

**VOLUME 1, CHAPTER 3: “FEDERAL FINANCIAL MANAGEMENT
IMPROVEMENT ACT OF 1996 COMPLIANCE, EVALUATION, AND
REPORTING”**

SUMMARY OF MAJOR CHANGES

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

Substantive revisions are denoted by an * 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 February 2005 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
ALL	Complete rewrite of policy to align Federal Financial Management Improvement Act (FFMIA) compliance with the related efforts to achieve auditability.	Revision
0301	As recommended by the Government Accountability Office (GAO) report #GAO/AMID 97-29 (Financial Management, DoD Inventory of Financial Management Systems Is Incomplete) dated January 1997, this chapter has been changed to include mixed systems in the definition of financial management systems based on the definition cited in Office of Management and Budget (OMB) Circular 127.	Revision

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CHAPTER 3

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996
COMPLIANCE, EVALUATION, AND REPORTING

*0301 PURPOSE AND AUTHORITATIVE GUIDANCE

030101. Purpose

This chapter provides Department of Defense (DoD) policies for evaluating, achieving, and reporting compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996, Pub. Law No. 104-208, section 801, 31 U.S.C. 3512, note. The FFMIA provides specific requirements to Chief Financial Officer Act agencies and requires auditors to assess Agency compliance during financial statement audits.

030102. Authoritative Guidance

The Office of Management and Budget (OMB) Circulars A-123, "Management's Responsibility for Internal Control," and A-127, "Financial Management Systems," provide policies and procedures to be followed in developing, operating, evaluating, and reporting on financial management systems, which are to be addressed in the agencies' annual statement on whether its financial management systems conform to government-wide requirements. They and prescribe policies and standards for Federal Agencies to follow in developing, operating, evaluating, and reporting on financial management systems. As outlined in this chapter, the DoD policy applicable to achieving FFMIA compliance and structure is consistent with OMB Circular A-127 and reflects guidelines to aid DoD entities in achieving compliance with the FFMIA in the period before auditability.

030103. Scope and Applicability

This chapter defines and prescribes the following:

- A. Integrated Financial Management Systems (IFMS).
- B. FFMIA compliance, to include timeframes when target IFMS and Financial Systems must be evaluated for FFMIA compliance; how (and by whom) target IFMS and Financial Systems are evaluated and tested for FFMIA compliance; and how and when compliance is reported, measured, and monitored.
- C. Applicability (Reporting Entities for FFMIA purposes).
- D. Criteria for determining which financial and mixed systems must be evaluated for FFMIA compliance.
- E. Requirements for developing, maintaining, and executing remediation plans when a Department of Defense (DoD) Component is not in compliance with FFMIA.

F. Roles and responsibilities of the Office of the Secretary of Under Secretary of Defense (Comptroller) (OUSD (C)) and DoD Components.

*0302 BACKGROUND

030201. FFMIA Requirements

FFMIA requires adherence with:

A. Federal financial management system requirements as defined by the Financial Systems Integration Office.

B. Federal accounting standards.

C. The United States Standard General Ledger at the transaction level.

030202. FFMIA Federal Manager Responsibilities

The FFMIA provides the basis for the development and implementation of financial systems (to include mixed systems) that provide reliable financial management information. The intent of this Act is to provide standard guidance for Federal Agencies to follow in developing usable systems that support federal manager responsibilities to:

A. Provide reliable and timely financial information for managing current operations,

Prepare financial statements and other required financial and budget reports, and

B. Account for their assets reliably, in order to protect them from loss, misappropriation, or destruction.

030203. FFMIA Compliance Measurement

FFMIA compliance is measured at the Reporting Entity level and requires:

A. Annual assessments reported by the Agency/Entity Head.

B. Formal remediation plans when IFMS or financial systems fail to comply.

C. Assessments by auditors during financial statement audits.

*0303 POLICY

030301. Internal Controls over Financial Reporting

The DoD approach to FFMIA compliance capitalizes on the related efforts to achieve auditability and to maintain effective internal controls over financial reporting (ICOFR). These related efforts, guided by OMB Circular 123 (Management's Responsibility for Internal Controls) and OMB Circular 136 (Financial Reporting Requirements), strive to achieve many of the same objectives as the objectives of the FFMIA. As a result, much of the documentation and testing in support of the auditability and ICOFR also supports the Department's efforts to become FFMIA compliant.

030302. FFMIA Compliance

The following defines the FFMIA compliance approach in order to help ensure that the Department addresses these related requirements efficiently:

A. Reporting Entities. All DoD Components must adhere to the FFMIA and OMB Circular A-127 requirements. All DoD Reporting Entities listed in Volume 6B, Chapter 1, paragraphs 010601, 010602, and 010605 are directed to report their compliance with FFMIA as part of their Annual Statement of Assurance beginning in fiscal year 2010, as required by the Federal Managers Financial Integrity Act and guidance issued annually by the OUSD(C). The FFMIA compliance of individual financial and mixed systems are also to be identified in the DoD Information Technology Portfolio Repository (DITPR) as part of the annual review process for Defense business systems undertaken in accordance with the accountability requirements of 10 U.S.C. 2222.

B. Responsible Parties

1. The Head of each DoD Reporting Entity, as defined in subparagraph 030302.A, is responsible for planning, testing, evaluating, remediating, and reporting remediation action progress and results. The entity Head may delegate these responsibilities.

2. The entity Head or delegate may rely on independent internal or external resources (e.g., Service Audit Agency, DoD Inspector General, Independent Public Accounting (IPA) firms) for FFMIA testing and evaluation and should ensure resources employed are objective and sufficiently qualified to perform the evaluation. The Government Accountability Office's (GAO) *Government Auditing Standards* and the American Institute of Certified Public Accountants Statement on Auditing Standards Number 1, Section 210 both provide guidance regarding qualifications for personnel performing program and financial statement audits.

C. Compliance/Remediation Planning and Monitoring

1. DoD Financial Improvement and Audit Readiness (FIAR) Plan.

The FIAR Plan is the Department's comprehensive compliance and remediation plan for:

- a. Improving financial information.
- b. Preparing for future financial statement audits based on incremental efforts focused on end-to-end business process segments, implementing OMB Circular 123, Appendix A (i.e., documenting, testing and strengthening financial controls at the transaction level).
- c. Working concurrently to also achieve FFMIA compliance by end-to-end business process segment.

2. Target Integrated Financial Management System (IFMS). Each DoD Reporting Entity as defined in subparagraph 030302.A, shall document their target IFMS in their FIAR Plan and the DoD Enterprise Transition Plan. The target IFMS is the IFMS the entity plans to be using when the entire Reporting Entity achieves auditability. If a system is not planned to be a component of the target auditable IFMS, then it should not be evaluated based on the following criteria for FFMIA compliance.

- a. Specific system, module, or components of the target IFMS shall be identified and associated with segments and end-to-end business process in the FIAR Plan.
- b. Each system, module, or component of the target IFMS must be recorded in the DoD Financial Management System Inventories maintained in the DITPR in accordance with DoD policies and requirements.
- c. The target IFMS must be consistent with the Financial Management System Inventory reported to OMB annually.

3. Testing Plan. The schedule for testing the individual components or defined group of components of the target IFMS shall be consistent with and in support of the management assertion plans and timelines in the entity's Financial Improvement Plan (FIP) and in the DoD FIAR Plan. Test plans for individual components of the target IFMS must consider the inter-operability of all operational components of the Reporting Entity's target IFMS.

4. Remediation Plan. Testing of individual target IFMS components is expected to identify instances of non-compliance with FFMIA requirements. When such instances are identified, the Reporting Entity shall develop and document corrective actions and include them in their FIP and the DoD FIAR Plan. The remediation plan must specify a completion date for planned compliance with FFMIA requirements in accordance with FIAR Plan milestone guidance.

5. Reporting FFMIA Evaluation Results. Each DoD Reporting Entity must report the results of their evaluation of FFMIA compliance in the Statement of Assurance required by OMB Circular A-123 beginning in fiscal year 2010. If the agency's systems do not substantially conform to financial systems requirements, the Statement of Assurance must list the reasons for nonconformance and provide the agency's plans for bringing its systems into substantial compliance. Financial management systems include both financial and mixed systems.

030303. The FFMIA Compliance Process

A. The OUSD(C), Directorate for Financial Improvement and Audit Reporting (FIAR) shall annually update and publish the Department's FIAR Plan guidance.

B. The FIAR Plan guidance shall:

1. Provide direction for conducting the FIAR Plan Discovery and Correction phase, implementation of OMB Circular A-123, Appendix A, within DoD, and working to achieve FFMIA compliance concurrently with efforts to achieve auditability.

2. Provide direction for development and preparation of segment management assertion packages and for the conduct of independent segment validations that will eventually be replaced by audits performed in accordance with GAO and OMB guidance.

3. Contain the following information:

a. Definition and Documentation. Include requirements for documenting each Reporting Entity target IFMS.

b. Evaluation requirements for Reporting Entity target IFMS. In addition to the segments directed for inclusion in the FIAR Plan, each Reporting Entity shall identify other significant segments and the elements of the segments that are significant to their financial management and reporting and include evaluation and corrective action plans in their FIPs. The GAO/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual, Section 240 provides guidance on how to identify significant elements of the target IFMS.

c. Test and Assess Compliance of Material/Significant Segments. The entity Head shall use procedures as described in the FIAR Plan guidance and the GAO/PCIE Financial Audit Manual to assess the compliance of each segment with FFMIA requirements before submitting a Management Assertion that audit readiness was achieved for that segment. Refer to the OMB FFMIA Implementation guidance for indicators of FFMIA compliance.

d. Test and Assess Compliance of Material/Significant Segment Components. Since entire segments may not reach their target state for some time, it may be advantageous for an entity to test and assess individual components of the target segment before the entire target segment is in place. The entity Head shall use guidance and procedures as described in the FIAR Plan and the GAO/PCIE Financial Audit Manual, to assess the compliance of selected process segment components with FFMIA requirements.

e. Reporting Entity Test and Assessment Submissions. Each Reporting Entity should document the procedures used to select the FFMIA requirements applicable to a given segment and exercise care to ensure that there are no gaps of requirements within a segment. At a minimum, entities must test and evaluate the following before submitting a full segment compliance assessment.

(1). Software Acquisitions. Before Acquisition Milestone A, as defined by DoD Instruction 5000.2, "*Operation of the Defense Acquisition System*," software requirements should be evaluated to ensure that they include the FFMIA requirements for the process segments the software will support. Financial Management software acquisitions that have been designated as a Major Automated Information System (MAIS) by the Acquisition Executive must be tested and evaluated for compliance with FFMIA requirements after development and before Acquisition Milestone C.

(2). Processes, Procedures, Controls, and Data Standards. Significant target processes, procedures, controls, and data standards already in existence should be tested and evaluated to ensure they are operating effectively and as designed. This should be scheduled in accordance with the segment plan in the Reporting Entity FIP and FIAR Plan.

(3). Existing Software. Significant existing software components of the target FMS should be evaluated for FFMIA requirement compliance. This should be scheduled in accordance with the segment plan in the Reporting Entity's FIP and FIAR Plan. This applies to both core financial systems and mixed systems.

(4). Third-Party Software Provided as a Service. Entities may rely on FFMIA requirement testing performed by other entities provided that an assessment of the testing scope indicates that all requirements fulfilled by the software for the entity were tested in the previous test. The Reporting Entity remains responsible to ensure that third-party software meets applicable requirements. Upon determining that any third-party software is a significant component of the Reporting Entity's target IFMS, the Reporting Entity shall coordinate with the service provider to conduct appropriate testing of the software.

C. Maintaining Compliance. The FIAR Plan guidance shall prescribe and define mandatory practices for maintaining auditability subsequent to assertion and validation. These same practices shall be applied to maintain compliance with FFMIA requirements.

0304 DEFINITIONS*030401. Integrated Financial Management System (IFMS)**

The IFMS is a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs. The IFMS has the following characteristics:

- A. Common Data Elements.
- B. Common Transaction Processing.
- C. Consistent Internal Controls.
- D. Efficient Transaction Entry.

030402. Information Systems

Information systems is defined as the organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual. Information systems include non-financial, financial, and mixed systems.

030403. Financial Systems

A. Financial systems are considered an information system comprised of one or more applications that is used for any of the following:

- 1. Collecting, processing, maintaining, transmitting, and reporting data about financial events.
- 2. Supporting financial planning or budgeting activities.
- 3. Accumulating, recognizing, and distributing cost management information.
- 4. Supporting the preparation of financial statements.

B. Features of a financial system include but are not limited to the following elements:

1. Supports the financial functions required to track financial events, provide financial information significant to the financial management of the agency, and/or required for the preparation of financial statements.

2. Encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

3. May include multiple applications that are integrated through a common database or are electronically interfaced, as necessary, to meet defined data and processing requirements.

030404. Non-Financial Systems

An information system that supports non-financial functions of the Federal Government or components thereof and any financial data included in the system are insignificant to agency financial management and/or not required for the preparation of financial statements.

030405. Mixed System

An information system that supports both financial and non-financial functions of the Federal government or components thereof. These are also commonly referred to in DoD as Financial Feeder Systems or Secondary Financial Systems. Financial feeder systems are information systems that support functions with both financial and non-financial aspects, such as logistics, acquisition, and personnel. They provide key information required in financial processes.

030406. Financial Management System

The financial systems and the financial portions of mixed systems necessary to support financial management.

030407. Federal Accounting Standards

The Federal Accounting Standards are applicable accounting principles, standards, and requirements consistent with US Code Title 31, Subtitle III, Chapter 35, Subchapter II, Section 3511. The Federal Accounting Standard Advisory Board (FASAB) publishes Statements of Federal Financial Accounting Concepts (SFFAC) and Statements of Federal Financial Accounting Standards (SFFAS), as well as Interpretations, Technical Bulletins, and staff guidance.

030408. Financial Event

Any occurrence having financial consequences to the Federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, or other potential liabilities; or other reportable financial activities.

***0305 RESPONSIBILITIES**

030501. Overview

This section provides the responsibilities of the various DoD entities associated with the governance and execution of this policy. As such, the responsibilities are limited to those specific to the governance and execution of this policy, and are not meant to be an exhaustive list of all of the responsibilities of these entities.

030502. Governance

Governance includes the authorities, framework, and processes the DoD employs to monitor, analyze, validate, integrate, and control FFMIA compliance priorities and requirements through the following DoD organizations:

A. OUSD(C) has overall responsibility for the Department's IFMS and provides oversight and direction for the financial improvement and audit readiness initiatives, and is supported by the Business Integration Office (BIO), the FIAR Director, and the Financial Management Investment Review Board (FMIRB).

B. OUSD(C) BIO Directorate supports the OUSD(C) in carrying out its responsibilities for financial improvement, audit readiness and achieving compliance with FFMIA. As the primary oversight body for FFMIA, OUSD(C)/BIO has the following responsibilities:

1. Issue and update FFMIA compliance policy.
2. Monitor, analyze, and measure progress of DoD Reporting Entities in achieving compliance with FFMIA.
3. Report to OMB and Congress, as required by FFMIA
4. Produce, update, and maintain the FIAR Plan to include integrating with the Enterprise Transition Plan (ETP).
5. Ensure DoD Reporting Entity target IFMS FFMIA compliance plans are in alignment with systems and financial statement audit plans and Component FIP, as applicable.

6. Ensure the detailed requirements of the FFMIA are maintained in the Business Enterprise Architecture (BEA).

C. OUSDC, FIAR Directorate is responsible for:

1. Publishing, and updating on an annual basis the FIAR guidance, as required by this policy.

2. Coordinate and integrate testing and remediation plans into the DoD FIAR Plan Tool.

3. Monitor and analyze progress of entity testing and remediation plans.

4. Monitor, analyze, and document entity FFMIA assertions made in accordance with this policy.

5. Define practices for maintaining auditability subsequent to FFMIA assertion and validation.

D. FMIRB is responsible for:

1. Reviewing and monitoring business system and initiative investment programs for compliance with this policy.

2. Approving investments based on compliance with this policy.

030503. Execution

Execution involves the activities, resources, and leadership required to implement the requirements of this policy.

A. DoD Components and reporting entities are responsible for developing and executing plans necessary for achieving compliance with FFMIA. These responsibilities include:

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

2. Integrate their FIP and FFMIA compliance plans for conducting FFMIA evaluations with the FIAR Plan in accordance with the FIAR Guidance.

3. Develop and maintain the portfolio of financial and mixed systems that comprise the entity's target IFMS.

4. Establish and maintain centralized oversight of the portfolio of systems comprising the entity's target IFMS. This includes development of 5 year plans in accordance with OMB Circular A-130, "Management of Federal Information Resources."

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

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

7. Test MAIS financial systems before implementation to ensure that they properly function within the target IFMS, leveraging existing Systems Development Life-Cycle activities where appropriate.

8. Conduct FFMIA certification testing using the GAO/PCIE FAM and FIAR Plan guidance, leveraging existing Systems Development Life-Cycle activities where appropriate.

9. Address FFMIA compliance status and remediation plan in annual Statement of Assurance beginning in fiscal year 2010.

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

B. Defense Finance and Accounting Service (DFAS). The DFAS has the following responsibilities related to FFMIA:

1. Developing and maintaining a DFAS system FFMIA compliance remediation plan that is in synch with Component needs. For each financial 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 MOA, when a system(s) is a significant part of a Reporting Entity's IFMS.

c. Supporting Reporting Entity end-to-end business process testing (per MOA).

2. Maintaining, in coordination with the OUSD(C) and Business Transformation Agency, the FFMIA requirements in the Business Enterprise Architecture (BEA).

C. Business Transformation Agency (BTA). The BTA has the following responsibilities related to FFMIA:

1. Ensuring that annual updates to the DoD ETP are in alignment with the FIAR Plan.
2. Updating FFMIA requirements provided by DFAS in the BEA and provides user-friendly access to the requirements to the Reporting Entities.
3. Developing and maintaining a BTA Enterprise System FFMIA compliance remediation plan that is in synch with Component needs. For each Enterprise financial and mixed system managed by BTA, this includes:
 - a. Establishing an MOA with each DoD Reporting Entity supported by each BTA Enterprise system.
 - b. Conducting compliance testing, as required per MOA, when a system(s) is a material part of a Reporting Entity's FMS.
 - c. Supporting Reporting Entity end-to-end business process testing (per MOA).

D. DoD Inspector General (DoDIG). The DoDIG is responsible for:

1. Performing system audits (e.g., general and application control and FFMIA) based on Reporting Entity FIPs and the FIAR Plan.
2. Performing FFMIA compliance evaluations as part of financial statement audits and/or oversee evaluations performed by IPAs during financial statement audits. This includes identifying in writing the nature and extent of non-compliance when appropriate.

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