secretary of Defense (Comptroller) Financial Management, the Committee comprises executive-level representatives of the Military Departments, Defense Logistics Agency, Business Transformation Agency, and Defense Finance and Accounting Service. The Deputy Inspector General for Auditing acts as an adviser to the FIAR Committee. An active subcommittee of senior accountants,

financial managers, management analysts, and auditors support the FIAR Committee. This collaborative management structure reinforces business integration.

### The FIAR Directorate

The FIAR Directorate organizes and convenes cross-Component financial improvement planning workshops, manages the audit readiness process, and semiannually publishes the FIAR Plan. The Directorate also maintains the FIAR Planning Tool.

### The FIAR Planning Tool

The FIAR Planning Tool (FIAR-PT) is an Internet-based resource designed to assist in managing the Department of Defense's financial improvement process.

The FIAR-PT:

- Enables Components to organize and report on the FIAR Plan
- Provides a standard tool from which Components manage their Financial Improvement Plans
- Serves as an integrated repository for linking multiple business transformation efforts within the Department

Many benefits have been realized by making the FIAR-PT accessible over the Internet. Among the obvious advantages are easy access and better communication with other financial management team members, leadership, and stakeholders. Further, making the FIAR-PT Web-accessible keeps involved parties accountable to their shared goal of improving financial management by allowing for real-time visibility of identified deficiencies, corrective action plans, tasks, milestones, and progress. Visibility allows Components to view and analyze existing plans and use them as models for preparing and structuring their own plans. Components can then better draw on solutions and lessons learned by other financial management

teams. By centralizing reporting data, the FIAR-PT helps Component financial management teams view the most current information available and efficiently report status to the rest of the Department.

concerns are always welcome. Comments and questions should be submitted via e-mail to <FIARSupport@osd.mil>.

Continuous improvements keep the FIAR-PT easy to use. To assist new users, the FIAR Directorate has made a number of resources available. The FIAR Planning Tool is an ongoing project and under continual construction. Suggestions and

**FIAR Planning Tool - Web-Accessible Enables Easy Visibility to View and Analyze Current Data**

The screenshot shows the DoD FIAR Portal interface. At the top, there is a header with the DoD logo and the text "DoD FIAR Portal". Below the header is a navigation bar with tabs: "FIAR Portal Entry", "FIAR Project Web Access", "ETP Project Web Access", and "Military Pay Project Web Access". A sidebar on the left contains a "View All Site Content" link and several menu sections: "Sites" (with links to FIAR Key Milestone Monthly Reporting, A-123 Repository, 2009 FIAR Guidance Workgroup, Public FIAR Site, and Report Links), "Quick Links" (with links to FIAR Library and Training), "Documents" (with a link to FIAR Guidance Documents), and "Lists" (with a link to Points of Contact). The main content area features an "Announcements" section with a "New" dropdown and "Actions" dropdown. A highlighted announcement states: "STATUS: September 2008 Update to FIAR Plan NEW" by CLARK, CHARLES (CONTRACTOR) on 11/4/2008 11:48 AM. Below this is a list of bullet points: "- Coordination comments received by FIAR Directorate", "- Comments being reviewed/adjudicated", "- Revised draft Sep 2008 FIAR to BIO Director on Nov 13", and "- Final version to USD(C) and DEPSECDEF Nov 17". A green headline reads "ISSUANCE TO CONGRESS AND OMB REMAINS ON SCHEDULE". Below the headline is a "Calendar" section with a "New" dropdown and "Actions" dropdown. A table lists calendar events:

	Title	Location	Start Date	End Time
	FIAR Subcommittee Meeting		11/13/2008 12:30 PM	11/13/2008 2:00 PM
	DEPSECDEF Issues September FIAR Plan to Congress & OMB		12/8/2008 12:00 AM	12/8/2008 11:59 PM
	FIAR Committee Meeting		12/11/2008 1:00 PM	12/11/2008 3:00 PM

On the right side of the page, there are several utility icons and links: "When will my p expire?", "Change your", "Quick Star", "Need h Write to FIAR", and "My Links". The "My Links" section states: "There are currently no favor display. To add a new link, clic link" below." and includes an "Add new link" button.

401-62

## Appendix 5 – Auditor-Identified Material Weaknesses

From audits performed by the DoD Inspector General, 13 material weaknesses have been identified. A material weakness is an identified problem that may impact the accuracy and reliability of financial information. The Department is committed to implementing solutions that best resolve these weaknesses.

Resolving many of the material weaknesses requires the realization of initiatives and system solutions under the Enterprise Transition Plan (ETP). Other material weaknesses can be resolved through corrective actions outlined in the FIAR Plan.

The material weaknesses and the Department's approach to resolving each are presented below.

---

### Financial Management Systems

*The Department's systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.*

*The Department cannot collect and report accurate, reliable, and timely financial and performance information because of most of the Department's accounting and business processes and systems were not designed to meet today's financial reporting requirements.*

---

The financial management initiatives and systems in the ETP are the solutions for this material weakness. Where financial improvement is dependent on such solutions, critical key milestones are also contained in the FIAR Plan. Below are some of the initiatives and system solutions being developed and implemented by the Department. Detailed information on these initiatives and systems can be found in the ETP.

- Army General Fund Enterprise Business System (GFEBS)

- and Logistics Modernization Program (LMP)
- Navy Enterprise Resource Planning (ERP)
- Air Force Defense Enterprise Accounting Management System (DEAMS) and Expeditionary Combat Support System (ECSS)
- Defense Logistics Agency Enterprise Business System
- Standard Financial Information Structure (SFIS) and Business Enterprise Information Services (BEIS)

---

### Intragovernmental Eliminations

*The inability to reconcile most intragovernmental transactions results in adjustments that cannot be fully supported.*

*The Department cannot reconcile transactions involving the exchange of goods and services within DoD and with other federal agencies. These transactions are referred to as inter- or intra-governmental transactions. For DoD and the Federal Consolidated Financial Statements, the transactions for the buying and selling of goods and services must be identified for off-setting entries. Because DoD's processes and systems do not have information needed to identify trading partners, unsupported estimates and adjustments are made during financial statement preparation.*

---

Two solutions will resolve this material weakness. At the Component-level, core financial systems identified in the Financial Management Systems material weakness are being deployed. These systems collect information on sales and purchases. The BTA is also leading an initiative, the Intragovernmental Value Added Network (IVAN), to develop a process for exchanging information on sales and purchases between DoD organizations.

---

### Accounting Entries

*The Department continues to enter material amounts of unsupported accounting entries.*

*Unsupported accounting entries are adjustments made to out-of-balance general ledgers using the best information available.*

*The adjustments do not have supporting documentation and cannot be verified in an audit.*

---

In many instances, current accounting systems do not have the capability to collect information necessary for preparing complete financial reports and statements. Differences between similar types of information cannot always be identified. Out-of-balance general ledgers result from inadequate or incorrect information in processes and systems. To fill these gaps, adjustments to the records are made using the best available information.

The Department continues to emphasize the importance of fully documenting adjustments, and progress has been made. Resolving this weakness relies on the new core accounting systems in the Financial Management Systems material weakness.

---

### Fund Balance with Treasury

*The Department has been unable to fully reconcile its records to those of the U.S. Treasury.*

*The Department cannot reconcile its accounting of disbursements and collections and keep an accurate balance of funds with the U.S. Treasury.*

---

The Army, Navy, and Air Force have reengineer their processes and resolved many of the discrepancies between their Department's records and records of the U.S. Treasury.

---

### Environmental Liabilities

*Guidance and audit trails are insufficient. The inventory of ranges and operational activities (landfills, open burning pits, etc.) is incomplete.*

*The Department lacks the necessary infrastructure to identify, estimate, and report environmental liabilities.*

---

The Environmental Liabilities corrective actions and activities in the FIAR Plan and other initiatives will resolve this weakness. Policies, processes, and controls are being modified so the Department can have a complete inventory of sites and equipment, prepare estimates that can be verified by auditors, and reconcile environmental sites with asset records.

---

### General Property, Plant, and Equipment (PP&E)

*The cost and depreciation of DoD General PP&E is not reliably reported due to: 1) accounting requirements that went into effect in FY 2003 that classify military equipment as General PP&E (such costs were previously expensed); 2) a lack of supporting documentation for General PP&E purchased many years ago; and 3) most legacy property and logistics systems not being integrated with acquisition and financial systems and not designed to capture the acquisition cost, cost of modifications and upgrades, or calculate depreciation.*

*The root causes of this weakness are the lack of a standardized, Department-wide costing methodology with supporting systems and processes, and the lack of a full inventory of existing PP&E.*

---

To resolve this weakness, General PP&E is broken down into property categories (Military Equipment, Real Property, Internal Use Software, and General Property and Equipment). Each category is being addressed by individually-focused initiatives. The approach for each initiative is to identify and record existing inventories, modify processes and procedures to accurately

capture acquisition and disposal information, implement costing methodologies, and deploy modernized or new property accountability systems.

---

**Government Property and Materiel in Possession of Contractors**

*The cost of DoD property and materiel in the possession of contractors is not reliably reported due to a lack of an integrated reporting methodology.*

*Closely related to the GPP&E weakness, the Department does not have an accurate inventory and related cost for property and materiel in the possession of contractors. As a result, the values are not reported on the financial statements.*

The solution for this weakness is closely linked with the military equipment portion of the GPP&E weakness, because most of the government property and materiel in the possession of contractors is used in the production of weapons systems.

---

**Inventory**

*The existing inventory valuation of most activities is not reported in accordance with Generally Accepted Accounting Principles (GAAP).*

*The Department has long-standing deficiencies in accounting for inventories. Costing methodologies, inventory counts, and appropriate levels of inventories needed to support missions are not reported accurately on financial statements in accordance with GAAP.*

The ETP provides solutions to this weakness. The Military Services' logistics communities and the DLA have been actively developing and deploying integrated inventory and accounting systems for several years. These systems are designed to record both the physical and fiscal inventory levels and will be capable of reporting the value of DoD inventories in accordance

with GAAP. The FIAR Plan includes a Key Milestone Plan for Inventory.

---

**Operating Materials and Supplies**

*The Department's systems were designed to expense materials when purchased rather than when consumed.*

*Historically, the Department expensed materials at the time of purchase because processes and systems were unable to track and record increases and decreases in inventory amounts and values at the time of use.*

The solution to this weakness is closely related to the solutions for Inventory. Again, and as referenced in the Enterprise and Component Transition Plans, the Military Services are modernizing systems to resolve this weakness.

---

**Statement of Net Cost**

*The Statement of Net Cost is not presented by programs that align with major goals and outputs in DoD's strategic and performance plan. A strategic and performance plan was required by the Government Performance and Results Act (GPRA) (PL 103-62). Revenues and expenses are reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.*

*The Secretaries of the Departments must identify programs that need to be included in the Statement of Net Cost. Each program identified should be directly linked to the Department's strategic and performance goals. In addition, the Department must develop a common language to capture financial information in a standard manner to enable accumulating revenue and costs by program.*

Solving this material weakness involves the coordination and completion of many initiatives, most of which are contained in the ETP. In addition, the identification of programs that support

DoD's strategic and performance goals will require senior leadership approval for reporting. Essential ETP initiatives for resolving this material weakness include SFIS, BEIS, and IVAN initiatives. Furthermore, deployment of the new Component accounting systems (e.g., GFEBs and DEAMS) is critical to implementing SFIS.

---

#### Reconciliation of Net Cost of Operations to Budget

*The Department cannot reconcile budgetary obligations to net cost without making unsupported adjustments.*

*The Statement of Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing) reconciles the financial (or proprietary) net costs of operations with the obligated budgetary authority. It is accrual-based reporting as contrasted to the budget-based reporting of the Statement of Budgetary Resources.*

---

Resolving this material weakness requires the implementation of several initiatives. These solutions include the SFIS, BEIS, and the use of modern accounting systems capable of using the SFIS.

---

#### Accounts Payable

*The Department of Defense does not meet accounting standards for the financial reporting of public accounts payable because of its inability to support balances due to a lack of standard procedures for recording, reporting, and reconciling the amounts between the financial, accounting, and reporting systems.*

*Accounts Payable are amounts owed to other entities for goods and services received, progress in contract performance, and rents. Proper authorization, timely recording of receipt of goods and services, valid and accurate payment, and management of payables permit the Department to effectively manage cash balances thereby decreasing improper payments, optimizing*

*vendor discounts, and avoiding interest payments and penalties.*

---

To address the accounts payable weaknesses, ensure reliable internal controls, and provide for sustained performance, the Defense Finance and Accounting Service (DFAS) has oriented its focus on process improvements and maximization of electronic technologies. For example, an end-to-end process view of public payables allows for proper recognition throughout the payable's lifecycle. The Department's end-to-end focus with an aggressive electronic environment implementation strategy allows for seamless recording, processing, and reporting from when the goods and services are accepted via the Wide Area Work Flow (WAWF) system. A secure Web-based system, WAWF automates the timely recording of accounts payable and enables the electronic submission of invoices, and government inspection and acceptance documents.

DFAS actions to resolve this weakness are included in the DFAS FIP. The short/intermediate and long-term approaches complement each other by correcting existing flaws, cleaning up existing balances and transferring reliable balances into the ERP systems. The FIAR and the ERP initiatives will provide the Department with timely, accurate, and reliable accounts payable information.

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### Accounts Receivable

*Accounts Receivable represents amounts owed to DoD by individuals, organizations, public entities, or other government organizations. Examples include sales of goods and services, return of overpayments to contractor or employee salaries, and penalties and interest. The Department of Defense is unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable and accounts receivable due from the public.*

*Receivables should be recorded when recognized or earned, and collected when due. So that assets and liabilities are not misstated on consolidated DoD financial statements, intragovernmental transactions (transactions between DoD Components or between a DoD Component and another federal agency) must be eliminated.*

---

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Accurate reporting, timely collection of debts, and management of receivables are essential to achieving reliable accounts receivable information. Reliable information permits improved management of the Department's cash flow and accelerates billing and collecting, optimizes collection potential of debts, and minimizes losses due to uncollectible debts.

DFAS has developed Key Milestone Plans for improvements that will facilitate Department-wide audit readiness on Accounts Receivable and is implementing a series of short- and long-term solutions that will improve the quality and timeliness of data reported on financial statements. Short-term solutions incorporate policy and process changes with commercial off-the-shelf database programs to improve data integrity, reconciliations, and timeliness. Long-term solutions call for ERP implementations.

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## Appendix 6 – Commonly Used Acronyms

Acronym	Definition
AAIP	Army Asset Improvement Plan
AAPC	Accounting and Auditing Policy Committee
ACES-RP	Automated Civil Engineering System – Real Property
ACWA	Assembled Chemical Weapons Assessment
ADA	Anti-Deficiency Act
AEDB-CC	Army Environmental Database – Compliance Clean-up
AEDB-R	Army Environmental Database – Restoration
AFB	Air Force Base
AFFSC	Air Force Financial Services Center
AFI	Air Force Instruction
AIM	Agile Inventory Management
AP	Accounts Payable
APSR	Accountable Property System of Record
AR	Accounts Receivable
ASD	Assistant Secretary of Defense
AT&L	Acquisition, Technology, and Logistics
ATO	Authority to Operate
BAM	Business Activity Monitoring
BEA	Business Enterprise Architecture
BEIS	Business Enterprise Information Services
BEP	Business Enterprise Priority
BRAC	Base Realignment and Closure
BTA	Business Transformation Agency
BUMED	Bureau of Medicine and Surgery

Acronym	Definition
CAMD	Chemical Agents Munitions Destruction
CAMS-ME	Capital Asset Management System – Military Equipment
CBM	Core Business Mission
CBV	Contract-Based Valuations
CCAS	Columbus Cash Accountability System
CCE	Coding Compliance Editor
CCSS	Commodity Command Standard System
CDS	Contracting Debt System
CECOM	Communications and Electronics Command
CEDMS	Corporate Electronic Document Management System
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CGAC	Common Government-wide Accounting Classification
CIP	Construction-in-Progress
CIPR	Construction-in-Progress Requirements
CONUS	Continental United States
COTS	Commercial Off-the-Shelf
CRM	Customer Relationship Management
DAE	Defense Acquisition Executive
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DBSMC	Defense Business Systems Management Committee
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System

Acronym	Definition
DCFO	Deputy Chief Financial Officer
DCMA	Defense Contract Management Agency
DCPS	Defense Civilian Pay System
DDMS	Defense Debt Management System
DEAMS	Defense Enterprise Accounting Management System
DeCA	Defense Commissary Agency
DepSecDef	Deputy Secretary of Defense
DERP	Defense Environmental Restoration Program
DFAR	Defense Federal Acquisition Regulation
DFAS	Defense Finance and Accounting Service
DHS	Defense Health Program
DIA	Defense Intelligence Agency
DIMHRS	Defense Integrated Military Human Resources System
DISA	Defense Information Systems Agency
DITPR	Department of Defense Information Technology Portfolio Repository
DLA	Defense Logistics Agency
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
DON	Department of the Navy
DPAS	Defense Property Accountability System
DSS	Defense Security Service
DUSD(FM)	Deputy Under Secretary of Defense (Financial Management)
EBC	End-to-End Business Cycle
EBS	Enterprise Business System
ECSS	Expeditionary Combat Support System

Acronym	Definition
EFD	Enterprise Funds Distribution
ERP	Enterprise Resource Planning
ETP	Enterprise Transition Plan
FACA	Federal Advisory Committee Act
FAD	Funding Authorization Document
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCS	Future Combat Systems
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FIAR-PT	Financial Improvement and Audit Readiness Planning Tool
FIP	Financial Improvement Plan
FISMA	Federal Information Security Management Act
FM&C	Financial Management and Comptroller
FMFIA	Federal Managers' Financial Integrity Act
FMLC	Financial Management Leadership Council
FMLOB	Financial Management Line of Business
FMS	Facility Management System
FMS	Foreign Military Sales
FMTT	Financial Management Transformation Team
FSIO	Financial Systems Integration Office
FSM	Facilities Sustainment Model
FV BEP	Financial Visibility Business Enterprise Priority
FY	Fiscal Year

Acronym	Definition
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCSS	Global Combat Support System
GF	General Fund
GFEBBS	General Fund Enterprise Business System
GL	General Ledger
GPP&E	General Property, Plant and Equipment
GPRA	Government Performance and Results Act
HPO	High-Performing Organization
IFS	Integrated Facilities System
IGT	Intragovernmental Transactions
IPA	Independent Public Accountant or Independent Public Accounting
I&RP	Inventory and Related Property
IT	Information Technology
ITS	International Treasury Service
IUID	Item Unique Identification
IUS	Internal Use Software
IVAN	Intragovernmental Value Added Network
KMP	Key Milestone Plan
LMP	Logistics Modernization Program
LRP	Laws, Regulations, and Policies
MDA	Missile Defense Agency
MERHCF	Medicare-Eligible Retiree Health Care Fund
MEV	Military Equipment Valuation
MHS	Military Health System
MILCON	Military Construction

Acronym	Definition
MOCAS	Mechanization of Contract Administration Services
MPIAP	Military Pay Improvement Action Plan
MRF	Military Retirement Fund
MTF	Medical Treatment Facilities
MV BEP	Materiel Visibility Business Enterprise Priority
NAVAIR	Naval Air Systems Command
NISP	National Industrial Security Program
NSN	National Stock Number
OASA	Office of the Assistant Secretary of the Army
OCONUS	Outside the Continental United States
ODO	Other Defense Organization
OFFM	Office of Federal Financial Management
OIG	Office of the Inspector General
OM&S	Operating Material and Supplies
OMB	Office of Management and Budget
OPTEMPO	Operations Tempo
OSD	Office of the Secretary of Defense
OUID	Organization Unique Identifier
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PAR	Performance and Accountability Report
PBUSE	Property Book Unit Supply Enhanced
PDTS	Pharmacy Data Transaction Service
PL	Public Law
PMA	President's Management Agenda
PP&E	Property, Plant, and Equipment

Acronym	Definition
PSA	Principal Staff Assistant
PSI	Personnel Security Investigation
RACER	Remedial Action Cost Estimation Requirements
RAMPOD	Reliability Availability Maintainability Logistics Engineering Support System for Electronic Combat Pods
RCRA	Resource Conservation and Recovery Act
REMIS	Reliability and Maintainability Information System
RFP	Request for Proposals
RPAD	Real Property Asset Database
RPAM	Real Property Asset Management
RPAO	Real Property Accountability Officer
RPAR	Real Property Acceptance Requirements
RP&ILM	Real Property and Installations Lifecycle Management
RPIR	Real Property Inventory Requirements
SABRS	Standard Accounting, Budget, and Reporting System
SAFE	Single Army Financial Enterprise
SALE	Single Army Logistics Enterprise
SARA	Superfund Amendment and Reauthorization Act
SBR	Statement of Budgetary Resources
SDS	Standard Depot System
SecDef	Secretary of Defense
SES	Senior Executive Service
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SMA	Service Medical Activities

Acronym	Definition
SOMARDS	Standard Operation and Maintenance Army Research and Development System
SPAWAR	Space and Naval Warfare Systems Command
SRM	Sustainment, Restoration and Modernization
STANFINS	Standard Finance System
TMA	TRICARE Management Activity
TMA-CRM	TRICARE Management Activity Contract Resource Management
TMOP	TRICARE Mail Order Pharmacy
TROR	Treasury Report on Receivables
TSEAS	Telecommunications Services and Enterprise Acquisition Services
USAAA	United States Army Audit Agency
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USD	Under Secretary of Defense
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)
USD(C)	Under Secretary of Defense (Comptroller)
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USMC	United States Marine Corps
USN	United States Navy
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command
WAWF	Wide Area Work Flow
WCF	Working Capital Fund
WHS	Washington Headquarters Services
WIA	Wounded in Action

## Appendix 7– Key Milestone Plans 2006 – 2010

As described in Section I, the FIAR Plan structures improvement efforts and ensures consistency through the mandatory use and uniform application of Business Rules. The Business Rules guide the process for examining operations; diagnosing and correcting problems; achieving audit readiness; validating audit readiness; and sustaining audit readiness through annual internal control testing and assessments. The Business Rules are as follows:

1. **Discovery and Correction:** Management evaluates individual financial segments, identifies weaknesses and deficiencies, and performs corrective actions.
2. **Segment Assertion:** Management asserts Audit Readiness to the Office of the Inspector General (OIG) and Office of the OUSD(C) for concurrence.
3. **Audit Readiness Validation:** Management asserts compliance with applicable GAAP, laws and regulations, and internal control reliability. OIG or an Independent Public Accounting (IPA) firm validates management's assertion using an examination engagement.
4. **Audit Readiness Sustainment:** Verification of segments is conducted using OMB Circular A-123, Appendix A, as guidance.
5. **Financial Statement Assertion:** Management asserts financial statement audit readiness to the OIG and OUSD(C) for concurrence.
6. **Financial Statement Audit:** OIG or IPA firm audits the organization's financial statements.

Each Component maintains a Financial Improvement Plan (FIP) that details the milestones within each Business Rule for achieving audit readiness and estimates completion dates. The

FIAR Plan extracts the key milestones from the FIPs so the Department can monitor progress. Key Milestone Plans have been included in each FIAR Plan.

Appendix 7 presents a cumulative view of Key Milestone Plans from the first quarter of FY 2006 through the second quarter of FY 2010 (18 months forward) for near- and long-term priority segments. Priority segments are:

- Medicare-Eligible Retiree Health Care Fund
- U.S. Marine Corps
- Defense Information Systems Agency
- Military Equipment
- Real Property
- Inventory and Related Property
- Environmental Liabilities
- Fund Balance with Treasury

For each priority segment, the following Key Milestone Plans detail the:

- Key milestones by Business Rule, as applicable
- Percent complete from 0 percent, meaning not yet started, to 100 percent, meaning successfully completed
- Financial Improvement Element or Elements related to the milestone
- Completion date for the milestone

A Gantt chart view illustrating the start and end time of each milestone is also provided. The ♦ indicates the expected completion date.

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# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Action by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
<b>MERHCF (Near-Term)</b>	<b>46%</b>		<b>9/30/09</b>																				
<b>OUSD(P&amp;R)/Health Affairs</b>	<b>46%</b>		<b>9/30/09</b>																				
<b>Discovery &amp; Correction (To get an unqualified audit opinion)</b>	<b>40%</b>		<b>9/30/09</b>																				
Assessed and isolated medical care record coding accuracy	100%	Processes, Controls	9/30/06																				
Hired independent contractor to perform monthly audits of medical care record coding to identify accuracy	100%	Processes, Controls	9/30/06																				
Assessed materiality of the Pharmacy Data Transaction Service cost allocation	100%	Policies	9/30/06																				
Deployed Coding Compliance Editor (CCE) to improve coding accuracy	100%	Systems	9/30/06																				
DoD Office of the Actuary defines improved basis for estimation of actuarial liability for care provided to MERHCF beneficiaries in MTFs and annual prospective payment to the Services for care provided in MTFs to MERHCF beneficiaries	38%	Policies	2/28/09																				
Estimate impact of new policy on FY 2008 and 2009 liabilities distributions	0%	Policies	3/31/09																				
DoD Office of Business and Economic Analysis, Health Affairs Prospective Payment Office, and General Counsel provide input on per capita methodology	0%	Policies	3/31/09																				
Draft revised policy (DoDI 6070.1) to incorporate new methodology and release for coordination	0%	Policies	6/30/09																				
Coordinate per capita methodology with MERHCF Board of Actuaries	0%	Policies	6/30/09																				
Complete policy coordination and revise DoD Instruction	0%	Policies	8/31/09																				
Implement methodology to develop FY 2010 MERHCF distribution plan	0%	Processes	9/30/09																				
DoD Office of the Actuary compute FY 2009 MERHCF liability	0%	Processes	9/30/09																				
<b>Financial Statement Management Assertion (Not Applicable)</b>	0%																						
<b>Financial Statement Audit</b>	<b>75%</b>		<b>11/15/09</b>																				
FY 2006 Qualified Audit Opinion	100%	All	11/15/06																				
FY 2007 Qualified Audit Opinion	100%	All	11/15/07																				

**Financial Improvement and Audit Readiness Plan**

**September 2008**

Corrective Action by DoD Entity	% Complete	Financial Improvement Element	Completion Date	2006				2007				2008				2009				2010	
				Q1	Q2	Q3	Q4	Q1	Q2												
FY 2008 Qualified Audit Opinion	100%		11/15/08																		
FY 2009 Unqualified Audit Opinion	0%		11/15/09																		

# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
<b>USMC (Near-Term)</b>	<b>46%</b>		<b>11/15/09</b>																				
<b>Discovery &amp; Correction</b>	<b>82%</b>		<b>11/30/08</b>																				
Prepared first standalone financial statements	100%	All	1/31/06																				
Identified Marine Corps and third party financial system interdependencies to better support financial recording and reporting requirements, as well as audit readiness initiatives	100%	Systems	9/30/06																				
Established a full financial statement approach to achieving audit readiness	100%	All	9/30/06																				
Implemented an interface between the personal property accounting system and the general fund accounting system	100%	Systems	9/30/06																				
Developed and provided training related to financial management improvement, including accounting for Real Property	100%	Processes	9/30/06																				
Received a favorable report on an Naval Audit Service validation of Personal Property business processes and internal controls	100%	Processes, Controls	3/31/08																				
Completed FSIO (Financial System Integration Office) testing of the CAPS-W (Computerized Accounts Payable for Windows) entitlement system with favorable results	100%	Systems	3/31/08																				
Implemented an approval process to eliminate unsupported Journal Voucher accounting entries	100%	Processes, Controls	3/31/08																				
Established a source document repository to provide auditors with a central location for Marine Corps controlled business processes	100%	Processes, Controls	3/31/08																				
Evaluated the balance sheet compilation process, at the underlying transactional data level, to ensure general ledger integrity	100%	Processes, Controls	3/31/08																				
Implemented MOCAS accounts payable estimation procedures for accruing accounts payable	100%	Systems, Processes	3/31/08																				
Analyzed transactional postings to ensure compliance with U.S. Standard General Ledger posting standards	100%	Processes, Controls	3/31/08																				
Mapped financial statement compilation procedures in coordination with DFAS	100%	Processes, Controls	3/31/08																				
Start Statement of Budgetary Resources (SBR) remediation/retest	100%	All	10/31/08																				
Submit SBR remediation results to DoDIG and FIAR	0%	Controls	11/30/08																				



# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	2006		2007				2008				2009				2010				
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<b>DISA (Near-Term)</b>	<b>71%</b>		<b>11/15/09</b>																			
<b>Discovery &amp; Correction</b>	<b>92%</b>		<b>9/30/09</b>																			
Identified the requirements to streamline vendor pay process	100%	Policies, Processes	6/30/07																			
Implemented a formalized periodic analysis of the cash management reconciliation in coordination with the compilation of the financial statements	100%	Controls	9/30/07																			
Strengthened policies and procedures for documentation retention	100%	Policies, Processes	9/30/07																			
Implemented monitoring procedures to review operational effectiveness	100%	Controls	9/30/07																			
Developed policy and procedures for the reconciliation of Accounts Receivables subsidiary ledgers to the Account Receivable trial balance	100%	Policies, Processes	9/30/07																			
Reviewed and re-tested key internal controls	100%	Controls	9/30/07																			
Developed procedures to post all General Fund accounts payable (transactions by others, self-pays, intergovernmental transactions) in conformance with published guidance	100%	Policies, Processes	10/31/07																			
Initiate Audit engagement for FY 2009 Financial Statements	0%		9/30/09																			
<b>Segment Management Assertion (Not Applicable)</b>	0%																					
<b>Segment Validation (Not Applicable)</b>	0%																					
<b>Segment Sustainment (Not Applicable)</b>	0%																					
<b>Financial Statement Management Assertion</b>	<b>75%</b>		<b>6/30/09</b>																			
Management Asserted on Balance Sheet (General Fund & Working Capital Fund)	100%	All	9/30/07																			
OUSD(C) reviewed Balance Sheet Assertion Package	100%	All	12/31/07																			
OUSD(C) review of Management Assertion on FY 2008 Financial Statements	0%	All	6/30/09																			
<b>Financial Statement Audit</b>	<b>0%</b>		<b>11/15/09</b>																			
Complete field work for FY2008 Balance Sheet (General Fund & Working Capital Fund) audit engagement	0%	All	6/30/09																			
DoDIG complete audit of FY 2007 and 2008 Balance Sheet	0%	All	11/15/09																			

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# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
<b>Military Equipment (Long-Term)</b>	<b>91%</b>		<b>3/31/10</b>																				
<b>OUSD(AT&amp;L)</b>	<b>97%</b>		<b>12/31/09</b>																				
Standardized valuation methodology for over 1,100 acquisition programs to assess capitalization	100%	Processes	3/31/06																				
Developed a process for program managers to attest to the accuracy of the information used in CAMS-ME as an internal control	100%	Policies, Processes	3/31/07																				
Established policy for structuring contract line items to support financial reporting	100%	Policies	6/30/06																				
Deployed initial Management Assertion training	100%	Processes	6/30/06																				
Achieved Initial Operational Capability (IOC) for Capital Asset Management System - Military Equipment (CAMS-ME) Increment 1, -- initial operating testing, and data load	100%	Systems, Data	9/30/06																				
Achieve Full Operational Capability (FOC) for the Capital Asset Management System-Military Equipment	100%	Systems	9/30/06																				
Developed 10 principle-based business rules that convert military equipment from being expensed annually to being capitalized under GAAP	100%	Policies, Processes	12/31/06																				
Established an estimate of historical cost of military equipment in service using budget authority documents	100%	Data	12/31/06																				
Deployed "Physical Inventories and Foundations of Government Property" online training	100%	Processes	9/30/07																				
Deployed "Business/Financial Management Analyst" tools to facilitate application of the structuring contract line items policy for military equipment	100%	Policies, Processes	12/31/07																				
Deployed "Business/Financial Management Analyst" quick reference tool for modification scenarios	100%	Policies, Processes	12/31/07																				
Developed capability to transition from using the CAMS-ME Portal for asset status updates to a more efficient automated process using the Item Unique Identification (IUID) Registry. Department of Navy is using this capability to update	100%	Systems	12/31/07																				

# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Deployed CAMS-ME Spiral A Initial Operating Capability(IOC) to enable system feeds from IUID Registry and CAMS-ME (replace manual update of asset status e.g., asset transfers, retirements, and loss data)	100%	Systems	12/31/07									◆											
Deployed an Environmental Liabilities "Quick Reference Tool" to determine the presence of and properly account for environmental liabilities in DoD equipment	100%	Policies, Processes	3/31/08										◆										
Deployed "Fiscal and Physical Accountability Management of DoD Equipment" online training	100%	Processes	6/30/08											◆									
Complete IUID Registry interface to CAMS-ME to automate asset updates for Navy small craft	0%	Systems, Processes	12/31/08															◆					
Complete CAMS-ME Spiral 2.2B, that provides capability to perform activity based depreciation, perform contract based valuations, obtain data from the DPAS, and enhance the interface with the IUID Registry	0%	Systems	2/28/09															◆					
Begin using Contract-Based Valuations (CBV)	0%	Processes, Controls	6/30/09																◆				
Complete cut-over to activity-based depreciation for Navy and Marine Corps aircraft	0%	Processes, Controls	12/31/09																		◆		
<b>Army</b>	<b>50%</b>		<b>12/31/07</b>																				
<b>Discovery &amp; Correction</b>	<b>100%</b>		<b>12/31/07</b>																				
FY 2006 Attestation to OUSD(AT&L) that asset updates to CAMS-ME are accurate	100%	Processes, Controls	12/31/06									◆											
Created an "Accountability Improvement Plan" to guide and support proper valuation and visibility of military equipment	100%	Processes, Controls	3/31/07										◆										
FY 2007 Attestation to OUSD(AT&L) that asset updates to CAMS-ME are accurate	100%	Processes, Controls	12/31/07											◆									
<b>Segment Management Assertion</b>	0%																						
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						
<b>Navy</b>	<b>43%</b>		<b>12/31/09</b>																				
<b>Discovery &amp; Correction</b>	<b>60%</b>		<b>12/31/09</b>																				
FY 2006 Attestation to OUSD(AT&L) that asset updates to CAMS-ME are accurate	100%	Processes, Controls	12/31/06									◆											

# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Created an "Accountability Improvement Plan" to guide and support proper valuation and visibility of military equipment	100%	Processes, Controls	12/31/07									◆											
FY 2007 Attestation to OUSD(AT&L) that asset updates to CAMS-ME are accurate	100%	Processes, Controls	12/31/07									◆											
Initiate discovery efforts at NAVAIR	0%	All	12/31/08															◆					
Develop "to be" environment	0%	All	12/31/09																		◆		
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						
<b>Air Force</b>	<b>50%</b>		<b>3/31/10</b>																				
<b>Discovery &amp; Correction</b>	<b>80%</b>		<b>3/31/10</b>																				
FY 2006 Attestation to OUSD(AT&L) that asset updates to CAMS-ME are accurate	100%	Processes, Controls	12/31/06					◆															
Created an "Accountability Improvement Plan" to guide and support proper valuation and visibility of military equipment	100%	Processes, Controls	12/31/06					◆															
Reliability, Availability, Maintainability for Pods & Integrated Systems (RAMPOD) and Air Force Equipment Management System (AFEMS) fixed asset accounting capability in place	100%	Systems, Processes	3/31/07						◆														
Final Military Equipment policy and procedures in place	100%	Processes	9/30/07									◆											
FY 2007 Attestation to OUSD(AT&L) that updates asset updates to CAMS-ME are accurate	100%	Processes, Controls	12/31/07										◆										
Achieve DEAMS Initial Operational Capability (IOC)	0%	Systems, Data	3/31/10																		◆		
<b>Segment Management Assertion</b>	0%																						
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						

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# Financial Improvement and Audit Readiness Plans

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
<b>Real Property (Long-Term)</b>	<b>43%</b>		<b>9/30/09</b>																				
<b>OUSD(AT&amp;L)</b>	<b>100%</b>		<b>9/30/07</b>																				
Published updated DoD Instruction (DoDI) 4165.14 Real Property Inventory Reporting and Forecasting	100%	Policies	3/31/06																				
Full Operational Capability (FOC) for Site Unique Identifier Registry and populate with owned and capital leased Real Property	100%	Systems, Data	6/30/07																				
Established sustainable business processes and management controls to improve the accuracy of Real Property Construction-In-Progress cost information	100%	Policies, Controls	9/30/07																				
<b>OUSD(C)</b>	<b>100%</b>		<b>6/30/06</b>																				
Published revised capitalization threshold and implementation timeline	100%	Policies	3/31/06																				
Prepared a best practices guide for internal controls and documentation	100%	Policies	6/30/06																				
Updated Volume 4, Chapter 6 of the Financial Management Regulation (FMR)	100%	Policies	6/30/06																				
<b>Army</b>	<b>17%</b>		<b>9/30/09</b>																				
<b>Discovery &amp; Correction</b>	<b>33%</b>		<b>9/30/09</b>																				
Ensured that required systems reviews have been completed or scheduled	100%	Systems	6/30/06																				
Implement a fully net-centric environment	0%	Systems, Data	9/30/09																				
Complete the evaluation, testing, strengthening, and documentation of internal controls including OMB Circular A-123, Appendix A requirements and procedures for regular, periodic testing	0%	Controls	9/30/09																				
<b>Segment Management Assertion</b>	0%																						
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						
<b>Navy</b>	<b>33%</b>		<b>9/30/09</b>																				
<b>Discovery &amp; Correction</b>	<b>67%</b>		<b>9/30/09</b>																				
Aligned the Department of the Navy's acceptance of assets with the "Military Real Property Transfer and Acceptance" process for all assets placed in service	100%	Policies, Processes	6/30/06																				

# Financial Improvement and Audit Readiness Plans

September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Implemented new real property business processes to enable accurate reporting of acquisition; existence and completeness; capital improvement; depreciation; capital leases; construction-in-progress; preponderant use; and heritage assets & stewardship land	100%	Processes	9/30/07									◆											
Populated real property data to record acquisition, capital improvement, depreciation, capital leases, heritage assets and stewardship and disposal	100%	Data	9/30/07									◆											
Implement a fully net-centric environment	0%	Systems, Data	9/30/09																		◆		
<b>Segment Management Assertion</b>	0%																						
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						
<b>Air Force</b>	<b>50%</b>		<b>9/30/09</b>																				
<b>Discovery &amp; Correction</b>	<b>75%</b>		<b>9/30/09</b>																				
Completed Air Force Audit Agency (AFAA) review of capital lease reporting	100%	Processes	6/30/06	◆																			
Completed automation of multi-use heritage assets	100%	Systems	9/30/06		◆																		
Established a sampling methodology and identified the asset universe necessary to conduct a physical inventory of Air Force assets maintained at DLA sites	100%	Processes	12/31/07										◆										
Implement a fully net-centric environment	0%	Systems, Data	9/30/09																		◆		
<b>Segment Management Assertion</b>	0%												◆										
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						
<b>DLA</b>	<b>43%</b>		<b>9/30/09</b>																				
<b>Discovery &amp; Correction</b>	<b>75%</b>		<b>9/30/09</b>																				
Improved the accuracy of the real property records by completing a worldwide inventory of fuel facilities and storage tanks	100%	Data	6/30/06	◆																			
Improved the ability to properly report preponderant use facilities by establishing standard operating procedures and policy	100%	Policies	6/30/06	◆																			
Established Web-based tracking software for real property reconciliation	100%	Systems	6/30/06	◆																			

**Financial Improvement and Audit Readiness Plans**

**September 2008**

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	2006				2007				2008				2009				2010		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
				Implement a fully net-centric environment	0%	Systems, Data	9/30/09															
<b>Segment Management Assertion</b>	0%																					
<b>Segment Validation</b>	0%																					
<b>Segment Sustainment</b>	0%																					

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# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Action by DoD Entity	% Complete	Financial Improvement Element	Completion Date	2006				2007				2008				2009				2010		
				Q1	Q2	Q3	Q4	Q1	Q2													
<b>Inventory &amp; Related Property (Long-Term)</b>	<b>30%</b>		<b>9/30/08</b>																			
<b>OUSD(AT&amp;L)</b>	<b>100%</b>		<b>12/31/07</b>																			
Published updated DoD Directive 4140.1, DoD Supply Chain Materiel Management Regulation, and In-Transit accountability policy	100%	Policies	12/31/07																			
<b>Army</b>	<b>0%</b>																					
<b>Discovery &amp; Correction</b>	0%																					
<b>Segment Management Assertion</b>	0%																					
<b>Segment Validation</b>	0%																					
<b>Segment Sustainment</b>	0%																					
<b>Navy</b>	<b>0%</b>																					
<b>Discovery &amp; Correction</b>	0%																					
<b>Segment Management Assertion</b>	0%																					
<b>Segment Validation</b>	0%																					
<b>Segment Sustainment</b>	0%																					
<b>Air Force</b>	<b>40%</b>		<b>12/31/07</b>																			
<b>Discovery &amp; Correction</b>	<b>100%</b>		<b>12/31/07</b>																			
Established sampling methodology and identified asset universe necessary to conduct physical inventories of Air Force assets at DLA sites	100%	Policies	12/31/07																			
Developed and published policy for cost collection for Operating Material & Supplies (OM&S)	100%	Policies	12/31/07																			
Implemented moving average cost (MAC) for inventory	100%	Systems	12/31/07																			
<b>Segment Management Assertion</b>	0%																					
<b>Segment Validation</b>	0%																					
<b>Segment Sustainment</b>	0%																					
<b>DLA</b>	<b>0%</b>		<b>9/30/08</b>																			
<b>Discovery &amp; Correction</b>	<b>0%</b>		<b>9/30/08</b>																			
Implemented a sustainable, auditable historical costing process upon converting each legacy inventory system to Enterprise Business System	0%	Processes, Systems	9/30/08																			
<b>Segment Management Assertion</b>	0%																					
<b>Segment Validation</b>	0%																					
<b>Segment Sustainment</b>	0%																					

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# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions By DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
<b>Environmental Liabilities (Long-Term)</b>	<b>60%</b>		<b>12/31/09</b>																				
<b>  OUSD(C)</b>	<b>100%</b>		<b>3/31/06</b>																				
Resolved policy issues regarding the recognizing, measuring, and reporting of environmental liabilities	100%	Policies	3/31/06																				
Published updated DoD Financial Management Regulation (FMR) Guidance	100%	Policies	3/31/06																				
<b>  OUSD(AT&amp;L)/I&amp;E</b>	<b>100%</b>		<b>9/30/06</b>																				
Published Non-Defense Environmental Restoration Program (Non-DERP) Environmental Liabilities	100%	Policies	3/31/06																				
Finalized development of enterprise architecture data model (OV6C) linking sites and other sources of environmental liabilities to Property, Plant & Equipment assets records	100%	Processes	9/30/06																				
<b>  Army</b>	<b>36%</b>		<b>9/30/09</b>																				
<b>    Discovery &amp; Correction</b>	<b>57%</b>		<b>9/30/09</b>																				
DERP: Completed and documented initial estimate for all sites	100%	Controls, Data	3/31/06																				
Chemical Agents Munitions Destruction (CAMD): Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred	100%	Data	3/31/06																				
DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites	100%	Processes	9/30/06																				
DERP: Established and documented process to accomplish supervisory review and approval of the liability estimates	100%	Processes, Controls	9/30/06																				
DERP: Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred	100%	Data	9/30/06																				
DERP: Confirmed the universe of all (DERP) sites	100%	Controls	9/30/06																				
CAMD: Improved controls and established process that results in an accurately reported liability	100%	Processes, Controls	9/30/06																				

# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions By DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
CAMD: Established and documented process to accomplish supervisory review and approval of the liability estimates	100%	Processes, Controls	12/31/06					◆															
CAMD: Identified the universe of Environmental Liability candidate units, facilities, property and/or operations	100%	Processes	6/30/07									◆											
CAMD: Documented that all PP&E records have been reviewed and liability properly recorded	100%	Processes, Controls	9/30/07													◆							
Non-DERP and CAMD: Populate data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred	49%	Data	9/30/09																		◆		
Non-DERP and CAMD: Complete documentation of initial estimates for Environmental Liabilities sites	50%	Controls	9/30/09																		◆		
Non-DERP Document and correct processes and procedures for creating, updating, reviewing, approving, and liquidating Environmental Liabilities estimates	44%	Processes, Controls	9/30/09																		◆		
Non-DERP: Document that all PP&E records have been reviewed and liability properly recorded	44%	Controls	9/30/09																		◆		
<b>Segment Management Assertion</b>	0%																						
<b>Segment Validation</b>	0%																						
<b>Segment Sustainment</b>	0%																						
<b>Navy</b>	<b>56%</b>		<b>12/31/09</b>	◆																			
<b>Discovery &amp; Correction</b>	<b>100%</b>		<b>9/30/07</b>	◆																			
Base Realignment and Closure(BRAC) of Non-Defense Environmental Restoration Program (Non-DERP): Identified the universe of Environmental Liabilities candidate units, facilities, property and/or operations	100%	Data, Processes	3/31/06	◆																			
BRAC and Non-DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites	100%	Processes, Controls	9/30/06					◆															
Completed a fence-to-fence survey at all Navy installations	100%	Data	9/30/06									◆											
Documented Environmental Disposal for Weapons Systems	100%	Processes, Controls	12/31/06																		◆		

# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions By DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Transitioned Environmental Disposal for Weapons Systems to sustainment	100%	Controls	12/31/06					◆															
BRAC and Non-DERP: Documented that all Property, Plan and Equipment (PP&E) records have been reviewed and liability properly recorded	100%	Controls	3/30/07						◆														
BRAC and Non-DERP: Completed review and implementation of new processes and procedures for changing, and liquidating Environmental Liabilities estimates	100%	Processes	9/30/07								◆												
DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites	100%	Processes, Controls	9/30/07								◆												
<b>Segment Management Assertion</b>	<b>50%</b>		<b>3/31/09</b>																				
Management Asserted Audit Readiness for Environmental Disposal for Weapons Systems	100%	All	12/31/06					◆															
OUSD(C) and DoDIG: Reviewed Segment Assertion Package for Department of the Navy's Environmental Disposal for Weapons Systems	100%	All	3/30/07						◆														
Management Asserts Environmental Liabilities	0%	All	12/31/08																◆				
OUSD(C) and DoDIG: Review Segment Assertion Package for Department of the Navy's Environmental Liabilities	0%	All	3/31/09																◆				
<b>Segment Validation</b>	<b>50%</b>		<b>12/31/09</b>																				
DoDIG validate Department of the Navy's Environmental Disposal for Weapons Systems segment as Audit Ready	100%	All	11/12/08																◆				
Validate Audit Readiness by IPA or IG	0%	All	12/31/09																		◆		
<b>Segment Sustainment</b>	<b>0%</b>																						
<b>Air Force</b>	<b>77%</b>		<b>12/31/09</b>																				
<b>Discovery &amp; Correction</b>	<b>98%</b>		<b>12/31/09</b>																				
BRAC and Non-DERP: Completed and documented initial estimate for all sites	100%	Processes	9/30/07								◆												
DERP: Completed and documented initial estimate for all sites	100%	Processes	12/31/07												◆								

# Financial Improvement and Audit Readiness Plan

September 2008

Corrective Actions By DoD Entity	% Complete	Financial Improvement Element	Completion Date	2006				2007				2008				2009				2010	
				Q1	Q2	Q3	Q4	Q1	Q2												
DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites	100%	Processes, Controls	12/31/07									◆									
Non-DERP: Documented that all Property, Plan and Equipment PP&E records have been reviewed and liability properly recorded	100%	Controls	12/31/07									◆									
BRAC and Non-DERP: Established and documented process to accomplish supervisory review and approval of the liability estimates	100%	Controls	12/31/07									◆									
BRAC and Non-DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites	100%	Processes, Controls	12/31/07									◆									
BRAC and Non-DERP: Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred	100%	Data	12/31/07									◆									
BRAC and Non-DERP: Identified the universe of Environmental Liabilities candidate units, facilities, property and/or operations	100%	Processes, Data	12/31/07									◆									
DERP: Corrected compliance areas and resolved issues and advised Air Force Audit Agency (AFAA) of audit readiness for internal validation	100%	All	3/31/08										◆								
DERP: Populated data gathering tool with the inventory of all sites, associated estimates, anticipated closure dates and costs, and costs incurred	100%	Data	3/31/08										◆								
Environmental Liabilities policies completed	100%	Policies	3/31/08										◆								
Complete corrective actions for facility closures, asbestos, and non-military equipment Environmental Liabilities	77%	Controls	12/31/09																		◆
<b>Segment Management Assertion</b>	0%																				
<b>Segment Validation</b>	0%																				
<b>Segment Sustainment</b>	0%																				
<b>DLA</b>	<b>49%</b>		<b>9/30/09</b>																		
<b>Discovery &amp; Correction</b>	<b>86%</b>		<b>9/30/09</b>																		

**Financial Improvement and Audit Readiness Plan**

**September 2008**

Corrective Actions By DoD Entity	% Complete	Financial Improvement Element	Completion Date	2006				2007				2008				2009				2010	
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
				DERP, BRAC and Non-DERP: Established and documented process to accomplish supervisory review and approval of the liability estimates	100%	Processes, Controls	9/30/06					◆									
DERP, BRAC and Non-DERP: Completed documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates initial estimate for all sites	100%	Processes, Controls	3/30/07						◆												
DERP: Identify the universe of Environmental Liabilities candidate units, facilities, property and/or operations	89%	Processes, Data	9/30/09																		◆
DERP: Document that all PP&E records have been reviewed and liability properly recorded	77%	Controls	9/30/09																		◆
DERP: Complete and document initial estimate for Environmental Liabilities sites	78%	Controls	9/30/09																		◆
<b>Segment Management Assertion</b>	0%																				
<b>Segment Validation</b>	0%																				
<b>Segment Sustainment</b>	0%																				

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September 2008

Corrective Actions by DoD Entity	% Complete	Financial Improvement Element	Completion Date	Timeline																			
				2006				2007				2008				2009				2010			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
<b>Fund Balance With Treasury (Near- and Long-Term)</b>	<b>70%</b>		<b>3/31/10</b>																				
<b>Army (Near-Term)</b>	<b>14%</b>		<b>9/30/09</b>																				
<b>Discovery &amp; Correction</b>	<b>25%</b>		<b>2/28/09</b>																				
Identified requirements to accurately report FBWT for Working Capital Fund	100%		12/31/07																				
Compile data warehouse of transaction detail	0%	Data	1/30/09																				
Complete management and quality review of assertion	0%	Controls	1/30/09																				
Finalize assertion package documentation and presentation	0%	Processes	2/28/09																				
<b>Segment Management Assertion</b>	<b>0%</b>		<b>3/31/09</b>																				
Submit Management Assertion for General Fund FBWT Reconciliation	0%	All	3/31/09																				
<b>Segment Validation</b>	<b>0%</b>		<b>9/30/09</b>																				
Validated as audit ready by DoDIG or IPA	0%	All	9/30/09																				
<b>Segment Sustainment</b>	0%																						
<b>Navy (Long-Term)</b>	<b>38%</b>		<b>12/31/09</b>																				
<b>Discovery &amp; Correction</b>	<b>60%</b>		<b>3/31/09</b>																				
Documented processes and controls for reconciling, tracking, and reporting unmatched disbursements and collections and resolving deficiencies for the Working Capital Fund	100%	Processes, Controls	6/30/06																				
Divided FBWT into three segments (Fund Receipt and Distribution, Collections, and Disbursements) and completed discovery and documentation of process flows; identified key controls; developed testing strategy; and to test the operational effectiveness	100%	Processes, Controls	9/30/08																				
Executed testing procedures to test the operating effectiveness of Collections and Disbursements	100%	Processes	9/30/08																				
Implement Business Activity Monitoring (BAM) reconciliation functionality	0%	Systems	12/31/08																				



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				2006				2007				2008				2009				2010									
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2								
<b>Segment Management Assertion</b>	100%		3/30/07																										
Submit Management Assertion for FBWT General Fund	100%	All	1/2/06																										
Submit Management Assertion for FBWT Working Capital Fund	100%	All	3/30/07																										
<b>Segment Validation</b>	100%		6/30/08																										
Validated as audit ready by DoDIG or IPA	100%	All	6/30/08																										
<b>Segment Sustainment</b>	0%																												
<b>DLA (Long-Term)</b>	14%		3/31/10																										
<b>Discovery &amp; Correction</b>	25%		3/31/10																										
Performed Discovery and Correction to document and analyze the end-to-end business process and associated internal controls at DFAS	100%	Processes	12/31/06																										
Documented business processes, assessed internal controls, and completed findings template at the command level	100%	Processes, Controls	3/31/08																										
Correct Statement of Differences for deposits, payments and collections, and check issue discrepancies	0%	Processes	3/31/09																										
Correct unsupported disbursements and disbursements in-transit deficiencies	0%	Processes	9/30/09																										
Correct unmatched disbursements and collections deficiencies	0%	Processes	3/31/10																										
<b>Segment Management Assertion</b>	0%																												
<b>Segment Validation</b>	0%																												
<b>Segment Sustainment</b>	0%																												