

**VOLUME 1, CHAPTER 3: “FEDERAL FINANCIAL MANAGEMENT
IMPROVEMENT ACT COMPLIANCE”**

SUMMARY OF MAJOR CHANGES

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated October 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Major rewrite to align Federal Financial Management Improvement Act (FFMIA) compliance with the Office of Management and Budget (OMB) Circular A-123, Appendix D (rescinds OMB Circular A-127); and related efforts to achieve auditability.	Revision
Chapter Title	Changed the chapter title. FFMIA compliance includes evaluation and reporting as defined in this chapter (redundant to restate).	Revision
Policy Memorandum	Incorporated and cancelled the Deputy Chief Financial Officer’s memorandum, “Internal Controls and Audit Trails for System Database Changes,” dated August 27, 2013.	Cancellation

Table of Contents

VOLUME 1, CHAPTER 3: “FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT COMPLIANCE”	1
0301 GENERAL	3
030101. Purpose	3
030102. Authoritative Guidance	3
0302 DEFINITIONS	3
0303 STANDARDS	4
030301. Accounts	4
030302. Reporting Entities	5
030303. FFMIA Compliance	5
030304. Compliance Framework	6
030305. Maintaining Compliance	7
0304 RESPONSIBILITIES	8
030401. Office of the Under Secretary of Defense (Comptroller)	8
030402. Office of the Deputy Chief Management Officer	8
030403. DoD Components	9
030404. Defense Finance and Accounting Service	9
030405. DoD Inspector General	10
030406. Defense Information Systems Agency	10
*Table 3-1. FFMIA Compliance Determination Framework	11

CHAPTER 3

*FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT COMPLIANCE

0301 GENERAL

030101. Purpose

This chapter prescribes Department of Defense (DoD) policy for achieving compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. The FFMIA provides the basis for the development and implementation of financial management systems in order for the Department to provide accurate, reliable, and timely financial management information.

030102. Authoritative Guidance

The FFMIA (Public Law (Pub. L.) 104-208), Title 31, United States Code, section 3512 (31 U.S.C. § 3512) note, provides specific requirements. The Office of Management and Budget (OMB Circular A-123, “Management's Responsibility for Internal Control;” and Appendix D of this Circular, “Compliance with the Federal Financial Management Improvement Act of 1996” provides implementing guidance. Additional authorities:

- A. Budget and Accounting Procedures Act of 1950 (31 U.S.C. §§ 3512 and 3513).
- B. Federal Managers' Financial Integrity Act of 1982 (Pub. L. 97-255), 31 U.S.C. § 3512(c)(d).
- C. Chief Financial Officers Act of 1990 (Pub. L. 101-576), 31 U.S.C. Chapter 11.
- D. Clinger-Cohen Act (Information Technology Management Reform Act of 1996 (Pub. L. 104-106, Division E).
- E. Federal Information Security Management Act of 2002 (Pub. L. 104-347), 44 U.S.C. § 3541 et seq.

0302 DEFINITIONS

This paragraph defines financial and non-financial systems for purposes of FFMIA compliance.

- A. Financial Management System. A financial management system includes the overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

It includes hardware and system software applications, personnel, procedures, data, and reporting functions. The financial management system can be fully integrated with other management information systems (i.e., mixed systems) where transactions automatically interface with accounting general ledger.

B. Financial System. The financial system is an information system or set of applications that comprise the accounting portion of the financial management system that maintains all summary or detailed transactions resulting from budgetary and proprietary financial activity. The financial system encompasses processes and records that:

1. Identify and record all valid transactions;
2. Provide timely transactions in sufficient detail to permit proper classification of transactions for financial reporting;
3. Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements; and
4. Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.

C. Mixed System. A mixed system is a hybrid of financial and non-financial portions of the overall financial management system. Examples of mixed systems are payment and invoice systems, procurement systems, receivable systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, property management systems, travel systems, or other mission operational systems that impact a financial system.

D. Non-Financial System. A non-financial information system supports non-financial functions of DoD Components. Any financial data included in a non-financial system is insignificant to the Department or Component's financial management. The data is not required for preparation of financial statements or other financial management reporting.

0303 STANDARDS

030301. Accounts

The U.S. Department of the Treasury (Treasury) provides the requirements for the United States Standard General Ledger (USSGL). For DoD, general ledger accounts and transactions are defined in the DoD Standard Chart of Accounts and the DoD USSGL Transaction Library. These documents are available on the Standard Financial Information Structure web page. The Federal Accounting Standard Advisory Board (FASAB) is the authoritative source for the development and issuance of generally accepted accounting principles for the Federal Government. FASAB publishes these accounting principles in the "FASAB Handbook of Accounting Standards and Other Procurements, As Amended" (FASAB Handbook). DoD financial management systems must adhere to FASAB standards for the preparation of financial statements and audits.

030302. Reporting Entities

DoD Component reporting entities are identified in Volume 6B, Chapter 1, section 0105. These reporting entities must report their FFMIA compliance as part of their Annual Statement of Assurance submitted to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). DoD financial systems and mixed systems must be identified in the DoD Information Technology Portfolio Repository (DITPR) as part of the annual review process for Defense business systems in accordance with 10 U.S.C. § 2222.

A. The Head of each DoD reporting entity is responsible for planning, testing, evaluation, remediating, and reporting remediation action progress and results. The Head of the reporting entity may delegate these responsibilities.

B. The reporting entity or delegate may rely on independent internal or external resources for FFMIA testing and evaluation (e.g., Service Audit Agency, DoD Inspector General, or independent public accounting firms). The reporting entity must ensure that resources employed are objective and sufficiently qualified to perform the evaluation. The Government Accountability Office (GAO) provides guidance regarding qualifications for performing program and financial statement audits in their “Generally Accepted Government Auditing Standards” (Yellow Book).

030303. FFMIA Compliance

The DoD strategy for FFMIA compliance is integrated with related efforts to achieve auditability and maintain effective internal controls over financial reporting (ICOFR). Documentation that supports these related requirements also support FFMIA compliance and may be used to avoid duplication of efforts. In accordance with the FFMIA and OMB Circular A-123, Appendix D, DoD financial management systems must meet Federal Financial Management System Requirements, applicable Federal accounting standards, and implement the USSGL at the transaction level.

A. The Federal Financial Management System Requirements consist of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

1. Reliable financial reporting includes reliable, timely, and accurate financial information for managing day-to-day operations and reporting on the Department’s financial condition. Reliable financial reporting also includes maintaining ICOFR and financial system security. System security includes adjustments to system data and databases as outlined in OMB Circular A-123. It is management’s responsibility to ensure the appropriate internal controls that direct and guide system operations are integrated into each system’s change process.

2. Effective and efficient operations includes maintaining cost effective financial operations and ensuring resources are safeguarded against waste, loss, and misuse.

3. Financial transactions must be consistent with laws, the DoD Financial Management Regulation, and other guidance applicable to DoD.

B. DoD accounting standards consist of the FASAB hierarchy of accounting principles and standards prescribed in Chapter 2, “Federal Accounting Standards Hierarchy.”

C. USSGL transactions defined in the DoD USSGL Transaction Library.

D. The OUSD(C) Financial Improvement and Audit Readiness (FIAR) Plan for development and preparation of management assertion packages and independent segment validations. The FIAR plan includes requirements for:

1. Documentation and evaluation for each reporting entity.

2. Testing and assessment of material/significant segments and segment components. At a minimum, areas tested, evaluated, and documented must include existing software applications; software application acquisitions; third-party software provided as a service; and processes, procedures, controls, and data standards.

030304. Compliance Framework

OMB developed the “FFMIA Compliance Determination Framework” (see Table 3-1) to assist agencies in determining whether they are compliant with FFMIA requirements specified in section 803(a) of Pub. L. 104-208 (31 U.S.C. 3512 note). This framework is a risk and evidence-based assessment model that leverages existing audit tests, evaluations, and reviews that auditors, agency management, and others already perform. The work may include the external audit report and internal reports that provide any assurances over the financial statements. The major elements of the framework are as follows:

A. A series of financial management goals common to all Federal agencies and agreed upon by the financial management community

B. One or more compliance indicator(s) is associated with each financial management goal. The indicators specify the recommended evidence agencies should consider when determining whether it meets each goal. Each compliance indicator corresponds to one or more of the section 803(a) requirements.

C. Each compliance indicator has recommended risk (or performance) levels agencies should consider when evaluating whether it meets the goal. Reporting entity compliance indicators may consist of a mix of risk levels (i.e., some indicators may be at low risk while others at a medium or high level of risk). In making the compliance determination, the reporting entity will need to assess the relative importance or weight of the financial management goals for the agency and apply judgment when making the final compliance determination. Note: A reporting entity does not have to be at low risk for each compliance indicator to be in compliance with FFMIA.

D. For reporting entities that use shared service organizations, the service organizations are required to provide customer agencies with a “Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting.” This is an important tool for agency management and auditors to evaluate the effect of the controls at the service organization on the user entities' controls for financial reporting. Testing the service provider's controls could take the form of input/output controls, performance monitoring, or process controls.

E. Organization and Content

1. The framework consists of two federal financial management categories. Category 1 is “Financial Information Management and Reporting;” and category 2 is “Financial Management and Internal Controls.” Within each category there is a group of related goals. For each goal, there are compliance indicators and a risk or performance level rating of low, medium, or high. Each goal is identified by a two-digit reference identification (ID) number. For example, category 1, goal 1 is numbered 1.1.

2. The goals articulate clear statements of what the agency wants to achieve to advance its mission and address relevant problems, needs, and challenges. The first two digits of a goal's reference ID corresponds to the first two digits of each requirement's ID number from the “Federal Financial Management System Requirements” contained in the Treasury Financial Manual (*TFM*) (see TFM Volume 1, Chapter 9500). For example, the Framework goal 1.1, "Consistently, completely, and accurately record and account for Federal funds, assets, liabilities, revenues, expenditures, and costs" corresponds to the TFM requirement 1.1.1.1, "Provide GL account classifications." In addition, each TFM requirement has a reference to the associated financial management regulatory guidance that promulgates the three requirements of section 803 (a) of the FFMIA. Achievement of goals must be assessed to determine whether an agency is in compliance with the FFMIA.

3. The compliance indicators are quantifiable or otherwise observable characteristics used to measure progress towards goals and demonstrate how well or at what level a goal has been achieved. Indicators are a subset of the information already being produced by agencies and auditors.

4. The risk levels identify the degree of risk that the agency is not in compliance with FFMIA.

030305. Maintaining Compliance

The FIAR Plan guidance defines mandatory practices for maintaining auditability subsequent to assertion and validation. These same practices must be applied to maintain compliance with FFMIA requirements.

0304 RESPONSIBILITIES

The responsibilities identified in this section are limited to those specific to FFMIA compliance and are not meant to be an exhaustive list of all of the responsibilities of these entities. This includes the authorities and framework that the Department employs to monitor, analyze, validate, integrate, and control FFMIA compliance requirements.

030401. Office of the Under Secretary of Defense (Comptroller)

OUSD(C) has overall responsibility for FFMIA compliance oversight and direction and is supported by the FIAR and Business Integration Office (BIO) Directorates.

A. The FIAR Directorate:

1. Publishes the FIAR Plan semiannually; and develops and issues detailed financial improvement audit strategy/methodologies and implementation guidance.
2. Maintains the FIAR Planning Tool used by DoD Components to manage their Financial Improvement Plans (FIPs) and submit assertion work products.
3. Monitors reporting entity FFMIA assertions made and provides internal control training to reporting entities on improving compliance with FFMIA.
4. Supports and monitors the progress of reporting entity testing and remediation plans; and develops metrics for monitoring and reporting progress.
5. Defines practices for maintaining auditability subsequent to FFMIA compliance assertion and validation.

B. The BIO Directorate:

1. Monitors, analyzes, and measures the progress of DoD reporting entities in achieving FFMIA compliance.
2. Issues and updates FFMIA compliance policy.

030402. Office of the Deputy Chief Management Officer

The Office of the Deputy Chief Management Officer (DCMO) is the principal management office for the Secretary of Defense responsible for optimizing the business environment across the DoD enterprise. The Office of the DCMO:

- A. Oversees development, modernization, and sustainment of the Department's portfolio of business systems through the Defense Business Council which also serves as the Department's Investment Review Board.

B. Develops and issues the Integrated Business Framework, the Business Enterprise Architecture requirements, the DoD Enterprise Transition Plan (ETP), and investment review process compliance guidance.

030403. DoD Components

The DoD Component reporting entities must:

A. Develop, maintain, and execute FIPs that also include their FFMIA compliance remediation plan in accordance with the FIAR Guidance.

B. Develop a plan in accordance with OMB Circular A-130, "Management of Federal Information Resources," [Appendix III](#).

C. Ensure the system portfolio and remediation plans are consistent with modernization priorities identified in the DoD ETP.

D. Ensure their system portfolio is consistent with the systems reported in DITPR.

E. Conduct FFMIA certification testing using the GAO [Financial Audit Manual](#) and FIAR Plan guidance, leveraging existing system development life-cycle activities where appropriate.

F. Address FFMIA compliance status and remediation plan in the Annual Statement of Assurance.

G. Ensure that annual updates to the ETP are in alignment with the FIAR Plan.

030404. Defense Finance and Accounting Service

The [Defense Finance and Accounting Service \(DFAS\)](#) must develop and maintain a DFAS system FFMIA compliance remediation plan [in coordination with DoD Components](#). For each financial [system](#) and mixed system managed by DFAS, this includes:

A. Establishment of a Memorandum of Agreement (MOA) with each DoD reporting entity supported by each DFAS system.

B. Conducting compliance testing, as required per the MOA.

C. Supporting reporting entity end-to-end business process testing ([in accordance with the MOA](#)).

030405. DoD Inspector General

The Office of the Inspector General is responsible for:

A. Performing system audits (e.g., general and application control and FFMIA) based on reporting entity FIPs and the FIAR Plan.

B. Performing FFMIA compliance evaluations as part of financial statement audits and/or oversees evaluations performed by independent public accounting firms during financial statement audits. This includes identifying in writing the nature and extent of non-compliance when appropriate.

030406. Defense Information Systems Agency

The Defense Information Systems Agency (DISA) is responsible for evaluating FFMIA requirements related to information technology controls and security for significant financial management systems administered by DISA.

*Table 3-1. FFMIA Compliance Determination Framework

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
1. Federal Financial Information Management and Reporting				
1.1. Consistently, completely, and accurately record and account for Federal funds, assets, liabilities, revenues, expenditures, and costs.	1.1.a. Current / prior year’s agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses, or significant deficiencies related to accounting for and recording Federal funds, assets, liabilities, revenues, expenditures, and costs.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
1.2. Provide timely and reliable Federal financial management information of appropriate form and content to agency program managers for managing current Government programs and activities.	1.2.a. Current / prior year’s agency-reported material weaknesses, reportable conditions, or non-conformances related to internal reporting of financial management information used for managing current Government programs and activities.	Agency-reported-control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non- conformances.	Agency-reported material weaknesses.

Table 3-1. FFMA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
1.3. Provide timely and reliable Federal financial management information of appropriate form and content for continuing use by stakeholders external to the agency, including the President, Congress, and the public.	1.3.a. Audit opinion on agency financial statements.	Unmodified (Unqualified).	N/A	Modified (Qualified), Disclaimer, or Adverse.
	1.3.b. Unaudited interim agency financial statements submitted to OMB within 21 calendar days after the end of the first three quarters of the fiscal year.	On time.	Not on time for current quarter.	Not on time for current and prior quarter(s).
	1.3.c. Agency financial reports submitted to OMB, GAO, and Congress by November.	On time.	Not on time for current year.	Not on time for current and prior year(s).

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
1.4. Provide timely and reliable Federal financial management information of appropriate form and content that can be linked to strategic goals and performance information.	1.4.a. Agency costs, as presented in the Statement of Net Cost, in accordance with OMB Circular A-136, are clearly linked to agency strategic goals and are free from agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
	1.4.b. Financial and performance information, as presented in the performance section of the Agency Financial Report or Performance & Accountability report, is free from agency-reported material weaknesses, reportable conditions, or non-conformances.	Agency-reported-control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non- conformances.	Agency-reported material weaknesses.

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
2. Financial Management and Internal Controls				
2.1. Provide internal control to restrict Federal obligations and outlays to those authorized by law and within the amount available.	2.1.a. Current / prior year's agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies related to restricting agency obligations and outlays to those authorized by law and within the amount available.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
	2.1.b. Antideficiency Act violation report required to be submitted.	None required within the last 2 fiscal years preceding the current fiscal year.	Required within the last 2 fiscal years preceding the current fiscal year.	Required for the current fiscal year.
2.2. Perform Federal financial management operations effectively within resources available.	2.2.a. Current / prior year's instances of non-compliance with laws and regulations related to prompt payments or debts owed to the Federal Government.	No reported instances.	Instances reported in current year.	Instances reported in current and prior year(s).

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
2.3. Minimize waste, loss, unauthorized use, or misappropriation of Federal funds, property and other assets within resources available.	2.3.a. Current / prior year's agency- reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies related to minimizing waste, loss, unauthorized use, or misappropriation of Federal funds, property and other assets.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
2.4. Minimize Federal financial management system security risks to an acceptable level.	2.4.a. FISMA or other (for example, National Institute of Standards and Technology-related) significant deficiencies impacting financial management systems in the agency Security Certification and Accreditation of Federal Information Systems.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.